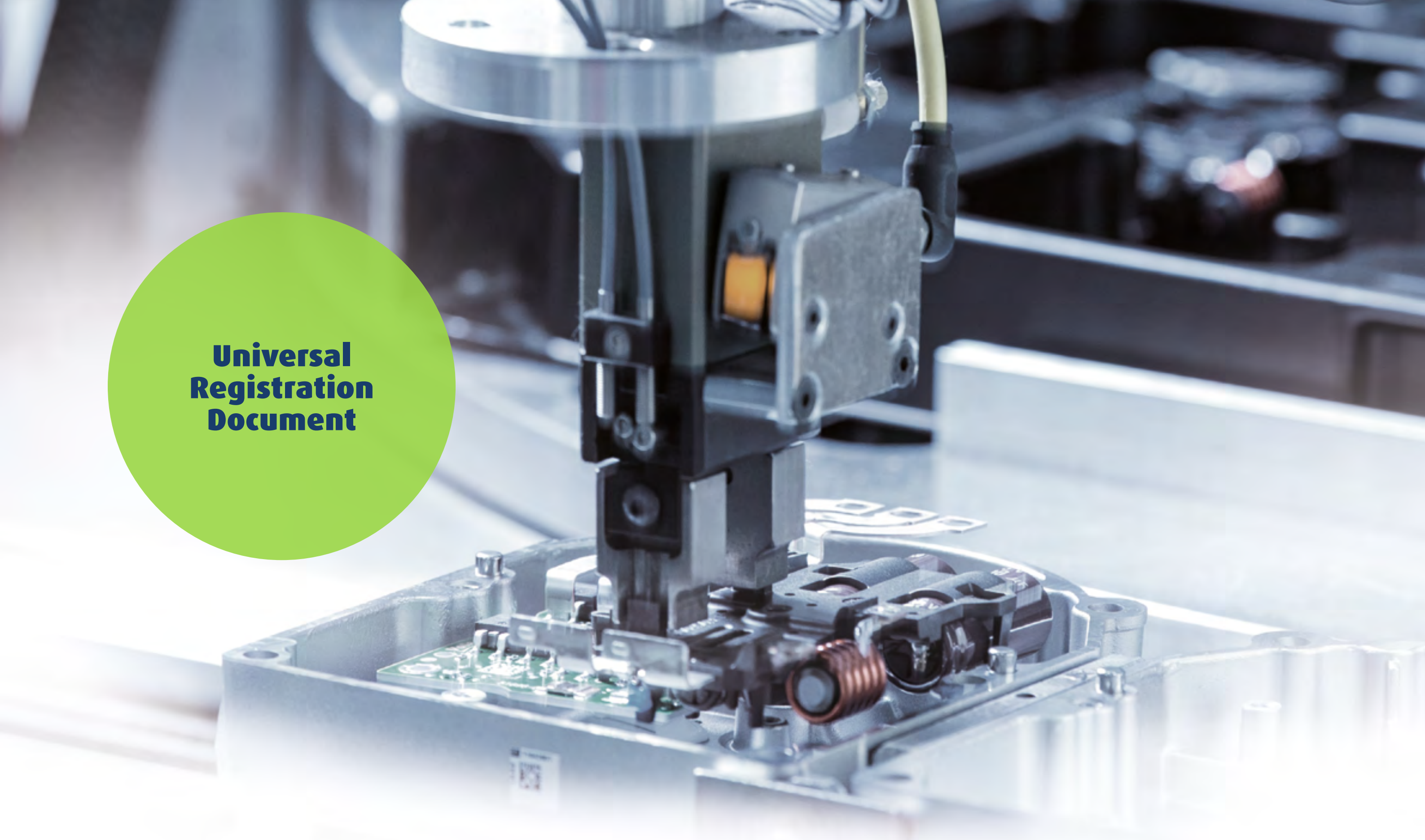


Universal Registration Document

2020

INTEGRATED REPORT

ANNUAL FINANCIAL REPORT

CORPORATE GOVERNANCE
AND SUSTAINABLE
DEVELOPMENT REPORT

SMART TECHNOLOGY FOR SMARTER MOBILITY

Valeo

VALEO INTEGRATED REPORT

CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT REPORT

ANNUAL FINANCIAL REPORT

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

Valeo

Universal Registration Document

2020

INTEGRATED REPORT

ANNUAL FINANCIAL REPORT

CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT REPORT

AUTORITÉ DES MARCHÉS FINANCIERS

AMF

The French language version of this Universal Registration Document was filed on April 6, 2021 with the French financial markets authority (*Autorité des marchés financiers* – AMF) in its capacity as competent authority within the meaning of EU Regulation 2017/1129, without prior approval, in accordance with Article 9 of said regulation.

The Universal Registration Document may also be used for the offer to the public or the admission to trading of securities on a regulated market, provided it is accompanied by a securities note and, if applicable, a summary of all amendments applied to the Universal Registration Document. All of these items are approved by the AMF in accordance with the abovementioned regulation.

This is a free translation into English of Universal Registration Document 2020 including the Annual Financial Report of the Company issued in French and it is available on the website of the Issuer. This free translation is not a binding document; in the event of a conflict in interpretation or discrepancy between this translation and the French Universal Registration Document, reference should be made to the French version, which is the original and only authentic text.

INTEGRATED REPORT

CONTENTS

For the sixth year running, Valeo has elected to use integrated reporting to present its *raison d'être* and 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, customers, suppliers, the financial community, institutional and non-governmental organizations, and other local partners. The report covers the Group's financial, sales and non-financial performance for 2020, and its carbon neutrality ambition.
The Integrated Report is included in the Universal Registration Document and the standalone version is also available on the Valeo website (www.valeo.com).

GOVERNANCE

Solid governance in support of strategy

ENVIRONMENT

An environment in (r)evolution

STRATEGY

12 key platforms combining growth and resilience

RAISON D'ÊTRE

As a tech company, Valeo's goal is to play a major role in the mobility of tomorrow.

In keeping with today's environmental and social issues, future mobility must be greener, safer and more diverse, and must improve the well-being and safety of citizens and consumers.
We will achieve this goal thanks to our unique positioning and technological leadership in the areas that are driving the transformation of the automotive industry and sustainable mobility across the globe.
This positioning and this leadership are rooted in our expertise, innovations and operational excellence.
They are supported by our values and business culture and built to serve our customers, employees, shareholders and host regions.

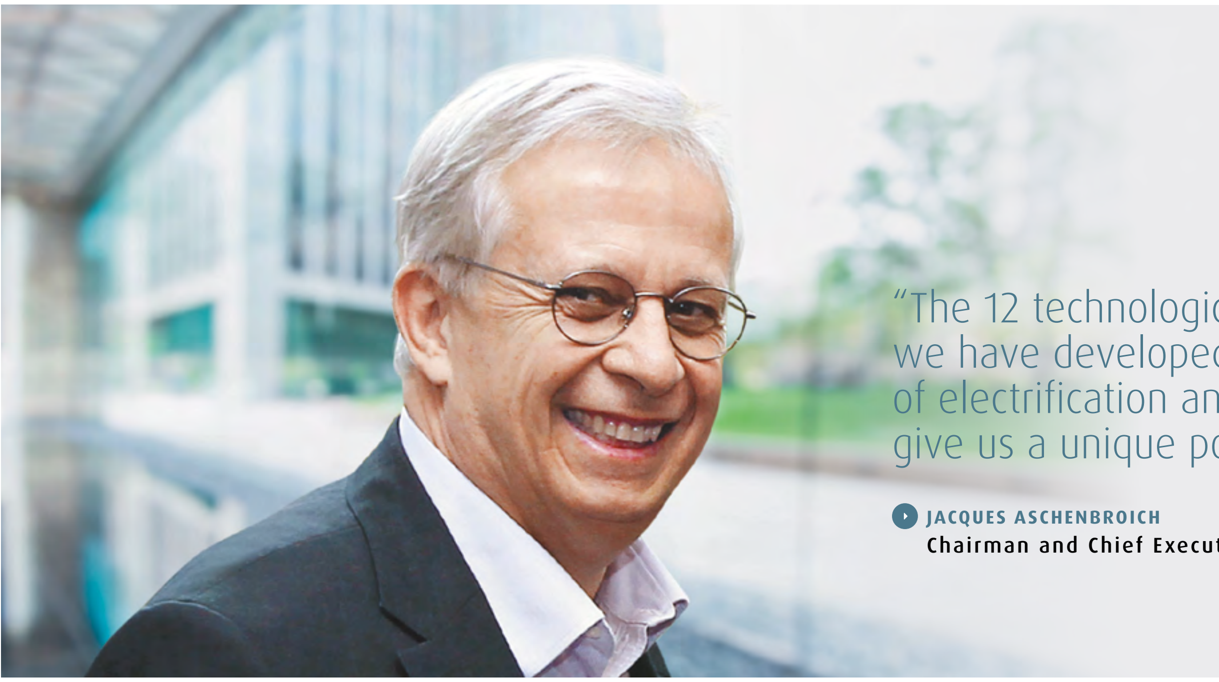
Valeo today leads the field in electrification and ADAS

2020: a year of two halves with very different profiles

In a market severely disrupted by the health crisis, with a 17% drop in global automotive production over the year as a whole (34% decline in the first half and stable in the second), our efforts focused primarily on taking the necessary steps to protect our employees as well as on preserving our assets and our business operations.

In the first half of the year, the reinforced health protocol – which was mandatory, audited and subject to discussions with employee representatives – was rolled out across all sites in a timely manner, enabling us to protect our employees and resume operations at our 187 plants across the globe under good conditions. Considerable cost variabilization measures were taken, thanks to which we reduced spending by 570 million euros, investments by 141 million euros and gross inventories by 243 million euros with respect to the first half of 2019.
On top of that, our liquidity position was strengthened with 1.1 billion euros in additional liquidity lines secured. As a result, Valeo currently has 2.3 billion euros in undrawn credit lines. I would like to take a moment to thank all of our employees for their outstanding, unwavering commitment during this period, without whom none of this would have been possible.

In the second half of the year, Valeo delivered solid results, demonstrating its strong capacity to bounce back in the current climate. With EBITDA representing 13.9% of sales, free cash flow amounting to a record 1.34 billion euros, and debt having been reduced to less than 3 billion euros one year ahead of our objective, we are in a sound financial position.
These results were achieved thanks to the rigorous operational management of our teams when all of our plants resumed production, and to strict cost control as business picked up sharply in the second half of the year.



"The 12 technological platforms we have developed in the fields of electrification and ADAS now give us a unique positioning."

JACQUES ASCHENBROICH
Chairman and Chief Executive Officer

Validation of our strategic choices, which respond to market acceleration toward cleaner, safer, smarter mobility.

With the Covid-19 crisis, we are witnessing both a clear preference for individual mobility and accelerating demand for safer, even more electric mobility all over the world, further demonstrating the relevance of our positioning.

The 12 technological platforms we have developed in the fields of low- and high-voltage electrification and driving assistance systems, or ADAS, now give us a unique positioning and a major competitive edge.

The massive investments required to develop these platforms put up high barriers to entry on our various markets; their innovative features make for ideal positioning on the most dynamic market segments and a considerable increase in our average content per vehicle, while they open fresh opportunities in new mobility applications such as scooters, electric bikes, autonomous shuttles and even droids.

Now more than ever, the strategic decisions we have made give us confidence in our ability to outperform the global automotive market over the long term and improve our margins, while remaining cautious in 2021 owing to the shortage of electronic components triggered by the crisis.

At the start of the year, we announced a commitment to achieve **carbon neutrality by 2050** across Scopes 1, 2 and 3. Our aim is to have reached nearly 50% of our objective by 2030. A whole 1,500 of the Group's senior executives are concerned by the objective, confirming Valeo's firm commitment to the Business Ambition for 1.5°C campaign.

I look forward to our upcoming Shareholders' Meeting, to be held on 26 May, when I will introduce Christophe Périllat, to be appointed Deputy Chief Executive Officer at that same meeting. **Christophe will become Chief Executive Officer of Valeo in January 2022.**

Once again, I would again like to thank all of our 110,300 employees and reiterate my confidence in the future of our Group in a post-Covid world which is proving the relevance of the strategy we have pursued over the past few years.

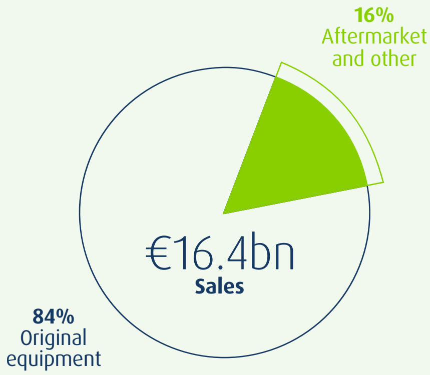
April 2, 2021

KEY FIGURES

Financial performance

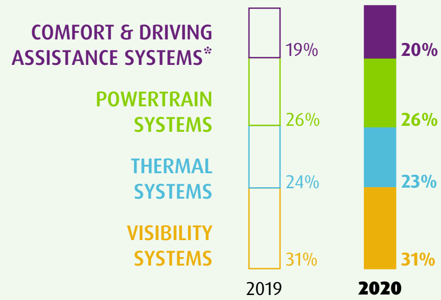
SALES BY DISTRIBUTION NETWORK

In billions of euros and as % of total sales



SALES BY BUSINESS GROUP

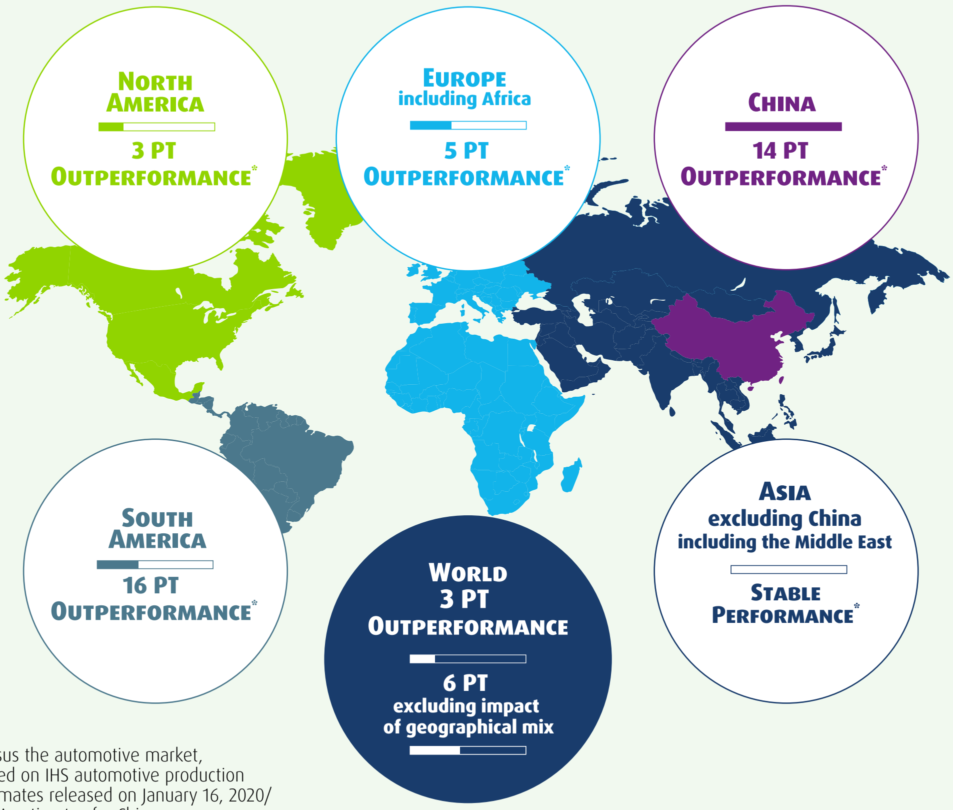
*As a % of total sales**



* Excluding the Top Column Module business.

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

*Like for like***



NORTH AMERICA
19% of Group sales
Original equipment sales vs 2019: **down 17%**

SOUTH AMERICA
2% of Group sales
Original equipment sales vs 2019: **down 15%**

EUROPE (including Africa)
46% of Group sales
Original equipment sales vs 2019: **down 17%**

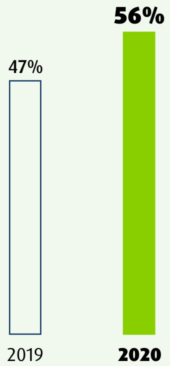
CHINA
15% of Group sales
Original equipment sales vs 2019: **up 7%**

ASIA excluding China (including the Middle East)
18% of Group sales
Original equipment sales vs 2019: **down 18%**

* Versus the automotive market, based on IHS automotive production estimates released on January 16, 2020/ CPCA estimates for China.
** See financial glossary, page 48.

ORDER INTAKE

Share of innovative products and systems in order intake (%)*

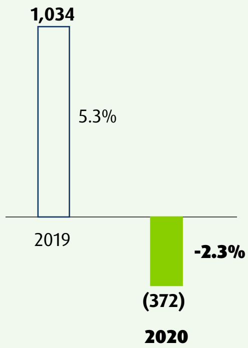


€13.3bn
in order intake in H2 2020 (vs. €10.9 billion in H2 2019)

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

OPERATING MARGIN*

In millions of euros and as a % of sales

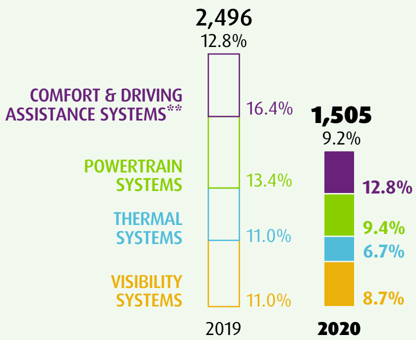


5.0%
in H2 2020 (5.2% excluding Top Column Module business)

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

TOTAL EBITDA* AND EBITDA BY BUSINESS GROUP

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



* See financial glossary, page 48.
** Excluding the Top Column Module business.

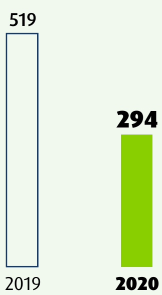
BASIC EARNINGS PER SHARE AND DIVIDEND PER SHARE

In euros

* A 2020 dividend of 0.30 euros will be proposed at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2020.

FREE CASH FLOW*

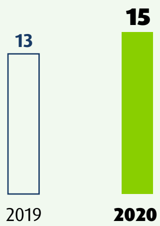
In millions of euros



* See financial glossary, page 48.

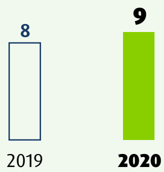
ROCE * (RETURN ON CAPITAL EMPLOYED)

As a %



ROA* (RETURN ON ASSETS)

As a %



* See financial glossary, page 48. In light of the exceptional situation relating to the impact of the Covid-19 crisis on the Group's first-half results, ROCE and ROA for 2020 have been calculated based on annualized second-half data.

FOR MORE INFORMATION

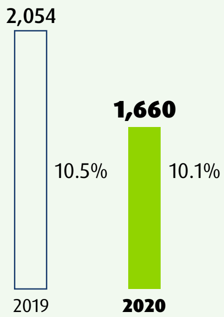
See Chapter 5 of the 2020 Universal Registration Document, "Financial and Accounting Information".

KEY FIGURES

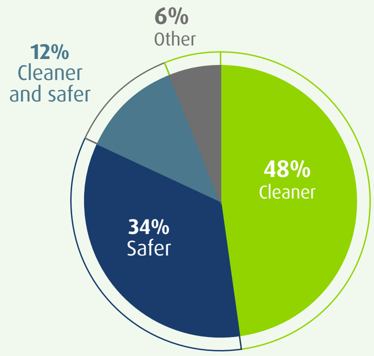
Sustainable development performance(1)

RESEARCH AND DEVELOPMENT EXPENDITURE DRIVING CLEANER, SAFER AND SMARTER MOBILITY

Gross Research and Development expenditure
In millions of euros and as % of total sales



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



18,480
Research and Development employees

nearly 3,000 **projects managed**

1,373
experts

+9% **compared to 2019**

1,174
patents filed in 2020

Approx. 3 **patents filed per day**

GOVERNANCE

100%
average rate of attendance at Board of Directors' meetings

92%
of directors are independent*

50%
of the Board of Directors' members are women**

SOCIAL FOOTPRINT

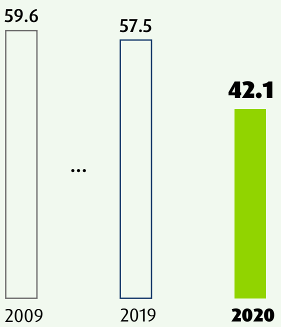
99.98%
of people concerned by the fight against corruption were trained

77%
of sites have partnerships with the world of higher education

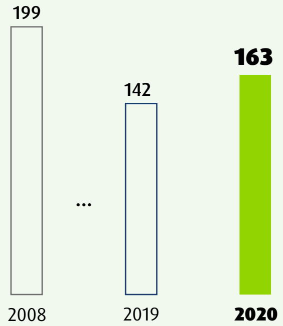
(1) The performance chart presented in section "Sustainable development goals in the Group's business" on page 39 of this report summarizes the main objectives and key performance indicators of the Group's sustainable development policy.
* In accordance with the AFEP-MEDEF Code, this figure does not include directors representing employees.
** In accordance with Article L.225-27-1, II of the French Commercial Code *(Code de commerce)*, this percentage does not include directors representing employees.

ENVIRONMENTAL ECO-EFFICIENCY

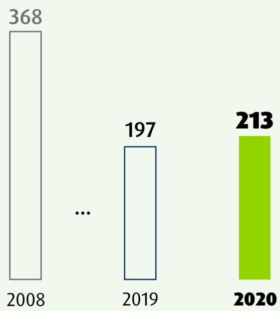
Total direct (Scope 1) and indirect (Scope 2) GHG* emissions as a proportion of sales (tCO_2/€m)



Total energy consumption (MWh/€m)



Total water consumption as a proportion of sales (cu.m/€m)



* See sustainable development glossary, page 48.

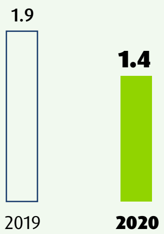
20%
of sites certified ISO 50001
+12 pts **compared to 2015**

5.4 t/€m
total consumption of packaging materials as a proportion of sales
-28% **compared to 2008**

CO_2 emissions related to the use of Valeo products (Scope 3 downstream)
-21% **compared to 2019**

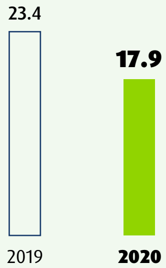
VALEO AND ITS EMPLOYEES

Frequency rate of occupational accidents* (FR1)



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

Average hours of training per employee*



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

82.6/100(1)
gender equality index, Group average

50%
of employees are Valeo shareholders

752
collective bargaining agreements in force in 2020

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

GOVERNANCE

Solid governance in support of strategy

The Group's growth model is based on a strong corporate governance structure, led by:

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

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

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

COMPOSITION OF THE BOARD OF DIRECTORS AT DECEMBER 31, 2020

	PERSONAL INFORMATION				EXPERIENCE	POSITION ON THE BOARD OF DIRECTORS				
	Age	Gender	Nationality	Number of shares	Number of directorships held in listed companies(1)	Independent	First appointed	Expiration of term of office	Years' service on the Board	Membership of Board committees(2)
JACQUES ASCHENBROICH *Chairman and Chief Executive Officer*	66	M	FR	838,833	2	-	03/20/2009	2023 Shareholders' Meeting	12 years	-
BRUNO BÉZARD	57	M	FR	3,000	0	✓	10/24/2017	2022 Shareholders' Meeting	4 years	ARC
BPIFRANCE PARTICIPATIONS *Represented by Stéphanie Frachet*	43	F	FR	12,600,000(3)	2	✓	06/21/2019	2022 Shareholders' Meeting	2 years	ARC/GACSRC/CC
ÉRIC CHAUVIREY *Director representing employees*	46	M	FR	N/A(4)	0	N/A(5)	06/30/2017	06/30/2021	4 years	CC/SC
C. MAURY DEVINE	69	F	US	3,500	2	✓	04/23/2015	2021 Shareholders' Meeting	6 years	GACSRC/CC
FONDS STRATÉGIQUE DE PARTICIPATIONS *Represented by Julie Avrane-Chopard*	49	F	FR	9,471,305(6)	1	✓	03/24/2020	2024 Shareholders' Meeting	1 year	ARC
MARI-NOËLLE JÉGO-LAVEISSIÈRE	52	F	FR	1,500	3	✓	05/26/2016	2021 Shareholders' Meeting	5 years	ARC
GILLES MICHEL *Lead Director*	64	M	FR	1,500	2	✓	05/23/2018	2022 Shareholders' Meeting	3 years	GACSRC (Chairman)/ CC (Chairman)
THIERRY MOULONGUET	69	M	FR	3,000	0	✓	06/08/2011	2024 Shareholders' Meeting	10 years	ARC (Chairman), SC
OLIVIER PIOU	62	M	FR	15,000	1	✓	05/23/2019	2023 Shareholders' Meeting	2 years	ARC, SC
PATRICK SAYER	63	M	FR	1,500	3	✓	05/23/2019	2023 Shareholders' Meeting	2 years	GACSRC/CC/SC (Chairman)
ULRIKE STEINHORST	69	F	DE	1,500	2	✓	02/24/2011	2024 Shareholders' Meeting	10 years	GACSRC (in charge of CSR issues)/CC/SC
GRZEGORZ SZELAG *Director representing employees*	43	M	PO	N/A(4)	0	N/A(5)	11/19/2020	11/19/2024	<1 year	—
VÉRONIQUE WEILL	61	F	FR	2,390	2	✓	05/26/2016	2021 Shareholders' Meeting	5 years	ARC/GACSRC/CC

Nationalities: FR: French **US:** American **DE:** German **PO:** Polish.

N/A = Not applicable.
(1) Except for the directorship in the Company.
(2) ARC = Audit & Risks Committee; GACSRC = Governance, Appointments & Corporate Social Responsibility Committee; CC = Compensation Committee; SC = Strategy Committee.
(3) These shares are held by Bpifrance Participations.
(4) In accordance with the law, the articles of association and the Internal Procedures, the directors representing employees are not required to hold 1,500 shares.
(5) The directors representing employees do not count, in accordance with the recommendation in Article 9.3 of the AFEP-MEDEF Code.
(6) These shares are held by Fonds Stratégique de Participations.

+

FOR MORE INFORMATION

See Chapter 3 of the 2020 Universal Registration Document, "Corporate Governance".

In its report, the specialist consulting firm noted that "Valeo's governance has continued to improve and gain in strength since the previous assessment, thanks to:

- extremely efficient management of the Covid-19 crisis by the Chairman and Chief Executive Officer, the Associate Chief Executive Officer (formerly the Chief Operating Officer) and their teams, with an extremely open and transparent attitude towards the Board;
- the Board's great maturity throughout a challenging period and its supportiveness of management's handling of the Covid-19 crisis;
- a renewed Board, strengthened by the addition of new directors with a diversity of experience, who contributed to the quality of debate;
- a rigorous succession and governance development process that led to a solution unanimously approved by all Board members;
- a high quality working environment, with a Board increasingly involved in all major issues and members able to express their opinions freely in a constructive atmosphere."

Operation of the Board of Directors

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

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

At December 31, 2020, 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. 50%(1) of the Board's members are women and 100% are under 70 and, except for the two directors representing employees, who are not included in the calculation, all of them except the Chairman and Chief Executive Officer are considered independent(2) according to the criteria set out in both the Internal Procedures and the AFEP-MEDEF Code to which Valeo refers.

Gilles Michel, an independent director, is Lead Director and Chairman of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee. As the previous year's Board assessment was performed internally, the Board of Directors decided to appoint an outside firm to conduct the 2020 assessment.

The assessment was performed by a specialist consulting firm between the end of 2020 and the beginning of 2021 through individual interviews with all the directors based on an interview guide that was reviewed and approved by the Lead Director and the Secretary of the Board of Directors. The topics covered in the assessment included the Board of Directors' operating procedures, structure, governance, composition, duties, proceedings of meetings, directors' access to information, the choice of issues discussed, the quality of debate and directors' participation, and the general running of the Board committees.

The outcome of the assessment was reviewed by the Governance, Appointments & Corporate Social Responsibility Committee at its meeting on March 24, 2021, and presented and discussed at the Board of Directors' meeting held on March 24, 2021.

The main areas of satisfaction include:

- suggestions for improvement made during the previous assessment taken on board;
- unified governance adapted to the Company's situation, characterized in particular by:
  - efficient running of the Board by the Chairman and Chief Executive Officer,
  - a Lead Director who played his role effectively, particularly in the succession process for the Chairman and Chief Executive Officer,
  - an open, respectful Board of Directors with a genuine ability to dialog and listen;
- strong commitment, involvement and support for the directors during management of the Covid-19 crisis, which was exemplary, for example, on health and safety matters;
- the quality of work done by all the committees, with good coordination between them and the Board and a well programmed rotation of various chairmanships;
- appointment of a person in charge of CSR issues for the Governance, Appointments & Corporate Social Responsibility Committee;
- the annual strategy seminar, which is considered a key event for the Board of Directors.

(1) In accordance with Article L.225-27-1, II of the French Commercial Code *(Code de commerce)*, this percentage does not include the directors representing employees.
(2) For more information, see section "Director independence review", of the 2020 Universal Registration Document, page 108.

ROLES OF THE BOARD OF DIRECTORS' FOUR COMMITTEES AT DECEMBER 31, 2020

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

AUDIT & RISKS COMMITTEE

7 independent members out of 7

6 **meetings**

100% **attendance rate**

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

COMPENSATION COMMITTEE

7 members, all independent[(1)]

7 **meetings**

100% **attendance rate**

- Study and make recommendations concerning the compensation paid to executive corporate officers, including the variable component of said compensation and any benefits in kind, performance shares and stock purchase or subscription options from any Group companies, provisions relating to post-employment benefits, and any other benefits of any kind.
- Recommend to the Board of Directors an aggregate amount of directors' compensation to be proposed at the Shareholders' Meeting.
- Make recommendations to the Board on the rules for allocating directors' compensation and the individual amounts to be paid.
- Give its opinion to the Board of Directors on the general policy for allotting stock purchase or subscription options and free shares or performance shares, as well as on the stock option, free share and performance share plans set up by the Group's General Management.
- Remain informed about the compensation policy for the main executive managers who are not corporate officers of the Company or of other Group companies.
- Review any questions submitted to the committee by the Chairman about the above matters, as well as proposed share issues reserved for employees.

GOVERNANCE, APPOINTMENTS & CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

6 independent members out of 6

6 **meetings**

100% **attendance rate**

- Draw up a succession plan for executive corporate officers and directors.
- Analyze how the Board of Directors and its Committees operate.
- Assess and update corporate governance rules.
- Prepare the composition of the governing bodies, by making reasoned recommendations regarding the appointment of executive corporate officers, directors and committee members.
- Review the independence of each director.
- Select candidates for the position of director.
- Review CSR and safety policy, identify CSR objectives and challenges, oversee the gradual and increasing implementation of CSR policy, and assess the Group's contribution to sustainable development.
- In conjunction with the Audit & Risks Committee, gain an understanding of the risks and issues involved in corporate social responsibility, and obtain information about the resources the Group can call on to pursue its strategy in this area.
- As required, issue opinions and recommendations to help the Board make informed decisions.

STRATEGY COMMITTEE

5 members, all independent[(1)]

4 **meetings**

94.4% **attendance rate**

- Issue opinions and recommendations on the Group's key strategies, market trend information, research developments, competition benchmarking and the resulting medium- and long-term outlook for the business.
- Issue opinions and recommendations on the analysis of the Group's development projects, particularly external growth transactions, investments or borrowings in excess of 50 million euros per transaction.

(1) Except for the director representing employees who, in accordance with the recommendation in Article 15.1 of the AFEP-MEDEF Code, does not count.

Two management committees to implement the Group's strategy

COMPOSITION OF THE EXECUTIVE COMMITTEE AND THE OPERATIONS COMMITTEE

(Executive Committee members are indicated by an asterisk)

Composition at December 31, 2020

JACQUES ASCHENBROICH*
Chairman
and Chief Executive Officer

CHRISTOPHE PÉRILLAT*
Associate
Chief Executive Officer(1)

GEOFFREY BOUQUOT
Vice-President, Corporate Strategy and External Relations and Senior Vice-President, Research & Development and Product Marketing(2)

FABIENNE DE BRÉBISSON*
Senior Vice-President,
Communications

ROBERT CHARVIER*
Chief Financial Officer

CATHERINE DELHAYE*
Chief Ethics and
Compliance Officer

ÉRIC ANTOINE FREDETTE*
General Counsel
and General Secretary

BRUNO GUILLEMET*
Senior Vice-President,
Human Resources

HANS-PETER KUNZE*
Senior Vice-President, Sales &
Business Development

XAVIER DUPONT
President, Powertrain Systems
Business Group

MAURIZIO MARTINELLI
President, Visibility Systems
Business Group

FRANCISCO MORENO
President, Thermal Systems
Business Group

ÉRIC SCHULER
President,
Valeo Service

MARC VRECKO
President,
Comfort & Driving Assistance
Systems Business Group

(1) Associate Chief Executive Officer since October 27, 2020.
(2) Member of the Operations Committee and Secretary of the Executive Committee.

+

ON OCTOBER 27, 2020,
Valeo announced:

- **the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer from January 2022,** with Jacques Aschenbroich continuing to act as Chairman of the Board of Directors until the end of his current term of office as director, and with Christophe Périllat, currently Associate Chief Executive Officer *(Directeur Général Adjoint)*, being appointed as Chief Executive Officer;
- **the appointment of Christophe Périllat as Associate Chief Executive Officer** (*Directeur Général Adjoint*) as of October 27, 2020 and as Deputy Chief Executive Officer (*Directeur Général Délégué*) as from the Annual Shareholders' Meeting to be held in May 2021. The Board of Directors will also propose the appointment of Christophe Périllat as director at such Shareholders' Meeting.

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

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

The Operations Committee coordinates the Group's management and operations

Under the authority of the Chairman and Chief Executive Officer, Valeo's Operations Committee meets once a month and comprises 14 members. Its role is to review operational management, coordinate projects and implement the Group's strategy. The Committee is responsible for ensuring that the Group meets its objectives and adheres to the continuous improvement process through the 5 Axes methodology. The Group Operations Committee reflects the Group's organization into functional networks, and four operational Business Groups and Valeo Service.

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

For the preparation and determination of the compensation policy, Valeo takes into account the Company's general interest, the shareholders' interest, market practices and the performance of the executive corporate officers, as well as the other stakeholders in the Company. The Board of Directors considers that the compensation policy for the corporate officers is in line with the corporate interest by contributing to the implementation of its strategy and long-term development and by taking into account the social and environmental impacts of its operations, thus assuring its long-term future.

COMPENSATION POLICIES FOR THE 2021 FINANCIAL YEAR[2]

	FIXED PORTION	VARIABLE PORTION	PERFORMANCE SHARES	SUPPLEMENTARY PENSION	FIXED + VARIABLE
BENEFICIARIES	Chairman and CEO/Deputy CEO[1][2]/members of the Operations Committee				Directors
FORM OF PAYMENT	Cash	Cash	Shares	Cash	Cash
PERFORMANCE TYPE	Short-term	Short-term	Long-term	Long-term	Short-term
PERFORMANCE PERIOD	Continuous	1 year	3 years	Continuous	Continuous
DECISION-MAKER	**Chairman and CEO and Deputy CEO:** **Board of Directors** on recommendation of the Compensation Committee[3] **Members of the Operations Committee:** **Chairman and CEO** in liaison with the Compensation Committee and the Board of Directors	**Chairman and CEO and Deputy CEO:** **Board of Directors** on recommendation of the Compensation Committee[3] **Members of the Operations Committee:** **Chairman and CEO** in liaison with the Compensation Committee and the Board of Directors	**Board of Directors** on recommendation of the Compensation Committee[3]	**Board of Directors** on recommendation of the Compensation Committee, which sets the eligibility criteria[3]	**Board of Directors** based on the aggregate amount approved by the Shareholders' Meeting, aggregate amount and terms of payment subject to an *ex ante* vote
PERFORMANCE METRIC	Not applicable	**Chairman and CEO and Deputy CEO[4]:** **4 financial criteria** (EBITDA level, free cash flow, net income, order intake[5]) **Qualitative criteria** (strategic vision, risk management, corporate social responsibility) **Members of the Operations Committee:** (financial and non-financial criteria)	**2 internal performance criteria[4]** (EBITDA level, ROCE[5]) **1 external performance criterion[4]** (TSR[5]) **2 criteria relating to corporate social responsibility[4]** (CO_2 emissions, the number of women within the Group's management committees)	**Chairman and CEO and Deputy CEO[4]:** supplementary retirement benefits allotted based on variable compensation **Members of the Operations Committee:** supplementary retirement benefits not subject to performance criteria	**Attendance**

(1) Christophe Périllat, former Valeo Chief Operating Officer, will succeed Jacques Aschenbroich in his role as Chief Executive Officer of Valeo from January 2022. Christophe Périllat was appointed Associate Chief Executive Officer of Valeo as of October 27, 2020 and until the Annual Shareholders' Meeting to be held on May 26, 2021, following which the Board of Directors will appoint him as Deputy Chief Executive Officer of Valeo.
(2) For further details of the compensation policy for the Chief Executive Officer and the Chairman of the Board of Directors in anticipation of the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer planned for January 2022, see Chapter 3 of this Universal Registration Document, "Corporate Governance".
(3) The compensation policies for the Chairman and Chief Executive Officer and for the Deputy Chief Executive Officer are subject to *ex ante* and *ex post* votes by the shareholders.
(4) Criteria applicable for 2021 compensation.
(5) See financial glossary, page 48.

Compensation of Jacques Aschenbroich, Chairman and Chief Executive Officer, paid during or awarded in respect of the 2020 financial year[1]

Fixed portion €1,100,000

EXCLUDING BENEFITS IN KIND AND SUPPLEMENTARY PENSION

Jacques Aschenbroich donated 25% of his fixed compensation throughout the shutdown due to the Covid-19 pandemic to support Covid-19-related solidarity initiatives[2].

Short-term

VARIABLE PORTION €1,089,000

99% OF FIXED COMPENSATION VERSUS MAX. 170%

5 quantifiable criteria

(46% of fixed compensation versus max. 115% after 20% downward adjustment from 57.5%):

- Operating margin rate[3] (12.5% of fixed compensation versus max. 25%)
- Free cash flow[3] (12.5% of fixed compensation versus max. 25%)
- Net income[3] (10% of fixed compensation versus max. 20%)
- ROCE[3] (10% of fixed compensation versus max. 20%)
- Consolidated order intake[3] (12.5% of fixed compensation versus max. 25%)

3 qualitative criteria

(53% of fixed compensation versus max. 55%):

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

Long-term

130,000 PERFORMANCE SHARES

€1,821,300[4] i.e., 166% OF FIXED COMPENSATION VERSUS MAX. 270%

Performance criteria:

- 2 internal criteria: ROA[3] and operating margin[3] (maximum of 80% of the shares allotted, 40% for each);
- 1 external criterion: TSR[3] (maximum of 20% of the shares allotted).

Weighting/measurement of performance criteria:

- See Chapter 3 of the Universal Registration Document, section "Long-term compensation policy – Allotment of performance shares", pages 157 to 158.

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

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

FOR MORE INFORMATION

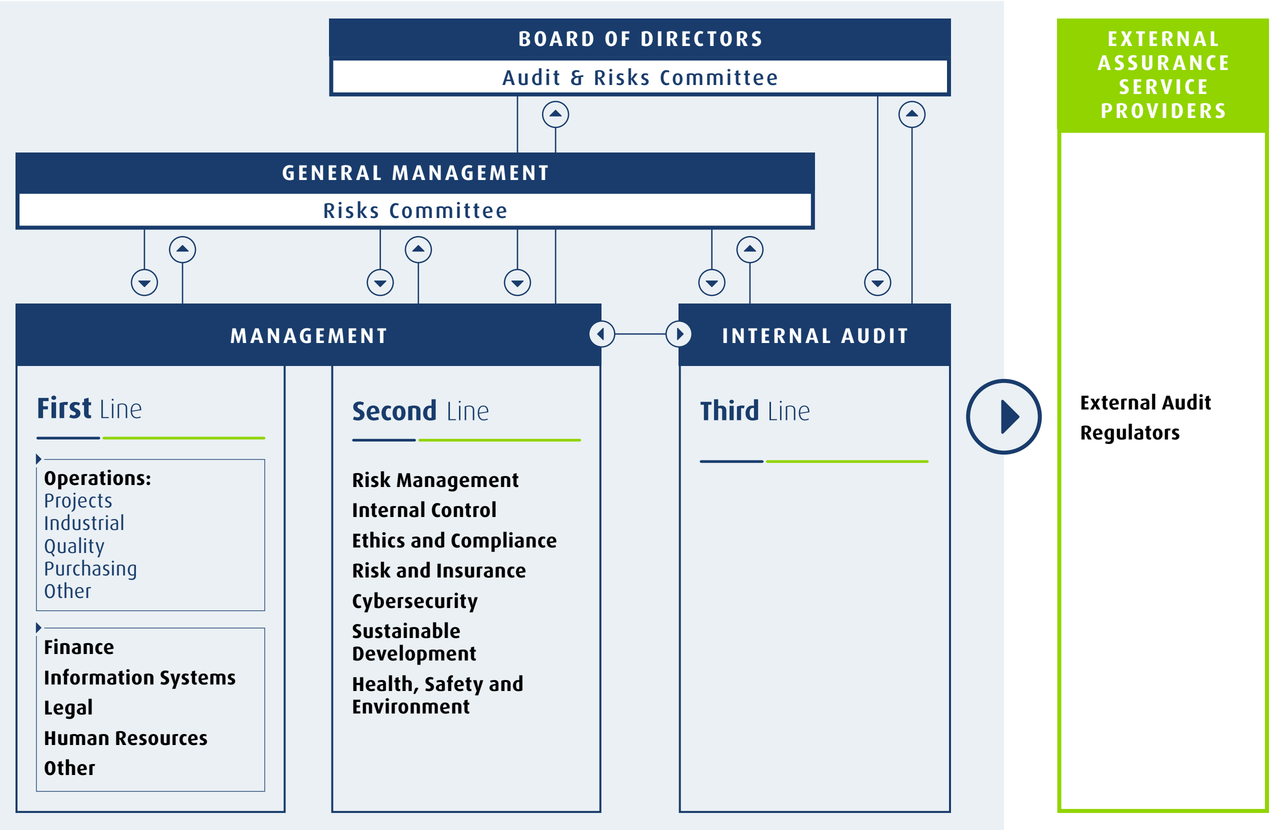
See Chapter 3 of the 2020 Universal Registration Document, "Corporate Governance".

(1) Subject to *ex post* vote at the Shareholders' Meeting to be held on May 26, 2021.
(2) The directors and all members of the Operations Committee also decided to follow this initiative.
(3) See financial glossary, page 48.
(4) Performance shares measured in accordance with IFRS (unit value of 14.01 euros at the allotment date).

RISK MANAGEMENT, A KEY PRIORITY FOR VALEO

Organizational structure geared towards effective risk management

The Group's risk control system can be illustrated with the Three Lines model.



Main risks identified

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

OPERATIONAL AND STRATEGIC RISKS	LEGAL RISKS	FINANCIAL RISKS
• Risks related to changes in the technological environment • Risks related to the development and launch of new products • Risks related to attracting and retaining talent • Risks related to the quality and safety of products and services sold; • Cybersecurity and IT systems failure risk • Industrial risks related to growth • Risks related to the automotive equipment industry • Supplier failure risk	• Intellectual property risks (patents and trademarks)	• Foreign currency risk • Commodity risk

Criticality: • High • Medium

FOR MORE INFORMATION

See Chapter 2 of the 2020 Universal Registration Document "Risks and Risk Management".

STRICT ADHERENCE TO ETHICS AND COMPLIANCE PRINCIPLES

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

Due to the Group's global footprint and its growing number of employees, in 2020 the Ethics and Compliance Office continued to extend and deepen its various programs to fight corruption and anti-competitive practices, and to promote compliance with economic sanctions and export controls, and the protection of personal data **(the Compliance Programs)**.

Built to the highest international standards, including France's Sapin II law, the Foreign Corrupt Practices Act (FCPA) and the General Data Protection Regulation (GDPR), the programs break down into different policies, instructions, recommendations, tools and training modules.

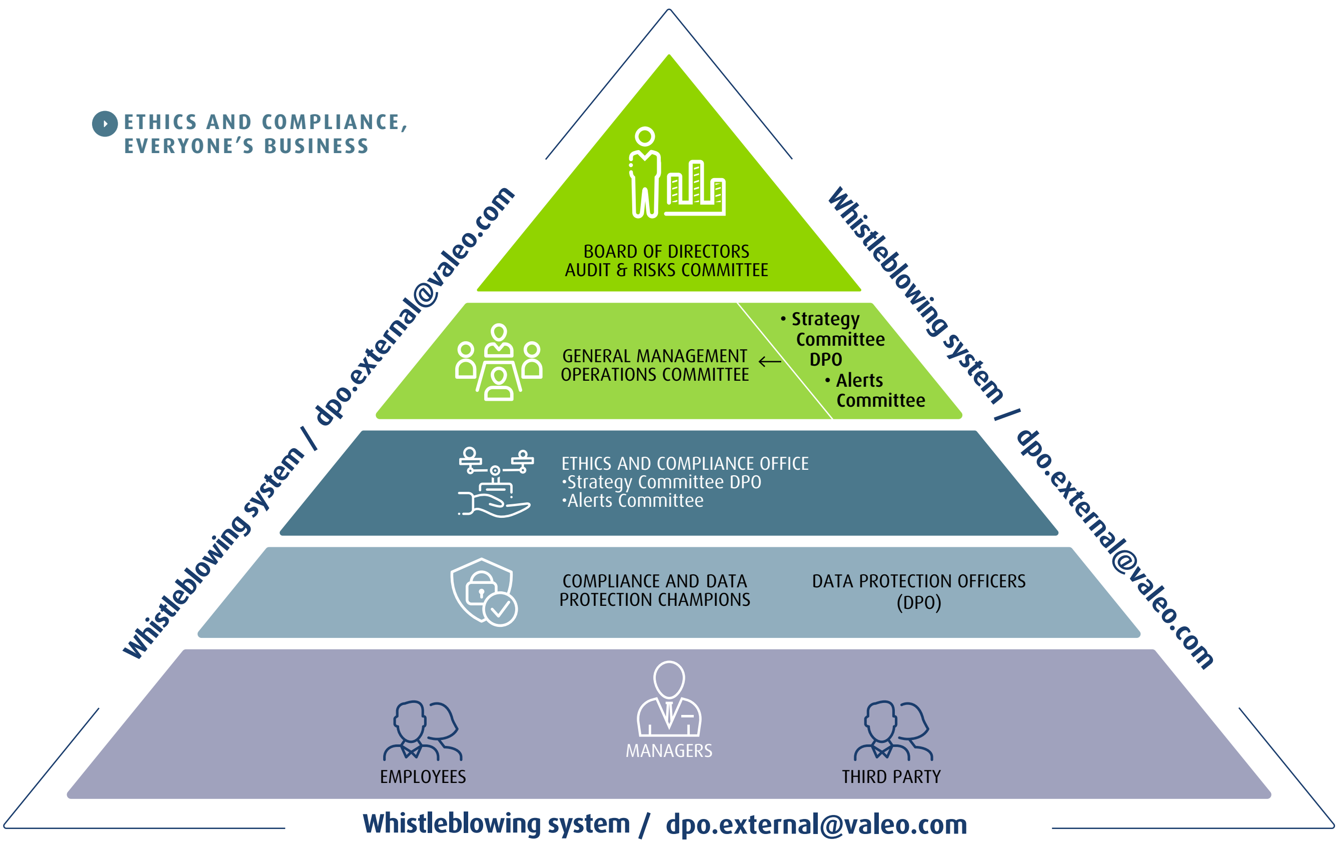
Run by General Management and the Ethics and Compliance Office, endorsed by all management teams and relayed worldwide by Compliance Champions, Data Protection Champions and Data Protection Officers, the Group's Compliance Programs are designed to prevent a number of risks associated with inappropriate behavior.

Ethics and compliance, everyone's business

- **The Ethics and Compliance Office** is tasked with proposing, managing, and coordinating the global and local implementation of the Compliance Programs, as validated by the Operations Committee.
- Testimony to a strong commitment from the **Chairman and Chief Executive Officer**, the pursuit and deepening of compliance initiatives, especially with regard to the risk map, is a criterion used to evaluate the allocation of his variable compensation.
- The **Audit & Risks Committee** ensures, on behalf of the **Board of Directors**, that Valeo follows a full program that enables it to comply with the legislation and regulations applicable to the Group's activities.
- The **Executive Committee and Operations Committee** are responsible for determining the focuses and priorities of the Compliance Programs, allocating the funds and resources necessary and ensuring that its implementation is supervised and verified.
- The **Compliance Champions, Data Protection Champions and Data Protection Officers**, ambassadors of the Ethics and Compliance Office and Business Group management in the country or function to which they belong, promote the Group's ethics and compliance policies, mechanisms and priorities.

CATHERINE DELHAYE,
Chief Ethics and Compliance Officer

"Compliance is an integral part of Valeo's culture. It is an intrinsic everyday feature running through all of the Group's operations, reflected in the adherence to Compliance Programs, in workforce-wide commitment, vigilance and mobilization, and in an efficient risk management and prevention approach."



A comprehensive framework

Valeo's commitments

- A Code of Ethics
- Corruption risk mapping
- The commitment of the governing body
- A Business Partner Code of Conduct
- Policies, procedures and practical guides
- Valeo Data Protection Principles (VDPPs)

99%
OF EMPLOYEES THAT JOINED THE GROUP IN 2020 RECEIVED A COPY OF THE CODE OF ETHICS

99.98%
OF PEOPLE EXPOSED TO THE RISK OF CORRUPTION, FRAUD AND ANTI-COMPETITIVE PRACTICES RECEIVED SPECIFIC TRAINING

A preventive approach

- Continuous program of in-depth, targeted, mandatory training
- Regular internal audit and internal control operations
- A multilingual, secure and confidential whistleblowing mechanism accessible to employees and third parties
- A free training program available to Valeo business partners

98%
OF NEWCOMERS COMPLETED AND VALIDATED
the compliance training module
(Anti-Bribery Compliance Induction Program)

e-learning
ON PERSONAL DATA PROTECTION
rolled out in 2019 to the 45,000 employees most concerned

A whistleblowing and reporting system

In 2020, the whistleblowing line set up in 2013 was replaced by a more user-friendly system, from an established European service provider. It is accessible via a secure dedicated platform, which is available free of charge 24/7 to internal and external whistleblowers, who can use it to report detailed, confidential and documented information in the language of their choice. The new system is accessible on PC, smartphone or tablet, via a link or a QR code. It has been rolled out on a large scale across all Group sites.

Continuous improvement approach

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

+ FOR MORE INFORMATION

See Chapter 4 of the 2020 Universal Registration Document, sections 4.1.3 "Compliance Programs" and 4.3.3"Risk of individual corruption".

ENVIRONMENT

An environment in (r)evolution

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

CHANGES ARE TRANSFORMING THE MOBILITY LANDSCAPE...

Climate change is central to concerns worldwide. The impact of global warming and the questions – exacerbated by the Covid-19 pandemic[1] – surrounding the corporate world's commitment to achieving carbon neutrality, are pushing us to challenge the way we live and, more particularly, the way we move.

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

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

The Covid-19 pandemic has accelerated these trends, confirming the resilience of the individual vehicle as the mobility solution offering the best health and safety conditions, as people become wary of public transportation. In urban areas, we are also seeing the trend toward individual micro-mobility solutions gain ground, while the outlook for shared mobility solutions is more uncertain[2].

Consumers remain attached to the concept of having their own car, with more than 80% of people surveyed worldwide viewing it as the safest means of transportation[3]. The perceived value of having constant access to a private car has risen by 32% since the start of the pandemic, and 45% of people surveyed said they planned to use their car more in the future[2]. In China, 60% of respondents said they were more likely to buy or own a private vehicle after the Covid-19 crisis[4].

With regard to **traditional public transportation**, we are seeing **greater hesitancy** as a result of the Covid-19 pandemic: in 2019, 50% of people in Europe and 28% in the United States considered that public transportation met their expectations. These figures fell to 37% and 22%, respectively in 2020[5].

Municipalities therefore need to rethink what mobility means in their area, while **micro-mobility** solutions (bikes, scooters, e-scooters, etc.) are increasing in popularity. All over the world, lockdowns have prompted towns and cities to open up new cycle tracks. **Bikes, especially electric bikes,** are enjoying an increasingly predominant position among the mobility solutions that best meet users' expectations. In China, public electric bike rental services come out in third place, up from sixth place in 2019. In Europe, electric bikes are ranked fourth, up from fifth in 2019. In the United States, public bike rental services rose to sixth position, up from seventh in 2019[5].

At the same time, the Covid-19 crisis has brought increasing use of urban **droids** for last-mile delivery services. They are used for both indoor and outdoor services in logistics, as well as for security and disinfection applications.

All of these solutions offer users an alternative to their private car. Though not all providers of alternative mobility solutions have a profitable business model, the emergence of micro-mobility and shared mobility services is having an increasing impact on consumer behavior.

GEOFFREY BOUQUOT

Vice-President, Corporate Strategy and External Relations and Senior Vice-President, Research & Development and Product Marketing

"New forms of mobility require the development of electric and automation technologies, and this creates a wealth of opportunities for Valeo as a front-line player in all forms of electric mobility."

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

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

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

(1) More than 90% of survey respondents in France and Germany agree that global warming calls for societal change post-Covid.
(2) Source: McKinsey Center for Future Mobility.
(3) Source: McKinsey Global Covid-19 Automotive Consumer Survey.
(4) Source: BCG - Covid-19's Impact on the Automotive Industry.
(5) Source: Sigma Global Sensor 2020.

On the road to cleaner mobility solutions

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

In Europe, the CAFE regulation applies from January 1, 2021, based on 2020 sales figures for new passenger cars. It limits the average emissions generated by new vehicles sold from January 1, 2020 by all automakers to 95 g of CO_2 per kilometer. In the medium term, the European Union's Green Deal commits to a 37.5% reduction in greenhouse gas emissions by 2030. More stringent objectives for 2030 might well be on the way with a new Green Deal. More ambitious still, some countries have committed to an earlier ban on internal combustion engine vehicles, by 2025 for Norway, 2030 for Denmark and 2035 for the United Kingdom.

In the same vein, **cities across the world are also lining up as new regulators,** adapting urban infrastructure and encouraging new mobility behaviors through coercive regulations and "nudges" intended to curb air (CO_2, nitrogen oxide [NOx] and fine particle emissions) pollution. Diesel engines are already being banned in cities today, and the same fate awaits all internal combustion engines in the not-so-distant future. There are currently **700 regulations limiting access to cities across the European Union** The city of Beijing (China) has introduced an odd-even license plate policy, quotas for new car sales and total driving restrictions for highly polluting vehicles on days of heavy smog. Cities like Paris (France), Madrid (Spain), Athens (Greece) and Mexico City (Mexico) have committed to a full ban on diesel vehicles by 2025. Auckland (New Zealand), Barcelona (Spain), Cape Town (South Africa), Copenhagen (Denmark), London (England), Los Angeles (United States), Mexico City (Mexico), Milan (Italy), Quito (Ecuador), Seattle (United States), Vancouver (Canada) and Paris (France) have all pledged to phase out vehicles with internal combustion engines by 2030.

To boost car sales and stimulate the economy following the first lockdown, some governments brought in policies encouraging the purchase of low-emission vehicles. For example; Germany, China and France offered **subsidies** on the purchase price of new electric vehicles.

In parallel, **consumers are becoming increasingly open to electric vehicles; close to 40% would consider one for their next vehicle purchase.** Electric vehicles offer a new user experience and are appreciated for their fast and efficient acceleration, the absence of noise and vibrations, the driving comfort they provide and, last but not least, the fact that they generate zero emissions. Cities' policies and consumer buy-in have sent a strong signal to the entire automotive industry, pushing it to invest massively and to bring more environmentally friendly vehicles to market.

The entire automotive industry is aware of the absolute necessity to play a major role in combating climate change. Hundreds of billions of euros have been invested in the development of electric vehicles, which are seeing rapid take-up and had a breakthrough year in 2020: sales of electric vehicles and plug-in hybrids were up 43% globally and up 148% in Europe (Frost & Sullivan, December 2020). Back in 2016, electric vehicles accounted for less than 1% of the global market (close to 800,000 vehicles). In 2020, that figure had risen to over 4%.

It is estimated that plug-in hybrids (PHEVs) and battery electric vehicles (BEVs) will represent almost 13% of the market by 2025, rising to 24% by 2030 and 61% by 2040. Vehicle electrification really is booming.

MARKET SHIFT TO ELECTRIC MOBILITY

European Green Deal

37.5% reduction in greenhouse gas emissions by 2030 for new vehicles.

700 regulations restricting access to cities across the European Union.

600 new xEV models by 2025.

(source: McKinsey Center for Future Mobility index (December 2020))

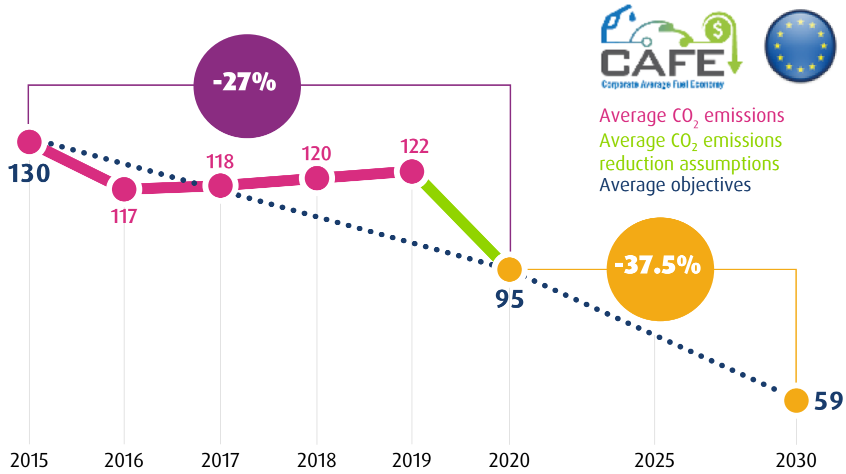
40% of consumers would consider an electric model for their next vehicle purchase.

(source: Sigma 2020 consumer survey)

CO_2 EMISSIONS IN EUROPE

(in g per km, per new vehicle)

The new Worldwide Harmonized Light Vehicle Test Procedure (WLTP).



Getting there via electrification

XAVIER DUPONT

President, Powertrain Systems Business Group

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

To meet the requirements imposed by new regulations and changing consumer expectations, automakers are expanding their portfolio of electric vehicles mainly in Europe and China. **In 2019, automakers brought 143 new electric vehicles to market, and are expected to release 450 more models by 2022 and 600 by 2025 (including 450 BEVs)(1).**

Despite the crisis, 2020 saw strong growth in electric vehicles, with global sales of BEVs and PHEVs up by 43% to 3.2 million vehicles. For the first time since 2015, electric vehicle sales in Europe topped NEV sales in China. In Europe, close to 1.4 million BEVs and PHEVs were registered in 2020, 148% more than in 2019(2). This growth reflects the market release of new models, the recovery plans rolled out by governments in countries such as Germany, Spain and France to revive the automotive industry and encourage consumers to purchase electric vehicles, the introduction of CAFE regulations, infrastructure improvements, and growing consumer interest. In Europe, electrification is picking up pace, accounting for 8.4% of total vehicle sales in 2020, versus 2.2% in 2019, 1.8% in 2018 and 0.8% in 2015.

In China, electric vehicles accounted for 5.8% of total vehicle sales in 2020, versus 5.5% in 2019, 4.2% in 2018 and 0.8% in 2015. Worldwide, electric vehicles accounted for 4.2% of total vehicle sales in 2020, versus 2.5% in 2019 and 0.1% in 2015(2).

Diesel vehicles, on the other hand, continue to decline. They represented more than half of the passenger car market in Europe in 2015, but represented just 32% in 2019 and 24.4% in second-half 2020(3).

The different electrification solutions are expected to account for 45% of the market in 2025 (74% in 2030), versus 13% in 2020(4).

- **Low- and medium-voltage** (12V and 48V) solutions are an absolute necessity. The 48V powertrain system is a hybridization solution for all types of vehicles and a full electrification solution for urban vehicles.

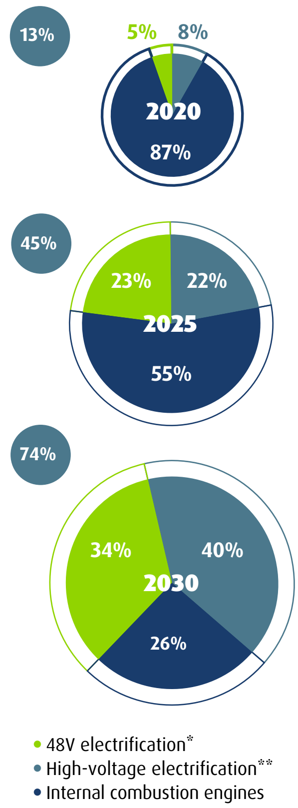
The 48V system, which can be used in all-electric and hybrid applications, has the advantage of being on average 50% more affordable than high-voltage (over 60V) motors, owing to a less complex architecture requiring less safety equipment. These solutions are expected to account for 23% of the market in 2025 and 34% in 2030, representing a potential market value of 15 billion euros(4).

- **High-voltage** (over 60V) all-electric powertrain solutions are designed for vehicles from the B segment upwards and allow for versatile vehicle usage, in towns and cities and on the freeway. These solutions are expected to account for 22% of the market in 2025 and 40% in 2030, representing a potential market value of 72 billion euros(4).
- In addition, all-electric systems contribute to the development of **smart mobility** solutions. 48V all-electric motors are versatile, meaning they can be used to power not only cars, but also new urban mobility objects: autonomous shuttles, motorcycles and even the three-wheel rickshaw vehicles found on Asian markets. This market was worth 12 billion euros in 2018 and its value is expected to increase to 44 billion euros by 2030(4).

Together, these three markets (48V and high-voltage (over 60V) solutions for vehicles and electrification solutions for other mobility objects) are expected to represent a total addressable market for Valeo of more than 130 billion euros in 2030(4).

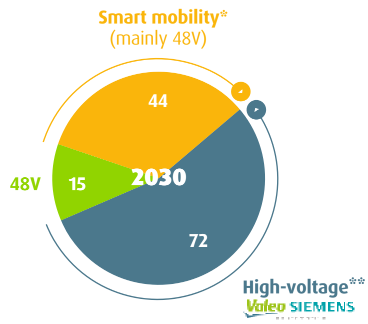
MARKET SHIFT TOWARDS ELECTRIC MOBILITY WITH BOTH 48V AND HIGH-VOLTAGE (OVER 60V) SOLUTIONS

As a % of vehicles produced



THE ELECTRIFICATION MARKET WILL TOTAL MORE THAN €130BN(1) IN 2030

In billions of euros



* Of which 48V and 12V+12V.
** Of which HV BEVs, PHEVs, FCEVs and FHEVs.
Source: Valeo estimates, IHS, Mckinsey.
Valeo's addressable market, excluding batteries.

(1) Source: McKinsey Electric Vehicle Index (July 2020).
(2) Source: Frost & Sullivan (December 2020).
(3) Source: CCFA, KBA, Faconauto, Anfia.
(4) Based on Valeo estimates.

On the road to safer mobility solutions

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

In response to these significant societal challenges, **regulations** are encouraging the emergence of new products and systems that ensure a safer mobility experience:

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

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

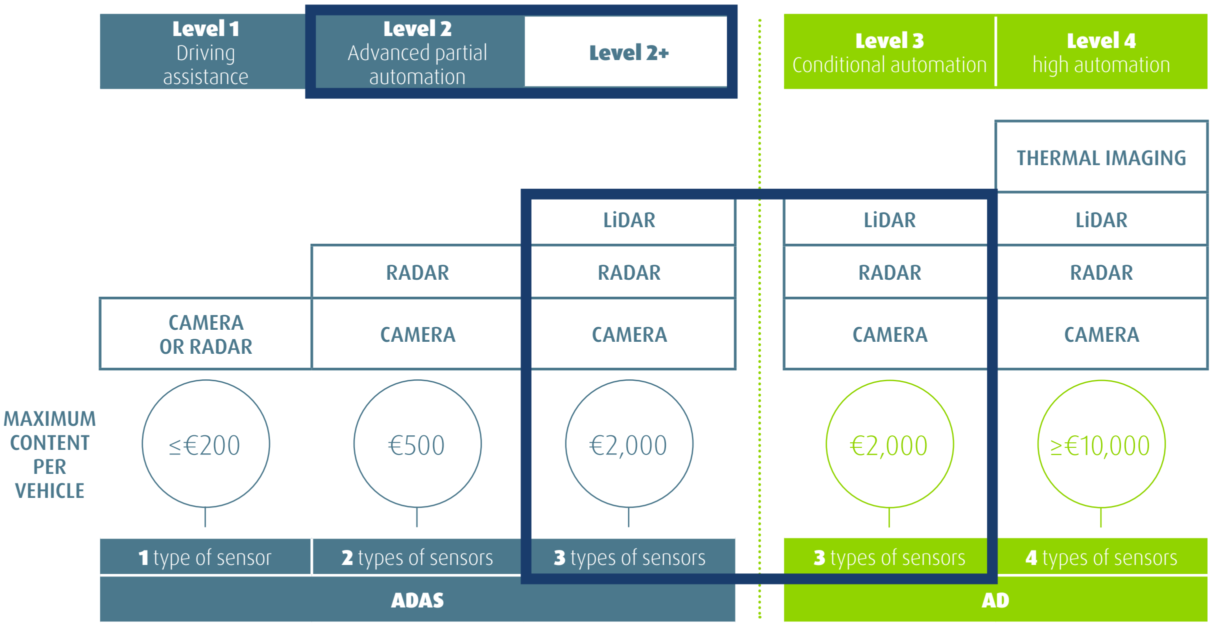
MARKET SHIFT TO ELECTRIC MOBILITY

x4 number of passenger vehicles equipped with level-2 and level-2+ ADAS from 2020 to 2025.

For 50% of consumers, compliance with high safety standards is the top priority when purchasing a new vehicle.

SAFETY, DRIVER OF GROWTH IN THE ADAS MARKET

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



Getting there via an increasingly automated driving experience

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

Buoyed by safety-related regulations and consumer expectations, the ADAS market is growing strongly.

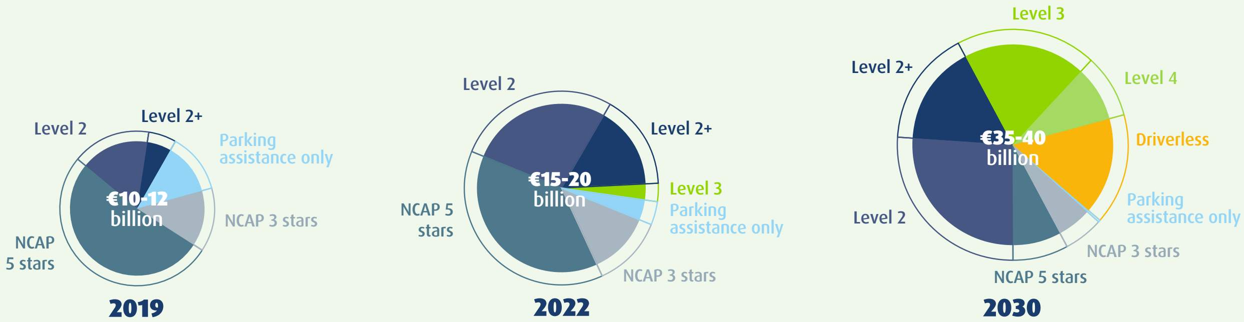
MARC VRECKO

President, Comfort & Driving Assistance Systems Business Group

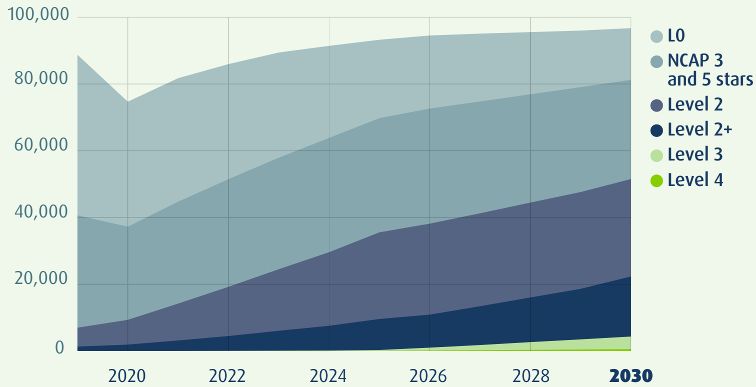
"Our industry has a social responsibility to make roads safer. As part of this mission, we are developing ADAS solutions that are accessible to all, no matter the time, place or conditions."

A HIGH-GROWTH MARKET

It represented between 10 and 12 billion euros in 2019 and is expected to increase to between 15 and 20 billion euros in 2022 and to between 35 and 40 billion euros in 2030[1]. The two high-growth market segments today are levels 2 and 2+ for passenger vehicles. The number of passenger vehicles equipped with **level-2 and level-2+ ADAS is expected to quadruple by 2025**. Level-3 systems are gradually appearing on the market, thanks to LiDAR systems.



VOLUME OF VEHICLES BY AUTOMATION LEVEL[1]



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

At the same time, the market is shifting toward smarter mobility solutions

The expected 30% increase in mobility needs between 2020 and 2030[1], as measured in passenger-kilometers traveled (PKT), **the large proportion of short trips** (46% of trips in the United States cover a distance of less than 5 km[2]) with **the emergence of new modes of transportation** (scooters, electric bikes, robotaxis, autonomous shuttles, etc.), as well as the **exponential growth of online retail and home delivery, particularly in cities**, are all generating new opportunities on the mobility market. As a result, new business models are emerging.

In the near future, delivery droids, robotaxis and autonomous shuttles will become much more prevalent in freight and passenger transport, and some of these solutions are already being tested in real conditions – in Pennsylvania, for example, streets and sidewalks are seeing an increasing number of small robots, which are considered "pedestrians" by local legislation.

To ensure the that these new forms of mobility remain clean and safe, smart systems such as sensors, human-machine interfaces, connectivity systems and electrical systems are required.

Automated cars will also lead to smarter communications through lighting solutions that project messages and signals onto the road. And Valeo's technology is not just designed for cars, it can also be adapted to these new forms of mobility.

MARKET SHIFT TO ELECTRIC MOBILITY

Increase in mobility needs

PKT expected to increase by 30% between 2020 and 2030

Emergence of new business models

46% of trips in the United States are shorter than 5 km, so there's room for alternatives to the car depending on distance

270 million electric bikes to be sold by 2030, driven by a market set to grow 15-fold over the next ten years[1]

(1) Source: McKinsey Center for Future Mobility.
(2) Source: NHTS.

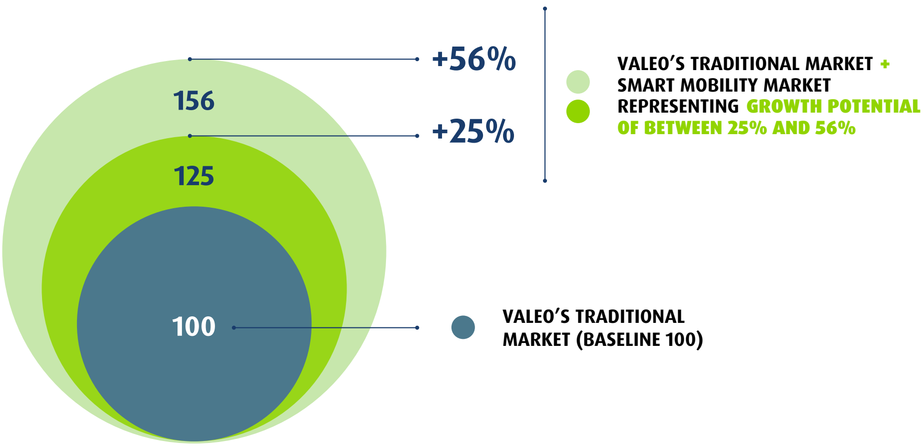
JACQUES ASCHENBROICH

Chairman and Chief Executive Officer

"One of Valeo's key strategic focuses is accelerating its expansion in the emerging markets for new "zero-emissions" mobility, including electric small city vehicles, electric motorbikes and scooters, last-mile autonomous delivery droids and electric bikes.
To do this, we are harnessing and adapting the technological platforms that we developed for the automotive industry, in ADAS and low-voltage electrification."

SMART, ELECTRIC MOBILITY, A HUGE OPPORTUNITY FOR VALEO

A HIGH-GROWTH MARKET

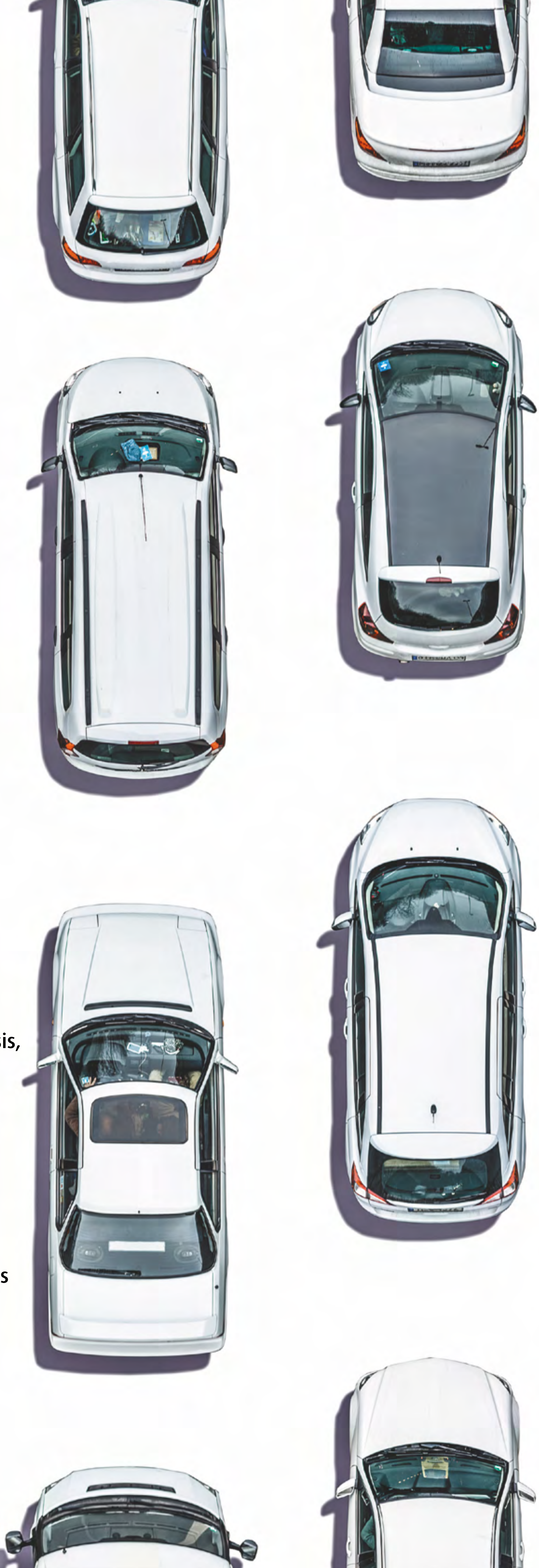


DRIVEN BY REGULATIONS · NEW MOBILITY MEANS · CONSUMER INTEREST

STRATEGY

12 key platforms combining growth and resilience

Fully aware of the environmental issues at stake, which have been exacerbated by the Covid-19 crisis, Valeo develops innovations that are driving the future of mobility toward cleaner, safer, smarter solutions.
Valeo has successfully adjusted its business model and seized the opportunities created by technological innovations to deliver new capabilities that are shaping the future of mobility. Valeo-designed products position the Group at the epicenter of the three revolutions disrupting today's automotive industry.



12 TECHNOLOGICAL PLATFORMS POSITIONING VALEO AS THE LEADER IN ELECTRIFICATION AND ADAS

Present in fast-growing automotive market segments, Valeo is already positioned as the leader in electrification and ADAS, making for a significant increase in average content per vehicle.

- **Two in three high-voltage (above 60V) electric vehicles**, launched by European automakers between 2019 and 2022, will be equipped with high-voltage (electric or thermal) solutions supplied by Valeo.
- **One in four new vehicles** produced worldwide is equipped with ADAS solutions supplied by Valeo. Valeo has the widest range of sensors on the market today, comprising ultrasonic sensors, radars, cameras, and the only series-produced LiDAR in the automotive industry.

Valeo has a solid track record developing technological platforms capable of **standardizing the development, products and manufacturing processes for each solution worldwide.** At Valeo, this standardization process is made possible thanks to efficient product life cycle management tools. These tools enable standards to be deployed rapidly across all sites and all Group customers. Each platform is designed to serve numerous customers in several markets, thanks to solutions with a high level of standardization (more than 85% of Research and Development expenditure in the areas of hardware and software). More recently, **Valeo has allocated significant resources to the development of 12 key technological platforms**, now operational, designed to meet the automotive market's specific needs in the key areas of electrification, ADAS, autonomous vehicles and smart mobility.

12 NEW KEY TECHNOLOGICAL PLATFORMS

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

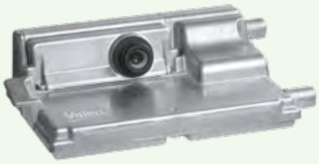
These 12 new operational technological platforms are enjoying wide order intake. Thanks to this organization, Valeo has been able to support some of its customers across the world in launching a number of flagship models. The 48V electric systems and front camera platforms have already achieved a high level of performance and standardization.

ADAS platforms

Valeo designs, develops, approves and produces full, upgradeable systems for active safety, driving assistance and vehicle automation.

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

- The first front camera technology to offer the performance level required for level-2 autonomy without the support of another sensor.



- Among the ten vehicles that were tested by Euro NCAP in 2020 for their assisted driving capabilities, the four that received the best scores were all equipped with a Valeo front camera.
- New contracts for SCALA® with new mobility players using the Valeo LiDAR in applications that go beyond passenger transportation.

High-voltage platforms (VSeA)

Original equipment sales for VSeA:
x3
between 2019 and 2021

The Valeo Siemens eAutomotive joint venture, formed in late 2016, makes all-electric motors for all-electric and plug-in hybrid vehicles. Intended for vehicles in all segments, high-voltage electric powertrain systems offer versatile vehicle usage in both urban and freeway driving situations.

- VSeA high-voltage solutions fitted on 90 new vehicles between 2020 and 2023.
- Two in three vehicles equipped with high-voltage electrical systems launched by European automakers between 2019 and 2022 will be equipped with Valeo solutions.

48V e-machine and e-axle platform

Original equipment sales for 48V systems:
x2.5
between 2019 and 2021

The technical characteristics of this platform are as follows: specific, compact power electronics, torque assistance, stop-start function, cybersecurity and software containing more than 600,000 lines of code. The platform meets a broad range of needs and uses from a single technology base (the alternator), and its very high volume production capacity delivers significant economies of scale (around 30 million electric machines manufactured each year).

- New generations of 48V systems (including versions mounted on the transmission or the rear axle, which are more effective in reducing CO_2 emissions) are being developed using the same technological platform and will drive substantial progress in CO_2 emissions reduction.
- Valeo's 48V systems are versatile, meaning they can be used to power not only cars, but also new urban mobility objects, such as urban electric vehicles, autonomous shuttles, motorcycles and even the three-wheel rickshaw vehicles found on Asian markets. In 2020, the Valeo 48V starter-alternator appeared on a light electric vehicle in series production in Europe on the small electric mobility segment.
- Valeo 48V systems will be fitted on 60 new vehicles between 2020 and 2022.
- Leadership position, with a market share of more than 40%(1) by 2022.

(1) Based on Valeo estimates.

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

Valeo's business model is built on two cornerstones:

growth in sales driven by the strategic choices made to position Valeo in the most promising market segments and increase its average content per vehicle. In particular:

- in 48V electric systems, content per vehicle is **twice as high** as in a conventional car,
- the market launch of thermal solutions designed for electric vehicles effectively **doubles content per vehicle**,
- the high-voltage (over 60V) electrification solutions developed by Valeo Siemens eAutomotive enable the Group to **multiply its content per vehicle by nine;**
- lastly, in the ADAS market, average content per vehicle is **multiplied by more than ten** between an entry-level vehicle (level 1 autonomy) and a premium vehicle with an autonomy level of 3 or 4;

resilience, thanks to economies of scale and productivity gains driven by:

- the deployment of platforms that enable Valeo to standardize its technologies, production resources and manufacturing processes,
- the rollout of operations, particularly in the area of Research and Development, in cost-competitive countries such as China, India, Egypt and countries in Eastern Europe.

Growth

Valeo's order intake reflects the success of its innovations and the increase in average content per vehicle. **It will ensure that the Group maintains a strong growth dynamic over the coming years.**

- Valeo's order intake provides an early indication of sales trends. It has risen significantly over the past ten years, from 8.8 billion euros in 2009 to 22 billion euros in 2019 and 13.3 billion euros in the second half of 2020 (vs. 10.9 billion euros in the second half of 2019), after a first half marked by a steep slowdown due to the Covid-19 pandemic. Innovative products now account for 56% of the order intake[1]. Growth in the order intake was particularly strong between 2015 and 2017. The Group has taken a more selective approach to its order intake since 2018, in order to get the most out of its technological platforms and improve its operating efficiency by reducing the costs associated with the launch of its various projects.

Resilience

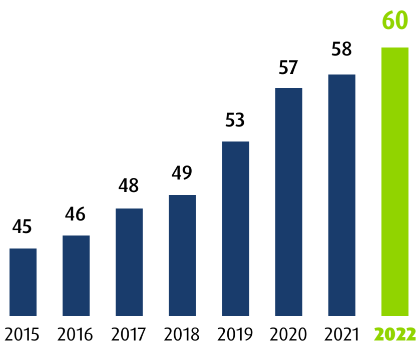
- The platform-based approach enables the Group to capitalize on learning curves, significantly reducing its (hardware and software) development costs and its investments. At the same time, Valeo is expanding its Research and Development teams in cost-competitive countries.

JACQUES ASCHENBROICH
Chairman and Chief Executive Officer

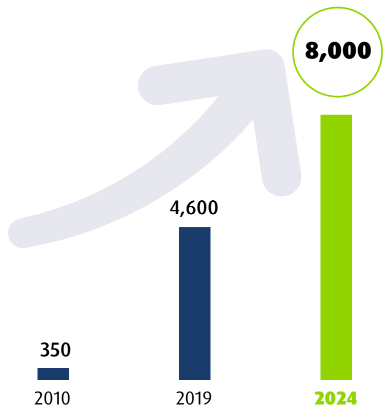
"These technological platforms provide us with a competitive edge by creating high barriers to entry, allowing us to sharply increase our average content per vehicle and deepen our resilience in an uncertain market environment, while at the same time reducing our Research and Development and capital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

ENGINEERS IN COST COMPETITIVE COUNTRIES

As a % of all engineers



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

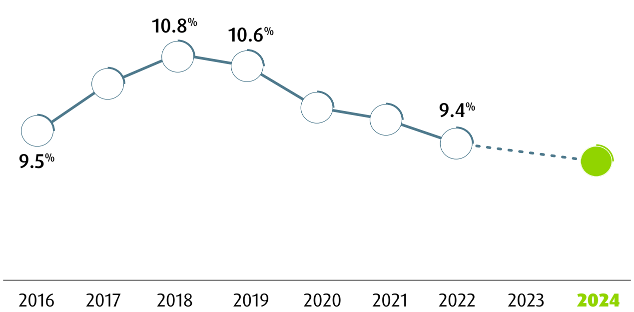


The Group plans to leverage both avenues to reduce its costs (as a percentage of sales) and its investments, which reached a high in 2017 and 2018, and more particularly:

GROSS RESEARCH AND DEVELOPMENT EXPENDITURE

As a % of sales

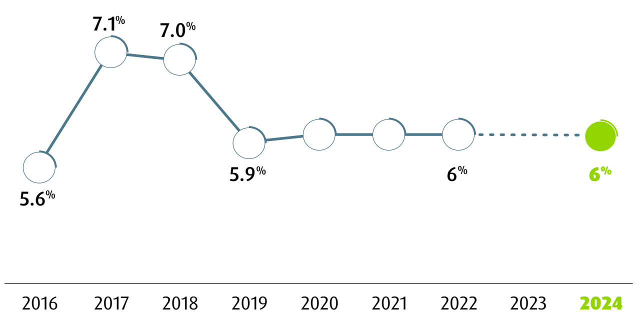
The platform-based approach enables the Group to capitalize on learning curves and reduce development costs.



INVESTMENTS

As a % of sales

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



MEDIUM-TERM STRATEGIC PLAN

Valeo's strategy, which was initiated several years ago, presented in 2017 and then confirmed in December 2019, consists in positioning the Group as the leader in the market segments that will undergo strong growth over the coming years. The goal is to help meet the challenges associated with the automotive industry's three major revolutions, namely:

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

That is why Valeo:

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

The 12 new key technological platforms developed by Valeo in recent years already enable it to support some of its customers in launching flagship models, and bring a significant increase in average content per vehicle. They also provide a means by which Valeo intends to boost its profitability and cash generation, while reducing Research & Development costs and capital expenditure.

Given the drop in business caused by the health crisis and the lack of visibility as to when the crisis will end, the assumptions used by Valeo to set the medium-term financial objectives published at the Investor Day on December 10, 2019 are no longer valid.
The Group will evaluate the potential impacts of the crisis on these medium-term financial objectives once health and macroeconomic conditions have stabilized.

At a time when the automotive industry has been deeply impacted by the Covid-19 crisis, Valeo is intent on combining growth and resilience, and:

Maintaining a significant outperformance
Thanks to its new technological platforms, numerous project launches and the significant increase in content per vehicle, Valeo is targeting like-for-like growth in sales significantly above that of global automotive production.

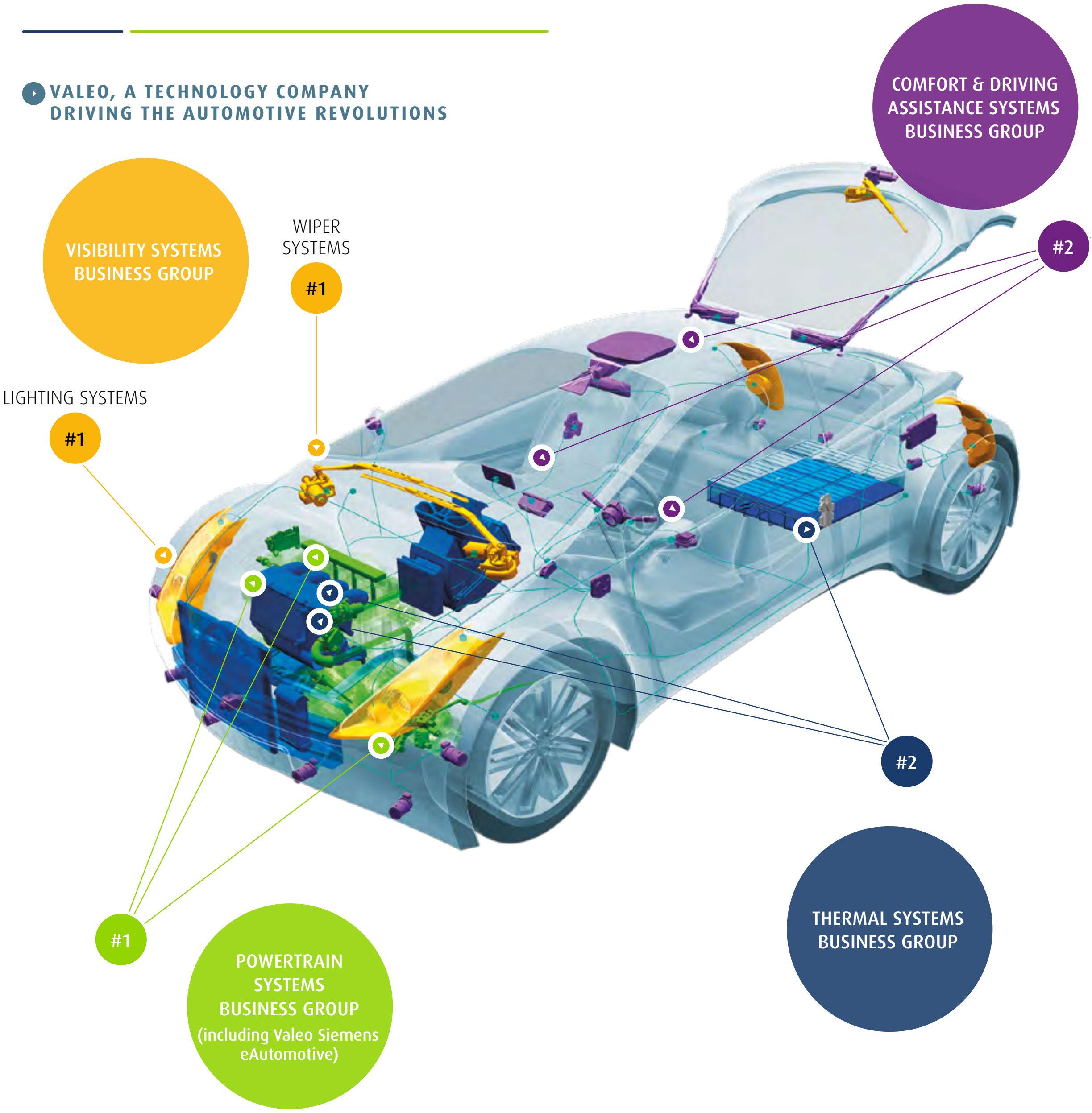
Improving its profitability
The Group intends to leverage the use of its technological platforms to optimize its Research and Development costs and capital expenditure, for enhanced profitability.

Increasing its free cash flow generation
With improved results and strict management of capital expenditure, Valeo's priority is to increase free cash flow generation and, thereby, reduce net debt.

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

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

VALEO, A TECHNOLOGY COMPANY DRIVING THE AUTOMOTIVE REVOLUTIONS



4 coherent, well-balanced Business Groups

COMFORT & DRIVING ASSISTANCE SYSTEMS BUSINESS GROUP

Enabling ever more intuitive driving

Drivers now want their car to form an integral part of their digital lives.
At the same time, the regulatory environment demands ever safer vehicles, with automated driving now a reality thanks to increasingly affordable technology.
The Comfort & Driving Assistance Systems Business Group focuses on intuitive controls, connectivity and automated driving solutions, making mobility safer and more comfortable for all.

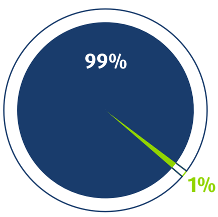
€3.2 BN(1)

20% OF SALES

20,800 EMPLOYEES

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

As a % of original equipment sales



DID YOU KNOW?

1 in 4 vehicles produced worldwide is fitted with a Valeo ADAS.

POWERTRAIN SYSTEMS BUSINESS GROUP

Targeting low-carbon mobility

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

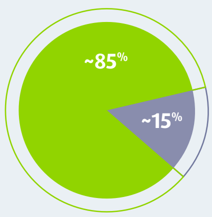
€4.4 BN

26% OF SALES

23,000 EMPLOYEES

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

As a % of original equipment sales



DID YOU KNOW?

Valeo's 48V system will be fitted on 60 new vehicles between 2020 and 2022.

(1) Total consolidated sales, excluding the Top Column Module business.

THERMAL SYSTEMS BUSINESS GROUP

Ensuring passenger well-being

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

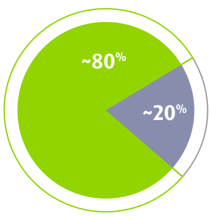
€3.7 BN

23% OF SALES

24,000 EMPLOYEES

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

As a % of original equipment sales



DID YOU KNOW?

1 in 3 high-voltage electric vehicles launched by European automakers in Europe between 2019 and 2022 will be equipped with a Valeo e-thermal solution.

VISIBILITY SYSTEMS BUSINESS GROUP

Offering optimal visibility for future mobility

The Visibility Systems Business Group designs and produces innovative, efficient and smart exterior and interior lighting, wiper and sensor cleaning systems to support the driver in all driving situations. These systems enable all vehicles, including automated vehicles, to drive in all conditions and create a highly immersive experience for all vehicle passengers.

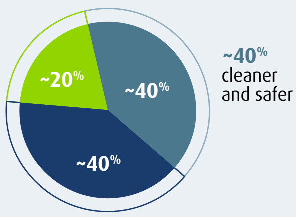
€5.0 BN

31% OF SALES

37,500 EMPLOYEES

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

As a % of original equipment sales



DID YOU KNOW?

Robotaxis fitted with Valeo smart pods are now on the road.

FOR MORE INFORMATION

See Chapter 1 of the 2020 Universal Registration Document, "Presentation of Valeo".

A CORPORATE CULTURE IN SUPPORT OF STRATEGY

Valeo's culture is underpinned by five core values:

and the "5 Axes" of operational excellence:

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

Based on the principle of continuous improvement and a "right first time" approach, this method is meticulously implemented at all Valeo sites.

Involvement of personnel, a flexible production system, constant innovation, supplier integration and total quality are the central pillars of a culture that facilitates the integration of teams acquired by the Group and represents a key driver of Valeo's organic growth.

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

CHRISTOPHE PÉRILLAT
Associate Chief Executive Officer

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

THE 5 AXES, A CULTURE OF EXCELLENCE AND CONTINUOUS IMPROVEMENT

60
customer quality awards received by Valeo in 2020

SUSTAINABLE DEVELOPMENT, EMBEDDED IN VALEO'S DNA

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

Recognition of Valeo's commitment to sustainable development

Valeo reaffirms its growth and value creation ambition in line with the ongoing transformations in mobility and its commitment to sustainable development. The Group's efforts in this area are recognized by the key ESG rating agencies (CDP, ISS-oekom, MSCI, S&P Global and Sustainalytics), which rank Valeo as one of the best automotive suppliers in terms of non-financial performance. In 2021, as in 2019 and 2020, Valeo once again ranked as the leading player in the automotive industry in the Corporate Knights annual global ranking of the 100 most sustainable corporations.

JACQUES ASCHENBROICH

Chairman and Chief Executive Officer

"On February 4, 2021, we committed to achieving carbon neutrality by 2050 and to reaching 45% of this objective by 2030. This carbon neutrality plan for 2050 includes our suppliers, our own operating activities and the end use of our products (Scopes 1, 2 and 3).
From this year, we will work intensively to roll out our carbon reduction ambition at all of our sites."

MAIN NON-FINANCIAL RATINGS (obtained in 2020)

ORGANIZATION	RATING
CDP (CARBON DISCLOSURE PROJECT)	**A** (highest possible score)
MSCI ESG RATING	**AAA** leader (ranked no. 1 among automotive suppliers)
ISS-OEKOM	**B-** Prime, Industry leader, ranked no. 1 among automotive suppliers, excluding tire manufacturers(1)
S&P GLOBAL CORPORATE SUSTAINABILITY ASSESSMENT (CSA)	**76/100** Ranked no. 1 among automotive suppliers (excluding tire manufacturers)
SUSTAINALYTICS	**Negligible risk** Ranked no. 1 among automotive suppliers
CORPORATE KNIGHTS	Ranked no. 1 in the automotive sector (automotive suppliers and automakers)

(1) Status conferred by the rating agency in 2019.

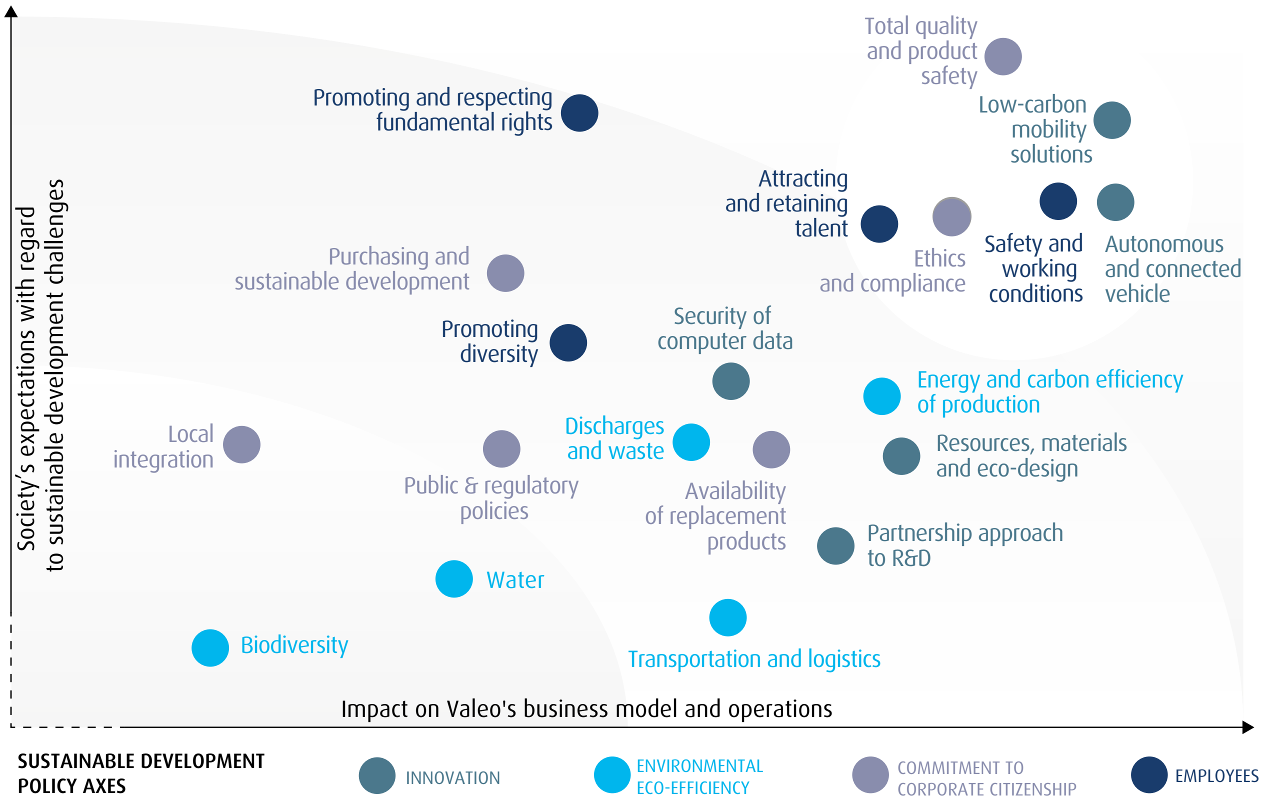
Sustainable development challenges

To identify its key sustainable development challenges, Valeo conducts a materiality analysis to:

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

The materiality analysis aims to compare Valeo's internal ambitions in respect of sustainable development with its stakeholders' expectations. **The Group closely monitors each challenge on a regular basis using action plans and performance indicators.**

MATERIALITY MATRIX PLOTTING VALEO'S SUSTAINABLE DEVELOPMENT CHALLENGES



Non-financial risks

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

For 2020, Valeo has identified the following seven main risks (classified in accordance with Valeo's four sustainable development axes). The risk analysis and associated mapping were presented to the Risk Committee, which validated the assessments of the non-financial risks identified. These serve as the basis for the management of sustainable development policies, allowing initiatives to be prioritized.

SUSTAINABLE DEVELOPMENT AXES	RISKS	Pages
INNOVATION	Risk of non-compliance with environmental product regulations	pages 229 to 235
ENVIRONMENTAL ECO-EFFICIENCY	Risk associated with accidental pollution of water and/or soil	pages 235 to 238
EMPLOYEES	Health and safety risk	pages 238 to 241
	Risk related to attracting talent	pages 241 to 243
	Risk related to developing and retaining talent	pages 244 to 247
COMMITMENT TO CORPORATE CITIZENSHIP	Risk of individual corruption	pages 248 to 249
	Risk related to suppliers' sustainable development practices	pages 249 to 253

Sustainable development goals in the Group's business

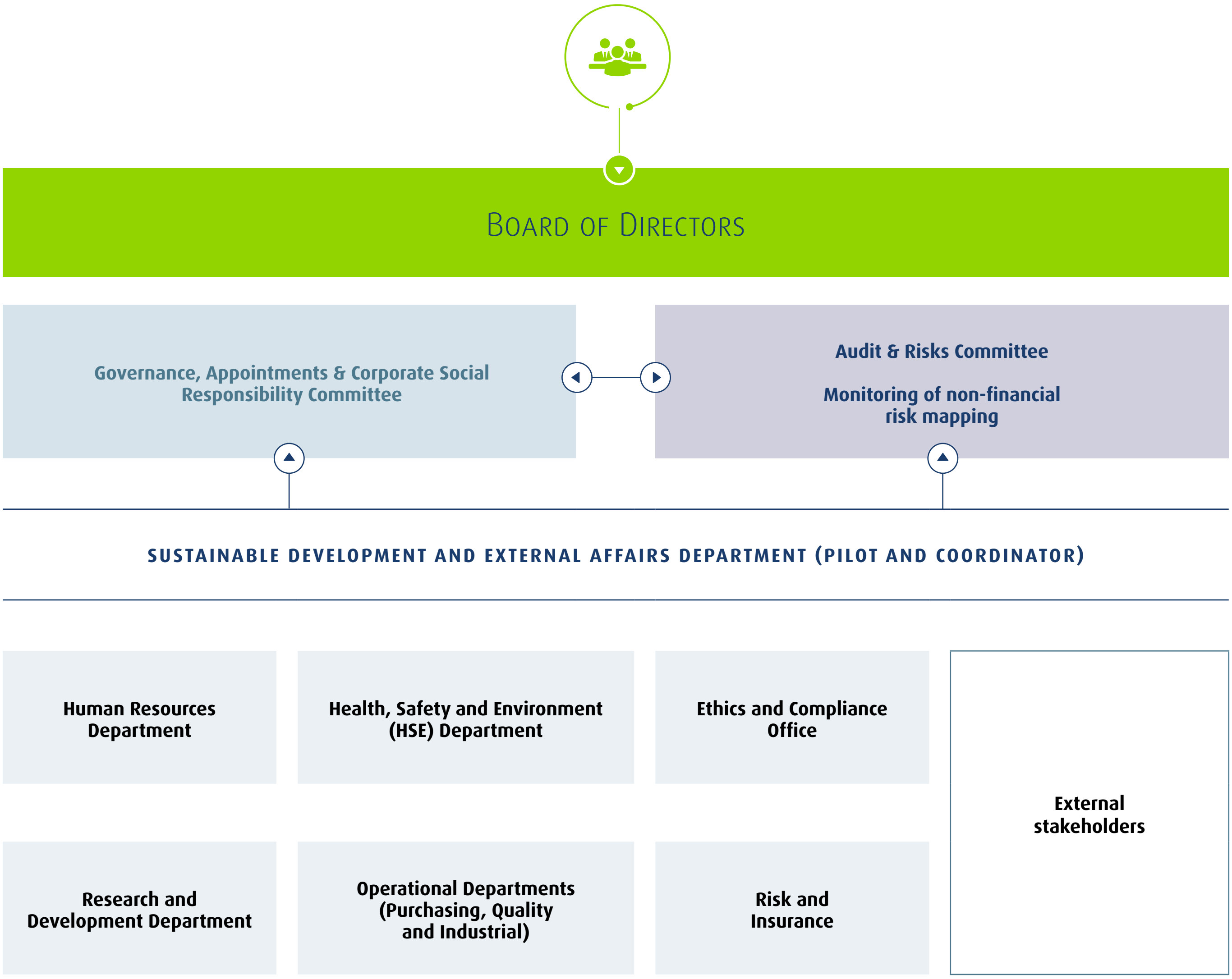
The Group's sustainable development initiatives are designed to support the United Nations' Sustainable Development Goals (SDGs). The Group's initiatives contribute to the seven following objectives:

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

AXES	CHALLENGES	KEY INDICATORS	2019 RESULTS[(1)]	2020 RESULTS	2021 OBJECTIVES	OBJECTIVES 2025	REFERENCE SECTIONS
INNOVATION	Carbon Plan and Low-Carbon Mobility Solutions	• CO_2 emissions reduction across all operating activities, suppliers and the end use of its products (Scopes 1, 2 and 3)	49.6	39.7	48.1	45.1	4.3.3, page 230 4.5.3, pages 268 to 272
		• Share of products contributing to the reduction of CO_2 emissions (as a % of sales)	57%	60%	>50%	>50%	4.1.4, page 209
ENVIRONMENTAL ECO-EFFICIENCY	Energy and carbon efficiency of production	• Energy consumption as a proportion of sales (MWh/€m) and change vs. 2019)	142	163 15%	140 -1%	134 -6%	4.5.3, page 269
		• Direct (scope 1) and indirect (scope 2) emissions as a proportion of sales (tCO_2/€m) and change vs. 2019)	57.6	42.1 -27%	50 -14%	42 -28%	4.5.3, page 270
		• ISO 50001 energy management certification (% of sites)	18%	20%	23%	40%	4.5.3, page 263
	Discharges and waste	• Production of hazardous and non-hazardous waste as a proportion of sales (t/€m) and change vs. 2019)	16.4	17.4 +6%	16.0 -2%	15.0 -9%	4.3.3, page 238
	Water	• Water consumption as a proportion of sales (cu.m/€m) and change vs. 2019)	197	213 +8%	193 -2%	185 -6%	4.5.3, page 265
EMPLOYEES	Health and safety	• Accident frequency rate (FR1: number of accidents with lost time per million hours worked)	1.9	1.4	<1.9	<1.7	4.3.3, page 240
	Promoting diversity	• Gender equality index	82.0	82.6	85	90	4.5.4, page 276
	Development of competences	• Number of hours of technical training (in thousands of hours)	230	232	250	300	4.3.3, page 244
	Quality of life at work	• Rate of compliance with the "Building a well-being environment" roadmap[(2)]	61%	65%	66%	75%	4.5.4, page 275
COMMITMENT TO CORPORATE CITIZENSHIP	Purchasing and sustainable development	• Share of production purchases for which the suppliers' sustainable development practices were assessed during the year (% of total purchases)	80%	80%	81%	82%	4.3.3, page 250
	Local integration	• Organization of initiatives and events by the Valeo sites with educational and vocational training institutions (% of sites)	68%	70%	77%	85%	4.5.5, page 282
	Local communities	• Share of sites participating in the "One Plant, One Initiative" program	50%	55%	66%	100%	N/A

(1) 2019 is the reference year under the new 2020-2025 plan.
(2) To monitor progress on this roadmap, action plans are defined and audited by Valeo's internal auditors each year.

Corporate governance committed to sustainable development



The sustainable development policy spans all of the Group's functions and networks, and is designed to dovetail with Valeo's business objectives and policies.

The Sustainable Development and External Affairs Department lays down policies and plays the role of pilot and coordinator for the Group's various departments. It ensures the appropriate level of interface between the Group and external stakeholders in order to satisfy their growing requirements. The Human Resources, Health, Safety and Environment (HSE), Ethics and Compliance and Research and Development Departments and the Operational Departments (Purchasing, Quality and Industrial) all contribute to Valeo's sustainable development policy.

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

- reviewing the main thrusts of the Group's corporate social responsibility policy;
- identifying corporate social responsibility objectives and challenges;
- making sure that the previously defined objectives are met;
- overseeing the gradual and increasing implementation of the corporate social responsibility policy, and assessing the Group's contribution to sustainable development;
- in conjunction with the Audit & Risks Committee, gaining an understanding of the risks and issues involved in corporate social responsibility, and obtaining information about the resources the Group can call on to pursue its strategy in this area.

CARBON NEUTRALITY PLAN: 2030 OBJECTIVES

SCOPE 3
upstream
In 2019,
9.5 $MtCO_2$eq.
-15%*
2030 objective,
8.1 $MtCO_2$eq.

SCOPES 1 & 2
In 2019,
1.1 $MtCO_2$eq.
-75%*
2030 objective,
0.3 $MtCO_2$eq.

SCOPE 3
downstream
In 2019,
39 $MtCO_2$eq.
-50%**
2030 objective,
19.5 $MtCO_2$eq.

BY 2050,
Valeo commits to achieving:

- carbon neutrality across all of its operating activities and its supply chain worldwide (Scopes 1 & 2 and Scope 3 upstream);
- 100% carbon neutrality in Europe (Scopes 1, 2 and 3, including the end use of its products).

Carbon Neutrality Plan

Valeo, a signatory of the "Business Ambition for 1.5°C" campaign, has committed to achieving carbon neutrality by 2050.

On February 4, 2021, Valeo announced its Carbon Neutrality Plan for 2050, covering its entire value chain, including emissions from its suppliers, its own operating activities and the end use of its products (Scope 1, 2 and 3 emissions). The aim is to reduce the Group's carbon footprint across its entire value chain from 49.6 million metric tons of CO_2 emissions in 2019 to 27.9 million metric tons in 2030, representing a reduction of close to 45% in its greenhouse gas emissions by 2030 compared with 2019.

Progress on this plan will be tracked based on annualized CO_2 emissions reduction objectives:
- achievement of these objectives will be reviewed by General Management on a quarterly basis;
- from 2021, these objectives will be used as a criterion for determining the variable compensation of more than 1,500 senior executives.

Carbon footprint in 2020
40 $MtCO_2$
-18%
compared to 2019

Reduction in Valeo's carbon footprint by 2030
21.7 $MtCO_2$EQ.
- 45%
compared to 2019

FOR MORE INFORMATION
see Chapter 4 of the 2020 Universal Registration Document, section 4.1.3 "Valeo's Carbon Neutrality Plan".

* With respect to 2019 (reference year).
** NET 2030 objective = SBTi absolute value + additional reduction in CO_2 emissions in the year compared to the 2019 reference year taking into account the emissions avoided thanks to Valeo's electrification technologies.

Innovation

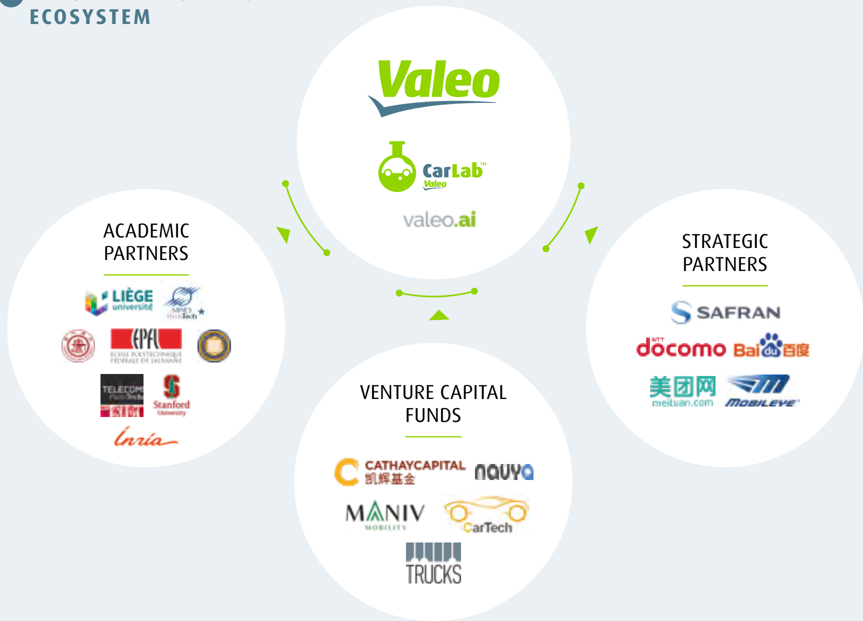
Research and Development are central to Valeo's growth strategy and its identity as a technology company. With more than 18,000 engineers, a network of more than 200 experts in artificial intelligence (valeo.ai) and a global **open innovation** ecosystem (see alongside), Valeo has demonstrated its ability to adapt to a changing environment.

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

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

This innovation strategy is recognized across the industry.

AN OPEN INNOVATION ECOSYSTEM



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

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

The strategy is now an integral part of Valeo's carbon neutrality plan. It is based on internal standards, such as the EcoDesign Checklist, which guide the project teams in their life cycle analyses in the upstream research phase, and is backed up by a requirement for product quality and reliability right from their design phase.

Project teams refer to this checklist in their qualitative and quantitative analysis in respect of electricity consumption, hazardous materials use and component weight to reduce the number of components and the volume of materials that do not benefit the environment or the consumer and increase the recyclability of the systems produced.

Environmental eco-efficiency

For nearly 30 years, Valeo has demonstrated its commitment to limiting the impact of its activities on the environment. Its commitments have been made official in its Sustainable Development Charter:

- **ensure the compliance** of its activities with applicable laws and international agreements;
- **deploy the ISO 14001** environmental management system at all sites[1];
- **improve the environmental performance** of its processes;
- **optimize the transportation** of people and goods in order to reduce greenhouse gas emissions;
- **limit the use** of natural resources and promote the use of renewable resources and energy;
- **eliminate the use** of substances that are hazardous to the environment or health.

+

FOR MORE INFORMATION

see Chapter 4 of the 2020 Registration Document, section 4.3.3 "Risk of non-compliance with environmental product regulations".

Gross Research and Development expenditure

€1,660M

10.1% **of sales**

Patents filed

1,174

Approx. 3 **patents filed per day**

Water consumption

213 CU.M/€M

-42% **compared to 2008**

Total consumption of packaging materials as a proportion of sales

5.4 t/€M

-28% **compared to 2008**

Employees

Valeo owes its success to the men and women who work for the Group. To protect their health and well-being, Valeo is committed to:

- **Guaranteeing employee health and security with a safe work environment free of the risk of accidents.** This is the first way to improve the quality of working life of employees and to ensure their involvement in the Group's activities.

In light of the Covid-19 pandemic, Valeo's priority is to ensure the health and safety of its employees and their families. After discussions with employee representatives, a mandatory and audited safety protocol was set up at all of the Group's sites **to reconcile employee protection and business continuity**.

Valeo's goal is to reduce the frequency rate of lost-time accidents (FR1)(1) to less than 1.7 by 2025. To achieve this objective, Valeo, through its risk management manual, rolls out policies and directives on a range of topics (building and facility safety, employee health and safety, data security and the environment).

- **Attracting and retaining the best talent.** This is a key challenge for Valeo in a competitive environment that is undergoing profound transformation. Valeo's recruitment policy is based on a strong employer brand, which enhances the Group's visibility and its appeal for the talents of tomorrow. Managing relationships with schools and forging strong and special partnerships are a priority for the Group. Similarly, to maintain relationships with its customers worldwide, Valeo pledges to recognize and value its talent through an ambitious compensation, professional development, training and internal mobility policy.
- **Promoting diversity.** In March 2019, Valeo was the first CAC 40 company to extend the mandatory gender equality index in France to all of its host countries. It did so on the basis of a slightly different methodology (under which only Managers and Professionals are taken into account), for instance, the index calculates the weighted differences in the proportion of women and men given pay rises or promotions, and the percentage of women among the 10 highest earners. One year later, the Group's score has improved by 0.6 percentage points, leading it to set the ambitious objective of having 32% women on its different management committees (Operations Committee, as well as among the people reporting to the Operations Committee's members, in the Business Groups, Product Groups and National Directorates of the Group's main operating countries) by 2030.
- **Promoting and respecting fundamental rights.** Valeo believes that employee progress is inseparable from financial performance. As employee trust is essential to its business and development, Valeo has undertaken to respect fundamental rights, and promotes open communication between employers and unions, as demonstrated by the number of information and negotiation meetings that took place at the Group and country levels in 2020.

BRUNO GUILLEMET

Senior Vice-President, Human Resources

"Valeo is the first French company to have extended the gender equality index, which is mandatory in France, to all of its host countries. In 2020, Valeo defined a specific strategy aimed at increasing the proportion of women on its management committees. The Group has therefore set the objective of having 32% women on its different management committees by 2030."

FOR MORE INFORMATION

See Chapter 4 of the 2020 Universal Registration Document, "Sustainable Development".

Quality of life at work

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

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

Frequency rate (FR1(1)) of occupational accidents
1.4
-0.5 pts **0.5 pt improvement vs. 2019**

Proportion of eligible employees that worked from home
90%
VS 22% **of Managers and Professionals in 2019**

Percentage of employee shareholders at Valeo
50%
STABLE **compared to 2019**

Gender equality indicator
82.6/100
+1 pt **Average gender equality index(1) up by 1 pt vs. 2019**

(1) Number of lost-time accidents* x 1,000,000/number of hours worked during the year. This indicator takes into account category 1 and 3 accidents.
(2) This index is based on the evaluation of five criteria: criterion 1 – difference in compensation between men and women; criterion 2 – difference in individual pay rises between men and women; criterion 3 – difference in the percentage of men and women promoted; criterion 4 – percentage of women employees receiving a pay rise after returning from maternity leave; criterion 5 – percentage of women among the top ten highest paid employees. The index takes into account Managers and Professionals only.

Commitment to corporate citizenship

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

- **Policies to combat fraud and anti-competitive practices** (see section "Strict adherence to ethics and compliance principles", page 18).
- **Sustainable development requirements with regard to suppliers**

– As a tier-one automotive supplier, Valeo is at the heart of the automotive industry supply chain. Broad change in supplier chains, the emergence of new forms of indirect subcontracting and the desire to control risks of disruption in the supply chain by taking into account a wider range of risk factors have prompted Valeo to formalize over recent years a demanding policy in terms of sustainable development with regard to its suppliers. Valeo has begun implementing a policy to monitor its suppliers in the following key areas: governance, human rights, the environment, health and safety and supplier relations.

– Sustainable development is an integral part of Valeo's decision to enter into business relationships with suppliers.

- Suppliers must meet Valeo's ethics, integrity and sustainable development requirements included in the Valeo Business Partner Code of Conduct.
- Suppliers are selected based on economic, financial risk, logistics, corporate governance, environmental and social factors (respect for fundamental rights, environmental protection, employee health and safety, and quality). Questions on non-financial criteria represent over 90% of all the mandatory items in the supplier qualification questionnaire, sustainable development criteria are given a weighting of almost 20% in the supplier's final score, and any failure to meet these criteria automatically disqualifies them from Valeo's supplier panel.

Valeo continued its program of in-depth sustainable development supplier assessments, based on its annual self-assessment questionnaire of sustainable development choices, with a representative sample of suppliers covering 80% of the Group's production purchases in 2020. This annual self-assessment is rounded out by a campaign of audits of suppliers' sustainable development practices.

- **A commitment to ecosystems and local populations**

Valeo's sites contribute to the economic and social fabric of the regions where the Group operates. Its sites have multiple impacts. They are consumers, employers, local economic agents, and participate in the creation and attraction of new businesses through transfers of competences. Valeo has a policy of encouraging its sites to take responsibility and to support local initiatives around the world. To achieve this, the Group has set the following two guidelines:

– commit to building local ecosystems conducive to local development and reinforcing the local economic fabric, through partnerships with local education and training bodies, and involvement in the organization and operation of local research ecosystems;

– promote plants' initiatives in favor of and alongside local populations.

As part of the Plant's Initiatives programs, whose themes are left to the initiative of the employees of the sites in view of local issues, we can note the following initiatives shared by certain sites on the themes of:

– road safety;

– respect for biodiversity, with cleaning operations.

In the context of the Covid-19 health crisis, Valeo took solidarity and support initiatives to meet the needs of healthcare systems in some of the Group's host countries (collection of masks, site solidarity initiatives for healthcare personnel, etc.). In France, Valeo joined forces with a consortium of manufacturers for the fast-tracked production of ventilators to meet the needs of French and European hospitals.

For the fifth year running, all sites organized at least one corporate citizenship initiative.

Fight against fraud and anti-competitive practices

99.98%
of exposed employees trained

Share of production purchases for which the suppliers' sustainable development practices were assessed during the year

80%

Sites that organized at least one corporate citizen-ship initiative

100%
for the fifth year running

FOR MORE INFORMATION

See Chapter 4 of the 2020 Universal Registration Document, "Sustainable Development".

VALEO AND ITS STAKEHOLDERS

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

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

Employees
Valeo is careful about maintaining ongoing dialog with its employees and with representatives from the various trade unions and other professional associations. In 2020, 68% of Valeo plants had employee representative bodies and unions, and 75% of the registered headcount operated under a collective agreement.

Partners and suppliers
Together with its suppliers, the Group cooperates and co-constructs solutions in compliance with competition law and respect for fundamental rights. Since 2013, Valeo has regularly surveyed its suppliers to gain a better understanding of their sustainable development approach, based on economic (plant optimization), environmental (certification) and labor-related (labor law) criteria.

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

Financial community and individual shareholders
The Group's Investor Relations Department closely and consistently interacts with the financial community. The department places great importance on holding meetings throughout the year with all shareholders, investors and financial analysts, whether at the Group's headquarters or at major global financial centers (Europe, North America and Asia) during roadshows or conferences. In all, the Investor Relations team met more than 1,000 institutional investors and analysts at these events during 2020, with the Group's Management present at a large number of these meetings.

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

Credit and non-financial rating agencies
The financial and non-financial ratings assigned by numerous agencies – including Moody's confirmation of Valeo's investment grade status[1] – reflect Valeo's transparent, rigorous and relevant communications. In 2020 and 2021, Valeo saw its non-financial performance acknowledged by various rating agencies[2].

Automaker customers and distributors
Valeo undertakes to its customers to design, develop, manufacture and market innovative products and systems for sustainable mobility. Customers worldwide continued to recognize the high standard of the Group's performance, earning Valeo 60 quality awards in 2020.

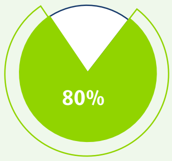
(1) See Chapter 5 of the 2020 Universal Registration Document, section 5.6.4, Note 8.1.2.1 "Group credit rating" page 365.
(2) See section "Sustainable development embedded in Valeo's DNA", page 37.

VALEO'S VALUE CREATION MODEL

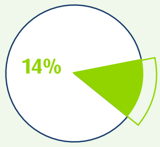
VALUE CREATION SHARED

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

EMPLOYEES[2]
As a % of value generated



INVESTMENTS IN THE GROUP'S FUTURE GROWTH[3]
As a % of value generated



PROMOTING INNOVATION

34,710 patents, of which 1,174 filed in 2020

56% of order intake for innovative products[6]

ATTRACTING AND RETAINING TALENT

Workforce doubled in ten years

17.9h of training per employee on average

TAKING QUALITY TO THE HIGHEST LEVEL

Order intake at 1.7x original equipment sales in H2 2020

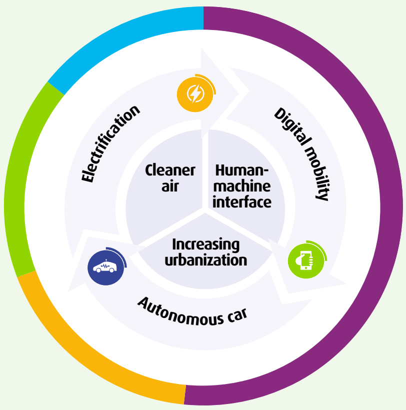
Customer return rate of 3 parts per million products delivered

A GROWTH STRATEGY FOR

VALEO'S SOLUTIONS TO MOBILITY CHALLENGES

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

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



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

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

TALENTED AND INNOVATIVE RESOURCES

INNOVATION CULTURE

18,480 R&D employees working at 63 centers worldwide

€1.7bn in gross R&D expenditure

PEOPLE, THE KEY TO EXCELLENCE

110,300 employees, 138 nationalities

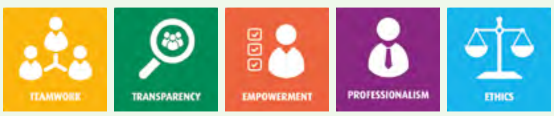
Employee representative bodies[8] for nearly 2/3 of sites

HIGH-PERFORMANCE PLANTS

187 plants in 33 countries

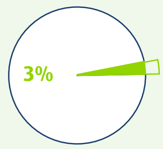
A CORPORATE CULTURE

VALEO'S CULTURE IS UNDERPINNED BY FIVE CORE VALUES:

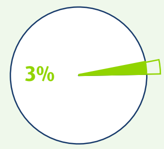


BY ALL STAKEHOLDERS

STATES[4]
As a % of value generated



INVESTORS[5]
As a % of value generated



CONTRIBUTING TO A CLEANER WORLD

€6m **in environmental investments**

20% **of sites certified ISO 50001**

90% **of produced waste recovered**

SUPPORTING LOCAL COMMUNITIES

Purchases close to consumption location

77% of sites have partnerships with the world of higher education

REWARDING INVESTORS

Dividend of €0.30 per share[7]

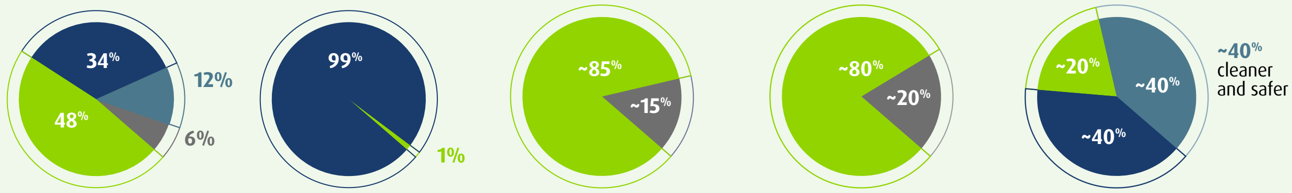
Ranked no.1
automotive supplier by major rating agencies including ISS-oekom, MSCI, S&P Global Corporate Sustainability Assessment, Sustainalytics and Corporate Knights

CLEANER, SAFER AND SMARTER MOBILITY

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

As a % of original equipment sales

GROUP
COMFORT & DRIVING ASSISTANCE SYSTEMS
POWERTRAIN SYSTEMS
THERMAL SYSTEMS
VISIBILITY SYSTEMS



Valeo commits to achieving carbon neutrality by 2050 and will have already reached 45% of its objective by 2030.

• Cleaner • Safer • Cleaner and safer • Other

SUPPORTED BY SOLID FUNDAMENTALS

ENVIRONMENTAL STEWARDSHIP

100% of plants certified ISO 14001 and 92% certified OHSAS 18001/ISO 45001

€17m in operating expenses related to the environment

SOCIAL FOOTPRINT

1,137 suppliers account for 95% of production purchases

Business Partner Code of Conduct

FINANCIAL PERFORMANCE

€16.4bn in sales

EBITDA at 9.2% of sales

€294m in free cash flow

IN SUPPORT OF STRATEGY

AS AUTOMAKERS' PREFERRED PARTNER,

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

NB : Figures relate to the year ended December 31, 2020. The main indicators are defined in the financial glossary and the sustainable development glossary, page 48.
(1) Net income for the year excluding share in net earnings of equity-accounted companies, personnel expenses and employee benefits, depreciation of property, plant and equipment and amortization of intangible assets, income taxes and levies included in operating items, and cost of net debt.
(2) Personnel expenses and benefits (of which pension costs and restructuring costs).
(3) 2020 retained earnings plus depreciation of property, plant and equipment and amortization of intangible assets.
(4) Income taxes and levies included in operating items.
(5) Shareholders and bondholders: dividend proposed to the Shareholders' Meeting in respect of 2019 and cost of net debt.
(6) Products and technologies in series production for less than three years, including Valeo Siemens eAutomotive.
(7) Dividend to be submitted for approval at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2020.
(8) Employee representative bodies.

FINANCIAL GLOSSARY

EBITDA	Corresponds to (i) operating margin before depreciation, amortization and impairment losses (included in the operating margin) and the impact of government subsidies and grants on non-current assets, and (ii) net dividends from equity-accounted companies.
FREE CASH FLOW	Corresponds to net cash from operating activities (excluding changes in non-recurring sales of receivables and net payments for the principal portion of lease liabilities) after taking into account acquisitions and disposals of property, plant and equipment and intangible assets.
GROSS MARGIN	Corresponds to sales less cost of sales.
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 CASH FLOW	Free cash flow less (i) cash flows in respect of investing activities, relating to acquisitions and disposals of investments and to changes in certain items shown in non-current financial assets, (ii) cash flows in respect of financing activities relating to dividends paid, treasury share purchases and sales, interest paid and received, and acquisitions of equity interests without a change in control, and (iii) changes in non-recurring sales of receivables.
NET DEBT	Comprises all long-term debt, liabilities associated with put options granted to holders of non-controlling interests, short-term debt and bank overdrafts, less loans and other long-term financial assets, cash and cash equivalents and the fair value of derivative instruments hedging the foreign currency and interest rate risks associated with these items.
OPERATING MARGIN including share in net earnings of joint ventures and equity-accounted companies	Corresponds to operating income before other income and expenses.
PURCHASE PRICE ALLOCATION	As part of the accounting for business combinations and on first-time consolidation, purchase price allocation consists in measuring at fair value the assets acquired and liabilities assumed from the acquired subsidiary, joint venture or investment and recognizing them in the statement of financial position for these amounts. The allocation may result in the recognition of certain assets and liabilities that were not previously recognized. The acquirer may also recognize identifiable intangible assets acquired such as trademarks, patents or customer relationships. Accordingly, the newly consolidated company's net equity is remeasured. The difference between the price paid by the parent company for the shares in the acquiree and the parent company's share in the acquiree's remeasured net equity is called "goodwill". Goodwill is recognized within intangible assets in the statement of financial position.
ROA	ROA, or return on assets, corresponds to operating income divided by capital employed (including investments in equity-accounted companies) including goodwill.
ROCE	ROCE, or return on capital employed, corresponds to operating margin (including share in net earnings of equity-accounted companies) divided by capital employed (including investments in equity-accounted companies) excluding goodwill.
TSR	Total shareholder return measures share profitability, taking into account, over a given period, the dividends received by the shareholder and the unrealized gains and losses on fluctuations in the share price.
VALEO ORDER INTAKE	Corresponds to business awarded by automakers during the period to Valeo, and to joint ventures and associates based on Valeo's share in net equity (except Valeo Siemens eAutomotive, for which 100% of orders are taken into account), less any cancellations, based on Valeo's best reasonable estimates in terms of volumes, selling prices and project lifespans. Unaudited indicator.

SUSTAINABLE DEVELOPMENT GLOSSARY

CDP	Carbon Disclosure Project: an independent, non-profit organization working to drive greenhouse gas emissions reductions for companies and cities by collecting, environmental data and analyzing their carbon emissions policy. www.cdproject.net
GHG	Greenhouse gas: gases which absorb infrared rays emitted by the Earth's surface, contributing to the greenhouse effect.
ISO 14001	International standard on environmental management systems.
ISO 50001	International standard on energy management systems.
OHSAS 18001	International standard on occupational health and safety management systems.
OPEN INNOVATION	Open Innovation is a concept that involves promoting innovation by deriving the maximum possible benefit from the ecosystem surrounding the company, primarily through collaboration between various players (governmental organizations, private companies, academic and research companies, innovative start-ups, etc.).
SAE INTERNATIONAL	Society of Automotive Engineers International: a US-based association. Similarly to the VDA, this organization has defined six levels of driving automation, from 0 (no automation, the driver must control everything) to 5 (full automation, no driver input required). Levels 3 and 4 correspond respectively to "conditional automation" and "high automation".
SCOPES 1, 2 AND 3	Scope 1 covers CO_2 emissions directly emitted by the Group's activities (including combustion emissions from stationary sources on sites, emissions from fuel combustion by Group vehicles, direct emissions from non-energy processes such as the incineration of VOCs, and direct fugitive emissions relating to refrigerant leaks). Scope 2 covers CO_2 emissions related to the consumption of electricity, steam, compressed air and other sources. Scope 3 covers other CO_2 emissions related to purchases of products used in industrial processes, and the transportation of goods and people, as well as indirect CO_2 emissions related to the use of Valeo products.

Presentation of Valeo

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

1.1 HISTORY AND DEVELOPMENT OF THE GROUP

1923 – 1990: The Group's beginnings

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

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

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

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

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

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

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

Since 2009: an increasingly innovative, high-growth tech company

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

Since then, Valeo's position as a leading technology company has gone from strength to strength, with accelerating sales growth and innovation-driven order intake.

Valeo's innovation strategy is underpinned by:

ACQUISITIONS AND JOINT VENTURES:

- **Niles** (2011) – interior controls;
- **PT Valeo AC Indonesia** (2012) – air conditioning systems – acquisition of the minority shareholder's stake (51%);
- **Detroit Thermal Systems** (2012) – Thermal Systems joint venture between Valeo and V. Johnson Enterprises;
- ***The VTES (Variable Torque Enhancement System) activity of CPT*** (2012) – electric superchargers;
- **Tianjin Valeo Xinjue** (2013) – cooling systems joint venture;
- **Eltek Electric Vehicles** (2013) – onboard chargers for hybrid and electric vehicles;
- **Valeo Sylvania** (2014) – lighting systems: acquisition of the interest of Osram GmbH;
- **peiker** (2016) – onboard telematics and connectivity;
- **Spheros** (2016) – air conditioning systems for buses;
- **Valeo Siemens eAutomotive GmbH** (2016) – high-voltage (over 60V) powertrain systems (joint venture);
- **Smexx Gmbh** (2016) – cloud-based vehicle access management software and equipment;
- **Ichikoh** (2017) – lighting systems: takeover;
- **gestigon** (2017) – cabin 3D image processing software;
- **FTE automotive** (2017) – hydraulic actuators;
- **Valeo-Kapec** (2017) – torque converters;
- **Precico** (2017) – plastic components, printed circuit board assemblies;
- **Kuantic** (2017) – development of onboard telematics;
- **Transfrig** (2018) – mobile cooling systems;
- **Asaphus** (2019) – driving assistance software (including facial recognition) acquisition of a 50% stake.

INVESTMENTS IN TECHNOLOGY START-UPS:

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

INVESTMENTS IN VENTURE CAPITAL FUNDS:

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

RESEARCH AND TECHNOLOGY PARTNERSHIPS WITH:

- **Safran** (aerospace, defense, security) (2013) – driving assistance and autonomous vehicles;

- **Mobileye** (2015) – microprocessors, computer vision algorithms and laser scanner technology;
- **NTT Docomo** (2018) – development of new mobility services for connected cars;
- **Baidu** (2018) – strategic partnership with Apollo, the open autonomous driving platform;
- **Meituan** (2019) – strategic cooperation agreement in last-mile autonomous delivery services.

1.2 OVERVIEW

1.2.1 Company profile

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

In 2020, the Group generated sales of 16.4 billion euros and invested 10.1% of its original equipment sales in Research and Development. At December 31, 2020, Valeo had 187 plants, 20 research centers, 43 development centers and 15 distribution platforms, and employed 110,300 people in 33 countries worldwide. Valeo is listed on the Paris Stock Exchange.

1.2.2 Legal structure

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

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

At an intermediate level, in some countries, investments can be held directly or indirectly by one or more companies, which play the role of holding company to form a local sub-group. This structure permits the centralization and optimization of the financial management of the sub-group and, where legally possible, the creation of a tax group.

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

1.2.3 Valeo’s tax policy

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

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

Giving priority to operations

Valeo's tax policy is based on accepting all the tax consequences that arise as a result of the Group's operations. Accordingly, Valeo does not use tax optimization strategies if such strategies do not meet its operating requirements. An efficient tax structure is implemented provided it is in accordance with the law, supports a genuine business activity and is not artificial. Consequently, the Group has not set up any entity within a particular territory for the sole purpose of benefiting from favorable tax arrangements.

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

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

Applying tax regulations fairly

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

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

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

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

Ensuring tax costs are correctly calculated

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

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

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

1.3 OPERATIONAL ORGANIZATION

The Group's operational structure is based on four Business Groups, Valeo Service and 12 National Directorates.

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

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

Valeo Service operates under the responsibility of the Associate Chief Executive Officer. Alongside the Business Groups and Product Groups, it supplies original equipment spares to automaker networks and replacement parts to the independent aftermarket.

The **National Directorates** are tasked with ensuring the Group's growth in their respective countries and act as the interface with local customers. They also manage all the services that support operational activities in the country (see section 1.5.1 of this chapter, "Sales and Business Development Department", page 73).

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

It defines internal standards and policies and ensures their implementation, with the support of the functional networks. It allocates resources between the Business Groups, and monitors the consistency of sales and industrial policies.

1.3.1 Comfort & Driving Assistance Systems

KEY FIGURES IN 2020

€3.2bn(1)
SALES
20%
of Group sales

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

€412m
EBITDA
12.8%
of the Business Group's sales

20,800
EMPLOYEES

28 plants

7 research centers
&
10 development centers

(1) Excluding the Top Column Module business.
(2) Based on IHS automotive production estimates released on January 16, 2021/CPCA estimates for data relating to China.
(3) See financial glossary, page 48.

2020 HIGHLIGHTS

SUBSTANTIAL ORDER INTAKE

MARKET RELEASE
for Valeo XtraVue Trailer in the United States.

PRESENTATION OF VALEO VOYAGE[XR],
the world's first virtual "teleportation" system.

Description of the Business Group

Drivers now want their car to form an integral part of their digital lives. At the same time, the regulatory environment demands ever safer vehicles, with automated driving now a reality thanks to increasingly affordable technology. The Comfort & Driving Assistance Systems Business Group focuses on intuitive controls, connectivity and automated driving solutions, making mobility safer and more comfortable for all.

Comfort & Driving Assistance Systems has three Product Groups:

- Driving Assistance;
- Connected Cars;
- Intuitive Controls.

Driving Assistance

In 2020, Valeo released a vision-only driving assistance solution that uses just the front camera. Since it does not require a front radar, the solution, which offers automatic emergency braking (AEB), adaptive cruise control (ACC), lane keeping assist (LKAS) and traffic jam assist (TJA), makes SAE automation level 2(1) more accessible. The system uses a single front camera with a wide field of vision, minimizing wiring and complexity. The weight and cost savings make for lower CO_2 emissions as well as bringing the main safety and driver assistance functions to a broader cross-section of motorists.

Valeo designs, develops, approves and produces full, upgradeable systems for active safety, driving assistance and vehicle automation. With its worldwide network of engineers and R&D centers, Valeo offers perception functions and solutions to automakers across the globe.

High-performance technological platforms enable Valeo to diversify its customer portfolio. The development of automated and autonomous driving involves a series of successive steps, and the widespread take-up of driving assistance systems, which is already well under way. This technological revolution revolves around perception (detection and analysis) of the vehicle's environment by various sensors.

With 30 years' expertise in this field, Valeo offers a wide range of driving assistance solutions:

- active safety systems such as emergency braking, lane departure warning and blind spot detection;
- parking assistance and automated parking (Valeo 360Vue® and Valeo Park4U® ranges);
- autonomous driving solutions for individual drivers (levels 2 to 4 in the SAE classification) and for fleet management services (levels 4 and 5).

(1) See sustainable development glossary, page 295.

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

Valeo's SCALA® laser scanner is the only automotive-grade 3D LiDAR device under mass production today and is protected by more than 560 patents. The first vehicle in the world to obtain certification for SAE level 3 automation uses the Valeo's SCALA® sensors and Fusion Controller systems. The next car to be certified to level 3 will also be using a SCALA®.

In 2020, Valeo increased its footprint on the Asian markets and launched the production line for its second-generation long-range LiDAR, SCALA®. Its portfolio was expanded to include short-range versions of the technology, enabling Valeo to access applications above and beyond level 3 automation and passenger transportation.

Valeo's new Mobility Kit offering combines innovation and technological excellence in a full range of high-performance plug-and-play systems that brings developers turnkey solutions addressing automotive industry demands for new forms of mobility.

Connected Cars

In 2020, 50% of vehicles had an integrated telematic antenna, and by 2024, 30% of vehicle services will be connected[1]. Cars are being transformed into smart devices, integrated into smart roadways and cities. Present-day 4G technology meets many usage requirements but cannot guarantee real-time operation at high enough bandwidths for vehicle automation and thereby the emergence of new mobility services. That is why 5G service quality is necessary for new usages and the development of future mobility solutions with massive data flows.

Under these conditions, V2X technology becomes a reality, enabling direct communication between vehicles and with infrastructure, offering extended perception to optimize the safety and management of mobility flows.

To take up the new mobility challenges of vehicle access control, fleet management, remote software upgrades, cybersecurity and vehicle location, Valeo's Connected Cars Product Group offers full automotive connectivity solutions in fields including:

- 4G and 5G telematics, a powerful worldwide trend that extends to new mobilities such as shuttles and droids;
- vehicle-to-vehicle (V2V), vehicle-to-infrastructure (V2I), and vehicle-to-pedestrian communication will increase safety and enable certain critical situations to be anticipated;
- complete acoustic solutions, which can be used to customize a vehicle's acoustic zones, for example;
- new smartphone usages: hands-free access and car-start systems, car-sharing and remote parking.

Valeo is working with the 5G ecosystem to implement this vision: Valeo was the first tier-one supplier to join the 5G Automotive Alliance (5GAA) to work on rollout of V2X connected services. Valeo has also partnered with NTT Docomo (a major Japanese mobile operator) to jointly develop comprehensive, innovative solutions using 4G/5G connectivity. In December 2018, Valeo joined Auto-ISAC, a community working on cybersecurity.

Intuitive Controls

This Product Group is one of the world's leading players in human-machine interfaces and interior environment monitoring for greater safety and comfort. It harnesses in-depth understanding of vehicle architectures and excellence in interactive technologies to develop innovative, high quality interfaces focused on end-user experience. In the last five years, Valeo has filed more than 550 patents on human-machine interfaces and vehicle interior environment monitoring.

Immersive interfaces featuring technologies such as intelligent surfaces, digital control systems, digital instrument panels (with screens from 7 to 42 inches) and gesture recognition open the way to a new experience inside the vehicle.

Valeo is fully aware of the importance of taking care of both drivers and passengers, which is the primary aim of the Valeo Interior Cocoon. Driver and passenger health and safety are monitored by cameras like those used in Valeo's Driver Monitoring System (DMS), which detects drowsiness, distraction and facial expressions, and by radars as in the Interior Monitoring System (IMS), which includes presence detection to warn of unattended children. The Valeo Interior Cocoon uses artificial intelligence to merge information from these systems: cameras, radars and infrared sensors (near and far) with associated lighting.

Solutions offered by the Intuitive Controls Product Group include:

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

(1) Based on Valeo estimates.

2020 highlights

Distinctions

- Valeo XtraVue Trailer won a PACE Award. The first innovation of its kind on the market, the solution gives drivers a direct on-screen view of what's happening on the road behind their trailer or caravan, as if it were see-through. It is available on consumer-market vehicles in the United States, where it has proved a resounding success.

Commercial successes

- Strategic order intake for the Interior Cocoon driver and passenger compartment monitoring system from a German premium automaker, the first for a top-end automaker.
- Solid order intake in ADAS solutions for Japanese, French and German customers, both for Euro NCAP on mass-market models and driving automation on more premium ranges.
- Sales totaling 1 billion euros in digital control panels, with two major European suppliers, an important milestone on the display systems market.
- Initial orders for windshield head-up displays from a premium German automaker.
- Stronger market profile in microphones, with premium German automaker and new mobility players.

Shows

The latest innovations and solutions in digital mobility are usually exhibited at major motor and technology shows throughout the world. Due to the Covid-19 crisis in 2020, and the ensuing cancellation of these shows, Valeo only took part in the 2020 Consumer Electronics Show (CES) in Las Vegas (United States). There, it unveiled: Valeo eDeliver4U, an autonomous electric delivery droid prototype; Valeo MovePredict.ai, a technology for detecting and predicting road user intentions; and Valeo Drive4U® Locate, whose location algorithms and mapping systems allow for extremely precise vehicle location.

Market trends and outlook

Though the Covid-19 crisis had a substantial impact on vehicle sales, the Comfort & Driving Assistance Systems Business Group largely stood its ground by virtue of strong positions in innovative products on the uptake. In addition, post-Covid market prospects look promising. Regarding volumes, the strong trend among city-dwellers toward relocation to the country will have an immediate impact on sales of passenger vehicles for journeying from these locations to urban centers. In addition, the trend toward working from home is expected to continue after the crisis, but on a partial basis. Because time wasted on commutes will be tolerated less and less, automated driving systems that enable people to check their email or take part in video calls while on the move will be increasingly appreciated. This also means vehicles will need good connectivity and intuitive, ergonomic in-vehicle equipment. Again because of the health crisis, consumers will expect their vehicles to act as bubbles of safety and well-being. In-car sensors will be capable of detecting discomfort and adjusting vehicle settings accordingly.

Then beyond the passenger car market, another probable impact of the Covid-19 situation will be to boost the emergence of last-mile automated delivery solutions. Fitted with the same sensors as those used in advanced driver assistance systems (ADAS), these droids, or autonomous delivery devices, hold considerable growth potential.

Growth for the Business Group is therefore driven by four trends:

Safer and more automated driving

- As active safety devices become standard on many markets, the proportion of vehicles fitted with them is expected to double in the next five years. The main active safety devices cover car-to-car emergency braking (including in-city driving), lane departure warning, blind-spot detection and driver monitoring (for alerts on drowsiness or distraction at the wheel).
- With NCAP (New Car Assessment Program) scores as an incentive, more and more vehicles are fitted with a front camera as the primary sensor. In Europe, most vehicles from the B segment upwards (i.e., 80% of new vehicles) will be fitted with front cameras from 2025, which will bring additional opportunities for Valeo.
- In a trend that began in 2019 and was confirmed at CES 2020, automotive suppliers in Europe and the United States, as well as taking up level 2+ automation solutions for improving road safety, are also working to reduce responsibility problems at level 3 and complexity at levels 4 and 5.
- In Europe, the new L3 regulation came into force in January 2021, enabling approval for level 3 functions (maximum speed 60 km/h, freeway road type, single-lane operation). At the same time, Mercedes has confirmed its aim to launch an L3 function on its S-Class model in the second half of 2021. In Japan, Honda is the first to offer L3 features, with Traffic Jam Assist announced for the Honda Legend in March 2021.
- Though robotaxi tests slowed in the United States and Europe, the pace was upheld in China, with Baidu and Didi Chuxing turning the crisis situation to their advantage. Key players such as Waymo and Cruise maintained their efforts: by the end of 2020, Waymo had opened fully driverless rides to the general public in Phoenix, and Cruise is to open services in San Francisco.

More intuitive driving (user experience)

- Customization of and improvement in human-machine interfaces, a field in which the Business Group holds a leading position, requires technological innovation and creativity in design, plus expertise in ergonomics, for smooth, seamless usability. The real challenge therefore involves finding a balance between the new features offered and how they are used, while ensuring the safety of the driver, passengers and other road users.
- For tests on driving assistance systems (NCAP autonomous driving, consumer reports, etc.), user experience has become the key criterion for differentiating between the best-ranked systems. Certification institutes and authorities, in all regions, are working on tighter safety measures for new vehicles. Driver monitoring systems can integrate new technologies such as proximity sensors, gesture recognition and eye tracking, which may also be extended to the entire cabin.
- The Chinese market is driven by strong demand for healthier vehicle interiors. Chinese automakers were the first to offer certified solutions here.

Data and connectivity

- Vehicles increasingly interact with the digital world and with (incoming and outgoing) cloud data in particular, opening prospects for new features and services with new economic models (navigation assistance, mileage-linked insurance premiums, etc.).
- This will call for standards on V2V (vehicle-to-vehicle) and V2I (vehicle-to-infrastructure) communication, and the emergence of digital platforms (with vehicle location and high-definition maps, for example) offering high-added-value services for drivers, fleet managers, automakers and automotive suppliers.
- The introduction of 5G will raise questions as to return on investment. With higher infrastructure costs and narrower coverage than 4G, 5G market players are on the lookout for actual use cases, as in the automotive industry, to warrant the extra cost. In China, however, automotive 5G rollout is under way, driven by the smartphone market. First-generation 5G telematic antennas will be appearing first on the Chinese market, then in Europe.
- Standardization work on over-the-air technology for vehicle updates and feature upgrades continues.

Digital services

- Mobility services in all regions have been hard hit by the Covid-19 crisis. With social distancing, users are shying away from collective mobility, including public transportation, ride-hailing, car-sharing and carpooling, to reduce the risk of infection.
- Adapting to the pandemic, ride-hailing platforms refocused on delivery services (food, goods, medical provisions, etc.) with initiatives on autonomous droids. Examples include Uber's UberEats service, and the Neolix partnership with KFC and Pizza Hut.
- Despite the Covid-19 crisis, a number of companies went ahead with the development or launch of new mobility services, in China in particular. Examples include Honda Mobility Solutions, responsible for planning and operating mobility services in Japan.
- The market also saw the arrival of new companies and partnerships furthering the development of Mobility-as-a-Service (MaaS) solutions for micro-mobility, such as the Jump cycles bought by Lime from Uber, and Ford Spin eScooter in Germany.
- Development is accelerating on advanced driver assistance systems (ADAS) for motorbikes, to increase rider safety.

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

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

1.3.2 Powertrain Systems

KEY FIGURES IN 2020

€4.4bn
SALES
26%
of Group sales

3 pt (1)
OUTPERFORMANCE FOR ORIGINAL EQUIPMENT SALES
on a like-for-like basis(2)

€409m
EBITDA
9.4%
of the Business Group's sales

23,000
EMPLOYEES

54 plants

7 research centers
&
20 development centers

(1) Based on IHS automotive production estimates released on January 16, 2021/CPCA estimates for data relating to China.
(2) See financial glossary, page 48.

2020 HIGHLIGHTS

SERIES PRODUCTION RELEASE
of a 48V system for an urban electric light vehicle.

SERIES PRODUCTION RELEASE
of an inverter system (electric motor control electronics) on a high-selling mid-range electric vehicle.

27th PLACE AT THE CLEPA INNOVATION AWARDS
in the environment category, for eAccess.

Description of the Business Group

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

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

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

48V low-voltage powertrain systems

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

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

In 2020, Valeo continued to develop demonstration vehicles to illustrate the workability of its electrification solutions:

- for 48V hybrids, with a mid-range vehicle fitted with a 25 kW drive chain (complete system with motor, inverter and transmission), under a Valeo partnership with Dana;
- for small-vehicle applications, with a delivery droid fitted with a 48V powertrain system, and a special focus on electric bikes, with development of a 48V system (fan motor adaptation and dedicated gearbox, under an Effigear patent).

The key event of 2020 came with the first series production release of applications for small electric vehicles, with a light electric vehicle fitted with a 48V starter-alternator in Europe. This sets the stage for market development on a global scale in the coming years.

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

The Valeo Siemens eAutomotive joint venture, formed in late 2016, makes all-electric motors for two types of applications: all-electric and plug-in hybrid vehicles. Intended for vehicles in all segments, high-voltage electric powertrain systems offer versatile vehicle usage in both urban and freeway driving situations.

Valeo's all-electric offering addresses growing demand from automakers for electric powertrain systems across the range. Valeo Siemens eAutomotive's powertrain systems run at voltages of 60V upwards (up to a power rating of 347 kW, or the equivalent of over 470 hp) and give better performance, lower energy consumption and greater comfort.

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

In 2020, Valeo Siemens eAutomotive made several series-production launches: inverters, on-board battery chargers and end-to-end powertrain systems (motor plus inverter).

Full electric powertrain systems for all vehicle architectures

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

- Its hybrid and all-electric powertrain systems are designed for integration in all types of vehicle architecture: on the engine shaft, before/after/in the transmission and/or on the rear axle, with an appropriate transmission system if needed.
- Hybrid and plug-in hybrid powertrain systems are optimized as a whole. Electric motor power output is adapted to usage, and the combustion engine is optimized using Valeo solutions on fuel-consumption and CO_2 emissions reduction. Combustion engines are made cleaner through high-precision sensors, mechatronic actuators and electric superchargers.
- For all-electric powertrains, both low-voltage (48V) and high-voltage (over 60V), Valeo and Valeo Siemens eAutomotive offer complete powertrain systems, with motor and all other components, including electric oil pumps and anti-theft systems. The battery is charged via an onboard charger that manages electric current flow. The full powertrain system that Valeo offers its automaker customers also includes a DC/DC converter to power electrical devices and an inverter controlling the electric motor.

2020 highlights

For Valeo, the year 2020 was above all an opportunity to demonstrate its capacity to withstand and adapt to the global health crisis, while continuing to support its customers with offerings of innovative solutions and technology roadmaps.

Low-voltage powertrain systems and clean engine performance

- Sustained front-line position in 48V electric machines (with series-production release of second-generation 48V starter-alternators) and DC/DC converters.
- Delivery droid fitted with a 48V powertrain system, bringing in technologies developed for hybrid applications in series production, previewed at CES in January 2020.
- Series production release for a powertrain system for the first 48V light electric vehicle on the French market, adapted from a 48V starter-alternator used on hybrid vehicles.
- Stronger lead on the European market for torque converters.
- Launch of actuators for automatic transmissions on the Asian market.
- New contracts awarded for high-added-value sensors meeting the new regulatory requirements applying to Valeo's customers in Europe.

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

Production ramp-up for solutions developed by the Valeo Siemens eAutomotive joint venture for electric and plug-in hybrid vehicle. These include:

- inverter for mid-range electric vehicle with substantial volume ambitions;
- electric powertrain fitting the rear axle of C- and D-segment plug-in hybrid vehicles.

Full powertrain systems for all vehicle architectures

- Rollout of the Business Group's operations in Europe and Asia, representing an opportunity for Valeo to strengthen its positions on these emerging markets.
- Continuing partnership with Dana Incorporated to strengthen offerings on 48V electrified powertrain systems. Winter test campaign, in February 2020, enabling Valeo's main customers to gage the efficacy of a rear-axle-mounted 48V drive chain in a 4x4 transmission context.
- Sustained support for its main customers on its traditional markets, helping them meet forthcoming regulations and ensure improved control for critical powertrain subsystems.

Market trends and outlook

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

Business in 2020 was nevertheless heavily impacted by the constraints imposed across the world to stem the Covid-19 pandemic.

Medium-power electrification (48V)

Under mounting pressure to reduce fuel consumption and thereby vehicle CO_2 emissions, automakers are increasingly turning to powertrain electrification solutions. In Europe, the European Commission announced stricter measures to come on reducing CO_2 and pollutant emissions, under the Euro 7 standard. Valeo will be assessing the potential impacts of these on the automotive market and on its products. By 2025, more than 40% of vehicles produced in the world will be electrified, half of these using medium-power systems(1). By 2030, the figure will have risen to more than 70%(1). Because medium-power solutions offer a very attractive cost/performance trade-off, market take-up will continue to grow. With its technology portfolio that anticipates automakers' future needs, Valeo is ideally placed to benefit from the increase in content per vehicle.

High-power electrification (>60V)

The market for electric and plug-in hybrid vehicles continues to grow.

Increasingly stringent measures are being brought in to reduce urban pollution, which has become a major global concern. High-power electric powertrain systems, which represent just 9% of all electric vehicles in 2020, but will account for almost a quarter by 2025(1), hold great promise for the future, since they enable vehicles to run in zero-emissions mode in urban environments. The Valeo Siemens eAutomotive joint venture will offer a full range of products that meet expectations for this wave of innovation.

The first all-electric vehicles fitted with Valeo Siemens eAutomotive solutions are already on the road in Europe and Asia. Many more launches will follow in the near future, including a vehicle for a leading German manufacturer in 2020.

Smart engines and transmissions

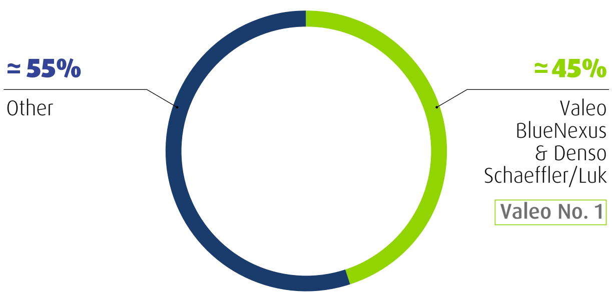
In 2020, internal combustion engines powered over 97% of vehicles produced worldwide. And by 2025, vehicles powered by internal combustion engines are expected to still account for more than 90% of all vehicles manufactured(1).

In addition, more and more drivers are beginning to appreciate the comfort of automatic transmissions, which are expected to account for over 75%(1) of automotive production by 2025.

These two trends are generating continued growth in the transmissions field. With its strong position on this market (number two worldwide) and its growing product range (now including actuators for dual-clutch transmissions, electric oil pumps, torque converters and full transmission systems for all-electric and plug-in hybrid vehicles), the Group is reaping the full benefit of this wave of innovation. Content per car for automatic-transmission vehicles is twice that for manual-transmission vehicles.

Along with work on powertrain electrification, automakers will continue to improve internal combustion engine performance and efficiency.

Main competitors on the powertrain systems market(1)



(1) *Based on Valeo estimates.*

1.3.3 Thermal Systems

KEY FIGURES IN 2020

€3.7bn
SALES
23%
of Group sales

ORIGINAL EQUIPMENT SALES
on a like-for-like basis[2]
in line with the market[1]

€247m
EBITDA
6.8%
of the Business Group's sales

24,000
EMPLOYEES

68 plants

3 research centers
&
10 development centers

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

2020 HIGHLIGHTS

FIRST SHORT-WAVE UV AIR PURIFICATION MODULE
for buses developed and brought to market.

SUSTAINED BUSINESS
for electric compressors, with multiple orders from Japanese and French automakers.

CONTRACTS SIGNED
with Chinese and German automakers for the supply of battery refrigerant coolers for their plug-in hybrid vehicle platforms.

Description of the Business Group

Thermal Systems has five Product Groups:

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

Thermal Climate Control

The Thermal Climate Control Product Group mainly develops the systems and components required for providing all-season thermal comfort on all kinds of cars (with internal combustion, hybrid, electric or powertrains) and trucks. These systems are designed to optimize in-vehicle thermal comfort and passenger well-being.

Thermal Powertrain

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

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

Thermal Compressor

The Thermal Compressor Product Group designs and produces compressors for efficient air conditioning systems on trucks and light vehicles (powered by internal combustion, hybrid or electric powertrains). Compressors are a key component in these systems. These compressors are compatible with all refrigerants used in the auto industry.

Thermal Front End

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

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

Thermal Commercial Vehicles

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

Strategic Objectives

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

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

Intelligent management of electric vehicle thermal systems

Vehicle electrification calls for affordable new thermal management solutions addressing three key challenges:

- shorter charging times;
- passenger comfort without penalizing travel range;
- optimum battery operation, for longer battery life and higher performance (mechanical and thermal protection).

Shorter charging times

Automakers and consumers are increasingly demanding electric vehicle charging times comparable to refueling times for internal combustion models. However, rapid charging involves injecting high electric power into the batteries (150 kW or 250kW for ultra-fast charging) in a short lapse of time (a maximum of 15 minutes for an 80% charge). Because this heats the battery to above its maximum limit of 45°C, additional cooling is needed to prevent safety and battery life risks.

The Thermal Systems Business Group develops ultra-high-performance battery cooling systems comprising high-power chillers[1], large cold-plate units, high-voltage electric compressors (400V and 800V) with high cooling capacity, along with high-power front-end cooling modules, with soundproofing and high-performance condensers.

These systems can dissipate 20 kW of heat, one of the best cooling powers on the market.

Longer travel ranges

The second thermal management challenge with electric vehicles is the balance between travel range and passenger comfort, especially under extreme weather conditions in summer and winter. Electric vehicles are usually fitted with electric heating systems consuming 6 kW at -7°C, and electric air conditioning compressors consuming around 4.5 kW at 35°C. By drawing energy from the batteries, this can reduce travel range by anything up to 40% in winter (at -7°C) and 20% in summer (at over 35°C), if the vehicle is not equipped with efficient and intelligent heating and air conditioning solutions.

The Thermal Systems Business Group is a world leader[2] in air conditioning systems. As well as its expertise in the control of complex heat-pump systems, it also designs and manufactures all the components involved: electric compressors, evaporator-condensers, interior condensers and water condensers.

It offers a full heat-pump system (including electric compressor), complete with control software, for the electric vehicle platform of a European automaker holding leading positions in China and Europe. Production started in 2019 at three Valeo plants in China.

The Business Group has also developed a unique, very low-consumption cabin heating solution using intelligent energy distribution across air heating and interior surface heating. This system features an innovative, flexible, compact surface heating technology (FlexHeater), plus optimized, individualized control of thermal comfort adapted to the number of vehicle occupants and their needs at the time. It brings spectacular savings of 50% in electricity consumption at -7°C with a single passenger (average vehicle occupancy is under two) and up to 25% with all vehicle occupants.

For vehicles fitted with a heat pump, the savings are even higher, even at very low temperatures: 40% additional travel range at -15°C, without compromising on comfort.

Under freeway driving conditions, in stabilized mode, the intelligent heat pump can even recover heat dissipated by the battery for use in cabin heating, bringing minimum consumption down to 1 kW as opposed to the 3 kW needed with resistance heating alone (at -7°C outdoor temperature and cabin heating set at 21°C).

(1) A chiller is a small exchanger through which the refrigerant of the air conditioning loop and the liquid to be injected into the battery meet to cool it.
(2) Based on Valeo estimates.

Electric vehicle travel range is also a question of aerodynamics and weight. For this reason, the Thermal Systems Business Group uses composite materials for all structural parts such as battery packs, bolsters and shock absorption units, bringing weight reductions of up to 30% compared with aluminum solutions. Together, these solutions bring weight savings of up to 20 kg for an electric vehicle with long travel range (80 kWh battery), which lowers the vehicle's electricity consumption a few percentage points further.

Battery protection

For battery life and safety, adequate battery protection is essential. To give the best performance and longest travel range, the lithium-ion batteries used in electric vehicles demand an operating temperature range of 25°C to 45°C. In addition, long battery life requires an even temperature across all battery cells, with the difference not exceeding 5°C.

In winter, on motor starting or prior to charging, the battery may need pre-heating to provide optimum performance more quickly. This is done using a battery-specific high-voltage water-circuit heating component. Valeo has developed a full range of highly efficient solutions here, set for series production in 2021.

Battery cooling is another major necessity for maintaining battery cells in good condition and optimizing their life span. Needs in this area have intensified in recent years, with the increase in power density and cell energy levels, with increasingly compact pack structures, and with changes in cell electrochemical properties, making them more sensitive to high temperatures or increasing the need for rapid-charge preheating.

The Business Group offers a panoply of technologies, for many electric and hybrid vehicles, ensuring optimum cooling to keep battery energy capacity at up to 96% after ten years:

- ultra-flat water-circuit coolers for prismatic battery cells, including systems with extra-wide plates (2 sq.m);
- water-circuit coolers for cylindrical battery cells;
- lateral battery coolers in low-profile pouch cells.

The Group is also working on battery pack impact protection, to prevent the risk of fire or release of toxic gas. The use of thermoplastic composite materials in top and bottom covers, in reinforcement of (or in combination with) a metal frame, significantly reduces the housing weight and affords good protection and impact resistance, plus excellent thermal insulation.

In 2020, a composite housing for the hybrid models of a German automaker entered series production.

In all, the Thermal Systems Business Group is one of the few market players capable of designing the thermal architecture of an electric vehicle in its totality and, above all, of managing the system as a whole to balance energy between the cabin and the battery in a cost-effective way without compromising safety or comfort. On an electric vehicle equipped with all of the Business Group's thermal management solutions, electricity consumption will be below 15 kWh/100 km.

Passenger health and well-being

To anticipate the needs arising from new mobility trends, the Thermal Systems Business Group harnesses its extensive expertise through an approach focused on passenger health and well-being. With the emergence of electric and autonomous cars, life on board the vehicle is being reimagined. The Thermal Systems Business Group is intent on providing a healthy and comfortable environment in which passengers feel protected. This need intensified during the pandemic, with heightened customer demand for the vehicle cabin to perform as a health shield.

Personalized comfort

The Group offers intelligent comfort solutions that adjust to individual passenger needs and different vehicle situations. With its sensors (cameras and vital sign sensors) and algorithms, the Smart Cocoon system analyzes passenger metabolism, age, sex, clothing type and thermal environment to adjust thermal comfort to their needs at the time, while minimizing energy consumption.

Air quality and passenger protection

Health and safety during car journeys is more important than ever, especially since the coronavirus pandemic has heightened consumer preference for cars as the safest means of transport. Vehicle interior hygiene is a key issue, particularly when the car is shared.

In record time, the Thermal Systems Business Group released a unique solution that sterilizes the air in bus cabins to prevent the risk of virus propagation in the presence of a contagious passenger. The air sterilization module uses a UV-C lamp and can be retro-fitted as a standalone unit or directly integrated in the air conditioning system if the vehicle has one. It uses short-wave ultraviolet light technology, similar to that used in medical and hospital environments. The Valeo Bus UV Air Purifier has an airborne virus elimination efficiency of more than 95%.

These systems will be brought to markets in Europe, the Americas and Asia (China and India primarily). The solution has recently been integrated as original equipment in vehicles manufactured by a Brazilian automaker. The Business Group is also working to adapt this technology for use in private cars.

The Thermal Systems Business Group is a world leader in vehicle air treatment systems that ensure the quality of the air we breathe. Its engineers have developed very high-efficiency cabin air filters, which act as a barrier against air pollution. With their three layers of material and a natural coating of vegetable polyphenols, they block out ultra-fine particles, harmful gases, fungi, mold and certain viral particles from 0.3 µm upwards.

The protection level of Valeo's filters has been certified by CATARC (China Automotive Technology and Research Center Co., Ltd) in China, which confirms block-out of 96% of pollen allergens and 99.8% of viruses, including coronaviruses (as tested to ISO 18184).

Today, only 4% of cars come off the production line fitted with very high-efficiency air filters featuring natural polyphenol. Following the Covid-19 pandemic, one in five vehicles is expected to be equipped with these systems in three years' time. In discussions with automakers, the Thermal Systems Business Group finds that almost all of them are showing interest in this technology, and 80% of information requests Valeo receives – especially technical information requests – now concern these new, very high-efficiency systems.

In addition to its filter system, the Thermal Systems Business Group is also developing pollution sensors, capable of detecting and reporting on fine particle concentrations inside and outside the cabin. When concentration levels get too high, the sensor automatically activates the air recirculation mode.

A vehicle that empathizes with users

Going beyond thermal comfort and with a view to enhancing the mobility of tomorrow, the Business Group is working on systems that monitor passenger well-being parameters to ensure peace of mind and a safe and emotionally comfortable travel experience. Work is under way with medical center and university partners on a set of algorithms processing health and emotion parameters. This will pave the way for new services on empathy-capable vehicles of the future.

2020 highlights

Despite a complex situation, the Business Group seized growth opportunities in a number of areas, strengthening its leadership in electrification:

- sustained sales of electric compressors, with multiple orders from Japanese and French automakers;
- extension in North America of a major contract on the world's largest electric platform for a front-line German group, including supply of an extra-wide battery water-circuit cooler and a high-voltage electric heating solution;
- with European, Japanese and Chinese automakers on battery thermal management for electric vehicles on the Chinese and Japanese markets;
- contract with a Chinese automaker and a German automaker on supply of battery refrigerant coolers for their plug-in hybrid vehicle platforms;
- start of series production for a composite material battery housing for the plug-in hybrid vehicle platform of a leading German automaker;
- certification for Valeo's very high-efficiency filters with natural polyphenol coatings by CATARC (China Automotive Technology and Research Center Co., Ltd) to the CN-95 standard, confirming efficacy against ultra-fine particles including certain virus particles above 0.3 µm in diameter, at an efficiency higher than 95%;
- development and market release of the first short-wave UV air purification module for buses, for retrofit in Europe, the Americas and Asia, and as original equipment in Brazil.

Market trends and outlook

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

Internal combustion engines in decline

In 2020, internal combustion engines powered 97% of vehicles produced worldwide. Due to the Covid-19 pandemic, volumes in 2020 contracted to 72 million units produced. Following the rebound expected over the next three years, this figure should peak around 2025 at around 85 million units produced, before contracting by 0.5% per year in volume terms from 2025 onwards. Internal combustion engines will continue to power more than 80% of vehicles produced in 2030 (or around 83 million units produced), including hybrid electric vehicles.

Accelerating growth in the electrified vehicles market, with enhanced and intelligent thermal management

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

Despite the market dip caused by the Covid-19 pandemic, more electrified vehicles were manufactured in 2020 than in 2019, accounting for 13% of the market in 2020. By 2030, the Business Group expects 70% of all light vehicles to be electrified, of which 6% plug-in hybrids and more than 20% battery electric vehicles. Mild and full hybrids will represent more than 40% of the market[1].

(1) *Based on Valeo estimates.*

Electrified vehicles (EVs), including plug-in battery-powered vehicles, have entered a new life-cycle phase, addressing customer expectations for longer travel range, affordable pricing and fast or ultra-fast charging times comparable to refueling times for vehicles powered by internal combustion engines. Electrified vehicles (PHEVs + BEVs) currently represent 4% of sales. This figure is expected to increase six-fold over the next ten years[1].

The market for thermal systems for electrified vehicles is therefore set to grow at an annual average of 22.5% over the next 10 years[1]. This will generate substantial automaker demand for:

- active cooling systems for battery cell protection, meeting growing demand for exchangers (flat, surface, compact) integrated in the battery pack, possibly connected with the air conditioning system via a glycol/refrigerant heat exchanger. Annual growth in this market is expected to average more than 30% over the next 10 years[1];
- higher power electric air conditioning systems meeting rapid-charge needs and capable of operating in heat-pump mode to optimize vehicle travel range in winter, representing annual growth of 30% over the next ten years[1];
- high-voltage water-circuit heating components, for cabin and battery heating. Market growth here is estimated at 25% per year over the next ten years[1];
- lightweight composite materials for the battery pack, bumpers and shock absorbers, a market growing at 80% per year[1].

For thermal systems overall, average content per vehicle in value terms for electrified vehicles (hybrid, plug-in hybrid and all-electric) is currently around twice that for internal combustion engine vehicles (based on 2020 prices and technologies), meaning that this market holds major growth opportunities for the Business Group.

In-vehicle health and well-being

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

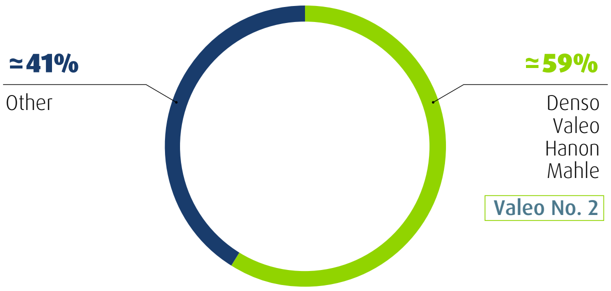
In this area, the Business Group has developed comfort solutions closely adapted to vehicle occupant preferences, bringing personalized thermal comfort plus lower energy consumption. These feature interior sensors (cameras, vital sign sensors, etc.), thermal comfort qualification algorithms using artificial intelligence, and active heating of interior surfaces under intelligent control with the air conditioning system.

The health crisis has also intensified consumer expectations for high-efficiency virus-blocking filters, and UV sterilization solutions for surfaces and cabin air.

In-vehicle air quality management has made way for a broad offering of pollution detection sensors and algorithms for air management and cabin air filter maintenance. Mobile air quality sensors offer reliable real-time information on the outside air quality, for use in plotting street-by-street pollution maps for cities.

The Thermal Systems Business Group expects the in-vehicle health and well-being market to grow by 10% per year through 2030, which will bring Valeo additional opportunities for increasing its average content per vehicle.

Main competitors on the thermal systems market[2]



(1) Based on Valeo estimates.

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

1.3.4 Visibility Systems

KEY FIGURES IN 2020

€5.0bn
SALES
31%
of Group sales

2 pt (1)
OUTPERFORMANCE FOR ORIGINAL EQUIPMENT SALES
on a like-for-like basis(2)

€435m
EBITDA
8.7%
of the Business Group's sales

37,500
EMPLOYEES

50 plants

5 research centers
&
16 development centers

(1) Based on IHS automotive production estimates released on January 16, 2021/CPCA estimates for data relating to China.
(2) See financial glossary, page 48.

2020 HIGHLIGHTS

SUSTAINED LEADERSHIP IN LIGHTING SYSTEMS
with smart modules, in series production on several vehicles, and prize-winning innovative lighting systems (Safety prize at the CLEPA Awards and Excellence prize from the Lingxuan Award Jury at the 2020 China Auto Supply Chain Summit).

ROBOTAXIS FITTED WITH VALEO SMART PODS
are now on the road.

AQUABLADE WAS AWARDED THE 2020 PRIZE FOR THE BEST INNOVATION
at a Chinese customer's annual suppliers' convention.

Description of the Business Group

The Visibility Systems Business Group designs and produces innovative, efficient and smart exterior and interior lighting, wiper and sensor cleaning systems to support the driver in all driving situations. These systems enable all vehicles, including automated vehicles, to drive in all conditions and create a highly immersive experience for all vehicle passengers.

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

- enabling drivers to see the road clearly, and be seen, by means of intelligent, communication-capable lighting, wiper and signaling systems;
- making sure cameras and other optical sensors work properly in all circumstances;
- enhancing driver and passenger comfort by means of innovative vehicle exterior welcome features and interior lighting functions.

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

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

- Lighting Systems Product Group;
- Wiper Systems Product Group;
- Vistronic Product Line: electronics and artificial intelligence for all systems from the Visibility Systems Business Group.

Lighting Systems

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

Exterior lighting

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

- **efficient, intelligent, dynamic lighting systems**: in 2020, Valeo continued rollout of its new ADB (Adaptive Driving Beam) glare-free high-beam headlamps, with several D-, C- and B-segment vehicles fitted with Matrix or Pixel systems. The Product Group also offers a high-definition lighting solution using a monolithic LED of close to 4,000 pixels. The road-ready prototype, tested by Driving Vision News, is considered the most effective lighting solution to date. This lighting module won the 2020 CLEPA Award in the Safety category;
- **appealing lighting solutions**: external lighting plays a dominant role in vehicle design. In addition to the LED daytime running lights already commonplace on the market, new features such as illuminated logos and grilles are also beginning to appear, as additional features of a model's or a brand's visual identity. These features also provide an elegant and discreet way of integrating cameras and sensors.

In response to demand from several designers, Valeo has developed the thinnest modules on the market, with the 25 mm thick ThinLens, already in series production on 17 vehicles, and the 15 mm thick Ultra ThinLens:

- **economical lighting solutions**: Valeo always strives to make its innovations widely affordable, offering comfort, safety and style on all types of vehicles. With this in mind, the Business Group offers solutions for replacing halogen lighting with affordable LED modules that improve driver visibility thanks to light quality closer to daylight, have a longer service life, and consume less energy. Its PeopLED™ and BiLED solutions, available at the premium end of the market since 2012, offer a much higher performance than halogen lighting, and are now available on mass-market models from most automakers;
- **360° communication-capable lighting systems**: The real traveling experience created by Valeo starts on approaching the vehicle, with solutions that project patterns or logos onto the ground. With more and more silent-running electrified vehicles on the road, and the increasing number of road users using new mobility solutions, functions are beginning to appear for improving the visibility of signaling and other information around the car. In time, these will improve communication among road users during car maneuvering and enhance safety for other road users, especially vulnerable users such as pedestrians and cyclists;
- **designer signaling**: new materials are being used in vehicle lamps, for appearance, style consistency and customization capabilities. One such development is seen on the stylish signaling strips extending across the whole of the vehicle width. This Valeo product already appears on dozens of series production vehicles, which substantially increases Valeo's content per vehicle.

Interior lighting

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

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

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

Wiper Systems

Sensor cleaning for autonomous vehicles

An unobstructed view of the road, for both the driver and the vehicle's optical sensors, is essential for road safety. Developments in advanced driving assistance systems and more automated cars entail a need to keep the car's many cameras, LiDARs (laser detection systems) and infrared sensors clean, and thereby ensure reliable operation in all circumstances.

The Wiper Systems Product Group develops:

- **complete wiper systems** (including tanks, pumps, nozzles, pipes, solenoid valves, miniature wipers, blowers, etc.) for flawless cleaning of optical sensors (cameras, infrared cameras, LiDARs, etc.), to ensure an uninterrupted video stream for safety and comfort, while minimizing the consumption of wiper fluid (which can top 10 liters per day for a robotaxi) and thereby reducing vehicle CO_2 emissions;

- **smart roof- and side-mounted pods** (with sensors, cleaning system, cooling system, mechanical structure and style features) enabling future autonomous vehicles to run in all weather conditions. These pods include sensors, the cleaning system, the integrated cooling system, the mechanical architecture and the style features. They offer optimal and constant visibility, enabling robotaxis and automated delivery vehicles to drive in the rain or snow, for instance. On this kind of module, components may be supplied by other Valeo Product Groups (sensors and cooling systems, for example).

Window wipers

The Wiper Systems Product Group develops technologies that efficiently clean the windshield and rear window. Smart input from the use of electronic solutions helps improve safety and reduce weight. It also paves the way for new features, such as:

- **electronic wiper systems** using direct-drive or mechanical blades. These systems are based on a line of wiper motors marketed worldwide, offering a range of solutions adapted to the latest vehicle architectures, particularly electric vehicles;
- **software** bringing new wiper system functions such as fast de-icing, bug removal and blade wear monitoring;
- **latest-generation flat, hybrid or traditional arm and blade sets** tailored to all local variations, for high-performance wiping under all conditions;
- **rear wiper modules** with integrated washing systems based on a new line of motors designed to simplify integration into the vehicle;
- **the AquaBlade®** wiper system already in series production on many vehicles, which ensures clear, precise, safe vision for the cameras behind the vehicle windshield, a crucial sensing function on automated vehicles. In addition, AquaBlade® technology reduces wiper fluid consumption and thereby the size of the fluid tank. As well as helping keep down the overall vehicle weight, it also improves safety, by lessening the visual interference produced by a classic system.

Vistronic

Vistronic is a cross-functional Business Group entity specializing exclusively in controllers and software for visibility system electronics. It provides technical support to Product Group development teams, and designs and produces circuit boards and standard LED controllers. Vistronic performs a pivotal function in the development of intelligent lighting and wiper systems, providing the electronics needed for processing the information detected by vehicle cameras and sensors, and for controlling the lighting and wiper systems accordingly.

In addition to its operations within the Business Group, Vistronic also has the capacity to sell its LED drivers on an independent basis outside Valeo.

2020 highlights

Lighting and Signaling Systems

Significant events for the Lighting Systems Product Group in 2020 include:

- award of CLEPA 2020 Trophy in the Safety category, for Valeo PictureBeam Monolithic technology;
- series production startup for PeopLED headlamps on various vehicles, such as: Citroën C3 and C4, Daihatsu Rocky, Opel Crossland;
- 25 mm thick ThinLens lighting modules fitted on vehicles including Ford Mustang Mach-E, Cadillac Escalade and Hycan 007 in China;
- new Opel Mokka, the second mainstream B-segment vehicle in Europe fitted with the anti-glare BiLED™ Access Matrix Beam module;
- Renault Talisman facelift with ThinLens Matrix Beam lighting modules, following the Renault Espace in 2019;
- widespread take-up of rear light strips on all types of vehicles in all regions: Lincoln Aviator, Seat Tarraco hybrid, Lexus IS and Nissan Ariya;
- order intake for decorative exterior lighting solutions in Asia and Europe.

Interior Lighting Systems

Significant events for the Interior Lighting Systems Product Group in 2020 include:

- initial orders from a European automaker for a back-lighting solution for decorative parts;
- interior lighting solutions developed for two new Japanese customers in North America and Asia;
- series production release for an interior bi-chip pixel lighting solution combining passenger comfort (warm white ambient lighting) and maximum readability (cold white);
- order intake for ambient lighting solutions on the Chinese market.

Wiper Systems

Significant events for the Wiper Systems Product Group in 2020 include:

- the AquaBlade blade-integrated windshield washing system is now available for retro-fitting on vehicles not initially equipped with it;
- AquaBlade and WetArm blade-integrated windshield washing systems continue their advance on the market, transferring washing system value from traditional players to wiper system players;
- AquaBlade was awarded the 2020 prize for the best innovation at a Chinese customer's annual suppliers' convention;
- the first robotaxis entered commercial operation this year; some of the robotaxis on the road today are equipped with Valeo smart pods.

Market trends and outlook

Lighting Systems

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

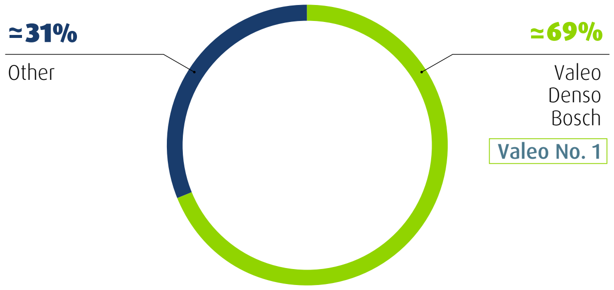
- **Increasingly widespread take-up and ongoing developments in LED lighting**. After the massive adoption of BiLED™ and RefLED solutions with many automakers on all continents, in replacement of xenon and halogen technologies, lighting modules continue their rapid evolution in style and intelligence.
- Automaker demand is on the rise for **adaptive lighting solutions**, which enable motorists to drive high-beam without ever dazzling other road users. High-definition LED solutions such as Valeo's PictureBeam Monolithic are expected from 2023.
- **Dimensional extensions to lighting functions**: since 2019, car design teams have expressed a growing trend toward light signatures across the whole vehicle width, at both rear and front, with daylight running lamps (DRLs) between the two headlamps providing central illumination for the automaker's badge, center panel and grilles.
- Style considerations aside, **signaling features** are also extending functionally, for more informative communication with the vehicle's environment and fuller customization of light surfaces.
- **Developments in interior lighting**, with an increasing number of illuminated surfaces throughout the cabin, and with functional lighting having an information conveyance purpose. These solutions combine to offer passengers a richer experience.
- **Communication-capable vehicles**: with upgrades to existing functions (such as PictureBeam Monolithic) and the emergence of new solutions for 360° communication to passengers and other road users.

Wiper Systems

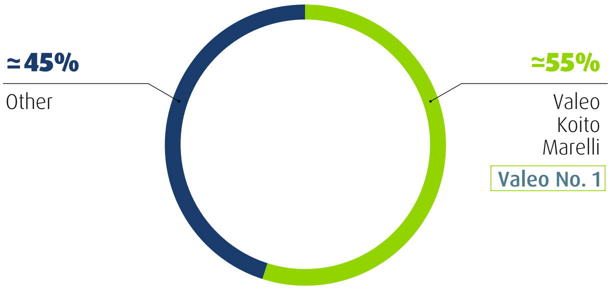
- **Reinvented wiper systems**: wiper systems are undergoing major change, thanks to new-generation wiper motors. Electronically controlled wiper system motors are lighter, which makes for lower CO_2 emissions, and quieter, a crucial factor in electric vehicles. Electronic control also brings an opportunity to sell software for functions such as windshield de-icing, bug removal and wiper blade wear monitoring.
- **Lower CO_2 emissions**: one advantage of wiper systems that integrate a windshield cleaning function is that their smaller washer fluid tanks helps reduce the overall vehicle weight. AquaBlade®, and WetArm, a more affordable if less efficient alternative for mass-market vehicles, both help reduce vehicle weight and thereby CO_2 emissions. These wiper systems are also growth drivers for Valeo's aftermarket business.
- **Vehicle cameras and other optical sensors are becoming increasingly commonplace** with the rapid development of advanced driving assistance systems and the emergence of automated cars. These devices need to be cleaned properly to ensure video flow quality and thereby passenger safety. This new type of cleaning requirement is a major growth opportunity for the Wiper Systems Product Group, number-one in the assembly of pods for robotaxis and autonomous delivery vehicles.

Main competitors on the lighting systems and wiper systems market

Wiper Systems



Lighting Systems



1.3.5 Valeo Service, products and services for the aftermarket

KEY FIGURES IN 2020

- 320 product categories
- 13 product lines for passenger cars
- 10 product lines for industrial vehicles
- 13,000 new product references added in 2020[1]
- 15 distribution platforms
- A footprint in more than 150 countries

2020 HIGHLIGHTS

RAMP-UP OF THE E-SERVICES PROGRAM for workshops and fleets.

A RESPONSIVE PRODUCT OFFERING, meeting fast-moving aftermarket background trends.

NEARLY 13,000 NEW PRODUCTS were brought to market in 2020.

Presentation of Valeo Service

Valeo Service supplies original equipment spares to car dealer networks (OES market) and replacement parts to the independent aftermarket (IAM market). Valeo Service is a trusted partner that supports the development of aftermarket businesses on the vehicle maintenance, crash and repair markets:

- coverage of cars and commercial vehicles;
- coverage of all day-to-day needs for vehicles on the road in more than 150 countries;
- support for the in-depth changes under way in the automotive sector thanks to Valeo's original equipment expertise, and innovative solutions developed for the aftermarket.

Through its "Smart Care for You" promise, Valeo Service commits to providing dedicated professional solutions to all players in the value chain:

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

This Valeo Service promise is delivered through:

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

2020 highlights

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

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

(1) *Independent aftermarket.*

- full technical information, including technical service bulletins, instructions and installation videos, are now available in a single location for immediate consultation. Valeo Service has observed that the ability to search for technical information specific to each spare part is essential for its partner users. Valeo Tech@ssist is therefore continuously upgraded to provide access to product-specific technical information, for increased efficiency and lower error risk;
- online training modules accessible on demand: though training is of crucial importance in the increasingly technology-intensive field of automotive maintenance and repair, in 73% of independent workshops, no employees received training in the last 12 months. Ongoing training for professionals is particularly challenging owing to lack of time and the difficulty of interrupting mechanics' everyday routines. To overcome these limitations, Valeo Service has made webinars available via Valeo Tech@ssist. This program has enjoyed very strong take-up by workshops in the past few years, further intensifying in 2020. The limitations on in-person training imposed by the Covid-19 crisis naturally produced a sharp increase in attendance relative to 2019;
- following 2018 rollout across Valeo Service's European websites, in 2019 and 2020 Tech@ssist was extended to Southeast Asia, Africa, French overseas territories, and China (on the website and on the WeChat application, specific to China).

- Valeo Specialist Club: a unique workshop loyalty program, developed with input from partner workshops. Valeo Specialist Club is accessible via smartphone app or the Valeo Service website, and includes a feature allowing workshops to sign up using a single account or open multiple accounts to reward their teams. It is accessible via a smartphone app or the Valeo Service websites:
  - the program is 100% digital, straightforward and efficient, its defining characteristic being the total freedom from cumbersome procedures: no need to cut out packaging or collect documents and return by mail. It takes mechanics no more than a couple of minutes to open an account, start scanning Valeo products, and watch the points add up in their accounts in real time;
  - in addition to recognizing spare parts for passenger cars, Valeo Specialist Club also offers rewards on industrial vehicle parts;
  - after a highly successful launch in Spain in September 2018, international rollout began in 2019, meaning that workshops in 12 countries can now earn rewards for loyalty to Valeo products.
- Enhanced digital strategy for original equipment spares (OES) with the creation of innovative communication materials.
- Valeo Service has rolled out a new content strategy guided by the objective of helping automakers promote aftermarket solutions. It has provided its automaker customers with dedicated communication materials to help them improve the way they communicate about their spare parts and retrofit offerings. The e-surveys program is being rapidly rolled out, as is the creation of training modules (webinars and shorter formats) and consumer webseries. All this material is now available via an e-platform, for convenient and effective access.

A responsive product offering, meeting fast-moving aftermarket background trends

More than 13,000 new products listed in 2020, with 50% outside Europe

To ensure workshops can keep their spare parts listings and tooling up to date, Valeo Service pays special attention to launching the latest original equipment innovations on the aftermarket and accelerating the development of dedicated aftermarket solutions. Some 13,000 products were added in 2020.

Customers' product expectations reflect a growing emphasis on safe, healthy and more ecological solutions

The year 2020 saw the hardest hitting pandemic of the 21st century, with Covid-19 infection rampant on all continents. One effect of the brutal shutdown of economic, industrial and social activity in most countries across the globe was to awaken a realization of the need for a more ecological society, more attentive to human care and safety. These trends, already apparent in the background of the automotive aftermarket business, moved closer to the foreground in 2020.

As a pioneer and number one worldwide in vehicle electrification solutions, Valeo brings a highly relevant response in the shift toward a greener world. Valeo fits one in every three vehicles worldwide with technology that helps reduce CO_2 emissions. From mild hybrid to high-power solutions, Valeo electrification technologies span the full spectrum of usage needs across all vehicle segments, from small urban cars through to SUVs and premium sedans. Valeo invented the Stop-Start system, today fitted on millions of vehicles worldwide. Valeo is also a leading figure in mild hybridization, making some 25 million 12V systems per year. Championing electric mobility, Valeo is also the world number one in 48V electric motors, a cost-effective electrification technology that will account for 30% of the global automotive market by 2030. This 48V technology makes electric mobility more affordable, putting greener alternatives within much wider reach. These products will reach the aftermarket in 2021. In addition, Valeo is the only supplier to offer Stop-Start technologies for the aftermarket.

Valeo develops air treatment systems for passenger compartments and has a unique triple offering addressing needs for vehicle disinfection and protection. For vehicle cabin disinfection, Valeo offers ClimSpray™. Valeo's ClimSpray™ is an easy-to-use, affordable spray that eliminates viruses (including coronaviruses), bacteria and fungi in just 15 minutes. To purify air conditioning systems, which often concentrate contaminants and bacteria, Valeo ClimPur™ is a rapid, powerful spray-on solution for use when changing the cabin air filter. The efficacy of Valeo ClimSpray™ and ClimPur™ (against coronaviruses in particular) has been proven and certified by an independent laboratory, in May 2020 then July 2020. Air pollution can aggravate breathing problems, making the respiratory system more vulnerable to various diseases, including Covid-19. With this in mind, the third item in Valeo's Air Quality program involves cabin filter technology to shield against external pollutants, pathogens, pollen and allergens. This comprehensive product offering enhances motorists' peace of mind road through protection against contamination.

Extension of Reman programs for OES in Europe and China

Valeo Service is constantly stepping up support for car and truck makers' circular economy strategies.

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

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

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

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

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

Market trends and outlook

The automotive repair market is in a state of transformation, as evidenced by the arrival of new entrants on the aftermarket, the strong growth in online sales, the increasing complexity of automotive technology, and heightening expectations from professional and private customers on ecology, health and safety. In this changing market context, vehicle maintenance and repair specialists face considerable uncertainty, with challenges on productivity, efficiency and profitability, which is under particular strain given the worldwide health crisis and the ensuring business closures and lockdowns.

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

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

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

1.4 GEOGRAPHIC AND INDUSTRIAL FOOTPRINT

Geographic footprint at December 31, 2020

	Plants	Research centers	Development centers	Distribution platforms	Number of employees
WESTERN EUROPE					
Belgium, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Spain, United Kingdom	48	15	11	5	29,200
CENTRAL AND EASTERN EUROPE					
Czech Republic, Hungary, Poland, Romania, Russia, Slovakia, Turkey	19	0	5	3	17,900
AFRICA					
Egypt, Morocco, South Africa, Tunisia	9	0	1	0	6,100
NORTH AMERICA					
Canada, Mexico, United States	25	0	6	2	18,700
SOUTH AMERICA					
Argentina, Brazil	6	0	3	2	2,900
ASIA, MIDDLE EAST & OCEANIA					
China, India, Indonesia, Japan, Malaysia, South Korea, Thailand	80	5	17	3	35,500
TOTAL	**187**	**20**	**43**	**15**	**110,300**

At December 31, 2020, the net carrying amount of the Group's real estate portfolio (land and buildings) was 1,322 million euros (see Chapter 5, section 5.4.6, Note 6.3 "Property, plant and equipment" to the consolidated financial statements, pages 350 to 353). The portfolio is largely composed of plants, the majority of which are wholly owned.

The net carrying amount of the Group's equipment, which is largely made up of technical facilities, machinery and tools, was 3,339 million euros at December 31, 2020, excluding property, plant and equipment in progress and other property, plant and equipment (see Chapter 5, section 5.4.6, Note 6.3 "Property, plant and equipment" to the consolidated financial statements, pages 350 to 353).

Environmental constraints liable to have an impact on the use of fixed assets and real estate result from the regulations applicable in this area to all Group establishments (see Chapter 4, section 4.1.4 "Sustainable development policies", under "Environmental policy", pages 210 to 212).

1.5 FUNCTIONAL STRUCTURE

The Group's functional structure is as follows:

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

1.5.1 Sales and Business Development

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

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

Mission

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

Organization

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

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

2020 highlights

The breakdown of 2020 original equipment sales among the Group's customers once again confirms the geographic diversity and balance of Valeo's customer portfolio:

- Asian customers (including Nissan) come first, with 32%;
- German customers account for 30% of original equipment sales;
- US customers (including Chrysler) account for 19%;
- French customers account for 13% of sales.

Thanks to its diverse customer portfolio and powerful product strategy in electrification and driving assistance systems, Valeo's order intake swung back to normal in the second half of 2020. Incoming orders represented 13.3 billion euros (versus 10.9 billion euros in the same period in 2019), or 1.7 times the Group's original equipment sales. Innovation[(1)] was a feature in 56% of new orders. This confirms the successful positioning of Valeo's new technologies and products.

1.5.2 Communications

Mission

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

Organization

It is structured around five units:

- **Media Relations**, which manages all relations with journalists worldwide and in all media formats. This unit handles all queries and requests from journalists as well as proactively offering news topics, interview themes and events designed to highlight the Group's activities and image;
- **Internal Communications**, tasked with building team cohesion, encouraging employees to act as company and brand ambassadors, and nurturing a Group-wide team spirit. Digitalization of internal communications and employee mobilization through the Valeo Employee Advocacy program are two of the key levers applied for strengthening individual involvement and supporting the Group's major projects;
- **Brand**, responsible for ensuring a coherent brand expression worldwide, along with lasting brand integrity and strength to enhance Valeo's image;
- **Social Media and Web**, responsible for the Group's communications on social media, with influencers and on the valeo.com website. It continuously tracks the Group's digital footprint and develops content to be posted online;
- **Events**, tasked with organizing all types of Group events – physical, hybrid and digital – such as trade shows, commercial and corporate events, customer visits, Shareholders' Meetings and internal events.

All of the Group's communications professionals in both the Communications Department and within the Business Groups and countries work together to reinforce the Group's image and reputation across the world, in line with the main areas of focus determined annually by the Communications Department.

1.5.3 Finance

The Finance Department comprises the following departments: Management Control, Reporting, Accounting, Financing, Cash Management, Tax, Investor Relations (see Chapter 6, section 6.2 "Investor relations", pages 433 to 434), Strategic Operations, Information Systems and Risk Insurance. Operating either on a Group-wide network basis or centrally from headquarters, these functions execute Valeo's financial strategy. In particular, they are tasked with:

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

Management Control

The management control function acts as co-pilot, assisting operations managers in the management of Group activities and in preparing and approving investment documentation and responses to tenders launched by automakers. It assists with the monthly accounts closing and provides analyses of performance, risks and opportunities using both key financial and operating indicators. It draws up three-month forecasts on a monthly basis and sets out the budget and the medium-term plan.

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

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

Accounting

Mission

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

Organization

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

- the **Technical Standards Department** is responsible for the implementation and application of International Financial Reporting Standards (IFRS). In 2020, work included analysis of the impacts of the Covid-19 crisis on consolidated financial statements and preparation of the annual financial report in European single electronic format. This department also prepares and organizes training sessions for the Group's finance teams with a view to continuously improving reporting quality and promoting better knowledge of the standards;
- the **Consolidation Department** prepares the Group's consolidated financial statements; each member of the team, under its director's supervision, reviews the financial statements of subsidiaries within a specific region (Europe, America, Asia, etc.) and follows up on broader issues that also concern their region;
- the **Holding Companies Accounting and Valeo Internal Bank Department** prepares the financial statements of the Group's main holding companies and oversees the operations of the Group's Internal Bank.

The accounts function for Group subsidiaries is usually handled by the Shared Services Centers (SSC). The Group currently has 15 SSCs worldwide.

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

2020 highlights

Valeo won the 2020 Grand Prix for Universal Registration Documents at the 11th Regulatory Information Transparency Awards *(Grands Prix de la Transparence)*. This annual award recognizes best practices in providing regulatory financial information among French listed companies, assessed to criteria of accessibility, accuracy, comparability and availability.

Financing and Treasury

Mission

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

Organization

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

- the **Cash Management Department**, which is responsible for cash reporting, optimization of working capital and management of customer credit risk. To do this, it leads a team of corporate treasurers operating across the Group. Working within the SSCs, which are organized by country, the treasurers work closely with the accounting services to produce standardized reporting;
- **Valeo Internal Bank**, with its three offices:
  - the front office of Valeo Internal Bank, which identifies and centralizes the management of market risks (essentially interest rate, foreign currency, commodity and liquidity risk). The financing, investment and risk hedging strategies are reviewed monthly by the Group's Finance Department,
  - the middle office of the Valeo Internal Bank supervises control over operations,
  - the cash management/back office oversees banking relations and activities with external and internal counterparties;
- the **Treasury Systems Department**, which is responsible for means of payment and secure cash management, and continuous upgrade and availability of treasury systems. Secure systems are implemented to monitor incoming and outgoing flows.

2020 highlights

In April 2020, early in the Covid-19 crisis, the Group Financing and Treasury Department additional negotiated bilateral credit lines with the Group’s banks for a total of 1.1 billion euros. At December 31, 2020, the Group had 2.3 billion euros available in undrawn credit lines.

Tax

The Tax Department supports the Group’s strategic and operational decisions and manages all tax matters.

The Tax Department is divided into three functions:

- **a Group-level specialist team** in charge of transfer pricing, indirect taxation, taxation of R&D and cross-business projects, and supporting operational and local tax specialists;
- **an operational team** of tax specialists from the Business Groups;

- **local teams in the National Directorates,** comprising tax officers who act as the representatives of the local Finance Departments. They guarantee that transactions are compliant with local regulations and are on the front line in the management of tax audits and disputes.

Information Systems

Mission

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

Organization

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

- the **Enterprise Management Systems Department**, which safeguards the integrity of the central IT system, provides reporting and business intelligence tools and underpins Valeo's growth by developing standardized solutions for Production, Logistics, Quality and Purchasing;
- the **Research and Development Information Systems Department**, which supports innovation in Valeo products. Through its expertise centers, it implements standard solutions used in product design and simulation, life cycle management for mechatronic products and onboard software, and planning, resource management and project reporting tools;
- the **Office Systems Department**, which defines the Group's communication and collaboration services and makes them available to all computer-equipped Group employees. It works to continuously boost both individual and collective efficiency to improve administrative productivity;
- the **Infrastructure Department**, which is responsible for the performance of all information systems. It produces resilient standards for information and telecommunications networks, hardware and software for workstations and servers. It monitors IT security policy through a network of experts in each country;
- the **Information Systems Security Department**, which sets Information Systems Security Policy and is responsible for deploying it and monitoring its implementation across all Valeo sites (organization, processes and security solutions). The department's objective is to guarantee the availability, integrity, confidentiality and traceability of Valeo's assets. It also audits third-party companies to ensure that they do not pose a risk for Valeo. Lastly, the department is responsible for preventing and managing cybersecurity incidents;
- the **Valeo Service Information Systems Department**, which is in charge of the information system designed specifically for managing a distribution activity. It also covers the deployment of Valeo standards.

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

2020 highlights

- Tighter cybersecurity.
- Rapid implementation of homeworking in February and March 2020.
- Continued rollout of Factory of the Future systems.

Risk and Insurance

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

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

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

Risks that could impact Valeo's business are set out in Chapter 2, section 2.1.1 "Operational and strategy risks", pages 83 *et seq.* Details on insurance and risk coverage are given in Chapter 2, section 2.2 "Insurance and risk coverage", page 93.

1.5.4 Legal

Mission

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

Organization

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

He leads a team that is mainly based at the Paris headquarters but also extends to Valeo's main markets: Germany, America, Japan and China. The Paris-based team comprises the Deputy Group

General Counsel, whose tasks include handling due diligence and negotiating and drafting contracts during mergers and acquisitions, and five General Counsels each responsible for a Business Group or Valeo Service, who supervise legal affairs worldwide for the activity under their remit. The other members of the Legal Department are based abroad. These regional General Counsels report to their respective National Directorates and are more particularly dedicated to operations in their particular countries or regions, in coordination with and under the responsibility of the General Counsels of the Business Groups and Valeo Service. All of the General Counsels advise operations managers and ensure that transactions within their remit are carried out in line with the Group's applicable ethics and compliance rules, the delegation and approval procedures implemented by General Management, and the interests of the Group.

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

The General Counsels of the Business Groups and Valeo Service are supported by and collaborate closely with the other functional departments to ensure maximum overall business security. They also oversee legal matters at Group entities.

1.5.5 Operations

Purchasing

Mission

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

Organization

The Group's Purchasing Department has two major priorities:

- **a commodity/segment priority**, focusing on the specific purchasing strategy for commodities. Its global approach allows for a consistent supplier selection policy, run through business allocation committees. The seven commodities, divided into segments, are:
  - steel and processing,
  - plastics and processing,
  - non-ferrous metals and processing,
  - electromechanical components,
  - electronic components and systems,
  - lighting and other components,
  - indirect purchasing of products, equipment and services used in the design of Valeo products or in manufacturing processes;
- **an Operation and Projects priority**, focusing on ensuring projects are initiated using cost-effective parts and the implementation of technical efficiencies, as well as ensuring the re-sourcing needed to maintain the Group's competitiveness, particularly as regards the productivity gains that it must grant customers during the product life cycle.

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

2020 highlights

In 2020, Valeo continued to strengthen measures to ensure the continuity and performance of its supplier panel:

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

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

Valeo's supplier base as a whole stood up well to the worldwide health crisis, thanks not only to local support measures but also to tight supply integration, a key focus of Valeo's "5 Axes" methodology.

Industrial

Mission

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

Organization

The Group's Industrial Department has two main focuses:

- the Industrial function of each Product Group is responsible for defining standards for industrial processes and making sure they are strictly applied at each plant. It also manages industrial capacity and production facilities in line with lean principles, to support growth while limiting investment expenditure;
- in each region, a team of experts in logistics ensures rigorous application of Group standards and methodologies, which are issued and implemented through training and individual development programs, and continuous improvement workshops.

2020 highlights

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

- application of Valeo Production System tools and methodologies generated 50 million euros in savings in 2020, as much as in 2019;
- ongoing efforts to optimize and centralize storage and transportation logistics costs saved an additional 39 million euros in 2020, up from 34 million in 2019;
- just-in-time management, the permanent optimization of flows and logistics systems made it possible to reduce net inventories (excluding tools linked to customer projects) by 255 million euros between December 2019 and December 2020;
- lean management of resources and capacities, including production areas, made it possible to reduce activated investments (excluding tools related to customer projects) by 257 million euros between 2019 and 2020.

Quality

Mission

The Quality network's roles are to:

- represent the customer within the organization, ensuring that its expectations are expressed and understood adequately by all those involved at every stage of the product life cycle;
- implement the "zero defects delivery" quality policy and tools needed to meet targets as part of a continuous improvement process;
- ensure that all Valeo sites meet the latest quality assurance standards for the sector;
- oversee compliance with standards in development and production, and contribute to continuous improvement in these standards.

Organization

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

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

2020 highlights of the Operations Department

In 2020, Valeo received 60 quality distinctions from customers worldwide (more than one per week). The volume of deliveries to automakers with quality issues was less than four parts per million products made.

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

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

Lastly, Valeo launched the "5 Axes Foundations" requirements derived from the V5000 standard, which seeks to ensure a consistent performance baseline for its customers by strengthening the emphasis on project launch controls. The aim is to achieve 100% compliance across all Valeo entities by mid-2021.

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

In 2021, the Group will implement a new Operations organization, seeking Business Group performance and competitiveness boosts through stronger capabilities in the Quality, Industrial, Supply Chain and Project functions.

1.5.6 Research and Development and Product Marketing

Mission

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

Organization

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

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

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

Partnerships with universities, laboratories and start-ups have intensified and become more international in scope, especially in Asia and the United States. Collaborative projects with leaders in other industries have been strengthened to share experience, best practices and research efforts in a spirit of collaborative innovation (see Chapter 4, section 4.1.4 "Sustainable development policies", paragraph "Research and development policy for safer, low-carbon mobility", pages 208 to 209).

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

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

The new competencies developed in cybersecurity and artificial Intelligence (more than 200 engineers held AI expertise in 2020) put Valeo among the leading automotive suppliers.

2020 highlights

In 2020, the Group's gross Research and Development expenditure totaled 1,660 million euros, representing 10.1% of sales. Innovation is central to Valeo's organization and its innovative products[1] – including ADAS, 48V systems, dual clutches and battery thermal management systems – represented 56% of orders received in 2020.

Valeo gives priority to protecting its innovations, and its policy has proved effective on several counts. Innovations are protected by patents: 1,174 initial patents were filed in 2020. The Group currently manages a portfolio of more than 34,710 titles.

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

1.5.7 Human Resources

Mission

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

Its multiple aims address primordial challenges (see Chapter 4, section 4.1.4 "Sustainable development policies", paragraph "Employee policy", pages 212 to 217):

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

Organization

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

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

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

This "three pillars" model is rolled out at each level of the organization: in the Group Human Resources Department, in each Business Group, in each country and in certain Product Families and Product Lines. A total of more than 1,300 people work in the Human Resources network, broken down between the various specialties:

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

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

2020 highlights

Against the backdrop of the global pandemic, the Human Resources Department was a key player in the organization with regard to satisfying the Group's two priorities of protecting all employees and ensuring business continuity.

Health protocol

The Group has put in place a health protocol based on measures that go beyond the recommendations issued by the medical administrations of various countries. It allowed for a smooth return to work after the lockdown and, today, enables all sites to operate as normal while ensuring maximum protection for all employees. The protocol, which is audited, is mandatory and applicable consistently at all Valeo sites worldwide, whether in plants, R&D centers or head offices (see section 4.3.3 "Valeo's non-financial risks", paragraph "health and safety risk", page 239).

Cost variabilization measures

In the short term, and at the height of the crisis, cost variabilization through the discontinuation of temporary contracts (fixed-term and temporary staff) and the introduction of short-time working measures at all sites. From a longer-term perspective, each country conducted negotiations in order to preserve the competitiveness of the Group's activities in the country as well as jobs. This led to specific agreements being signed in certain countries.

In France, Valeo signed a majority agreement on competitiveness and collective performance with the CFE-CGC and FO trade unions. The Group has made a firm commitment to keep all of its sites open and refrain from any compulsory redundancies in France over the next two years.

Risks and Risk Management

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

2.1 RISK FACTORS AFR

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

Methodology

Risks are mapped using a global, iterative approach involving several stages:

- risks are identified using various methods, including meetings with key stakeholders;
- the causes and consequences of the risks are analyzed;
- a risk hierarchy is then drawn up using the assessment method described below;
- action plans and controls are drawn up with the aim of improving risk management and limiting the impact and likelihood of occurrence of said risks as much as possible.

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

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

The relationship between risk management and internal control is described in section 2.3.3. "Components of the Group's internal control and risk management system", page 95.

Risk evaluation criteria

Risks are assessed according to two measures, each divided into four levels:

- net impact (limited/significant/critical/high), which looks at risks from a financial, operational, reputational, human and/or legal perspective;
- likelihood of occurrence (unlikely/fairly likely/likely/very likely).

This chapter describes the main risk factors to which the Group is exposed.

The list below indicates those risks that are considered to have a high level of criticality for the Group:

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

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

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

RISK CATEGORIES	RISK FACTORS
Operational and strategy risks	Risks related to changes in the technological environment
	Risks related to the development and launch of new products
	Risks related to attracting and retaining talent
	Risks related to the quality and safety of products and services sold
	Cybersecurity and IT systems failure risk
	Industrial risks related to growth
	Risks related to the automotive equipment industry
	Supplier failure risk
Legal risks	Intellectual property risks (patents and trademarks)
Financial risks	Commodity risk
	Foreign currency risk

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

(2) Government order No. 2017-1180 of July 19, 2017 on the disclosure of non-financial information by certain large corporations and groups of corporations.

2.1.1 Operational and strategy risks

Risks related to changes in the technological environment

RISK FACTOR	POTENTIAL IMPACT ON THE GROUP AND RISK MANAGEMENT

Valeo's sales and earnings growth depends on the ability of the Group to anticipate technological and/or regulatory changes and to adapt to major changes and shifts in the automotive market.
 	
The automotive industry is highly competitive and characterized by rapid technological change.
	Unexpected advances in a given technology on the market, or difficulties encountered in developing a new technology internally, could prevent Valeo from seizing opportunities relating to technological breakthroughs and as a result could impact the Group's competitive positioning, growth and profitability.
	
	Valeo is at the center of the automotive industry's three major revolutions: powertrain electrification, advanced driver assistance systems (ADAS), and smart mobility. To meet its various customers' requirements and maintain its technological leadership, Valeo constantly develops and adapts its range of products and systems. Its Research and Development policy is rooted in anticipation, integration, localization and collaboration and is focused on customer needs (see Chapter 4, section 4.1.4 "Research and Development policy for safer, low-carbon mobility", pages 208 to 209). It is built around the following priorities:
	• Valeo's technological development process, supported by:
	  ◦ an approach to innovation based on an analysis of social megatrends and the long-term expectations of vehicle users,
	  ◦ key technological thrusts incorporated into ten-year product roadmaps, which are updated twice a year;
	• an "open innovation" approach, centered on an ecosystem involving numerous collaborations with universities, laboratories, start-ups and other major companies working in manufacturing or the new economy. Several strategic acquisitions have been made over the past few years to support Valeo's value creation model based on innovation;
	• an approach built on standard processes, using monitoring, measurement and reporting tools such as the Technological Development Plan and the Mid-Term Plan, which enable the Group to constantly adjust its approach.
	
	The order intake over the last few years and the increasing proportion of innovative products therein demonstrate the success of Valeo's innovations (see the Integrated Report, section "In an evolving market environment, the 12 technological platforms will ensure Valeo's growth and resilience", page 30).

Risks related to the development and launch of new products

RISK FACTOR	POTENTIAL IMPACT ON THE GROUP AND RISK MANAGEMENT
Valeo is exposed to the risks inherent in developing and launching new products. The Group may face problems in connection with project management, from design through to industrialization and including management of changes to orders already made. As the Group conducts its business in an international environment, it is also exposed to risks resulting from changes in applicable laws or regulations affecting its products in all or some of its markets, or affecting export control regimes.	Failure to deliver in a timely manner innovative solutions, solutions that meet new regulatory requirements, or products expected by its clients, could harm Valeo's reputation and affect its financial position. The Group may incur administrative and/or criminal sanctions and its customers and/or suppliers may be unable to carry on their business either temporarily or definitively. Measures in place to mitigate the risk inherent in developing and launching new products are based on: • project teams to ensure that products are developed in compliance with deadlines and duly meet customer expectations. Each project has a specific team with a shared objective and schedule. Since 2019, the Group has strengthened project governance, especially with regard to preparing series production launches at the level of design centers as well as at plants; • an organization based on technological platforms allowing a high degree of product and production process standardization: systematic reuse of technological components in innovation processes and technology roadmaps. These platforms enable Research and Development expenditure to be adapted to the technological maturity of the market concerned; • training for members of the project teams so that they can develop the skills they need. Reviews are performed to ensure that this policy is duly applied; • ongoing operating and financial supervision, based on a structured approach that defines key issues in terms of product development and processes. Valeo has also implemented a structured approach to develop software and systems. All of these methodological principles are applicable at the Product Group level. Organizational and governance guidelines, business and best practices descriptions, and forms are available to the teams in their daily work. In order to anticipate regulatory changes and ensure that the products it develops and manufactures are compliant, Valeo has implemented the following measures: • the Research and Development teams have been strengthened with the appointment of a Regulatory Officer for each Product Group, responsible for identifying and properly understanding the regulations applicable to its products in each of the countries where it operates. Each regulation is translated into a standard for the Group's products; • in the 2019-2020 period a Product Development Integrity Charter was rolled out in the form of online training to General Management and to Research and Development, Project, Purchasing, Quality, Industrial, and Sales and Business Development networks, representing some 25,000 people. The charter is based on five core pillars: regulation, transparency, compliance, quality assurance and management reporting; • a special training program for all employees of the Research and Development and Production Quality laboratories, in order to guarantee the independence of its laboratories. Valeo's export control policy consists of a specific compliance program based on strict rules and procedures applicable to Purchasing and Research & Development teams. The Group constantly looks to anticipate changes in technology and in the regulatory landscape. However, it cannot be sure to anticipate all such changes. For more on Valeo's Research and Development policy, see Chapter 4, section 4.5.2 "Technological commitments", pages 259 to 261.

Risks related to attracting and retaining talent

RISK FACTOR	POTENTIAL IMPACT ON THE GROUP AND RISK MANAGEMENT
The Group operates in a competitive environment and in a sector that is undergoing radical change. This requires an increase in human resources as well as a broader spectrum of critical skills to ensure that it can adapt to changes in the automotive industry. However, Valeo may face difficulties firstly, in attracting and retaining talent, and secondly, in adapting and taking on the necessary qualifications and skill sets to develop and manufacture its systems and products. The Group's huge investments in innovation mean that it needs to carry out targeted recruitment of Managers and Professionals. The scarcity of labor in certain employment areas makes it difficult to hire the employees needed to increase production.	Failure by the Group to attract and retain talent could impact the Group's product innovation, development, launch and production, and have a negative impact on its business, financial results and reputation. For more information on the program, policies and actions implemented by the Human Resources Department and the related results, see Chapter 4, section 4.3.3 "Valeo's non-financial risks", paragraphs "Risk related to attracting talent" and "Risk related to developing and retaining talent", pages 241 to 247. Attracting the highest performers is a key challenge for the Group amid a competitive environment undergoing a profound transformation. To meet its growth and development objectives, a recruitment organization system is in place in the form of Talent Acquisition Centers (TAC). They bring together all teams dedicated to scouting and attracting talent in a given country or region. The Group regularly reports on career opportunities and job vacancies through a variety of channels, particularly social networks and partnerships with higher education institutions including universities, engineering schools and business schools. A co-optation program has been put in place for employees. Ensuring that high-performing employees remain with the Group is also a key priority for Valeo. Wishing to facilitate quick and successful integration, the Group has also developed an onboarding program called "Valeo Discovery" for its Managers and Professionals. Valeo's internal mobility policy is based on annual interviews as well as on "country mobility forums", which were launched in 2019. The aim is to better identify all employees looking for mobility opportunities and be able to place them in vacant positions across the country concerned. In 2020, a Career Week was organized and an Internal Mobility Charter was drawn up to enable employees to accelerate their career paths. An e-learning platform was also rolled out within the Group to develop employees' skills. During the year, a worldwide mentoring program called "Grow Together", which brings together nearly 500 Group managers and leaders (of whom 51% are women), was rolled out to promote manager development. An ambitious compensation, career development and training policy is also a critical way of recognizing, developing and leveraging talent. Valeo seeks to encourage diversity when recruiting talent, and aims to promote more women to management positions. The Management Committee has set itself the shared objective of increasing the proportion of women on the management committees of the operational entities from 19.5% to 32% by 2030. Valeo has rolled out action plans in each country addressing local recruitment and employee loyalty issues, particularly in areas of full employment. The Group strives to recruit its blue-collar workers from the communities surrounding its plants. Wherever possible, it hires under permanent rather than temporary contracts while maintaining a certain degree of flexibility. It is also reviews its teams' work schedules and ensures that new recruits are well integrated. The Group's compensation, training and career development policy is key to retaining blue-collar staff.

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

RISK FACTOR	POTENTIAL IMPACT ON THE GROUP AND RISK MANAGEMENT
Regulations seeking to protect car users and/or defend the public interest, particularly in terms of the environment, are increasingly strict and checks that such regulations have been complied with are ever more frequent and thorough. The contractual commitments imposed by Group customers, which are also highly demanding, reflect the excellence they expect from their suppliers in terms of operational performance. If products sold by the Group were to prove defective, non-compliant or incompatible with applicable regulations, Valeo could be exposed to the following risks: • risk of liability warranty claims by its customers; • major recalls; • risk of individual or group liability claims in the event that such products are alleged to have caused damage to users and/or third parties; • risk of liability claims by its customers for breach of contractual commitments.	The Group's businesses, earnings and financial position as well as its image and reputation could be significantly affected. During the product design and development phase, the Research and Development and Quality Departments are in charge of managing these risks. These departments ensure that the product has a robust design and complies with customer specifications, standards and regulations. During volume production, the Purchasing, Industrial and Quality functions (see Chapter 1, section 1.5.5 "Operations", pages 77 to 79), driven by the same total quality approach, look to ensure that components and materials purchased are appropriate and meet the requisite quality standards, and also make sure that production processes are stable. The measures described below illustrate this approach within the Quality network: • lessons learned from past incidents are used to revise definitions of the standards and processes concerned; • accelerated tests are carried out on products in abnormal conditions of use in order to identify any product weaknesses that could appear in the first three months on the road; • a system for collecting and analyzing returns at car dealer networks enables Valeo to identify weak warranty signals before the parts are physically returned or a customer alert is received; • an annual reassessment process for purchased components has been implemented with Valeo's suppliers to guarantee that all purchased parts match initial samples. Any discrepancies are monitored using a specific indicator; • safety- and regulatory compliance-related discrepancies relating to special product and process characteristics (SPPC) are monitored using an indicator that is updated weekly. The Group has taken out specific insurance policies to cover the risk that products may be recalled and protect itself against civil liability claims. However, it is uncertain whether these policies would be adequate to cover the full financial consequences of any such claims. In any case, criminal liability risk cannot be insured and certain coverage exclusions can be applied. The Group's insurance policy is presented in section 2.2 "Insurance and risk coverage" of this chapter, page 93. Provisions for customer warranties are set aside to cover the estimated cost of returns of goods sold. These amounted to 410 million euros at December 31, 2020 (see Chapter 5, section 5.4.6, Note 7 "Other provisions and contingent liabilities" to the consolidated financial statements, pages 357 to 359).

Cybersecurity and IT systems failure risk

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

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

Industrial risks related to growth

RISK FACTOR	POTENTIAL IMPACT ON THE GROUP AND RISK MANAGEMENT
For several years, the Group's growth has come from a high level of order intake as a result of its successful innovations. This situation makes industrial risk management crucial.	Failure to anticipate growth trends, manufacturing performance adversely affected by the launch of new products, the inability of suppliers to provide sufficient capacity, and unexpected surges in customer demand could have operational, reputational and financial consequences for the Group. The Group's industrial strategy is rolled out in a growth environment shaped by numerous product launches, and is aimed at preserving that environment. This strategy involves: • managing capacity, in terms of plants, investments and human resources, as part of the yearly preparation and review of the medium-term business plan; • setting up multidisciplinary sites in order to generate synergies between sites and businesses, with "daughter plants" undergoing development or change assisted by more mature, "mother plants"; • benchmarking of processes, using industrial indicators such as cycle time and costs generated by quality issues; • defining, standardizing and digitizing procedures and applying the tools and methodologies of Valeo's production and logistics system; • selecting, training and supervising blue-collar workers, supervisors and managers; • setting up a crisis management unit where necessary. The Group's Industrial function is described in Chapter 1, section 1.5.5 "Operations", page 78.

Risks related to the automotive equipment industry

RISK FACTOR	POTENTIAL IMPACT ON THE GROUP AND RISK MANAGEMENT
The Group's sales are directly dependent on the level of automotive production, which itself depends on registrations and automaker sales and production policies. In turn, these are influenced by a number of contextual factors linked to the geopolitical, macroeconomic and health situation. It should also be pointed out that supply contracts with automakers take the form of open orders, with no minimum volume guarantee.	A deterioration in the automotive market or a change in regulations, customs, taxes or other barriers or restrictions to doing business in the regions in which the Group and its customers are present, particularly Europe, Asia or North America, could lead to a decline in the Group's earnings and/or to the default of some of its customers or suppliers, and could thereby affect Valeo's financial position. In the event of a deterioration in the automotive market or the relocation of automotive production, Valeo has the necessary expertise and resources to implement large-scale action plans in order to variabilize costs and safeguard the Group's cash position. The Group maintains a tight rein on costs, particularly by ensuring good workforce flexibility. Moreover, the Group has operations in 33 countries and its sales are made in some 60 countries. The diversity of the Group's sales in terms of region, customer, brand and platform makes it less vulnerable to negative trends in one of its markets. In line with its development strategy, Valeo also seeks to ensure that its original equipment sales are well balanced. In 2020, the Group's two largest customers accounted for 29% of its original equipment sales, its five largest customers, 53%, and its ten largest customers, 81%. Valeo makes 11% of its sales on the spare parts market, which is less sensitive to fluctuations in the economy. The balanced geographic alignment of Valeo's businesses and its diversified customer portfolio are described in Chapter 5, section 5.1.1 "Business review", pages 300 to 302. Valeo has been impacted by the Covid-19 health crisis, which has led to a deterioration in the automotive market in the regions where Valeo and its customers are present. During the first half of 2020, this led in particular to business disruptions. Amid the pandemic, the Group put in place a rigorous and effective health protocol, and took an exemplary approach to managing the risks and impacts related to the health crisis. As a result, business rapidly picked up and operations at the Group's 154 manufacturing plants resumed in good conditions, and the Group ensured maximum protection for all of its employees. The protocol has been audited, is mandatory and applies systematically and consistently at all Valeo sites worldwide, whether in plants, R&D centers or head offices. Furthermore, the Group's liquidity position improved in the first half of 2020, with 2.3 billion euros available in undrawn credit lines and 2.1 billion euros in net cash and cash equivalents at June 30, 2020. In the first half of 2020, efforts were made to variabilize costs, another aspect of managing risks related to the pandemic, allowing the Group to quickly adapt to the crisis. In the second half, the Group focused in particular on the resumption of activity, and financial management, with very high-quality results.

Supplier failure risk

RISK FACTOR	POTENTIAL IMPACT ON THE GROUP AND RISK MANAGEMENT
In purchasing primarily specific products, Valeo is exposed to the risk that one of its suppliers fails to deliver on schedule the quantities required and that the products supplied fail to meet the requisite quality standards.	Failure of one or more of the Group's major suppliers in this respect could cause interruptions to suppliers and prevent the Group from delivering to its customers, or cause returns of products under warranty or product recalls. This would also generate additional costs (exceptional transportation costs, deterioration in the supplier's production facilities or financial difficulties of the supplier). The Group's earnings and financial position could be affected. Supplier failure could result: • either from Valeo growing on innovative markets, thereby leading it to increase its share of business among an optimal number of suppliers; • or from a structural change in automotive markets and the disappearance of certain products, which could immediately impact a supplier's financial staying power if that supplier were unable to reposition itself on other markets; • or from an economic crisis, such as the 2020 health crisis, if it were to last longer than the supplier's cash resources. At the date of publication of this Universal Registration Document, the support measures put in place at a local level up until the end of 2020 have limited the number of failures. The Group ensures secure relations with its suppliers through: • a solid risk identification and monitoring process for each new contract and new business awarded, as well as for new suppliers with a long history with recently consolidated entities; • continuous monitoring of the supplier base in accordance with supplier risk assessment procedures based on criteria including financial and management criteria, dependence on Valeo, integration and quality, as set out in IATF standard 16949[(1)]; • a watch list of high-risk suppliers, who are monitored monthly by the Group Purchasing Committee. Emergency stockpiles are built up where necessary and/or additional production facilities are launched (see Chapter 4, section 4.3.3 "Valeo's non-financial risks", paragraph "Risk related to suppliers' sustainable development practices", pages 249 to 253); • a product civil liability insurance program for its suppliers. Each supplier can subscribe and thereby meet the Group's coverage standards in terms of product defect risks. As a result, they are covered against any harm they may cause Valeo as a result of the products they supply; • diversified supply streams in order to mitigate supplier failure risk as much as possible while maintaining acceptable economic conditions. Since the supply capacity of certain businesses is limited, particularly electronic components, Valeo may be exposed to inadequate capacity leading to production allocation issues. To address this, production purchases are made with a broad range of suppliers, with several suppliers for each business and in each region where necessary and where possible. Ninety-five percent of Valeo's needs are handled by 1,137 suppliers. The Group's biggest supplier accounts for 4% of its purchases, its five biggest suppliers, 10% and its ten biggest suppliers, 16%. Following the recent capacity crisis for certain electronic components, a detailed action plan has been put in place involving the Purchasing Department, Research and Development Department, and the Industrial Department. Under this plan, the Group's projected requirements are to be communicated to its supplier database and the purchasing strategy is to systematically factor in purchases of components in product designs. Valeo is highly involved with its suppliers, in particular to continually improve the quality of the products it delivers to automakers. This does not mean, however, that there are ownership links between Valeo and its suppliers.

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

2.1.2 Legal risks

Intellectual property risks (patents and trademarks)

RISK FACTOR	POTENTIAL IMPACT ON THE GROUP AND RISK MANAGEMENT
The Group is subject to the major risk of infringement of its patents and trademarks. It may: • result from actions by third parties against Valeo's patented products or manufacturing processes; • be committed involuntarily by Valeo as a result of the time it takes for patents filed by third parties to be published. Claims might also be filed against Valeo by non-practicing entities (NPEs). In addition, the emergence of connectivity and software into the automotive industry is increasing the number of patent holders, particularly holders of standard-essential patents, to be monitored. On account of their growing visibility, Valeo's brands are also exposed to infringement risk, particularly in Asia and the Middle East.	Infringement by third parties has an immediate adverse financial impact. It can also harm Valeo's reputation if the quality of the counterfeit products is lower than that of Valeo's products. In the event of voluntary infringement by Valeo, products under development or even recently brought to market could also be impacted. Valeo may have to increase the Research and Development expenditure for the project, or negotiate a license for the patented item. Valeo's industrial expertise and the innovations generated by the Group's research are covered by patents to protect its intellectual property. Valeo is therefore a significant patent filer, with 1,174 inventions patented in 2020. These patents, covering the major automotive markets, provide the Group with an effective weapon against infringement. Several years ago, the Group implemented measures to identify the different cases of infringement of its patents and trademarks by third parties: • in terms of trademarks, online marketplace surveillance and customs surveillance have both been set up in various countries including China, so that the Group can be alerted to questionable imported and/or exported products; • in terms of patents, the Group systematically monitors potential infringements in its four Business Groups and in Valeo Service. This involves keeping a close watch on product launches at trade shows across the globe and particularly in Europe, the United States and China. Valeo vigorously defends its rights against any such infringements and, based on the results of its monitoring procedures, takes court or administrative action to put an end to the practice and sanction the infringement of its intellectual property rights. Regarding activities related to autonomous vehicles and connectivity, particularly in terms of software, Valeo is building up its teams of intellectual property engineers in order to bolster protection and oversight in these fields. The risk of involuntary infringement by Valeo is managed by the Research and Development Department's Intellectual Property unit. There is an Intellectual Property unit in each Business Group, as well as in the regions where research and development activities are most significant. Its aim is to put into practice the principle set out in the Group's ethical rules and to only offer customers products that are freely marketable to the best of Valeo's knowledge as drawn from regular reviews of competitors' patents while new products are being developed. Provisions for employee-related and other disputes notably cover intellectual property disputes (see Chapter 5, section 5.4.6, Note 7.1 to the consolidated financial statements, "Other provisions", pages 357 to 358).

CLAIMS, LITIGATION, AND GOVERNMENTAL, LEGAL AND ARBITRATION PROCEEDINGS

Proceedings arising within the ordinary course of business

In the ordinary course of the Group's operations, certain entities may be involved in legal proceedings. Lawsuits have been brought by certain current or former employees for asbestos-related damages or on the grounds of previous asbestos exposure. Almost exclusively in France, employees exposed to asbestos in the Group's plants could have developed an illness as a result of this exposure. If such illnesses were considered as occupational illnesses by health insurance funds, the employees concerned could bring a claim against Valeo (as their employer) for inexcusable misconduct *(faute inexcusable)*. If the claim of inexcusable misconduct and the occupational nature of the illness are confirmed, Valeo will be required to pay compensation to claimants and any beneficiaries as well as the increase in the annuity awarded by the primary health insurance fund *(Caisse Primaire d'Assurance Maladie)*.

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

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

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

Provisions for employee-related and other disputes notably cover risks relating to former employees, particularly in connection with asbestos. A provision is also set aside for tax disputes.

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

Antitrust investigations and resulting proceedings

At the end of July 2011, antitrust investigations were initiated against numerous automotive suppliers (including Valeo) by the US and European antitrust authorities in the area of components and systems supplied to the automotive industry (see Chapter 5, section 5.4.6, Note 7.2 "Antitrust investigations" to the consolidated financial statements, page 358).

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

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

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

Valeo is in contact with a number of European automakers regarding claims for damages resulting from the European Commission's proceedings. One of those, BMW on November 25, 2019, filed a complaint with the Munich Regional Court in Germany, naming Denso and Valeo and seeking compensation for alleged damages based, in Valeo's view, on unfounded claims related to conduct identified in the European Commission's March 2017 Thermal Systems decision. The first hearing before the Munich Regional Court is scheduled for July 14, 2021.

There were no developments in the ongoing class actions in Canada. The Group is not aware of any findings or conclusions that could have adverse consequences for Valeo.

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

2.1.3 Financial risks

Valeo's Financing and Treasury Department (part of the Finance Department) proposes and implements rules on managing financial risks. These risks are generally managed centrally by the parent company. Financing, investment, risk identification and hedging strategies are reviewed each month by the Group's Finance Department.

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

Commodity risk

RISK FACTOR	POTENTIAL IMPACT ON THE GROUP AND RISK MANAGEMENT
The Group uses a variety of raw materials for its industrial operations, including non-ferrous metals, steel, plastics and rare-earth metals. Commodity prices can fluctuate owing to the structural capacity of supply and/or international geopolitical relations.	As the Group may not always be able to pass on the full extent of a rise in raw material prices to its customers, this may have an adverse effect on its earnings. See Chapter 5, section 5.4.6, Note 8.1.4.2 "Fair value of commodity (non-ferrous metals) derivatives" to the consolidated financial statements, pages 371 to 372.

Foreign currency risk

RISK FACTOR	POTENTIAL IMPACT ON THE GROUP AND RISK MANAGEMENT
As the Group conducts its business in an international environment, Group entities conducting cross-border operations may be exposed to operational currency risk, resulting from purchases or sales of products or services in currencies other than their functional currency. The financing needs, met by intra-Group borrowings, of foreign subsidiaries outside the eurozone expose some entities of the Group to financial currency risk. This risk corresponds to the risk of changes in the value of financial receivables or payables denominated in currencies other than the functional currency of the borrowing or lending entity.	The Group's earnings may be adversely impacted in the event of significant fluctuations in certain currencies. See Chapter 5, section 5.4.6, Note 8.1.4.1 "Fair value of foreign currency derivatives" to the consolidated financial statements, pages 369 to 371.

2.2 INSURANCE AND RISK COVERAGE

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

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

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

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

The risks covered include:

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

Property damage and business interruption events are sufficiently covered to meet the estimates drawn up by the Group's insurers during their annual prevention/protection audits with regard to the maximum possible number of claims that they could receive. Valeo endeavors to optimize the part of its insurance coverage which is subject to sublimits by current practice and restrictions common to the insurance and reinsurance markets. In particular, special attention is given to coverage of natural events.

In 2020, the general liability insurance policy provided coverage in line with the continental insurance market's highest standards. With regard to the recall policy, Valeo pays 8 million euros per claim per year through its reinsurance subsidiary, above and beyond the applicable deductibles.

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

The Group also took out an insurance policy allowing each production supplier to contract insurance with appropriate coverage and amounts so as to protect themselves against any damage they could cause Valeo as a result of the products they supply. This policy now covers a significant panel of suppliers.

2.3 INTERNAL CONTROL AND RISK MANAGEMENT

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

The Group's risk management system can be illustrated in accordance with the IIA's (Institute of Internal Auditors) Three Lines model. It outlines the responsibilities of the Group's different governance bodies and defines the roles and relationships between the different functions.

Board of Directors

The Board of Directors defines the composition and the responsibilities of the Audit & Risks Committee, and its modus operandi.

Audit & Risks Committee

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

General Management

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

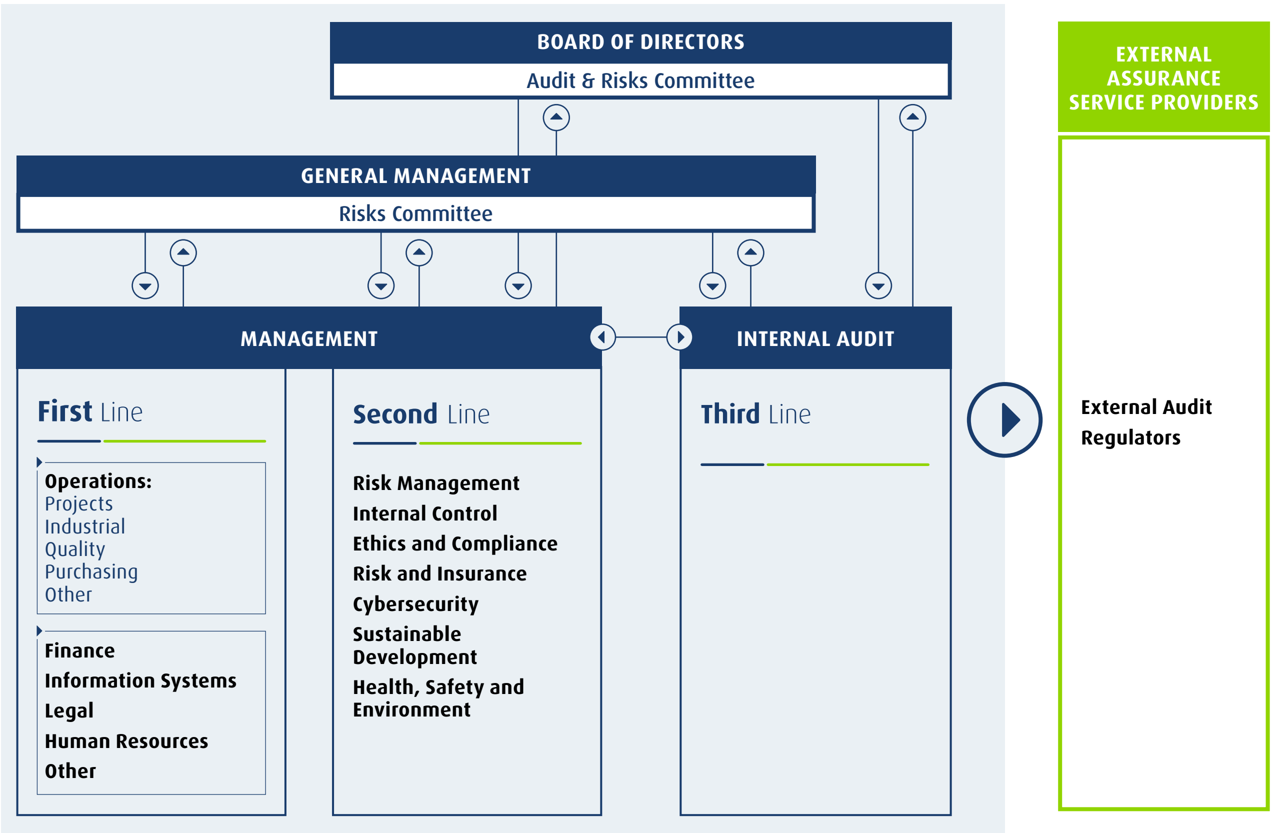
Risks Committee

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

External Assurance Service Providers

External auditors report on any material internal control weaknesses with regard to the procedures for preparing and processing accounting and financial information. This is part of their annual statutory audit and consolidated/parent company financial statement certification engagement.

The regulators also play a part in reinforcing existing risk management procedures.



Management

Management is responsible for achieving the Group's objectives.

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

The First-Line and Second-Line functions and the Internal Audit Department work in close cooperation, maintaining an ongoing dialog with each other.

First Line

The First-Line operational and support functions are directly linked to the supply of products and services to customers, and they coordinate and implement the actions necessary to achieve the Group's objectives, including risk management.

For example:

- The **Quality Department** implements the "zero defects delivery" quality policy and tools needed to meet targets and ensure that the sites meet the latest quality assurance standards for the sector;
- the **Finance Department** provides the tools and designs the procedures needed to monitor and control the Group's businesses and to ensure the Group's financial risks are duly managed;
- the **Legal Department** ensures that transactions are conducted in full compliance with legislation and the Group's procedures.

Second Line

The Second-Line functions are responsible for coordinating the overall risk management framework, providing additional expertise and assisting the First-Line stakeholders. These functions may be given specific objectives:

- the **Risk Management** function, whose role is to keep the risk maps up to date and to oversee the active management of risks;
- the **Internal Control Department**, whose role is to ensure the internal control system is consistent and deployed at all of the Group's sites;
- the **Ethics and Compliance Office**, whose role is to put in place, manage and coordinate the Compliance Program;
- the **Risk and Insurance Department**, whose role is to contribute to the management policy for insurable risks and oversee its application, and take out global insurance covering the risks relating to Valeo's businesses;
- the **Health, Safety and Environment Department**, whose role is to apply the Group's risk management policy in terms of environment, safety and security and certification (ISO 14001, OHSAS 18001 and ISO 50001) across all sites.

Third Line

Internal Audit provides assurance, independent advice and objectives concerning the appropriateness and effectiveness of the governance structure and risk management system in place within the Group. It carries out financial, IT and cross-functional audits of all Group entities to ensure that procedures are duly applied.

2.3.1 Internal control and risk management – Definitions and applicable standards

Definition

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

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

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

Applicable standards

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

2.3.2 Scope of internal control and risk management

Valeo's internal control and risk management procedures are applied to the entire Valeo Group, defined as the parent company Valeo and all of its fully consolidated subsidiaries (see Chapter 5, section 5.4.6, Note 2 "Scope of consolidation" to the consolidated financial statements, pages 321 to 323).

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

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

Control environment

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

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

Valeo's self-imposed policies and behavioral principles are set out in its Code of Ethics, which aims to ensure that Valeo operates in accordance with national and international rules of ethics and law. The code places major emphasis on upholding fundamental rights with respect to the prohibition of child labor, the fight against discrimination and harassment, occupational health and safety, diversity, and promoting the employment of disabled workers (see Chapter 4, section 4.5.4 "Employee-related commitments", pages 274 to 281). It also highlights the Group's commitment to sustainable development, based on respect for the environment and the relentless drive for environmental protection, both of which are a priority for the Group. Lastly, the Code of Ethics deals with social issues and integrity in business conduct, the fight against corruption and anti-competitive practices. These values are also broken down in the Valeo Business Partners Code of Conduct, which explains the Group's expectations of its business partners in terms of integrity and ethics. Available on the intranet and translated into 26 languages, the Code has been sent out to all of the Group's employees. It is also available on Valeo's website (www.valeo.com).

Capitalizing on its Code of Ethics and its culture of integrity, the Group has implemented a compliance initiative since 2012 under the aegis of the Ethics and Compliance Office, which created four in-depth programs tailored to the regulatory requirements of each country in which Valeo does business. The programs are dedicated to the fight against corruption and anti-competitive practices, compliance with regulations on export control and economic sanctions, and data protection. The anti-corruption program (described in Chapter 4, section 4.1.4 "Sustainable development policies", paragraph "Compliance Programs", pages 216 to 217) is based on annual and mandatory training campaigns for all Group Managers and Professionals. In 2017, the entire program was reviewed in order to bring it up to date with the provisions of France's Sapin II law[(1)]. In particular, the Group drew up a specific corruption risk map, carried out specific audits, and now continues to roll out action plans aimed at reducing these risks. The section of the Code of Conduct concerning the prevention of insider trading and the notification procedure for those affected has been in place since the entry into force of EU Regulation No. 596/2014 on market abuse (see Chapter 3, section 3.2.2 "Preparation and organization of the Board of Directors' work", pages 133 to 145).

A data protection compliance program has also been set up in accordance with global regulations, in particular the General Data Protection Regulation (see Chapter 4, section 4.1.4 "Sustainable development policies", paragraph "Compliance Programs", pages 216 to 217).

Risk management assessment and procedures

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

Risk management procedures are coordinated by a Risks Committee made up of ten permanent members: the Associate Chief Executive Officer; the Chief Financial Officer; the Group Risk and Insurance Director; the Group Accounting Director; the Group Internal Audit and Control Director; the Vice-President, Technical, Corporate Strategy and External Relations; the Chief Ethics and Compliance Officer; the Senior Vice-President, Human Resources; the General Counsel; the Corporate Secretary; and the Director of Communications. The committee met six times in 2020 and is mainly tasked with reviewing the risk-mapping process and heading up the dynamic risk management system. This involves identifying for each major risk in the mapping process a "risk owner" who reports to a member of the Risks Committee, whose role is to monitor changes in the risk based on key indicators reviewed by the Risks Committee. Based on how the risk evolves and the related control system, each risk owner presents an analysis of the level of risk giving rise to the implementation of action plans when necessary.

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

Risk mapping gives rise to an annual update approved by the Risks Committee, based on a detailed analysis of the major risks and monitoring carried out by the risk owners. The findings of the latest update were presented to the Audit & Risks Committee at its meeting on November 26, 2020. A 2021 audit plan was drawn up on the basis of these findings, with a focus on the most acute risk areas.

The main risks identified and the procedures for managing these risks are presented in section 2.1 of this chapter "Risk factors", pages 82 to 92. They are:

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

Control activities

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

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

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

Every year, letters of representation regarding compliance with the Group's internal control and management guidelines are drawn up at the different levels of the operational organization. At the end of 2020, the National Directors and National Financial Directors, the Financial Directors of the Shared Services Centers (SSC), as well as the Financial Directors and Controllers of the operational entities all signed these letters of representation.

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

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

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

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

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

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

Steering the internal control system

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

The internal control system is audited by the Internal Audit and Control Department. This department is tasked with carrying out assignments within the Group to ensure that the procedures are implemented, the performance indicators are calculated in accordance with the rules of the business lines and the processes are effective. The tasks set out in the annual audit plan are set down based on the risk map. For 2019, the Internal Audit Department performed financial and IT audits at the operational entities and finance and accounting shared services centers as well as cross-functional audits of (i) processes and tools aimed at identifying and preventing quality problems, (ii) process and tools that anticipate and manage changes in production volumes in the short and medium term, and (iii) processes ensuring that the Group's development processes take due account of cybersecurity risks.

In 2020, the Internal Audit Department's Anti-Fraud Unit also performed more than 100 specific investigations following allegations of fraud received by email or letter (most of them anonymously) or via the whistleblower hotline put in place in February 2014. These allegations were handled by a dedicated audit team under the responsibility of the Group's Fraud Investigation Officer. The Alerts Committee, made up of the Chief Financial Officer, the General Counsel, the Senior Vice-President, Human Resources, the Chief Ethics and Compliance Officer and the Group Internal Audit and Control Director, was informed of the detailed findings of the investigations carried out by the Internal Audit Department, which decides on the actions to take and sanctions to apply in the case of actual fraud. An alerts report is also presented at least twice a year to the Audit & Risks Committee.

Recommendations for critical issues identified during the various assignments carried out by Internal Audit are put forward to the audited entities and Shared Services Centers (SSC), which are subsequently required to implement appropriate action plans. Internal Audit's work and findings, as well as the progress made with the action plans in the audited entities, are presented to the Audit & Risks Committee every year in accordance with the Committee's internal procedures. The application of Valeo's quality, industry, project management and safety standards is regularly checked via VAQ (Valeo Audit Quality) audits, and the environmental and safety aspects are overseen by the Health, Safety and Environment Department. Valeo has thus launched a certification program for its manufacturing plants in accordance with the ISO 14001 standard (relating to environmental management) and the OHSAS 18001 standard (concerning occupational health and safety).

At December 31, 2020, 151 plants had been certified ISO 14001 and 139 plants had been certified OHSAS 18001, out of a total of 151 eligible plants. The percentage of ISO 14001 and OHSAS 18001 certified plants is therefore 100% and 92%, respectively. In 2013, Valeo launched a certification program for its manufacturing plants in accordance with ISO 50001 (relating to energy management systems). At December 31, 2020, 30 plants (20%) had been certified ISO 50001 out of a total of 151 eligible plants (see Chapter 4, section 4.5.3 "Environmental commitments", paragraph "ISO 14001, ISO 50001 and OHSAS 18001 certification audits", page 263).

2.3.4 Organization of internal control and description of the assessment process

The Internal Control Department reports directly to the Internal Audit and Control Department. At the end of December 2020, it was made up of a team of 15 people, exclusively dedicated to internal control at Group and regional level. In 2020, the main role of the regional controllers was to assist the Group Internal Control Director in overseeing the internal control self-assessment campaign and ensuring best practices are applied uniformly across the regions with the support of the Business Groups and National Directorates.

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

In 2020, the self-assessment questionnaire was rolled out, focusing on the following seven processes: accounts closing; sales, receivables management and payments received; production purchases, payables management and payments made; monitoring of fixed assets; monitoring of inventories; payroll and human resources; and cash flow. The self-assessment campaign involved 315 operational entities including 15 finance Shared Services Centers (SSC).

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

A report of the initiative implemented in 2020 was presented to the Audit & Risks Committee on November 26, 2020. The results make it plain that internal control standards and the assessment procedure have been significantly improved, owing mainly to the department's greater visibility and efficiency, thanks to the establishment of clear objectives, the increased use of information systems and regular additions to department staffing.

The areas for improvement for the Group's internal control and risk management procedures are presented in section 2.3.7 "Outlook" of this chapter, page 100.

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

2.3.5 Information and communication

Pertinent information must be identified and communicated in a form and timeframe that enable all of the Group's staff to carry out their responsibilities and perform the checks required of them. The information originating from the management system is analyzed and circulated once a month to all operational personnel.

A monthly summary is then presented to the Group's Operations Committee, comprising the Chairman and Chief Executive Officer, the Associate Chief Executive Officer and 12 other functional or operational directors.

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

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

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

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

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

2.3.7 Outlook

Valeo will pursue ongoing efforts to improve its identification and analysis of risks, and its internal control system. The purpose of these efforts, in place for several years now, is to constantly adapt human resources, management and control tools and information systems in line with changes in the Group's structure and objectives. In 2021, the Group will continue to develop its internal control policy by:

- continuing to roll out IT internal control guidelines;
- adapting its internal control guidelines to meet emerging operating imperatives with a particular emphasis on R&D and projects;
- using data analysis software to enable constant monitoring of its operational entities;
- completing a project to digitalize and automate the accounts closing process.

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

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

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

(1) See financial glossary, page 48.

3 Corporate Governance AFR

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

3.1 CORPORATE GOVERNANCE BODIES

The Group's Executive Management team includes the Chairman and Chief Executive Officer, the Associate Chief Executive Officer, as well as the Functional Directors and the Operational Directors, who are members of the Operations Committee. The Group also has an Executive Committee that works alongside the Chairman and Chief Executive Officer, the Associate Chief Executive Officer and the Operations Committee.

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

JACQUES ASCHENBROICH

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

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

(1) Jacques Aschenbroich's term of office as a director was renewed for a term of four years at the Shareholders' Meeting of May 23, 2019. He was then reappointed as Chairman and Chief Executive Officer at the Board meeting held on the same date. As specified in a press release published on October 27, 2020, the roles of Chairman of the Board of Directors and Chief Executive Officer will be separated from January 2022. Jacques Aschenbroich will continue to act as Chairman of the Board of Directors until the end of his current term of office as a director, i.e., until May 2023, and Christophe Périllat, currently Associate Chief Executive Officer, will succeed Jacques Aschenbroich in his role as Chief Executive Officer from January 2022. In this context, Christophe Périllat was appointed as Associate Chief Executive Officer (Directeur Général Adjoint) of Valeo as of October 27, 2020 and until the Annual Shareholders' Meeting to be held in May 2021, following which the Board of Directors will appoint him as Deputy Chief Executive Officer (Directeur Général Délégué) of Valeo. The Board of Directors will also propose the appointment of Christophe Périllat as a director of Valeo at the Shareholders' Meeting to be held in May 2021.

COMPOSITION OF THE EXECUTIVE COMMITTEE AND OPERATIONS COMMITTEE AT DECEMBER 31, 2020

Executive Committee members are indicated by an asterisk.

Jacques Aschenbroich*
Chairman and Chief Executive Officer

Christophe Périllat*
Associate Chief Executive Officer[1]

Geoffrey Bouquot
Vice-President, Corporate Strategy and External Relations and Senior Vice-President, Research & Development and Product Marketing[2]

Fabienne de Brébisson*
Senior Vice-President, Communications

Robert Charvier*
Chief Financial Officer

Catherine Delhaye*
Chief Ethics and Compliance Officer

Éric Antoine Fredette*
General Counsel and General Secretary

Bruno Guillemet*
Senior Vice-President, Human Resources

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

Xavier Dupont
President, Powertrain Systems Business Group

Maurizio Martinelli
President, Visibility Systems Business Group

Francisco Moreno
President, Thermal Systems Business Group

Éric Schuler
President, Valeo Service

Marc Vrecko
President, Comfort & Driving Assistance Systems Business Group

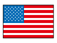
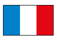
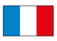
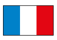
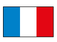
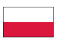
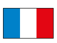
(1) Associate Chief Executive Officer since October 27, 2020.
(2) Member of the Operations Committee and Secretary of the Executive Committee.

3.2 COMPOSITION OF THE BOARD OF DIRECTORS, AND PREPARATION AND ORGANIZATION OF ITS WORK

3.2.1 Composition of the Board of Directors

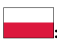
Composition of the Board of Directors at December 31, 2020 and changes during 2020

The composition of the Board of Directors at December 31, 2020 is shown in the table below.

	Personal information				Experience	Position on the Board of Directors				
	Age	Gender	Nationality	Number of shares	Number of directorships held in listed companies[(1)]	Independence	First appointed	Expiration of term of office	Years' service on the Board	Membership of Board committees[(2)]
Jacques Aschenbroich Chairman and Chief Executive Officer	66	M		838,833	2	-	03/20/2009	2023 Shareholders' Meeting	12 years	-
Bruno Bézard	57	M		3,000	0	✔	10/24/2017	2022 Shareholders' Meeting	4 years	ARC
Bpifrance Participations Represented by Stéphanie Frachet	43	F		12,600,000[(3)]	2	✔	06/21/2019	2022 Shareholders' Meeting	2 years	ARC/GACSRC/CC
Éric Chauvirey Director representing employees	46	M		N/A[(4)]	0	N/A[(5)]	06/30/2017	06/30/2021	4 years	CC/SC
C. Maury Devine	69	F		3,500	2	✔	04/23/2015	2021 Shareholders' Meeting	6 years	GACSRC/CC
Fonds Stratégique de Participations Represented by Julie Avrane-Chopard	49	F		9,471,305[(6)]	1	✔	03/24/2020	2024 Shareholders' Meeting	1 year	ARC
Mari-Noëlle Jégo-Laveissière	52	F		1,500	3	✔	05/26/2016	2021 Shareholders' Meeting	5 years	ARC
Gilles Michel Lead Director	64	M		1,500	2	✔	05/23/2018	2022 Shareholders' Meeting	3 years	GACSRC (Chair)/CC (Chair)
Thierry Moulonguet	69	M		3,000	0	✔	06/08/2011	2024 Shareholders' Meeting	10 years	ARC (Chairman)/SC
Olivier Piou	62	M		15,000	1	✔	05/23/2019	2023 Shareholders' Meeting	2 years	ARC/SC
Patrick Sayer	63	M		1,500	3	✔	05/23/2019	2023 Shareholders' Meeting	2 years	GACSRC/CC/SC (Chair)
Ulrike Steinhorst	69	F		1,500	2	✔	02/24/2011	2024 Shareholders' Meeting	10 years	GACSRC (in charge of CSR issues)/CC/SC
Grzegorz Szelag Director representing employees	43	M		N/A[(4)]	0	N/A[(5)]	11/19/2020	11/19/2024	<1 year	-
Véronique Weill	61	F		2,390	2	✔	05/26/2016	2021 Shareholders' Meeting	5 years	ARC/GACSRC/CC

N/A = Not applicable.
(1) Except for the directorship in the Company.
(2) ARC = Audit & Risks Committee; GACSRC = Governance, Appointments & Corporate Social Responsibility Committee; CC = Compensation Committee; SC = Strategy Committee.
(3) These shares are held by Bpifrance Participations.
(4) In accordance with the law, the articles of association and the Internal Procedures, the directors representing employees are not required to hold 1,500 shares.
(5) Directors representing employees do not count, in accordance with the recommendation in Article 9.3 of the AFEP-MEDEF Code.
(6) These shares are held by Fonds Stratégique de Participations.

Nationality

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

The changes in the composition of the Board of Directors and Board committees in 2020 are shown in the table below.

	Departures	Appointments	Reappointments
Board of Directors	Georges Pauget[(1)] (March 24, 2020)	Fonds Stratégique de Participations (represented by Julie Avrane-Chopard)[(2)] (March 24, 2020) Grzegorz Szelag[(3)] (November 19, 2020)	Thierry Moulonguet Ulrike Steinhorst Fonds Stratégique de Participations[(4)] (June 25, 2020)
Governance, Appointments & Corporate Social Responsibility Committee	N/A	Ulrike Steinhorst (in charge of CSR issues)[(5)] (October 27, 2020)	Ulrike Steinhorst
Compensation Committee	N/A	N/A	Ulrike Steinhorst
Audit & Risks Committee	N/A	Fonds Stratégique de Participations (represented by Julie Avrane-Chopard)[(2)] (March 24, 2020)	Thierry Moulonguet
Strategy Committee	Georges Pauget[(1)] (March 24, 2020)	Éric Chauvirey[(6)] (October 27, 2020) Patrick Sayer (Chairman)[(7)] (October 27, 2020)	Thierry Moulonguet Ulrike Steinhorst

N/A: Not applicable.

(1) Until his resignation as director of Valeo and member of the Strategy Committee on March 24, 2020.

(2) Decision of the Board of Directors on March 24, 2020, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee. The co-optation of Fonds Stratégique de Participations was submitted to the Shareholders' Meeting on June 25, 2020 for ratification.

(3) Following the amendment to the articles of association approved by the Shareholders' Meeting of June 25, 2020 to include arrangements for appointing a second director representing employees, Grzegorz Szelag was appointed director representing employees by the European Works Council at its meeting of November 19, 2020.

(4) At the Shareholders' Meeting on June 25, 2020. The reappointment of Thierry Moulonguet, Ulrike Steinhorst and Fonds Stratégique de Participations, represented by Julie Avrane-Chopard, provides the Board with the continued benefit of their respective expertise as described in their biographies.

(5) Decision of the Board of Directors on October 27, 2020, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee. Ulrike Steinhorst was already a member of the Governance, Appointments & Corporate Social Responsibility Committee before being appointed in charge of CSR issues for the committee.

(6) Decision of the Board of Directors on October 27, 2020, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee.

(7) Decision of the Board of Directors on October 27, 2020, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee. Patrick Sayer was already a member of the Strategy Committee before being appointed Chairman.

Summary of the main rules regarding the composition of the Board of Directors

According to the Company's articles of association, the Board of Directors comprises at least three and no more than 18 members (subject to any amendments in line with changes in the applicable law). Directors representing employees are not included in the minimum and maximum number of directors. At December 31, 2020, the Board of Directors had 14 members, including two directors representing employees in accordance with the applicable legal provisions.

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

By exception and in accordance with the applicable law, the directors representing employees are appointed in accordance with the arrangements provided for in the articles of association. A second director representing employees was appointed by the European Works Council on November 19, 2020 following the amendment to the articles of association approved by the Shareholders' Meeting of June 25, 2020 (sixteenth resolution) to include arrangements for appointing a second director representing employees as required by Article L.225-27-1 of the French Commercial Code.

The rules presented above as regards the term and renewal of office also apply to the directors representing employees (other than the rule regarding the reappointment of one quarter of the Board of Directors' members), insofar as their term of office will end at the expiration of that four-year term. If a seat as director representing employees becomes vacant for any reason, it shall be filled under the conditions provided for by law, i.e., in the same way as the outgoing director representing employees was appointed. Should the number of directors fall below or be equal to the legal threshold of eight, the term of office of the second director representing employees appointed by the European Works Council will be maintained until it expires. If the requirement to appoint a director representing employees no longer applies, the director or directors representing employees shall stand down at the close of the Board meeting at which the Board of Directors duly notes that Valeo is no longer subject to that requirement. The Shareholders' Meeting of June 25, 2020 approved an amendment to the Company's articles of association to provide that, in the event that the Company is no longer subject to the above requirement, the director or directors representing employees may stand down, by decision of the Board of Directors, at the close of the Board meeting at which the Board of Directors duly notes that Valeo is no longer subject to that requirement.

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

For details of the directorships and other positions held by the members of the Board of Directors (including those held in the last five years), and their experience and expertise, see paragraph "Presentation of directors in 2020" of this section, pages 116 to 132.

Attendance rate at Board of Directors' meetings

The Board of Directors met seven times in 2020, including the Board meeting that closed the annual strategy seminar.

The average attendance rate of directors at Board of Directors' meetings held in 2020 was 100%.

In addition, 23 Board committee meetings were held in 2020[1]:

- the Governance, Appointments & Corporate Social Responsibility Committee met six times with an average attendance rate of 100%;
- the Compensation Committee met seven times with an average attendance rate of 100%;
- the Audit & Risks Committee met six times with an average attendance rate of 100%;
- the Strategy Committee met four times with an average attendance rate of 94.44%.

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

The attendance rate of directors at Board and committee meetings in 2020 is shown in the table below (based on members actually present, excluding members represented).

	Attendance rate at Board meetings(1)	Attendance rate at GACSRC meetings(1)	Attendance rate at SC meetings(1)	Attendance rate at ARC meetings(1)	Attendance rate at SC meetings(1)
Jacques Aschenbroich (Chairman and Chief Executive Officer)	100%	N/A	N/A	N/A	N/A
Bruno Bézard (Independent director)	100%	N/A	N/A	100%	N/A
Bpifrance Participations Represented by Stéphanie Frachet (Independent director)	100%	100%	100%	100%	N/A
Éric Chauvirey (Director representing employees)	100%	N/A	100%	N/A	100%(2)
C. Maury Devine (Independent director)	100%	100%	100%	N/A	N/A
Fonds Stratégique de Participations(3) Represented by Julie Avrane-Chopard (Independent director)	100%	N/A	N/A	100%	N/A
Mari-Noëlle Jégo-Laveissière (Independent director)	100%	N/A	N/A	100%	N/A
Gilles Michel (Lead Director and independent director)	100%	100%	100%	N/A	N/A
Thierry Moulonguet (Independent director)	100%	N/A	N/A	100%	100%
Georges Pauget(4) (Independent director until March 24, 2020)	100%	N/A	N/A	N/A	0%
Olivier Piou (Independent director)	100%	N/A	N/A	100%	100%
Patrick Sayer (Independent director)	100%	100%	100%	N/A	100%
Ulrike Steinhorst (Independent director)	100%	100%	100%	N/A	100%
Grzegorz Szelag(5) (Director representing employees)	N/A	N/A	N/A	N/A	N/A
Véronique Weill (Independent director)	100%	100%	100%	100%	N/A

N/A: Not applicable.
(1) Board = Board of Directors; ARC = Audit & Risks Committee; GACSRC = Governance, Appointments & Corporate Social Responsibility Committee; CC = Compensation Committee; SC = Strategy Committee.
(2) Since his appointment as a member of the Strategy Committee on October 27, 2020.
(3) Since its co-optation by the Board of Directors and its appointment as a member of the Audit & Risks Committee effective March 24, 2020.
(4) Until his resignation as director of Valeo and member of the Strategy Committee on March 24, 2020.
(5) No Board of Directors' or Committee meetings have been held since his appointment by the European Works Council on November 19, 2020.

Director independence review

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

In accordance with the Internal Procedures and the AFEP-MEDEF Code, and on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee at its meeting of January 25, 2021, the independence of the directors in office was reviewed at the Board of Directors' meeting of January 26, 2021.

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

In particular, in accordance with the Internal Procedures and in line with the AFEP-MEDEF Code, independence is presumed to exist when a director:

- is not and has not been in the past five years:
  - an employee or an executive corporate officer of the Company,
  - an employee, executive corporate officer or director of one of the Company's consolidated subsidiaries,
  - an employee, executive corporate officer or director of the parent company of the Company or of one of the parent company's consolidated subsidiaries (Criterion 1);
- is not an executive corporate officer of a company in which the Company holds a directorship, either directly or indirectly, or in which an employee appointed in that role or an executive corporate officer of the Company (currently in office or having held such office during the last five years) is a director (Criterion 2);
- is not (and is not related to) a customer, supplier, commercial banker, investment banker or adviser:
  - that is material to the Company or its Group, or
  - for which the Company or its Group represents a significant part of their business. The issue of whether or not the relationship with the Company or the Group qualifies as significant is discussed by the Board of Directors, and the quantitative and qualitative criteria used for the assessment (continuity, economic dependency, exclusivity, etc.) are explicitly stated in the Annual Report (Criterion 3);
- is not related by close family ties to a corporate officer (Criterion 4);
- has not been a Statutory Auditor of the Company in the past five years (Criterion 5);
- has not been a director of the Company for more than 12 years, at which point the director is no longer considered to be independent (Criterion 6).

A non-executive corporate officer cannot be deemed independent if he/she receives variable compensation in cash or shares, or any compensation tied to Company or Group performance (Criterion 7).

Directors who represent major Company shareholders can be deemed independent if those shareholders do not have a controlling interest in the Company. However, above a 10% threshold of the share capital or voting rights in the Company, the Board of Directors, acting on a report from the Governance, Appointments & Corporate Social Responsibility Committee, will decide whether the directors qualify as independent, taking into account the composition of the Company's share capital and the existence of any potential conflict of interest (Criterion 8).

The table below provides an overview of the status of each director at December 31, 2020, in light of the independence criteria set out in the AFEP-MEDEF Code and the Internal Procedures.

Criterion(1)	Criterion 1: Employee or corporate officer in the last five years	Criterion 2: Cross-directorships	Criterion 3: Significant business relationships	Criterion 4: Family ties	Criterion 5: Statutory Auditors	Criterion 6: In office for more than 12 years	Criterion 7: Non-executive corporate officer	Criterion 8: Major shareholder
Jacques Aschenbroich Chairman and Chief Executive Officer	✖	✔	✔	✔	✔	✔	✔	✔
Bruno Bézard	✔	✔	✔	✔	✔	✔	✔	✔
Bpifrance Participations(2) Represented by Stéphanie Frachet	✔	✔	✔	✔	✔	✔	✔	✔(3)
Éric Chauvirey(4) Director representing employees	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
C. Maury Devine	✔	✔	✔	✔	✔	✔	✔	✔
Fonds Stratégique de Participations(5) Represented by Julie Avrane-Chopard	✔	✔	✔	✔	✔	✔	✔	✔(6)
Mari-Noëlle Jégo-Laveissière	✔	✔	✔	✔	✔	✔	✔	✔
Gilles Michel Lead Director	✔	✔	✔	✔	✔	✔	✔	✔
Thierry Moulonguet	✔	✔	✔	✔	✔	✔	✔	✔
Olivier Piou	✔	✔	✔	✔	✔	✔	✔	✔
Patrick Sayer	✔	✔	✔	✔	✔	✔	✔	✔
Ulrike Steinhorst	✔	✔	✔	✔	✔	✔	✔	✔
Grzegorz Szelag(4) Director representing employees	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Véronique Weill	✔	✔	✔	✔	✔	✔	✔	✔

N/A: Not applicable.
(1) In the table, ✔ signifies an independence criterion that has been met and ✖ signifies an independence criterion that has not been met.
(2) This independence assessment was conducted for both the company (Bpifrance Participations) and its permanent representative (Stéphanie Frachet).
(3) Bpifrance Participations held 5.21% of Valeo's share capital and 5.08% of the voting rights at December 31, 2020. Bpifrance Participations is controlled by Bpifrance SA, a 50%-50% joint venture between Caisse des Dépôts et Consignations and EPIC Bpifrance.
(4) Directors representing employees do not count, in accordance with the recommendation in Article 9.3 of the AFEP-MEDEF Code.
(5) This independence assessment was conducted for both the company (Fonds Stratégique de Participations) and its permanent representative (Julie Avrane-Chopard).
(6) Fonds Stratégique de Participations held 3.9% of Valeo's share capital and 3.8% of the voting rights at December 31, 2020.

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

- Bruno Bézard's independence: Bruno Bézard is a Managing Partner of Cathay Capital Private Equity, holding company of private equity group Cathay Capital. The Cathay Capital group comprises several investment fund management companies. The Group has made three investments in venture capital funds Sino-French (Innovation) Fund, Sino-French (Innovation) Fund II and Cartech (the "Cathay Funds") managed by Cathay Innovation. The review to determine whether these business relationships should be classified as significant was based on several quantifiable and qualitative criteria. As regards financial transactions, the Group's investments in the Cathay Capital group via the Cathay Funds represented approximately 0.60% of its 2020 sales and 2.80% of the Cathay Capital group's assets under management at December 31, 2020, and are therefore not material. In addition, management fees, which are charged on an arm's length basis, are paid in proportion to the percentage held by each investor in the Cathay Funds and the Group's share is not material. Bruno Bézard does not sit on any committee responsible for the Group's past or future investments in the three funds. Furthermore, Bruno Bézard has no direct or indirect decision-making power in the continuation of this business relationship, which existed before he was appointed as a director of the Company. Moreover, the Group is free to make investments via funds that do not belong to the Cathay Capital group. There is no relationship of exclusivity or dependency, economic or otherwise, between the Group and the Cathay Capital group. The same is true for the Cathay Capital group funds, in which many other investors have invested. Lastly, Bruno Bézard does not receive any form of compensation in relation to the abovementioned investments. Accordingly, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors concluded that Bruno Bézard qualified as independent.

- Independence of Bpifrance Participations and its permanent representative, Stéphanie Frachet: Bpifrance Participations was a member of the Supervisory Board of Peugeot SA prior to the merger with Fiat Chrysler Automobiles on January 16, 2021. Peugeot SA had business relationships with the Group in 2020. The review to determine whether these business relationships should be classified as significant was based on several quantifiable and qualitative criteria. In 2020, BPI held 12.23% of the share capital and 17.73% of the voting rights of Peugeot SA via Lion Participations, a holding company wholly owned by Bpifrance Participations. Lion Participations also had a seat on Peugeot SA's Supervisory Board, but the permanent representative of Lion Participations is neither an employee nor an executive officer of Bpifrance Participations. The relationship between Bpifrance Participations and Peugeot SA should be assessed on the basis of the decision-making power that Bpifrance Participations may have had over Valeo and/or Peugeot SA through its seats on the governance bodies of those two companies. In this respect, it should be noted that Bpifrance Participations was a member of a Peugeot SA supervisory body and not an executive body. In addition, the permanent representative of Bpifrance Participations on the Supervisory Board of Peugeot SA was not the same as its permanent representative on the Board of Directors of Valeo. Furthermore, Bpifrance Participations had no direct or indirect decision-making power over Peugeot SA. Valeo's Board of Directors did not have any say in decisions about the business relationships with Peugeot SA. Accordingly, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors concluded that Bpifrance Participations qualified as independent.

  Concerning Stéphanie Frachet, she is a director of the Constellium group, whose business relationships with Valeo are not material. The review to determine whether these business relationships should be classified as significant was based on several quantifiable and qualitative criteria. As regards financial transactions between the Group and the Constellium group, the total amount of aluminum purchased by the Group from the Constellium group represented (i) less than 0.25% of the Group's total production purchases in 2020 and (ii) a very tiny percentage of the Group's 2020 sales (0.12%) and the Constellium group's 2020 sales (0.4%). Furthermore, there is no relationship of exclusivity or dependency, economic or otherwise, between the Group and the Constellium group, as the Constellium group has many other customers. Furthermore, Stéphanie Frachet does not hold any executive office in the Constellium group and is therefore not involved in day-to-day operations and has no influence over operational decision-making. Accordingly, Stéphanie Frachet has no direct decision-making power in the continuation of this business relationship, Lastly, Stéphanie Frachet does not receive any form of compensation related to the Group's purchases from the Constellium group. Accordingly, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors concluded that Stéphanie Frachet qualified as independent.

Jacques Aschenbroich cannot be considered as independent inasmuch as he is the Chairman and Chief Executive Officer. There is a non-material business relationship between the Group and the BNP Paribas group, of which Jacques Aschenbroich is a director. This business relationship, which is conducted on an arm's length basis, is described in section 3.2.3 of this chapter, paragraph "Conflicts of interest", pages 145 and 146.

Following the independence review of the directors in office, the Board of Directors, on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, concluded that at December 31, 2020, 11 of the 12 directors were independent (the directors representing employees do not count in accordance with the recommendation set out in Article 9.3 of the AFEP-MEDEF Code): Bruno Bézard, Bpifrance Participations (represented by Stéphanie Frachet), C. Maury Devine, Fonds Stratégique de Participations (represented by Julie Avrane-Chopard), Mari-Noëlle Jégo-Laveissière, Gilles Michel, Thierry Moulonguet, Olivier Piou, Patrick Sayer, Ulrike Steinhorst and Véronique Weill.

Board of Directors' diversity policy

Valeo firmly believes in the importance and relevance of broader diversity at all levels and in every profession within the Company, not only as a question of social responsibility, but also as a tool for performance. Valeo is thus committed to promoting diversity within its governing bodies and across the Group as a whole (see Chapter 4, section 4.5.4 "Respecting and promoting diversity", pages 275 to 279).

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

Policy statement

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

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

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

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

Composition of the Board of Directors and objectives

Gender diversity and independence

At December 31, 2020, the Board of Directors had 14 members, of which six women and eight men, including two directors representing employees appointed respectively by the Group Works Council and the European Works Council. In accordance with the provisions of Article L.225-27-1 of the French Commercial Code, the directors representing employees do not count for the purpose of determining the proportion of men and women on the Board of Directors. The percentage of women on the Board of Directors has therefore risen to 50%, after remaining stable at 42% since May 26, 2016. The Company plans to build on the balanced representation of women and men on the Board of Directors and continue its drive to diversify the composition of the Board.

All members of the Board of Directors are independent with the exception of Jacques Aschenbroich, Chairman and Chief Executive Officer. Éric Chauvirey and Grzegorz Szelag, directors representing employees, do not count for the purpose of determining the percentage of independent directors, in accordance with the recommendation in Article 9.3 of the AFEP-MEDEF Code.

Diversity of backgrounds and experience

At December 31, 2020, ten of the directors held directorships in French or international listed companies outside the Group, and only Jacques Aschenbroich (Chairman and Chief Executive Officer), Éric Chauvirey and Grzegorz Szelag (directors representing employees) held positions within the Group.

The members of the Board of Directors at December 31, 2020 come from different backgrounds, bringing the Group the benefit of their broad range of experience and expertise in business, industry and finance. Furthermore, the two directors representing employees appointed respectively by the Group Works Council and the European Works Council bring the Board of Directors the benefit of their knowledge of the Company and its businesses, markets, customers and expertise. For a presentation of the background and experience of each Board member, see paragraph "Presentation of directors in 2020" of this section, pages 116 to 132. The Board of Directors intends to further diversify the profiles of its members.

Arrangements, implementation and monitoring

The Board of Directors regularly reflects on how best to evolve its composition, particularly when co-opting directors or proposing directors for appointment or reappointment and as part of the annual assessment of the Board's operating procedures, composition and organization (for further information on the Board's self-assessment, see section 3.2.2 of this chapter, "Preparation and organization of the Board of Directors' work", pages 133 to 145).

The Board of Directors relies on advice from the Governance, Appointments & Corporate Social Responsibility Committee, which initially selects candidates for the position of director. In its drive to achieve a diversified composition guided by the interests of the Company and all its shareholders, the Board takes the following considerations into account: (i) the appropriate balance based on the composition of and changes in the Company's ownership structure, (ii) gender balance, (iii) any representation of vested interests, (iv) the timeliness of renewing directorships, (v) the integrity, skills, international experience, nationality and independence of each candidate, and (vi) the appropriate number of independent directors. The Governance, Appointments & Corporate Social Responsibility Committee may call on the services of outside specialized consultants to identify potential directors that meet the selection criteria and diversity objectives defined in this policy (for further information about the role of the Governance, Appointments & Corporate Social Responsibility Committee, see section 3.2.2 of this chapter, "Preparation and organization of the Board of Directors' work", pages 133 to 145).

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

Results achieved in the previous year

The following objectives, which had been set by the Board of Directors for 2020, were achieved:

- a continued balanced composition given the change in the Company's ownership structure with the appointment of Fonds Stratégique de Participations, represented by Julie Avrane-Chopard, former Senior Partner of McKinsey & Company and a specialist in high-tech industries;
- more balanced representation of women and men on the Board of Directors (50% women);

- a continued high proportion of independent directors (91.7%);
- continued international experience within the Board of Directors;
- continued expertise in manufacturing and the automotive sector, as well as experience as an executive corporate officer;
- stronger employee representation following the appointment by the European Works Council on November 19, 2020 of Grzegorz Szelag as director representing employees alongside Éric Chauvirey.

Diversity policy within the governing bodies

As part of the Group's diversity policy, the Board of Directors also ensures that the Chairman and Chief Executive Officer implements a policy of non-discrimination, diversity and gender diversity, particularly as regards a balanced representation of women and men on the governing bodies. Valeo promotes equality between men and women, particularly pay equality, and ensures that women are represented at all levels of the Company, including top management. Valeo's Executive Committee has eight members, six of whom are men and two of whom are women – Catherine Delhaye (Chief Ethics and Compliance Officer) and Fabienne de Brébisson (Vice-President, Communications) – i.e., a proportion of 25%. Catherine Delhaye and Fabienne de Brébisson are also members of the Operations Committee, which has 14 members.

Valeo is committed to making the further progress required and taking all possible measures to improve gender diversity within the governing bodies. In accordance with the seventh recommendation of the AFEP-MEDEF Code, in 2020 the Board of Directors set its 2030 gender diversity targets for the governing bodies acting on the recommendation of the Chairman and Chief Executive Officer. Gender diversity is a priority for Valeo and the Company plans to double the number of women on the management committees over the next ten years, from 16% at January 1, 2020 to 32% at December 31, 2030. Intermediate targets have been set for December 31, 2024 (20% women) and December 31, 2027 (25% women).

As the percentage of women within the Group's management committees stood at 19.5% at December 31, 2020, in March 2021 Valeo's Board of Directors adjusted the intermediate targets for gender diversity within the governing bodies for December 31, 2023 (22% women) and December 31, 2027 (27% women) by applying a linear annual progression up to the December 31, 2030 target, which is maintained at 32% women.

Progress in achieving these targets will be monitored regularly by the Board of Directors.

In addition, action and measures taken by Valeo to promote diversity and equality between men and women are presented in Chapter 4, section 4.5.4 "Respecting and promoting diversity", pages 275 to 279.

Lead Director

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

Following the decision by the Board of Directors at its meeting on February 18, 2016 to combine the roles of Chairman of the Board of Directors and Chief Executive Officer, the Board of Directors, at the same meeting, acting on the recommendation of the Appointments, Compensation & Governance Committee, appointed Georges Pauget, independent director, as Lead Director. He was reappointed as Lead Director upon his reappointment as a director at the Shareholders' Meeting of May 26, 2016.

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

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

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

In addition, the Lead Director is in regular, open contact with each director, and if necessary may act as a spokesperson to the Chairman and Chief Executive Officer. To guarantee the transparent operation of the Board of Directors, the Lead Director ensures that the directors are provided with the information necessary to carry out their duties and verifies that this information is provided to them prior to the Board of Directors' meetings. The Lead Director regularly organizes and chairs meetings to address various aspects that come under the authority of the Board of Directors, including, but not limited to, the assessment of (i) the performance of General Management, and (ii) the smooth running of the Board of Directors. These "executive sessions" are held without executive corporate officers and non-independent directors being present, unless they are invited. The Lead Director also organizes such meetings after each Board meeting.

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

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

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

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

REPORT OF THE LEAD DIRECTOR

In this report, Gilles Michel, Lead Director since October 24, 2019 (the **"Lead Director"**), reports on the main due diligence performed since February 20, 2020, the date of the last report, until March 24, 2021, the date on which this report was finalized.

Appointment and duties of the Lead Director

In accordance with Article 1.7(a) of the Board's Internal Procedures (the "**Internal Procedures**"), which provide for the option of appointing a Lead Director when the roles of Chairman and Chief Executive Officer are combined, the Board of Directors appointed a Lead Director whose duties are set out in Article 1.7(b) of the Internal Procedures, available on Valeo's website (www.valeo.com) and summarized in paragraph "Lead Director" of the 2020 Universal Registration Document.

Main work of the Lead Director in 2020

Succession plan for the Chairman and Chief Executive Officer

The Lead Director focused in particular on the succession plan for the Chairman and Chief Executive Officer, which is presented in the paragraph "Succession plan" of the 2020 Universal Registration Document.

The Lead Director oversaw the preparation of the plan and played an active role in the rigorous candidate assessment process conducted by the Governance, Appointments & Corporate Social Responsibility Committee, assisted by external consultants.

Information about the Group's business, particularly in the context of the Covid-19 crisis

The Lead Director has extensive knowledge of the Group and keeps abreast of developments in the Group's business in order to perform his duties. He holds regular discussions with the Chairman and Chief Executive Officer, the secretary of the Board of Directors and various executive managers of the Group.

During 2020, the Lead Director kept abreast of Valeo's management of the Covid-19 pandemic, the health and safety measures taken to protect the Group's employees, the impact of the pandemic on the automotive industry and on Valeo's operations, and the financial and cost variabilization measures taken to deal with the crisis.

Organization of the Board of Directors' work

The Lead Director takes part in organizing the Board of Directors' work. He is consulted by the Chairman and Chief Executive Officer on preparing the agenda for Board meetings.

For information purposes, the Lead Director did not ask the Chairman and Chief Executive Officer to call a meeting of the Board of Directors regarding a specific meeting agenda.

The Lead Director is the main contact point for the directors and is in regular contact with each of them, including between Board meetings.

In 2020, he attended all Board meetings and chaired all meetings of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee.

He organizes and chairs executive sessions after each Board meeting. These sessions encourage debate among the independent directors. The executive corporate officer and non-independent directors do not attend unless invited. Where applicable, the Lead Director refers matters raised during the executive sessions to General Management.

Further to his due diligence activities, the Lead Director considered that the governing bodies operated satisfactorily. He led the work of the Governance, Appointments & Corporate Social Responsibility Committee, which included the annual assessment of the Board of Directors' operating procedures. The assessment was conducted by a specialist consulting firm between the end of 2020 and beginning of 2021 through individual interviews with all the directors based on a questionnaire sent out to them. Information about the assessment is provided in the paragraph "Assessment of the Board of Directors' operating procedures" of the 2020 Universal Registration Document.

Compensation of executive corporate officers

The Lead Director also led the work of the Compensation Committee as regards the review of the Chairman and Chief Executive Officer's compensation for 2020, and as regards proposals for the 2021 compensation policy for the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer.

He also oversaw the work on drawing up proposals for the compensation policies for the Chairman of the Board of Directors and the Chief Executive Officer from January 2022, when the two roles will be separated in accordance with the succession plan.

Succession of directors

The Lead Director worked on the long-term succession plan for directors, taking into account the mix of expertise and nationalities.

Relations with proxy advisory firms and institutional investors

The Lead Director is the main contact point for Valeo's institutional investors on corporate governance matters. He also handles these matters with the main proxy advisory firms.

More specifically, as part of the preparations for the Shareholders' Meeting of June 25, 2020, he attended meetings with the main shareholders and proxy advisory firms to present Valeo's governance during the past year and the proposed resolutions.

The Group's CSR policy

The Lead Director actively participated in the work on diversity and equality within the Group, in particular equal treatment, gender equality and gender diversity within the governance bodies, with the aim of doubling the number of women on the Group's management committees from 16% at January 1, 2020 to 32% at December 31, 2030. Intermediate targets have been set for December 31, 2024 (20% women) and December 31, 2027 (25% women). Information about these gender diversity targets are provided in the paragraph "Diversity policy within the governing bodies" of the 2020 Universal Registration Document. The Lead Director also oversaw compliance within the Board of Directors of the diversity policy, as well as its implementation.

In addition, he spent time on social responsibility and sustainable development topics. Valeo takes a determined and proactive approach to these matters, which are closely monitored by the Governance, Appointments & Corporate Social Responsibility Committee. As part of this work, a carbon neutrality plan was presented to and validated by the Board of Directors on November 12, 2020, and later published on February 4, 2021. Details of the plan are provided in Chapter 4, section 4.1.3, paragraph "Valeo's Carbon Neutrality Plan for 2050" of the 2020 Universal Registration Document.

Succession plan

Succession planning

Executive succession planning is an important matter for Valeo. In order to protect the interests of the Company and its shareholders, Valeo takes all possible measures to anticipate and prepare for the succession of its executive corporate officers and, where necessary, prepare for the potential unforeseen departure of an executive corporate officer. Valeo's succession plan covers various time horizons depending on the nature of the succession:

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

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

Succession planning is reviewed in depth regularly by the Governance, Appointments & Corporate Social Responsibility Committee, which then presents its recommendations to the Board of Directors in terms of the internal and external candidates identified and the appropriate governance structure for the Company. The Chairman and Chief Executive Officer takes part in his own succession planning and may also seek the assistance of external specialized consulting firms to identify potential candidates that meet the selection criteria and objectives set. The Group also has a succession plan for members of Valeo's Executive Committee, Operations Committee and Liaison Committee. This plan is reviewed annually by the Governance, Appointments & Corporate Social Responsibility Committee and the Board of Directors. For each of the positions considered, the Group endeavors to identify an internal successor. When a person leaves the Group, the Group attempts to find an internal successor as far as possible.

Succession of Jacques Aschenbroich

During the second half of 2019, the Board of Directors of Valeo started working, under the guidance of the Lead Director and the Governance, Appointments & Corporate Social Responsibility Committee, on a comprehensive process to decide on a succession plan for Jacques Aschenbroich.

The succession plan was unanimously approved by the Board of Directors of Valeo at its meeting held on October 27, 2020 and announced publicly the same day. This follows the decision taken by the Board of Directors, within the context of Jacques Aschenbroich's reappointment as director at the General Meeting held on May 23, 2019, to implement the separation of the roles of Chairman of the Board Directors and Chief Executive Officer.

A rigorous and transparent process for assessing potential candidates was thus carried out with the assistance of external consultants.

The process led to the selection of Christophe Périllat, Chief Operating Officer of the Group since 2011 and currently Associate Chief Executive Officer *(Directeur Général Adjoint)* since October 27, 2020, based on the quality of his performance as Chief Operating Officer of Valeo, his ability to deliver results and his extensive knowledge of the automotive industry.

This succession at the level of General Management is taking place in an extremely complex environment, in which Valeo not only has to deal with the effects of the Covid-19 pandemic but also with the challenge posed by the profound change taking place in the automotive industry. The Board of Directors has therefore adapted the succession plan to these circumstances and the executive handover will take place in three successive stages to give Valeo every chance of managing the crisis effectively and securing its position in a changing industry.

Christophe Périllat, Chief Operating Officer of the Group since 2011, was therefore appointed Associate Chief Executive Officer of Valeo effective October 27, 2020 and until the Shareholders' Meeting to be held in May 2021, when the Board of Directors will appoint him Deputy Chief Executive Officer *(Directeur Général Délégué)*. Christophe Périllat will also be nominated for appointment as a director of the Company at that Shareholders' Meeting.

According to the succession plan, the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer will be effective as of January 2022, when Christophe Périllat will be appointed Chief Executive Officer. Jacques Aschenbroich will continue to act as Chairman of the Board of Directors until the end of his current term of office as director, i.e., until May 2023, and will be vested with specific missions at the request of the Chief Executive Officer. Without prejudice to (i) the executive functions of the Chief Executive Officer, who will have sole responsibility for Valeo's management and operations, and (ii) the powers of the Board of Directors, these missions will be:

- contribution to General Management: consultation of the Chairman of the Board of Directors by the Chief Executive Officer (at his request), support and advice to the Chief Executive Officer on various subjects relating to Valeo (governance, strategy, significant transactions and projects);
- relations with public authorities, institutions and business partners: representing Valeo, at the Chief Executive Officer's request, on a national and international scale with respect to public authorities, institutions and business partners (in particular, Chinese customers and other Asian customers); Assistance to the Chief Executive Officer (at his request) in the context of Valeo's relationship with its historical and strategic partners;
- relationship with the shareholders: monitoring, in coordination with the Chief Executive Officer, the quality of relations and dialogue with Valeo's shareholders; and
- corporate social responsibility: promoting Valeo's values, image and culture. Joint participation with the Chief Executive Officer, in actions carried out by Valeo, in particular in the field of corporate social responsibility, ethics and compliance.

The main purpose of these specific missions is to ensure a smooth transition with Christophe Périllat.

The staged succession plan aims to create the conditions for an optimal executive handover, in the interests of the Group's operations and of all its stakeholders and shareholders, by ensuring that the change of governance takes place in line with the Company's culture and values.

Presentation of directors in 2020

(Information updated at December 31, 2020)

JACQUES ASCHENBROICH
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

French
Age: 66
Valeo
43, rue Bayen
75017 Paris, France

First appointed: 03/20/2009
Start of current term of office: 05/23/2019
End of current term of office: Shareholders' Meeting called to approve the 2022 financial statements
Number of shares held: 838,833
Membership of Board committees: –

Main position held outside the Company
- Director (various companies)

Directorships and other offices currently held

Directorships and other offices within the Group

–

Directorships and other offices held outside the Group
- Chairman of the Board of Directors, *École nationale supérieure des Mines ParisTech*
- Director, Veolia Environnement ♦ (Chairman of the Research, Innovation and Sustainability Committee and member of the Accounts and Audit Committee) and BNP Paribas ♦ (member of the Accounts Committee)
- Co-President of the Franco-Japanese Business Club

Directorships and other offices held within the past five years
- Chairman, Valeo Finance, Valeo SpA (Italy), Valeo (UK) Limited (United Kingdom)

Summary of main areas of expertise and experience

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

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

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

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

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

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

BRUNO BÉZARD

INDEPENDENT DIRECTOR

French
Age: 57

Cathay Capital Private Equity

52, rue d'Anjou
75008 Paris, France

First appointed: 10/24/2017

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

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

Number of shares held: 3,000

Membership of Board committees:

- Audit & Risks Committee

Main position held outside the Company

- Managing Partner of investment fund Cathay Capital Private Equity

Directorships and other offices currently held

Directorships and other offices within the Group

–

Directorships and other offices held outside the Group

- Director, Matmut

Directorships and other offices held within the past five years

- Director, Engie
- Head of the French Treasury

Summary of main areas of expertise and experience

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

He was Head of the French Public Finance Administration after spending two years as Minister-Advisor in Beijing, overseeing France's Greater China Regional Economic Department. He created, and then headed, the French State Shareholding Agency (APE), representing the State as a shareholder on a large number of company boards and acquiring vast experience in corporate governance and mergers & acquisitions.

He has notably held a seat on the boards of EDF, SNCF, Areva, La Poste, Thales, Air France, Engie, PSA and Fonds Stratégique d'Investissement (FSI). He was Head of the French Treasury and President of the Paris Club before joining Cathay Capital as Managing Partner in 2016, a private equity fund that invests in start-ups, SMEs and middle market companies, and supports their international development in Europe, the United States and China.

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

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

BPIFRANCE PARTICIPATIONS

INDEPENDENT DIRECTOR

Bpifrance Participations
27/31, avenue du Général-Leclerc
94710 Maisons-Alfort CEDEX, France

First appointed: 06/21/2019

Start of current term of office: 06/21/2019

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

Number of shares held: 12,600,000

Membership of Board committees:

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

Directorships and other offices currently held

Directorships and other offices within the Group

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Directorships and other offices held outside the Group

- Director, Ekinops ♦ Eutelsat Communications ♦ Nexans ♦ Mersen ♦ Orange ♦ Parrot ♦Pixium Vision ♦ Prodways Group ♦ Soitec ♦ Technicolor ♦ and Voluntis ♦
- Member of the Supervisory Board, PSA ♦ Innate Pharma ♦ Vallourec ♦

Directorships and other offices held within the past five years

- Director, Gensight, Antalis, Cegedim, CGG, Gensight Biologics, Txcell, Verallia and Verimatrix
- Member of the Supervisory Board, Valneva SE and Vergnet SA

Summary of main areas of expertise and experience

Bpifrance Participations is a Bpifrance subsidiary, and invests both directly and through funds of funds. It is the parent company of Bpifrance Investissement and engages in these business activities under the general interest mission entrusted to Bpifrance.

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

STÉPHANIE FRACHET

PERMANENT REPRESENTATIVE OF BPIFRANCE PARTICIPATIONS

French
Age: 43

Bpifrance Investissement
6-8, boulevard Haussmann
75009 Paris, France

Main position held outside the Company

- Director, Bpifrance Investissement; member of the Management Committee, Bpifrance Capital Développement

Directorships and other offices currently held

Directorships and other offices within the Group

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Directorships and other offices held outside the Group

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

Directorships and other offices held within the past five years

- Independent director Eurosic
- Permanent representative of Bpifrance Investissement, Director, Sarenza and Fidec
- Board Observer, Horizon Parent Holdings (Verallia) and Financière Carso

Summary of main areas of expertise and experience

Stéphanie Frachet has been a director of Bpifrance Investissement and a member of the Management Committee of Bpifrance Capital Développement since 2017. She joined Bpifrance (formerly Fonds Stratégique d'Investissement) in 2009 and has 20 years' experience in finance and private equity.

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

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

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

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

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

ÉRIC CHAUVIREY

DIRECTOR REPRESENTING EMPLOYEES

French
Age: 46

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

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

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

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

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

Membership of Board committees:

- Compensation Committee
- Strategy Committee (since October 27, 2020)

Main position held outside the Company

–

Directorships and other offices currently held

Directorships and other offices within the Group

- R&D Knowledge Manager in the Group

Directorships and other offices held outside the Group

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Directorships and other offices held within the past five years

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Summary of main areas of expertise and experience

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

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

In 2007, he was promoted to the position of Head of Project Quality for Valeo Systèmes de Contrôle Moteur, the Group's engine management systems unit in Cergy, then became Project Manager in 2012. In September 2014, he was appointed Head of Prototype Scheduling. Since December 1, 2017, he has been R&D Knowledge Manager, responsible for managing the Valeo Experts.

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

Éric Chauvirey holds an engineering degree in Industrial Design and Production from the ESCPI-CNAM. He has also completed a training course on the role of company directors run by the *Institut d'études politiques de Paris* (IEP) in partnership with the French Institute of Directors (*Institut français des administrateurs* – IFA).

He is a French citizen and speaks French and English.

C. MAURY DEVINE

INDEPENDENT DIRECTOR

American
Age: 69
1219 35th street NW
Washington, DC 20007,
United States

First appointed: 04/23/2015
Start of current term of office: 05/23/2017
End of current term of office: Shareholders' Meeting called to approve the 2020 financial statements
Number of shares held: 3,500
Membership of Board committees:

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

Main position held outside the Company

- Director (various companies)

Directorships and other offices currently held

Directorships and other offices within the Group

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Directorships and other offices held outside the Group

- Director, John Bean Technologies (United States) ♦ (Chair of the independent Nominating and Governance Committee and member of the Audit Committee), ConocoPhillips (United States) ♦(member of the independent Nominations and Governance Committee and the Public Policy Committee), and Gonzaga College High School (United States)

Directorships and other offices held within the past five years

- Director, Technip S.A. (Lead Director, member of the Nominating and Compensation Committee and Chair of the Ethics and Governance Committee), Georgetown Visitation Preparatory School (United States) (Chair of the Audit Committee and member of the Executive Committee), and FMC Technologies (United States)
- Member of the independent Nominating and Governance Committee, Petroleum Geo-Services (Norway)

Summary of main areas of expertise and experience

C. Maury Devine, a US national, has held several management positions in international and industrial groups in the United States and Europe. She has also served in public office in the United States and has extensive knowledge of US public affairs.

From 1972 to 1987, she worked for the US government in various capacities, most notably for the Department of Justice, the White House and the US Drug Enforcement Administration (DEA). Between 1987 and 2000, she held a number of positions at ExxonMobil Corporation, including Chair and Chief Executive Officer of its Norwegian subsidiary from 1996 to 2000 and Secretary General of Mobil Corporation between 1994 and 1996.

She was also Vice-Chair of the Board of Directors of Det Norske Veritas (DNV) from 2000 to 2010 and Fellow at the Belfer Center for Science and International Affairs at Harvard University from 2000 to 2003.

C. Maury Devine is a graduate of Middlebury College, the University of Maryland and Harvard University (Master in Public Administration).

She is an American citizen and speaks French and English.

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

FONDS STRATÉGIQUE DE PARTICIPATIONS

INDEPENDENT DIRECTOR (SINCE MARCH 24, 2020)

Fonds Stratégique de Participations

93, boulevard Haussmann
75008 Paris, France

First appointed: 03/24/2020

Start of current term of office: 06/25/2020

End of current term of office: Shareholders' Meeting called to approve the 2023 financial statements

Number of shares held: 9,471,305

Membership of Board committees:

- Audit & Risks Committee (since March 24, 2020)

Directorships and other offices currently held

Directorships and other offices within the Group

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Directorships and other offices held outside the Group

- Director, SEB ♦, Arkema ♦, Eutelsat Communications♦, Tikehau Capital Advisors, Elior Group♦, Neoen ♦ and Safran ♦ via F&P (joint venture with FFP)
- Member of the Supervisory Board, Tikehau Capital SCA ♦

Directorships and other offices held within the past five years

- Director, Zodiac Aerospace

Summary of main areas of expertise and experience

Fonds Stratégique de Participations (FSP) is a long-term investment vehicle whose purpose is to support French companies in their growth and transition projects over the long term. FSP thus acquires significant equity interests in companies and plays a role in their governance by obtaining a seat of the Board of Directors or the Supervisory Board. The shareholders of the funds are seven French insurance companies: BNP Paribas Cardif, CNP Assurances, Crédit Agricole Assurances, Groupama, Natixis Assurances, Société Générale Assurances, and Suravenir. FSP's portfolio currently consists of eight equity interests in French companies that are leaders in their field: SEB, Arkema, Safran, Eutelsat Communications, Tikehau Capital, Elior, Neoen and Valeo.

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

JULIE AVRANE-CHOPARD

PERMANENT REPRESENTATIVE OF FONDS STRATÉGIQUE DE PARTICIPATIONS

French
Age: 49
144, rue de Longchamp
75116 Paris, France

Main position held outside the Company

- Chair, Clear Direction

Directorships and other offices currently held

Directorships and other offices within the Group

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Directorships and other offices held outside the Group

- Chair, Clear Direction
- Member, *Cercle de l'Odéon* and *Fondation de la Comédie Française*
- Director, Monnoyeur group (since December 17, 2020)
- Member of the Supervisory Board, Unibail-Rodamco-Westfield ♦ (since December 23, 2020, member of the Audit Committee)

Directorships and other offices held within the past five years

- Senior Partner, McKinsey & Company

Summary of main areas of expertise and experience

Julie Avrane-Chopard was a Senior Partner in McKinsey & Company's Paris office from 1999 to July 2020, where she headed the firm's high-tech industries practice in France (advanced electronics, aerospace and defense, automotive and assembly). She also co-led the firm's high-tech skills practice worldwide.

Julie Avrane-Chopard specializes in the high-tech industries, IT services and software sectors. At McKinsey, she mainly dealt with strategy, growth, M&A and post-merger integration issues in cross-border contexts as well as large-scale transformation plans.

Prior to joining McKinsey's Paris office, Julie Avrane-Chopard worked as a researcher with Bull Honeywell in the United States in 1993, then with Cogema (Areva) in 1994, and as a business analyst in McKinsey's London office for two years from 1995 to 1997.

Julie Avrane-Chopard is a graduate of the *École nationale supérieure des télécommunications de Paris* and of the *Collège des ingénieurs*. She also holds an MBA from INSEAD.

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

MARI-NOËLLE JÉGO-LAVEISSIÈRE

INDEPENDENT DIRECTOR

French
Age: 52
Orange
8, rue Olivier-de-Serres
75015 Paris, France

First appointed: 05/26/2016
Start of current term of office: 05/23/2017
End of current term of office: Shareholders' Meeting called to approve the 2020 financial statements
Number of shares held: 1,500
Membership of Board committees:

- Audit & Risks Committee

Main position held outside the Company

- Deputy Chief Executive Officer, Europe (excl. France), Orange (since September 1, 2020)

Directorships and other offices currently held

Directorships and other offices within the Group

–

Directorships and other offices held outside the Group

- Director, Engie ♦ (member of the Ethics, Environment and Sustainability Committee), Orange Romania (Romania), Orange Belgium (since September 1, 2020) (Belgium) ♦, Orange Poland (since October 20, 2020) (Poland) ♦, Orange Spain (since November 5, 2020) (Spain), Orange Bank (since November 16, 2020) and NowCp

Directorships and other offices held within the past five years

- Director, Nordnet, the French National Frequency Agency (*Agence Nationale des Fréquences*) and BuyIn SA
- Chair of the Board of Directors, Soft@Home and Viaccess SA

Summary of main areas of expertise and experience

Mari-Noëlle Jégo-Laveissière brings the Board of Directors her considerable experience in new technologies and in research and development, particularly in telecommunications, areas in which she has spent most of her career.

She began her career in 1996 at the Paris regional office (*Direction Régionale de Paris*) of France Télécom's commercial distribution network. Since then, she has held various leadership positions within the Orange group: head of Consumer Marketing France *(Marketing Grand Public France)*, Director of Research and Development and Director of International Networks. She became a member of the Executive Committee of Orange in March 2014 in her capacity as Executive Vice-President of Innovation, Marketing & Technologies.

Mari-Noëlle Jégo-Laveissière has been Deputy Chief Executive Officer, Europe (excl. France) of Orange since September 1, 2020.

Mari-Noëlle Jégo-Laveissière holds a degree from *École Normale Supérieure* and she graduated in engineering from *Corps des Mines*. She also holds a doctorate in quantum chemistry from the *Université de Paris XI – Waterloo* (Canada).

She is a French citizen and speaks French and English.

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

GILLES MICHEL

INDEPENDENT DIRECTOR, LEAD DIRECTOR

French
Age: 64
Valeo
43, rue Bayen
75017 Paris, France

First appointed: 05/23/2018
Start of current term of office: 05/23/2018
End of current term of office: Shareholders' Meeting called to approve the 2021 financial statements
Number of shares held: 1,500
Membership of Board committees:

- Governance, Appointments & Corporate Social Responsibility Committee (Chairman)
- Compensation Committee (Chairman)

Main position held outside the Company

- Director (various companies)

Directorships and other offices currently held

Directorships and other offices within the Group

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Directorships and other offices held outside the Group

- Director, IBL Ltd (Mauritius) ♦(Chair of the Corporate Governance Committee, member of the Strategy Committee), Solvay (Belgium) ♦ (member of the Finance, Appointments and Compensation Committees), Maurilait Production Ltée (Mauritius) and Management and Development Company Limited (Mauritius)
- Chairman of the Board of Directors, Charles Telfair Institute (Mauritius)

Directorships and other offices held within the past five years

- Chairman and Chief Executive Officer, Imerys
- Chairman of the Board of Directors, Imerys

Summary of main areas of expertise and experience

Gilles Michel has extensive experience in the automotive industry, after a number of years in senior management positions at PSA Peugeot Citroën, where he held roles such as brand manager for Citroën and Peugeot SA Managing Board member.

He began his career at ENSAE, before moving to the World Bank in Washington DC. He joined Saint Gobain in 1986, where he spent 16 years in various senior management roles, mainly in the United States, before being appointed Chairman of the Ceramics & Plastics division in 2000. He joined PSA Peugeot Citroën in 2001 as Executive Vice-President of Platforms, Technical Affairs and Purchasing, before becoming brand manager for Citroën and a member of the Peugeot SA Managing Board. From December 1, 2008, Gilles Michel served as Chief Executive Officer of Fonds Stratégique d'Investissement (FSI), where he was responsible for equity investments in companies offering growth and competitiveness for the French economy.

He was Chairman of the Board of Directors of Imerys until June 25, 2019, having previously been a director, Chief Operating Officer and Chairman and Chief Executive Officer.

He is a graduate of the *École polytechnique*, ENSAE and the *Institut d'études politiques de Paris* (IEP).

He is a French citizen and speaks French and English.

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

THIERRY MOULONGUET

INDEPENDENT DIRECTOR

French
Age: 69
Fimalac
97, rue de Lille
75007 Paris, France

First appointed: 06/08/2011
Start of current term of office: 06/25/2020
End of current term of office: Shareholders' Meeting called to approve the 2023 financial statements
Number of shares held: 3,000
Membership of Board committees:
- Audit & Risks Committee (Chairman)
- Strategy Committee

Main position held outside the Company

- Director (various companies)

Directorships and other offices currently held

Directorships and other offices within the Group

–

Directorships and other offices held outside the Group

- Independent director, Fimalac SA (member of the Remunerations Committee), Fimalac Développement (Luxembourg), Lucien Barrière group (Chairman of the Audit and Risk Committee and member of the Strategy Committee and the Compensation Committee) and HSBC France (Chairman of the Audit Committee and member of the Risk Committee)
- Chairman of the Supervisory Board, Webedia (Fimalac group)

Directorships and other offices held within the past five years

- Independent director, HSBC Europe (United Kingdom) and Prodways group

Summary of main areas of expertise and experience

Thierry Moulonguet has extensive experience in the French and international automotive industry. He spent most of his career with the Renault-Nissan group, where he held a number of top positions including Vice Chief Executive Officer and Chief Financial Officer of Nissan in Japan and Vice Chief Executive Officer and Chief Finance Officer of the Renault group.

He joined the Renault-Nissan group in February 1991 as Head of Banking Strategy and Financial Communication. He later served as Director of Financial Relations, Vice-President, Capital Expenditure Controller, Vice Chief Executive Officer and Chief Financial Officer of Nissan before becoming Vice Chief Executive Officer and Chief Financial Officer of the Renault group, also in charge of Information Systems, and then member of the Management Committee for the Americas and member of its Executive Committee from January 2004 to July 1, 2010. He served as Special Advisor to Renault's Chairman and Chief Executive Officer until March 31, 2011, the date on which he retired.

He also served as a member of the Board of Fitch Ratings Ltd, Ssangyong Motor Co. (South Korea), Avtovaz (Russia), RCI Banque and Renault Retail group.

Thierry Moulonguet is a graduate of *École nationale d'administration* (ENA) and *Institut d'études politiques de Paris* (IEP).

He is a French citizen and speaks French and English.

GEORGES PAUGET

INDEPENDENT DIRECTOR (UNTIL MARCH 24, 2020)

French
Age: 73
Rue Augusto Rosa 7-5ESQ
1100-058 Lisbon,
Portugal

First appointed: 04/10/2007
Start of current term of office: 05/26/2016
End of current term of office: Shareholders' Meeting called to approve the 2019 financial statements
Number of shares held: 1,500
Membership of Board committees:
- Strategy Committee (until March 24, 2020)

Main position held outside the Company

- Legal Manager of ALMITAGE16.LDA (Portugal) and director (various companies)

Directorships and other offices currently held

Directorships and other offices within the Group

–

Directorships and other offices held outside the Group

- Independent Lead Director, Worldline SA ♦(since March 19, 2020)
- Honorary Chairman, LCL – Le Crédit Lyonnais
- Member of the Supervisory Board, Eurazeo♦ (Chairman of the Compensation, Selection and Governance Committee and member of the Audit Committee)
- Vice-President, Club Med (Chairman of the Audit Committee)
- Legal Manager, ALMITAGE16.LDA (Portugal)

Directorships and other offices held within the past five years

- Chairman, Économie Finance et Stratégie SAS
- Director, Tikehau and Dalenys (member of the Audit Committee and the Compensation Committee)

Summary of main areas of expertise and experience

Georges Pauget has extensive experience in finance and banking, having spent most of his career with the Crédit Agricole group where he was Chief Executive Officer from September 2005 to March 2010. As Lead Director of Valeo and Chairman of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee until October 24, 2019, he has also acquired considerable experience in the corporate governance of listed companies.

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

He served as Chairman of the Board of Directors of LCL – Le Crédit Lyonnais, and Chairman of the Board of Directors of Calyon until March 2010, Chief Executive Officer and Chairman of the Executive Committee of LCL – Le Crédit Lyonnais, permanent representative of LCL – Le Crédit Lyonnais at the Fondation de France, and Chairman of the Executive Committee of the French Banking Federation (2008 to 2009). Georges Pauget was also Chairman of the Board of Directors of the Amundi Group until the end of February 2011 and of Viel & Cie until March 14, 2012.

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

Georges Pauget is a Doctor in Economic Sciences, and holds a master's degree in Economic Sciences, with econometrics as his specialization, from the University of Lyon.

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

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

OLIVIER PIOU
INDEPENDENT DIRECTOR

French
Age: 62
1, avenue Frédéric Le Play
75007 Paris, France

First appointed: 05/23/2019
Start of current term of office: 05/23/2019
End of current term of office: Shareholders' Meeting called to approve the 2022 financial statements
Number of shares held: 15,000
Membership of Board committees:
- Audit & Risks Committee
- Strategy Committee

Main position held outside the Company
- Director, TechnipFMC (until February 16, 2021) (United Kingdom) ♦ (member of the Strategy Committee and the Environmental, Social and Governance Committee)

Directorships and other offices currently held

Directorships and other offices within the Group
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Directorships and other offices held outside the Group
- Director, TechnipFMC (United Kingdom) ♦

Directorships and other offices held within the past five years
- Chief Executive Officer, Gemalto NV (Netherlands)
- Director, Alcatel-Lucent, Gemalto NV (Netherlands) and Nokia (Finland)

Summary of main areas of expertise and experience

Olivier Piou has extensive executive experience and recognized expertise in the field of digital security, having spent a number of years in general management positions at Schlumberger, Axalto and Gemalto, including as Chief Executive Officer of Gemalto from 2006 to 2016.

Olivier Piou began his career with Schlumberger in 1981 as a production engineer, and has held various senior management positions in the technology, marketing and operations divisions of Schlumberger in France and the United States. He was Chief Executive Officer of Axalto, Schlumberger Limited's Smart Cards division, at the time of its initial public offering in 2004. He then successfully completed the merger between Axalto and Gemplus to create Gemalto.

In 2015, he was ranked as one of the world's best-performing chief executive officers by the prestigious Harvard Business Review.

He also served as a member of the Board of Directors of TechnipFMC until February 16, 2021. He served as Chairman of Eurosmart, a trade association for the smart cards industry, from 2003 to 2006. He served as a director of Axalto NV from 2004 to 2006, of Gemalto from 2006 to 2019, of INRIA (*Institut national de recherche en informatique et en automatique*), the French national institute for research in computer science and control, from 2003 to 2010, of Alcatel-Lucent from 2008 to 2016 and of Nokia from 2016 to 2020.

Olivier Piou is a graduate of the École Centrale de Lyon and is a *Chevalier de la Légion d'honneur* (Knight of the Legion of Honor).

He is a French citizen and speaks French and English.

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

PATRICK SAYER

INDEPENDENT DIRECTOR

French
Age: 63
Augusta
143, avenue
Charles-de-Gaulle
92200 Neuilly-sur-Seine,
France

First appointed: 05/23/2019
Start of current term of office: 05/23/2019
End of current term of office: Shareholders' Meeting called to approve the 2022 financial statements
Number of shares held: 1,500
Membership of Board committees:

- Governance, Appointments & Corporate Social Responsibility Committee
- Compensation Committee
- Strategy Committee (Chairman since October 27, 2020)

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Main position held outside the Company

- Chairman of Augusta

Directorships and other offices currently held

Directorships and other offices within the Group

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Directorships and other offices held outside the Group

- Chairman, Augusta, CarryCo Capital 1, CarryCo Croissance and CarryCo Croissance 2 (Eurazeo group)
- Member of the Supervisory Board, Grand Port Maritime de Marseille (Chairman of the Audit Committee), Eurazeo SE (member of the Finance Committee)♦ and Europcar Mobility group (until February 26, 2021) (member of the Strategic Committee) ♦
- Director, Ipulse (United States), the Paris Museum of Decorative Arts *(Musée des arts décoratifs de Paris)*
- Founder member of the legal think-tank *Club des juristes*

Directorships and other offices held within the past five years

- Chairman of the Board of Directors, Eurazeo SE
- Managing Director, Legendre Holding 19
- Chairman, Eurazeo Capital Investissement, Legendre Holding 25, Legendre Holding 26 and AFIC
- Chairman of the Supervisory Board, Europcar Mobility group
- Member of the Supervisory Committee, Foncia Holding
- Director, Colyzeo Investment Advisors, Gruppo Banca Leonardo (Italy), Rexel, AccorHotels and Tech Data Corporation (United States)
- Manager, Investco 3d Bingen
- Vice Chairman and member of the Supervisory Board, ANF Immobilier

Summary of main areas of expertise and experience

Patrick Sayer is Chairman of Augusta, a family office that focuses on investing in three core sectors: new technologies, luxury goods and real estate.

He served as Chairman of the Management Board of Eurazeo, one of Europe's leading listed investment companies, from 2002 to 2018. He became a member of Eurazeo's Supervisory Board in 2018. After acquiring equity interests in Rhône Capital and Idinvest, Eurazeo directly and indirectly managed assets of almost €20 billion.

Previously, Patrick Sayer was a managing partner at Lazard Frères et Cie in Paris, which he joined in 1982, and a managing director of Lazard Frères & Co. in New York, where he was global head of media and technology. His private equity experience dates back to the creation of Fonds Partenaires, where he was active from 1989 to 1993. He is a director of Ipulse and the Paris Museum of Decorative Arts. He served as a member of the Supervisory Board of Europcar Mobility group until February 26, 2021 and a director of Tech Data Corporation in the United States until June 30, 2020. He is a former President (2006-2007) of the French Association of Investors for Growth *(Association française des investisseurs pour la croissance)* (AFIC), founder member of the legal think-tank *Club des juristes* and was a judge at the Paris Commercial Court *(tribunal de commerce de Paris)*. He is a lecturer in finance (masters program) at Paris Dauphine university.

Patrick Sayer is a graduate of *École polytechnique* (1980) and *Institut d'études politiques de Paris* (1982). He is also a certified financial analyst, completing the course at the French Society of Financial Analysts training center, where he has also taught classes.

He is a French citizen and speaks French and English.

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

ULRIKE STEINHORST

INDEPENDENT DIRECTOR

German
Age: 69
3, villa du Coteau,
92140 Clamart, France

First appointed: 02/24/2011

Start of current term of office: 06/25/2020

End of current term of office: Shareholders' Meeting called to approve the 2023 financial statements

Number of shares held: 1,500

Membership of Board committees:

- Strategy Committee
- Governance, Appointments & Corporate Social Responsibility Committee (in charge of CSR issues since October 27, 2020)
- Compensation Committee

Main position held outside the Company

- Founder, Nuria Consultancy, a consulting firm
- Director (various companies)

Directorships and other offices currently held

Directorships and other offices within the Group

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Directorships and other offices held outside the Group

- Chair, Nuria Consultancy
- Director, the Franco-German Chamber of Commerce and Industry, *École nationale supérieure des Mines ParisTech*, Mersen SA ♦ (Chair of the Governance and Remuneration Committee) and Albioma SA ♦ (Chair of the Nomination, Remuneration & Governance Committee and member of the Corporate Social Responsibility Committee)
- Member of the Management Committee of *Fonds de revitalisation industrielle* (GE)

Directorships and other offices held within the past five years

- Director, F2I (UIMM)
- Strategy, Planning and Finance Director, Airbus group's Technical Corporate division
- Director, Imagine (genetic disease research institute)
- Chief of Staff to the Executive Chairman of EADS

Summary of main areas of expertise and experience

Ulrike Steinhorst, a German citizen, has extensive experience in top-level corporate positions, mainly at EDF, Degussa/Evonik group and EADS/Airbus, with a strong focus on international business and strategy.

She joined the Électricité de France group in 1990 after being at the office of the Minister for European Affairs at the time of German reunification. Within EDF she held a number of positions before becoming head of the International Subsidiaries in the Industrial division. In 1999, she joined Degussa AG group in Germany, before returning to France in 2003 to head up the group's French business. In 2007, she joined EADS where she served as Chief of Staff to the Executive Chairman.

From 2012 until the end of 2017, she was Strategy, Planning and Finance Director at Airbus group's Technical Corporate division.

In 2017, she founded the consulting firm Nuria Consultancy. In addition to her consulting activities, she is an independent director of several listed companies.

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

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

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

GRZEGORZ SZELAG

DIRECTOR REPRESENTING EMPLOYEES (SINCE NOVEMBER 19, 2020)

Polish
Age: 43

Valeo Electric and Electronic Systems Sp. z.o.o

ul. Bestwińska 21

43-500 Czechowice-Dziedzice, Poland

First appointed by the European Works Council: 11/19/2020

Start of current term of office: 11/19/2020

End of current term of office: 11/19/2024

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

Membership of Board committees: –

Main position held outside the Company

–

Directorships and other offices currently held

Directorships and other offices within the Group

- Quality technician
- Secretary, European Works Council

Directorships and other offices held outside the Group

–

Directorships and other offices held within the past five years

–

Summary of main areas of expertise and experience

Thanks to his long experience with the Group and his involvement in its employee representative bodies over the past 15 years, Grzegorz Szelag possesses all the professional and interpersonal qualities required to fulfill the role of director representing employees.

Grzegorz Szelag has been working at Valeo in Czechowice, Poland, since 2002. He started his career as a production operator, before being promoted to production supervisor in 2002, and then quality technician in 2004.

In 2005, he became employee representative at the Czechowice site. He joined Valeo's European Works Council in 2006 as representative for Poland and became its Secretary in 2018.

Grzegorz Szelag has a degree from a mechanical engineering school.

When he was appointed as second director representing employees, he also completed a customized intra-company training course run by the French Institute of Directors (*Institut français des administrateurs* – IFA).

He is a Polish citizen and speaks Polish and English.

VÉRONIQUE WEILL

INDEPENDENT DIRECTOR

French
Age: 61
Publicis Groupe
133, avenue
des Champs-Élysées
75008 Paris, France

First appointed: 05/26/2016
Start of current term of office: 05/23/2017
End of current term of office: Shareholders' Meeting called to approve the 2020 financial statements
Number of shares held: 2,390
Membership of Board committees:
- Audit & Risks Committee
- Governance, Appointments & Corporate Social Responsibility Committee
- Compensation Committee

Main position held outside the Company

- General Manager responsible for Operations, IT, Real Estate, Insurance and M&A, Publicis Groupe

Directorships and other offices currently held

Directorships and other offices within the Group

–

Directorships and other offices held outside the Group

- Director, Translate Plus – Publicis Groupe (United Kingdom), BBH Holdings Ltd. (Bartle Bogle Hegarty) – Prodigious UK (United Kingdom), Gustave Roussy Foundation, Georges Besse Foundation and the Louvre Museum
- Chair of the Board of Directors, CNP Assurances (member of the Remunerations and Nominations committee, the Strategy Committee and the Follow-up Committee on the Implementation of the BPCE and La Banque Postale Partnerships) ♦
- Member of the Supervisory Board, Rothschild & Co ♦
- Member of the European Advisory Committee, Salesforce ♦

Directorships and other offices held within the past five years

- Chief Customer Officer, AXA group
- Chief Executive Officer, AXA Global Asset Management
- Member of the Scientific Board, AXA Research Fund
- Chair of the Board of Directors, AXA Assicurazioni Spa (Italy), AXA Aurora Vida, Sa De Seguros Y Reaseguros (Spain), AXA Pensiones SA, Entidad Gestora De Fondos De Pensiones, Sociedad Unipersonal (Spain), AXA Seguros Generales SA De Seguros Y Reaseguros (Spain), AXA Vida SA De Seguros Y Reaseguros (Spain), AXA Global Direct SA (France) and AXA Banque Europe (Belgium)
- Director, AXA Assistance SA (Italy), AXA MPS Assicurazioni Danni SpA (Italy) and AXA MPS Assicurazioni Vita SpA (Italy)

Summary of main areas of expertise and experience

Véronique Weill has a strong background in finance and M&A, as well as insurance, having spent more than 20 years in investment banking in the United States and France and then at AXA. She also has extensive experience in new and digital technologies.

Véronique Weill spent more than 20 years at J.P. Morgan, where she held various positions including global head of operations for the investment banking business and global head of IT and operations for the asset management and private banking business. In June 2006, she joined AXA as Chief Executive Officer of AXA Business Services and Director of Operational Excellence. She was also Chair and a director of various AXA subsidiaries in France, Spain, Italy and Belgium.

She was Chief Customer Officer for the AXA group and Chief Executive Officer of AXA Global Asset Management until January 18, 2017, as well as a member of the Scientific Board of the AXA Research Fund. She has been Chair of the Board of Directors of CNP Assurances since July 2020.

Véronique Weill is a graduate of *Institut d'études politiques de Paris* (IEP) and has a bachelor's degree in literature from the Sorbonne University.

She is a French citizen and speaks French and English.

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

3.2.2 Preparation and organization of the Board of Directors' work

Internal Procedures

On March 31, 2003, the Board of Directors adopted Internal Procedures, which are regularly updated, defining the operating procedures of the Board of Directors in addition to applicable legal and regulatory requirements and the provisions of the Company's articles of association. Acting on the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors updated its Internal Procedures on October 24, 2019. Internal procedures have also been drawn up for the Board of Directors' committees, and are included in the appendices of the Board of Directors' Internal Procedures.

The Internal Procedures are available on the "Corporate Governance" page of the Company's website (www.valeo.com).

Directors' rights and duties

The Internal Procedures include a Directors' Charter that sets out the principles that the directors must follow. This Charter imposes certain duties on directors in order to ensure, in particular, that (i) they are aware of the rules and regulations applicable to them, (ii) conflicts of interest are avoided, (iii) they dedicate the necessary time and attention to their duties and comply with the applicable provisions relating to multiple directorships, and (iv) as regards undisclosed information, they are bound by a duty of confidentiality that goes beyond the mere obligation of discretion provided by law. The Charter also specifies that while directors are individual shareholders, they represent all shareholders and must act in the interest of the Company in all circumstances. They also have a duty to be loyal to the Company.

Furthermore, members of the Board of Directors are responsible for ensuring that they have all the necessary information to carry out their duties. To this end, the Chairman and Chief Executive Officer provides directors with the information and documents required in order for them to fully perform their duties. The Lead Director, where applicable, also makes sure that the directors are fully informed.

As compensation for the work carried out by directors, Shareholders' Meetings may grant an annual fixed amount, allocated by the Board of Directors to its members under Article L.22-10-8 of the French Commercial Code on the compensation policy for corporate officers (*ex ante* vote). The Board of Directors may also grant directors exceptional compensation for specific assignments or tasks entrusted to them. The Board of Directors sets the compensation of the corporate officers (including the directors), based on recommendations made by the Compensation Committee. The compensation policy is subject to an *ex ante* vote by the shareholders and the compensation paid or awarded pursuant to that compensation policy is then subject to a general *ex post* vote by the shareholders.

Article 14 of Valeo's articles of association stipulates that each director must hold at least 1,500 registered shares throughout his/her term of office. This obligation is included in Article 1.1(b) of the Internal Procedures. In accordance with the law and the provisions of the Company's articles of association and the Internal Procedures, this requirement does not apply to directors representing employees.

Although not expressly provided for by the Internal Procedures, in practice the directors attend the Company's Shareholders' Meetings, in accordance with Recommendation 20 of the AFEP-MEDEF Code.

On January 23, 2008, the Board of Directors adopted a Code of Conduct on trading in financial instruments and compliance with regulations on insider trading, which governs trading in the Company's securities by members of the Board of Directors, executive corporate officers, members of the Executive Committee, Operations Committee and the Liaison Committee, and any person with inside information. The Board of Directors last updated its Code of Conduct on October 24, 2019 pursuant to Law No. 2019-744 of July 19, 2019 on the simplification, clarification and modernization of company law (the "**Soilihi law**"). On accepting their position, each member of the Board of Directors agreed to comply with the Code of Conduct.

This Code sets out the legal and regulatory provisions regarding the disclosure of trading in the Company's securities applicable to insiders, and in particular members of the Board of Directors, the Executive Committee, the Operations Committee and the Liaison Committee, any person with permanent or regular access to inside information and any Group employees who may appear on the lists of occasional insiders drawn up by Valeo ("**Insiders**").

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

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

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

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

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

Restrictions on trading in the Company's financial instruments apply to any person having inside information up to and including the date of publication of the press release on the inside information in question.

In addition, subject to the exceptions provided for in the applicable regulations, Insiders are prohibited from carrying out one or more transactions involving the Company's shares, debt securities, derivatives or other related financial instruments (including the sale of free shares and the exercise of stock purchase or subscription options), either on their own behalf or for third parties, directly or indirectly, during the following black-out periods:

- from the 30th calendar day inclusive preceding the date of publication of Valeo's press release on the annual and half-yearly results up to and including the date of publication of said press release on these financial statements;
- from the 15th calendar day inclusive preceding the date of publication of Valeo's quarterly information up to and including the date of publication of the press release on this quarterly information.

The statutory black-out periods applicable to the allotment of stock purchase or subscription options by the Board of Directors (Article L.22-10-56 of the French Commercial Code) must also be respected.

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

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

Average notice period for calling Board meetings

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

Representation of directors

Directors may be represented at Board of Directors' meetings by another director; however, at a single meeting each director only has a proxy to represent one director. The proxy must be given in writing. In 2020, none of the directors were represented by proxy at Board meetings.

Chairmanship of Board meetings

Board of Directors' meetings are chaired by the Chairman and Chief Executive Officer or, in his absence, by a Vice-Chairman, where applicable, or a director designated by the Board of Directors, including the Lead Director. All seven Board of Directors' meetings held in 2020 were chaired by its Chairman.

Directors' participation in Board meetings

The Internal Procedures allow directors to participate in Board of Directors' meetings by any videoconferencing or telecommunications technology that enables them to be identified and ensures that they actually participate in the meeting. Accordingly, directors who take part in Board meetings through such means are deemed to be present for the purposes of calculating the quorum and majority, except at meetings dedicated to the preparation of the annual parent company and consolidated financial statements and the related management reports (as provided for in Articles L.232-1 and L.233-16 of the French Commercial Code). The Chairman is required to state in the relevant meeting notice whether these methods can be used for certain meetings. Directors wishing to participate in a Board meeting by these methods must contact the General Secretary at least two working days before the meeting date (except in an emergency) in order to ensure that the relevant technical information can be exchanged and tests performed before the meeting takes place.

Under Article 16.4 of the Company's articles of association, the directors may be consulted in writing for decisions that fall within the Board of Directors' scope of authority as set out in the French Commercial Code, Article L.225-24 (appointment of a director if a seat becomes vacant due to death or resignation, or if the number of directors falls below the minimum legal requirement or the minimum requirement provided for under the articles of association, or if the gender balance is not observed), Article L.225-35, final paragraph (authorization of sureties, endorsements and guarantees), Article L.225-36, second paragraph (compliance of the articles of association with applicable laws and regulations) and Article L.225-103, I (calling a Shareholders' Meeting), as well as the decision to transfer the head office to another place in the same *département*.

Decision-making on the Board of Directors

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

Record of Board decisions

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

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

The frequency of Board of Directors' meetings and the average attendance rate of directors in the 2020 fiscal year are presented in section 3.2.1 of this chapter, paragraph "Attendance rate at Board of Directors' meetings", pages 106 and 107. The average duration of Board of Directors' meetings was about four hours. The frequency and duration of Board meetings allowed the review and in-depth discussion of matters falling within the competence of the Board of Directors.

Directors' access to information

Directors' access to information

The Company's new directors receive training to help them learn about the Company, its business lines and business sector, and its corporate social responsibility (CSR) challenges. They also attend an annual three-day strategy seminar, held in a different part of the world each year. Its purpose is mainly to provide genuine insight into the discussions of the Board of Directors and to gain a practical understanding of the Group's specificities. During the seminar, the directors visit the Group's production facilities and those of its partners. They also meet the local operational teams and local management, and are given presentations on the Group's products and business operations. Due to the restrictions introduced during the Covid-19 pandemic, the 2020 strategy seminar was held at the Company's head office over two days.

In accordance with the recommendations in the AFEP-MEDEF Code, the Company devised a specific training program for Éric Chauvirey prior to his appointment as a director representing employees on June 30, 2017. In this respect, he successfully completed a training course on the role of company directors run by the Institut d'études politiques de Paris (IEP) in partnership with the French Institute of Directors (*Institut français des administrateurs* – IFA), as well as several sessions on the Group's various product lines. Grzegorz Szelag, the second director representing employees appointed by the European Works Council on November 19, 2020, also completed a customized intra-company training course run by the French Institute of Directors (*Institut français des administrateurs* – IFA). He was also given immersion sessions with the Chairman and Chief Executive Officer, the Associate Chief Executive Officer; the General Counsel and General Secretary, the Chief Financial Officer, the Senior Vice-President, Human Resources; the Vice-President, Corporate Strategy and External Relations and Senior Vice-President, Research & Development and Product Marketing.

Within the scope of the Board of Directors' work, each director is given all the information required to perform his/her duties. The agenda for any upcoming Board of Directors' meeting and details of agenda items requiring upfront analysis and consideration are provided within a sufficient time frame and at least 48 hours (except in an emergency) before the meeting, provided that this is not incompatible with confidentiality requirements.

Directors who are not able to make an informed decision due to lack of information must notify the Chairman and Chief Executive Officer and/or the Lead Director and request the information they deem necessary to fulfill their duties. Requests for information needed to perform their duties must be made to the Chairman and Chief Executive Officer or to the Lead Director, who will then notify the Chairman and Chief Executive Officer. Generally, each director receives the information that he/she needs to perform his/her duties and may be given all the related documents by the Chairman and Chief Executive Officer once the Board of Directors has determined that they are relevant.

The Chairman and Chief Executive Officer shares with the directors any information about the Company that he has and that he deems relevant to share on an ongoing basis.

The Lead Director, where applicable, will ensure that the directors are provided with the information necessary to carry out their duties and verify that this information is provided to them prior to the Board of Directors' meetings. The Lead Director is in regular contact with General Management and ensures that any information concerning the Company is reported to the Board of Directors.

Guests of the Board of Directors

In 2020, the Associate Chief Executive Officer, the General Counsel and General Secretary and the Chief Financial Officer attended all meetings of the Board of Directors. Other members of the Group's Management attended for certain specific matters, including the Chief Ethics and Compliance Officer for the gender diversity, equality and diversity policy in the Group, the Health, Safety and Environment Officer for safety within the Group, the Vice-President, Sustainable Development and External Affairs for the corporate social responsibility (CSR) policy, the Vice-President, Corporate Strategy and External Relations and Senior Vice-President, Research & Development and Product Marketing for matters related to the Group's operations. The Group's Statutory Auditors attended parts of some Board of Directors' meetings. A representative of the firm Spencer Stuart and a representative of the firm Gide Loyrette Nouel also took part in a Board meeting to discuss the succession plan for the Chairman and Chief Executive Officer.

Role of the Board of Directors

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

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

- convene Shareholders' Meetings and set the agendas thereof;
- draw up the parent company and the consolidated financial statements, the Annual Management Report and the forecast management documents;
- draw up the Corporate Governance Report;
- authorize related party agreements;
- appoint and remove the Chairman and Chief Executive Officer and the Executive Vice-Presidents from their positions and set their compensation;
- appoint the members of the committees;
- allocate compensation to the directors in accordance with the compensation policy;
- transfer the head office within French territory provided that the decision is approved at the next Ordinary Shareholders' Meeting;
- acting under the authority of the Extraordinary Shareholders' Meeting, amend the articles of association as necessary to ensure their compliance with applicable laws and regulations, provided that the articles of association are approved at the next Extraordinary Shareholders' Meeting;
- authorize sureties, endorsements and guarantees;
- issue non-dilutive bonds and/or securities giving or not giving access to the share capital;
- decide on any planned merger or spin-off;
- authorize the Chairman and Chief Executive Officer to carry out any significant transactions, i.e., the acquisition or sale of any subsidiary, interest or any other asset or investment of any kind, for a sum of more than 50 million euros per transaction;
- review the Group's industrial and financial strategy by devoting, in particular, one session per year to this review.

The Board of Directors is also informed about market and competitive trends and the main challenges faced by the Company, including those related to corporate social responsibility (CSR). It endeavors to promote the Company's long-term value creation whilst taking into consideration the social and environmental impacts of its operations.

In 2020, the main topics addressed by the Board of Directors concerned in particular:

- the financial position, cash position, and commitments of the Group, and in particular:
  - reviewing the approximate 2019 results, the 2020 preliminary budget and the 2020 final budget,
  - the Statutory Auditors' presentation on the parent company and the consolidated financial statements for the 2019 fiscal year, and on the review of the interim consolidated financial statements for the six months ended June 30, 2020,
  - preparing the parent company and the consolidated financial statements for the 2019 fiscal year,
  - reviewing the consolidated results for the first half of 2020 and the outlook for the second half of 2020,
  - preparing the Management Report and the related notes for the 2019 fiscal year,
  - recommending the dividend payment and reviewing the dividend amount for 2019,
  - reviewing the quarterly figures and results, and the forecasts and projections prepared for 2020,
  - reviewing the 2020-2025 mid-term plan;
- oversight relating to key strategies, and in particular:
  - reviewing the impact of the Covid-19 pandemic on market conditions: at each Board meeting, an update was given on developments in the pandemic, the health and safety measures taken, the impact on the automotive industry and on Valeo's operations, and the financial measures and variabilization of costs,
  - discussing acquisitions, investments and strategic operations under review,
  - major project development,
  - monitoring changes in the industry and the Group's key strategies,
  - reviewing trends in the automotive market and the competitive environment,

  - reviewing the Group's sustainability policy and its main sustainability achievements, including a review of the policy for reducing the Group's CO_2 emissions and its carbon neutrality plan, the objective of which is to reach carbon neutrality in 2050 with a 45% achievement rate by 2030;
- executive compensation, and in particular:
  - reviewing the Chairman and Chief Executive Officer's variable compensation and pension plan for 2019,
  - reviewing the 2020 Compensation Policy for the Chairman and Chief Executive Officer,
  - reviewing the Chairman and Chief Executive Officer's long-term compensation and allotment level for 2020,
  - reviewing the Chairman's components of compensation and pension benefits after separation of the roles of Chairman and Chief Executive Officer,
  - reviewing the Deputy Chief Executive Officer's components of compensation and pension benefits,
  - reviewing Christophe Périllat's components of compensation and pension benefits as future Chief Executive Officer, after separation of the roles of Chairman and Chief Executive Officer,
  - examining the plan to allot free shares or performance shares to Group employees in 2020,
  - measuring the performance criteria for the 2020 performance share plans,
  - examining the Shares4U 2020 employee share ownership plan;
- corporate governance and internal control, and in particular:
  - reviewing the status of directors in light of the independence criteria set out in the Internal Procedures,
  - reviewing the role and responsibility of directors,
  - reviewing risk mapping and the Group's risk management systems,
  - assessing the operation of the Board of Directors and the committees,
  - reviewing the gender diversity, equality and diversity policy within the Group,
  - composition and chairmanship of the committees, including appointing Ulrike Steinhorst in charge of corporate social responsibility topics within the Governance, Appointments & Corporate Social Responsibility Committee, given the increasing importance of these matters,
  - appointing and reappointing directors and reviewing the succession plan for directors,
  - reviewing the succession and development plan for the Group's main executive managers,
  - determining the succession plan for the Chairman and Chief Executive Officer,
  - reviewing directors' compensation,
  - drawing up the Corporate Governance Report,
  - reviewing the draft report of the Lead Director,
  - reviewing the provisions of the consolidated AFEP-MEDEF Code (comply or explain), the report of the High Committee on Corporate Governance, and the AMF's report on executive compensation,
  - implementing the Company's transformation into a European Company;
- financial operations, and in particular:
  - sureties, endorsements and guarantees,
  - granting free shares and performance shares,
  - issuance of bonds,
  - share buybacks;
- other matters, and in particular:
  - calling the Ordinary and Extraordinary Shareholders' Meeting (including deciding on the content of draft resolutions, the Board of Directors' Report on the resolutions and special reports),
  - reviewing related party agreements that remain in effect over time,
  - adopting Valeo's internal charter on related party agreements and the procedure for reviewing transactions entered into in the ordinary course of business on an arm's length basis,
  - reviewing transactions entered into in the ordinary course of business on an arm's length basis,
  - reviewing the cost savings program and cost control,
  - reviewing press releases,
  - reviewing the ownership structure and any changes,
  - analyzing share price trends,
  - reviewing relations with the labor organizations,
  - reviewing CSR and safety policies,
  - defining the Company's *raison d'être*,
  - reviewing the Group's financial and fiscal policy and insurance program,
  - reviewing the Group's compliance policy, particularly as regards anti-corruption, economic sanctions, and compliance with competition law, the General Data Protection Regulation (GDPR) and the Sapin II law,
  - reviewing IT governance.

Committees created by the Board of Directors

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

At December 31, 2020, the committees of the Board of Directors were:

- Governance, Appointments & Corporate Social Responsibility Committee;
- Compensation Committee;
- Audit & Risks Committee;
- Strategy Committee.

The Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee resulted from the split of the Appointments, Compensation & Governance Committee decided by the Board of Directors on January 26, 2017. The purpose of the split was to achieve continuous improvement in governance and to promote sustainable development topics. When the split took place, it was decided that (i) initially, the composition of the two new committees would remain the same as that of the Appointments, Compensation & Governance Committee, but would evolve at a later stage, and (ii) pending a subsequent change in the composition of the Compensation Committee and the Governance, Appointments & Corporate Social Responsibility Committee, the members of the two committees would not receive any additional compensation (formerly directors' fees) for their attendance at both committees (instead of one prior to the split). Given the current composition of these committees, this rule has been maintained since then, including in 2020.

The various committees reported regularly on their work to the Board of Directors in 2020.

Governance, Appointments & Corporate Social Responsibility Committee

At December 31, 2020, the composition of the Governance, Appointments & Corporate Social Responsibility Committee was as follows:

- Gilles Michel (Chairman, Lead Director and independent director);
- Ulrike Steinhorst (in charge of CSR issues since October 27, 2020 and independent director);
- Bpifrance Participations, represented by Stéphanie Frachet (independent director);
- C. Maury Devine (independent director);
- Patrick Sayer (independent director);
- Véronique Weill (independent director).

Changes in the committee's composition during 2020 are presented in the table in section 3.2.1 of this chapter, paragraph "Composition of the Board of Directors at December 31, 2020 and changes during 2020", pages 104 to 105.

All the members are independent directors and the Company therefore complies with the provisions of Article 17.1 of the AFEP-MEDEF Code recommending that the majority of directors on the Appointments Committee be independent. This provision has been written into its internal procedures. In accordance with the internal procedures of the Governance, Appointments & Corporate Social Responsibility Committee, the Senior Vice-President, Human Resources, or any other person designated by the Chairman of the committee acts as the secretary of meetings of the committee. The Lead Director, where applicable, may attend and take part in any Governance, Appointments & Corporate Social Responsibility Committee meetings, even if he is not a member. Lastly, the Chairman and Chief Executive Officer is not a member of the committee but is involved in its work, except for discussions regarding the renewal of his term of office (including when the roles of Chairman of the Board and Chief Executive Officer are combined).

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

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

b) as regards selection and appointments:
- preparing the composition of the Company's governing bodies, by making reasoned recommendations regarding the appointment of executive corporate officers, directors, including the Lead Director, where applicable, as well as members of the committees and the Chairman of each of these committees (except for its own Chairman) as well as by drawing up a succession plan for the executive corporate officers and directors (see section 3.2.1 of this chapter, paragraph "Succession plan", page 115),
- reviewing the status of each director in light of the independence criteria set out in the Internal Procedures,
- selecting candidates for the position of director;

c) as regards corporate social responsibility:
- reviewing the main thrusts of the Company and Group's corporate social responsibility policy,
- identifying corporate social responsibility objectives and challenges, and making sure that the previously defined objectives are met,
- overseeing the gradual and increasing implementation of Valeo's corporate social responsibility policy and assessing the Group's contribution to sustainable development,
- in conjunction with the Audit & Risks Committee, gaining an understanding of the risks and topics involved in corporate social responsibility, and obtaining information about the resources the Group can call on to pursue its strategy in this area.

It should be noted that within the scope of its roles and responsibilities as regards selection and appointments, the choice of candidates for the duties of director by the committee is guided by the interests of the Company and all its shareholders. It takes the following criteria into consideration as part of the diversity policy: (i) the appropriate balance of the composition of the Board of Directors based on the composition of the Company's ownership structure and any changes thereto, (ii) gender balance, (iii) any representation of vested interests, (iv) the timeliness of renewing directorships, (v) the integrity, skills, international experience, nationality and independence of each candidate, and (vi) the appropriate number of independent directors. The committee must also strive to reflect diverse experience and perspectives, while ensuring for the Board of Directors (i) the objectivity and independence required in relation to General Management, a specific shareholder or group of shareholders, and (ii) the stability of the Company's corporate bodies.

When issuing opinions or recommendations on selections and appointments, the committee must ensure that (i) at least half of the members of the Board of Directors are independent directors, (ii) the Chairman and Chief Executive Officer is not a member of the Audit & Risks Committee, and (iii) at least two-thirds of the Audit & Risks Committee members are independent directors. The committee conducts its own research on potential candidates before contacting them.

In carrying out its duties, the committee may contact the Company's executive managers or request external technical studies on matters falling within its remit, in particular after informing the Chairman and Chief Executive Officer and reporting to the Board of Directors.

The Governance, Appointments & Corporate Social Responsibility Committee met five times in 2020 with an average attendance rate of 100% (see section 3.2.1 of this chapter, paragraph "Attendance rate at Board of Directors' meetings", pages 106 and 107, which presents the average attendance rate of each member at Governance, Appointments & Corporate Social Responsibility Committee meetings).

During these meetings, the Governance, Appointments & Corporate Social Responsibility Committee in particular:

- reviewed the proposal to separate the roles of Chairman and Chief Executive Officer, as well as the succession and development plan for the Chairman and Chief Executive Officer and the Group's main executive managers (see section 3.2.1 of this chapter "Succession plan", page 115);
- reviewed directors' independence, including with regard to significant business relationships;
- reviewed potential candidates for appointment as director;
- reviewed the assessment of the operating procedures of the Board of Directors and its committees for 2019;
- reviewed and proposed changes to the composition of the committees, including appointing Ulrike Steinhorst as in charge of corporate social responsibility topics within the Governance, Appointments & Corporate Social Responsibility Committee, given the increasing importance of these matters;
- reviewed progress in the search for new directors and the succession plan for directors;
- reviewed the proposed changes to the articles of association;
- reviewed the Comply or Explain table pursuant to the provisions of the consolidated AFEP-MEDEF Code, the report of the High Committee on Corporate Governance's report, and the AMF's report on corporate governance and executive compensation;
- discussed the main legislative and regulatory developments in corporate governance;
- discussed the appointment of a second director representing employees;
- reviewed the Group's CSR and safety policy and its main achievements in that area, including a review of the policy for reducing the Group's CO_2 emissions and its carbon neutrality plan, the objective of which is to reach carbon neutrality in 2050 with a 45% achievement rate by 2030;
- reviewed the Company's *raison d'être*;
- reviewed the non-discrimination, diversity and gender diversity policy within the Group, and approved the gender diversity plan for 2030;
- discussed the Company's transformation into a European Company;
- reviewed Valeo's internal charter on related party agreements and the procedure for reviewing transactions entered into in the ordinary course of business on an arm's length basis;
- reviewed transactions entered into in the ordinary course of business on an arm's length basis;
- reviewed the Corporate Governance Report;
- reviewed the draft report of the Lead Director;
- reviewed the career development plans for the main Group executive managers;
- reviewed relationships with the labor organizations, in particular as regards Valeo's labor relations strategy;
- implemented the Company's transformation into a European Company.

Compensation Committee

At December 31, 2020, the members of the Compensation Committee were:

- Gilles Michel (Chairman, Lead Director and independent director);
- Bpifrance Participations, represented by Stéphanie Frachet (independent director);
- Éric Chauvirey (director representing employees);
- C. Maury Devine (independent director);
- Patrick Sayer (independent director);
- Ulrike Steinhorst (independent director);
- Véronique Weill (independent director).

Changes in the committee's composition during 2020 are presented in the table in section 3.2.1 of this chapter, paragraph "Composition of the Board of Directors at December 31, 2020 and changes during 2020", pages 104 to 105.

All the members are independent directors (except for the director representing employees who, in accordance with the recommendation in Article 15.1 of the AFEP-MEDEF Code, does not count) and the Company therefore complies with the provisions of the AFEP-MEDEF Code recommending that the majority of directors on the Compensation Committee be independent and that a director representing employees be a member of the Compensation Committee (Article 18.1). In accordance with the internal procedures of the Governance, Appointments & Corporate Social Responsibility Committee, the Senior Vice-President, Human Resources, or any other person designated by the Chairman of the committee, acts as the secretary of meetings of the committee. The Lead Director, where applicable, may attend and take part in any Compensation Committee meetings, even if he is not a member. Lastly, the Chairman and Chief Executive Officer is not a member of the Compensation Committee but takes part in its work on the compensation policy for the main executive managers who are not corporate officers of the Company.

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

- studying and making recommendations concerning the compensation paid to executive corporate officers, particularly as regards:
  - the variable component of their compensation: the committee defines the method for setting the variable component taking into account the performance of the executive corporate officers during the year and the medium-term strategy of the Company and the Group, and makes sure that these rules are applied,
  - all benefits in kind, performance shares or stock purchase or subscription options received from any Group company, pension provisions and any other benefits;
- making recommendations to the Board of Directors on the rules for allocating directors' compensation and the individual amounts to be paid to each director, taking into account the actual number of Board and Committee meetings attended;
- recommending to the Board of Directors an aggregate amount of directors' compensation to be proposed at the Shareholders' Meeting;
- giving its opinion to the Board of Directors on the general policy for allotting stock purchase or subscription options and free shares or performance shares, as well as on the stock option, free share and performance share plans set up by the Group's General Management in accordance with applicable rules and recommendations;
- making recommendations to the Board of Directors on the allotment of stock purchase and/or subscription options and free shares or performance shares, giving reasons for its choice and the related consequences;
- keeping informed about the compensation policy for the main executive managers who are not corporate officers of the Company or of other Group companies; and
- reviewing any questions submitted to the committee by the Chairman about the above matters, as well as proposed share issues reserved for employees.

The Annual Corporate Governance Report contains information for the shareholders about compensation paid to executive corporate officers, the principles and method of setting their compensation, and any stock purchase or subscription options or performance shares allotted to them.

In carrying out its work, the committee may hear Company and Group Executive Management teams, after first informing the Chairman and Chief Executive Officer. Where appropriate, and provided that it first informs the Chairman and Chief Executive Officer, it may be assisted by independent consultants.

The Compensation Committee met five times in 2020 with an average attendance rate of 100% (see section 3.2.1 of this chapter, paragraph "Attendance rate at Board of Directors' meetings", pages 106 and 107, which presents the average attendance rate of each member at Compensation Committee meetings).

During these meetings, the Compensation Committee in particular:

- reviewed directors' compensation;
- reviewed the Chairman and Chief Executive Officer's fixed and variable compensation for 2019 and established the 2020 compensation policy for the Chairman and Chief Executive Officer;
- reviewed the Chairman of the Board of Director's components of compensation after separation of the roles of Chairman and Chief Executive Officer;
- reviewed Christophe Périllat's components of compensation and pension benefits as future Deputy Chief Executive Officer;
- reviewed the Chief Executive Officer's components of compensation and pension benefits after separation of the roles of Chairman and Chief Executive Officer;
- examined the plan to allot free shares or performance shares to the Chairman and Chief Executive Officer and to Group employees, as well as the allotment level for the Chairman and Chief Executive Officer in 2020;
- reviewed the 2020 performance criteria for variable compensation and the award of performance shares to the Chairman and Chief Executive Officer;
- reviewed long-term incentives and the impact of the 2019 results on the LTI plans;
- reviewed the proposed resolutions (*ex ante* and *ex post* votes) submitted to the Shareholders' Meeting on June 25, 2020 on the Chairman and Chief Executive Officer's compensation, the directors' compensation and the corresponding draft Board of Directors' report;
- examined the press releases on the Chairman and Chief Executive Officer's compensation;
- reviewed the compensation of the Group's main executive managers;
- reviewed the Shares4U 2020 employee share ownership plan;
- reviewed the compensation section of the Corporate Governance Report.

Audit & Risks Committee

At December 31, 2020, the members of the Audit & Risks Committee were:

- Thierry Moulonguet (Chairman and independent director);
- Bpifrance Participations, represented by Stéphanie Frachet (independent director);
- Bruno Bézard (independent director);
- Fonds Stratégique de Participations, represented by Julie Avrane-Chopard (independent director);
- Mari-Noëlle Jégo-Laveissière (independent director);
- Olivier Piou (independent director);
- Véronique Weill (independent director).

Changes in the committee's composition during 2020 are presented in the table in section 3.2.1 of this chapter, paragraph "Composition of the Board of Directors at December 31, 2020 and changes during 2020", pages 104 to 105.

All the members of the Audit & Risks Committee are independent directors and the Company therefore complies with the provisions of Article 16.1 of the AFEP-MEDEF Code recommending that at least two-thirds of directors on the Audit & Risks Committee be independent. In accordance with the internal procedures of the Audit & Risks Committee, the Group Internal Audit Director or any other person designated by the Chairman of the committee acts as the secretary of meetings of the committee. The Chairman and Chief Executive Officer is not a member of the Audit & Risks Committee but may be invited to attend its meetings. The Lead Director, where applicable, may attend and take part in any Audit & Risks Committee meetings, even if he is not a member.

When they are appointed, if necessary, members of the Audit & Risks Committee may receive training on specific accounting, financial and operating issues related to the Company and the Group.

Through their training or business experience, all current members of the Audit & Risks Committee have financial and accounting skills. Therefore, the Company goes beyond the requirements of Article L.823-19 of the French Commercial Code according to which at least one member of the Audit & Risks Committee must have specialized financial, accounting or auditing skills and be independent. For details of the experience of the Audit & Risks Committee members, see section 3.2.1 of this chapter, paragraph "Presentation of directors in 2020", pages 116 to 132.

In accordance with Article L.823-19 of the French Commercial Code and its internal procedures, the roles of the Audit & Risks Committee are as follows:

a) as regards the financial statements:
- ensuring that the accounting policies adopted to prepare the consolidated and parent company financial statements are relevant, consistent and properly applied, and that material transactions are accounted for appropriately at Group entity level,
- monitoring the statutory audit work on the annual and consolidated financial statements, and at the end of the reporting period, reviewing and giving an opinion on the draft interim and annual parent company and consolidated financial statements prepared by the Finance Department before they are presented to the Board of Directors. For this purpose, all draft financial statements and any other useful documentation and information should be provided to the Audit & Risks Committee before the Board of Directors reviews the financial statements. In examining the financial statements, the Audit & Risks Committee should also be provided with (i) a memorandum from the Statutory Auditors reporting on the performance of their assignment and the findings of their work, thereby informing the committee of the principal risks and uncertainties identified by the Statutory Auditors in the financial statements, their audit approach and possible difficulties encountered in carrying out the assignment and (ii) a presentation from the Chief Financial Officer describing the Company's risk exposure and material off-balance sheet commitments and accounting options applied. The Audit & Risks Committee meets with the Statutory Auditors, the Finance Department (without General Management being present, where appropriate), and with General Management, to discuss depreciation, amortization, provisions, goodwill, consolidation principles and accounting policies, among other subjects,
- examining the draft interim financial statements, interim reports, activity report and earnings releases prior to publication, as well as any financial statements drawn up in connection with specific transactions (contributions, mergers, market operations, interim dividend payments, etc.),
- analyzing the scope of consolidation, and the reasons why certain companies may not have been consolidated,
- assessing the risks to which the Company is exposed as well as any material off-balance sheet commitments, and assessing the extent of the failures and weaknesses reported to it and informing the Board of Directors, where appropriate,
- reviewing the financial and accounting treatment of acquisitions or disposals in excess of 50 million euros per transaction, in conjunction with the opinions of the Strategy Committee where appropriate, and reviewing any key transactions which could have given rise to a conflict of interest;

b) as regards internal audit, internal control and risk management:
- monitoring the Group's risk management and internal control systems and, where appropriate, internal audit related to the procedures for preparing and processing financial, accounting and non-financial information within the Group. The committee ensures that there are risk management and internal control systems in place to identify, analyze, manage, and continuously improve the prevention and management of all types of risks that the Group may face in the course of its business, particularly those likely to have an impact on accounting, financial and non-financial information,
- receiving information on a regular basis from General Management on the organization and operation of risk management and internal control systems,
- regularly reviewing the risk mapping of the main risks identified (including financial, legal, operational, social and environmental risks) by General Management, the results of the operation of the risk management and internal control systems and the relevance of the risk monitoring procedure and ensuring that appropriate action plans have been implemented to mitigate the problems and weaknesses identified,
- ensuring that systems are in place for preventing and detecting bribery and influence peddling,
- reviewing the Group's compliance policy, particularly as regards anti-corruption, economic sanctions, and compliance with competition law, the General Data Protection Regulation (GDPR) and the Sapin II law,
- remaining informed about the main problem areas and weaknesses observed and the action plans approved by General Management,
- receiving Internal Audit reports or regular summaries of these reports,
- monitoring any issues linked to control and the process for preparing financial and accounting information,
- checking that internal procedures for compiling and verifying information are defined to ensure the information is reliable and reported in a timely manner,
- reviewing the Statutory Auditors' work plan,

- regularly meeting with managers of the Group's Internal Audit unit, giving its opinion on how their department is organized, and keeping informed of their work program,
- remaining regularly informed of the Group's external auditors' working plans and methods and on General Management's responses,
- reviewing and making observations about the draft Management Report detailing the internal control and risk management procedures implemented by the Company,
- reviewing any issue related to internal control, risk management, and internal audit submitted to the committee by the Board of Directors,
- asking General Management for any information,
- organizing an annual Audit & Risks Committee meeting dedicated to internal audit, internal control and risk management matters;

c) as regards the Statutory Auditors:
- assessing compliance with rules, principles and recommendations guaranteeing the independence of the Statutory Auditors and monitoring their independence, particularly by examining the risks to independence and the measures taken to mitigate such risks, in conjunction with the Statutory Auditors,
- supervising the procedure for selecting or renewing the Statutory Auditors based on the best, and not the lowest, tender and respecting the rotation obligations provided for by law; expressing an opinion on the proposed statutory audit fees; giving an informed opinion on the choice of Statutory Auditors and informing the Board of Directors of its recommendation in accordance with the law,
- obtaining details of fees paid by the Company and the Group to the statutory audit firm and its network, and of any non-audit services provided by the Statutory Auditors; ensuring that the amount or percentage that such fees represent in relation to the total revenues of the audit firm or network does not risk compromising their independence,
- pre-approving non-audit services;

d) as regards financial policies:
- remaining informed by General Management of the Group's financial position and of the methods and techniques used to define financial policy,
- keeping abreast of the main thrusts of the Group's financial strategy,
- reviewing external communications on accounting and financial matters or events liable to affect the Group's financial position or outlook, prior to their publication,
- giving an opinion on the resolutions submitted to Shareholders' Meetings relating to the parent company and consolidated financial statements,
- at General Management's request, giving an opinion on any resource allocation decisions which, in light of the beneficiaries or because of potential conflicts of interest, could give rise to difficulties in interpretation as to their compliance with legislative rules and the Company's articles of association,
- reviewing any financial or accounting matter referred to it by the Chairman, the Board of Directors, General Management or the Statutory Auditors, as well as any potential conflicts of interest brought to its attention;

e) as regards other reviews performed and falling within its remit:
- remaining informed by General Management and regularly hearing from the Tax Department on the Group's tax strategy and its implications,
- remaining informed by General Management and regularly hearing from the IT Services Department on the Group's information security and cybersecurity governance and policy,
- periodically reviewing the Group's Ethics and Compliance policy and the rules and procedures for its implementation,
- remaining informed by General Management and regularly hearing from the Insurance Department on the Group's insurance program,
- receiving information on a regular basis from General Management on the organization of the finance teams and the succession plan for these teams.

Any risk-related subject may be handled by the Audit & Risks Committee as part of its annual duties.

Furthermore, the internal procedures provide that the provision of non-audit services is subject to the approval of the Audit & Risks Committee and the verification by the Statutory Auditors of its independence, in accordance with the provisions of the French Commercial Code.

The approval of the Audit & Risks Committee is required for the provision of non-audit services by the Statutory Auditors or members of their network, in France or abroad, to the Company and entities controlling or controlled by the Company within the meaning of Article L.233-3 I and II of the French Commercial Code. For this purpose, the Audit & Risks Committee reviews the nature and scope of the services subject to its approval in accordance with the rules and regulations governing the independence of Statutory Auditors. In the absence of procedures required by the provisions, the Audit & Risks Committee implemented a procedure allowing it to fulfill its obligations, by drawing up a list of the non-audit services that can be provided by the Statutory Auditors or their network, with the related approval procedures. Each year, the Audit & Risks Committee will examine and pre-approve the list of the services that can be provided by the Statutory Auditors and will examine the list of prohibited services. These lists may be reviewed and amended by the Audit & Risks Committee at any time, where appropriate. The validity period of any pre-approval is 12 months, unless otherwise decided by the Audit & Risks Committee.

In order to implement this procedure, it is important to distinguish between:

- audit services that do not require the prior approval of the Audit & Risks Committee other than that required for the audit fee budget;
- non-audit services whose performance is required by law or regulations, which are authorized under a general procedure (general approval according to which once a year the Audit & Risks Committee approves all the services to be performed during the year as required by law or regulations). These services are pre-approved by the Audit & Risks Committee annually;
- non-audit services that are not prohibited, subject to prior approval based on the nature of the assignment. This prior approval based on the nature of the assignment is appropriate for services usually provided by the Statutory Auditors, for which an independence analysis has already been performed and which do not represent a risk to the independence of Statutory Auditors;
- non-audit services that are not prohibited, requiring approval on a case-by-case basis. The Audit & Risks Committee renders a decision after analyzing the risks in terms of independence and measures taken by the Statutory Auditors to mitigate these risks. It documents its findings;
- assignments not permitted to be carried out by the Statutory Auditors or their network.

The services mentioned above are set out in the Board of Directors' Internal Procedures, which include the internal procedures of the Audit & Risks Committee and are available on the "Corporate Governance" page of the Company's website (www.valeo.com).

The Audit & Risks Committee liaises mainly with General Management, the Finance Department, the Legal Department and the Ethics and Compliance Office, as well as with the Company's Statutory Auditors. The committee may interview members of the Finance Department, the Legal Department and the Ethics and Compliance Office, as well as the Company's Statutory Auditors without the members of General Management or executive corporate officers being present, if it sees fit and has previously notified the Chairman and Chief Executive Officer. The Audit & Risks Committee may interview third parties if this is deemed useful to complete its assignments.

The Audit & Risks Committee may also seek the assistance of external experts whenever it needs to, while ensuring that they are competent and independent, subject to informing the Chairman and Chief Executive Officer beforehand. The committee may not address issues that fall outside the scope of its role unless requested to do so. It has no decision-making authority.

The Audit & Risks Committee met five times in 2020 with an average attendance rate of 100% (see section 3.2.1 of this chapter, paragraph "Attendance rate at Board of Directors' meetings", pages 106 and 107, which presents the average attendance rate of each member at Audit & Risks Committee meetings).

During these meetings, the Audit & Risks Committee in particular:

- reviewed the draft financial statements for 2019;
- reviewed the Group's draft consolidated results for the first quarter of 2020 and the forecasts for the first half of 2020;
- reviewed the 2020 half-year financial statements in a context of unprecedented crisis and discussed with the directors the method to be used for impairment testing at June 30, 2020 in this specific context;
- reviewed the deferred tax situation at June 30, 2020 in view of the Covid-19 pandemic;
- reviewed the draft press releases containing financial information;
- reviewed the reports and analyzed the findings presented by the Statutory Auditors;
- reviewed the Covid-19 pandemic risk, in particular from a Group risk mapping point of view;
- reviewed the Management Report for the 2019 fiscal year;
- analyzed information presented by the Group's Financing and Treasury Director on the Group's financial policy;
- reviewed relations with rating agencies and the Group's liquidity;
- analyzed information presented by the Group Information Systems Director on information systems governance;
- analyzed information presented by the Internal Audit and Control Director on the summary of audit work performed in 2020, the outcome of the 2020 internal control self-assessment survey, the summary of the Statutory Auditors' work on their internal control review, the 2020 risk mapping, the action plans for the main risks identified in the risk mapping, and the 2021 audit plan;
- analyzed information presented by the Group's Head of Information Systems on cybersecurity;
- analyzed information presented by the Group's Head of Insurance on the Group's insurance program;
- analyzed information presented by the Tax Director on the Group's tax policy.

The Audit & Risks Committee's work complied with the objectives defined for it during the year. The financial statements were made available to the committee sufficiently in advance and it had adequate time to review them. The Audit & Risks Committee's work was facilitated by the presence of the Statutory Auditors, the Chief Financial Officer, the Internal Audit and Control Director, the General Counsel and General Secretary and the Accounting Director at all of the Audit & Risks Committee's meetings. The committee was also assisted by the work of Internal Audit. The Statutory Auditors' presentations mainly covered the findings of their audit of the annual parent company and consolidated financial statements as well as their limited review of the interim financial statements. They did not highlight any difficulties in carrying out their assignment.

The Audit & Risks Committee did not have any reservations concerning the annual parent company and consolidated financial statements or the interim financial statements presented to it.

Strategy Committee

At December 31, 2020, the members of the Strategy Committee were:

- Patrick Sayer (Chairman and independent director);
- Éric Chauvirey (director representing employees);
- Thierry Moulonguet (independent director);
- Olivier Piou (independent director);
- Ulrike Steinhorst (independent director).

Changes in the committee's composition during 2020 are presented in the table in section 3.2.1 of this chapter, paragraph "Composition of the Board of Directors at December 31, 2020 and changes during 2020", pages 104 to 105.

In carrying out its duties, the Strategy Committee may meet with Company and Group Executive Management teams, after first informing the Chairman and Chief Executive Officer. Where appropriate, and provided that it first informs, in particular, the Chairman and Chief Executive Officer, it may be assisted by independent consultants on matters dealt with by the committee. The committee can also interview third parties if this is deemed useful for the fulfillment of its responsibilities.

In accordance with the internal procedures, the Secretary of the Board of Directors or any other person designated by the Chair of the committee acts as the secretary of the meeting.

In accordance with its internal procedures, the Strategy Committee is responsible for submitting to the Board of Directors its opinions and recommendations on:

- the review of the Group's key strategies, market trend information, analyses of research activities, competition benchmarking and the resulting medium- and long-term outlook for the business;
- the analysis of the Group's development projects, particularly external growth transactions involving acquisitions and disposals of subsidiaries, equity investments and other assets, and any investments or borrowings in excess of 50 million euros per transaction;
- the review of development or expansion projects in a country where the Group does not operate and which represents a particular risk.

The Lead Director, where applicable, may attend and take part in any Strategy Committee meetings, even if he is not a member. In agreement with the Chairman and Chief Executive Officer, the committee may invite other directors to participate in its discussions.

The Strategy Committee met four times in 2020 with an average attendance rate of 94.44% (see section 3.2.1 of this chapter, paragraph "Attendance rate at Board of Directors' meetings", pages 106 and 107, which presents the average attendance rate of each member at Strategy Committee meetings).

The Strategy Committee conducts preliminary reviews and studies to facilitate the work of the Board of Directors, one of whose principal roles is to determine strategy for Valeo's businesses and ensure that they are implemented effectively. In addition, each year the directors hold a three-day seminar to discuss, debate and exchange views on the Group's strategy.

During these meetings, the Strategy Committee in particular:

- reviewed the Valeo Siemens eAutomotive joint venture;
- reviewed the Company's Research and Development (R&D) and innovation policies;
- reviewed the Group's digital initiatives;
- reviewed the innovations presented by Valeo at the Consumer Electronics Show in Las Vegas;
- reviewed the Group's various technological platforms;
- analyzed the technological choices made by the Group particularly as regards the autonomous vehicle and electrification;
- analyzed the Group's strategy in high voltage electrification;
- analyzed the Group's strategy as regards adjacent markets;
- updated annual sales projections out to 2025;
- reviewed the Group's strategy in China;
- analyzed and discussed potential acquisitions, investments and partnerships;
- reviewed the Group's strategic positioning.

Assessment of the Board of Directors' operating procedures

A process is carried out every year to assess the Board of Directors. The assessment is designed to help take stock of the Board of Directors' operating procedures, verify that the Board of Directors' discussions are properly organized and conducted, and assess the actual contribution of each director to the Board of Directors' work.

The assessment of the Board of Directors is carried out either based on a detailed questionnaire sent to each director (the responses are summarized internally), or based on a study carried out with the help of a specialized consulting firm.

As the previous year's assessment was performed internally, the Board of Directors decided to appoint an outside firm to conduct the 2020 assessment. The assessment was performed by a specialist consulting firm between the end of 2020 and the beginning of 2021 through individual interviews with all the directors based on an interview guide that was reviewed and approved by the Lead Director and the Secretary of the Board of Directors. The topics covered in the assessment included the Board of Directors' operating procedures, structure, governance, composition, duties, proceedings of meetings, directors' access to information, the choice of issues discussed, the quality of debate and directors' participation, and the general running of the Board committees.

The outcome of the assessment was reviewed by the Governance, Appointments & Corporate Social Responsibility Committee at its meeting on March 24, 2021, and presented and discussed at the Board of Directors' meeting held on March 24, 2021.

In its report, the specialist consulting firm noted that "*Valeo's governance has continued to improve and gain in strength since the previous assessment, thanks to:*

- *extremely efficient management of the Covid-19 crisis by the Chairman and Chief Executive Officer, the Associate Chief Executive Officer (formerly the Chief Operating Officer) and their teams, with an extremely open and transparent attitude towards the Board;*
- *the Board's great maturity throughout a challenging period and its supportiveness of management's handling of the Covid-19 crisis;*
- *a renewed Board, strengthened by the addition of new directors with a diversity of experience, who contributed to the quality of debate;*
- *a rigorous succession and governance development process that led to a solution unanimously approved by all Board members;*
- *a high quality working environment, with a Board increasingly involved in all major issues and members able to express their opinions freely in a constructive atmosphere."*

The main areas of satisfaction include:

- suggestions for improvement made during the previous assessment taken on board;
- unified governance adapted to the Company's situation, characterized in particular by:
  - effective coordination of the Board by the Chairman and Chief Executive Officer through transparency and receptiveness of its work, initiating discussion and encouraging the directors to engage in active debate,
  - a Lead Director who played his role effectively, particularly in the succession process for the Chairman and Chief Executive Officer,
  - an open, respectful Board of Directors with a genuine ability to dialog and listen, resulting in a collegial working style and convergence of points of view on various matters;
- strong commitment, involvement and support for the directors during management of the Covid-19 crisis, which was exemplary, for example, on health and safety matters;
- the quality of work done by all the committees, with good coordination between them and the Board and a well programmed rotation of various chairmanships;
- appointment of a person in charge of CSR issues for the Governance, Appointments & Corporate Social Responsibility Committee;
- the annual strategy seminar, which is considered a key event for the Board of Directors.

Based on the results of the assessment, the directors drew up a list of certain particular items that should be addressed by the Board of Directors. The list primarily concerns the following areas:

- as part of the Board of Directors' ongoing reflections on the appropriate balance of its composition, continued strengthening of technological and automotive expertise and greater internationalization;
- monitoring changes in the management team as part of the succession planning process and supporting the Chairman and Chief Executive Officer in bringing the future Chief Executive Officer up to speed;
- monitoring past decisions to bring insight and depth to new strategic reflections and feed the strategic debate.

3.2.3 Declarations concerning the Group's corporate officers

Conflicts of interest

In order to avoid any potential conflicts of interest, the Internal Procedures impose strict obligations on the members of the Board of Directors, unless overridden for any reason by the Board of Directors. According to the Internal Procedures:

- *"directors are required to inform the Lead Director and the Board of any conflicts of interest (whether actual or only potential) and must abstain from the discussions and vote on any matters discussed by the Board in which there could be a conflict of interest (whether actual or only potential)" (Article 1.1(d));*
- *"a director cannot accept any responsibilities that may present a conflict of interest (whether actual or only potential) with those he/she has accepted within the Company" (Article 1.1(n));*
- *"without prejudice to the authorization and control formalities provided for by law and the articles of association, the Company's directors are required to communicate to the Chairman, as soon as possible, any agreement entered into by the Company in which they have a direct or indirect interest. In particular, the directors must inform the Chairman of any agreement entered into by them or by a company they manage or in which they hold, directly or indirectly, a significant interest, and the Company or one of its subsidiaries, or which was entered into through an intermediary" (Article 1.4);*
- *"regarding conflicts of interest, the Lead Director:*
  - *prevents them from occurring by raising awareness of the circumstances that may generate such conflicts of interest,*
  - *notifies the Board of any conflicts of interest concerning the executive corporate officers and other members of the Board as may have been identified by the Lead Director directly or brought to his/her attention in accordance with Article 1.1(d) of the Board's Internal Procedures" (Article 1.7(b)).*

Furthermore, in response to a request made each year by the Company, the directors are required to provide a list of all directorships and other offices held in all companies in the past five years, and to respond to a questionnaire regarding the existence of any conflicts of interest.

At December 31, 2020, there are no conflicts of interest, as far as the Company is aware, between the duties of its corporate officers towards Valeo and their private interests and/or other duties.

There are business relationships between:

- the Group and the Cathay Capital group, in which Bruno Bézard is a Managing Partner of Cathay Capital Private Equity. These business relationships are not significant and do not affect Bruno Bézard's independence (see section 3.2.1 of this chapter, paragraph "Director independence review", pages 108 to 110). In the interests of good governance, should the Board of Directors be required to make a decision about (i) the existing investments made by the Group and managed by the Cathay Capital group, or (ii) any direct investment in companies in which the funds managed by the Cathay Capital group have invested, Bruno Bézard will abstain from the discussions and voting on any such decisions;
- between the Group and Peugeot SA, prior to the merger with Fiat Chrysler Automobiles on January 16, 2021, in which Bpifrance Participations was a member of the Supervisory Board. These business relationships do not affect the independence of either Bpifrance Participations or its permanent representative Stéphanie Frachet (see section 3.2.1 of this chapter, paragraph "Director independence review", pages 108 to 110). In any event, Stéphanie Frachet abstained from the discussions and vote on resolutions concerning any matters involving Peugeot SA;
- between the Group and the Constellium group, in which Stéphanie Frachet is a director. These business relationships are not significant and do not affect Stéphanie Frachet's independence (see section 3.2.1 of this chapter, paragraph "Director independence review", pages 108 to 110). Should the Board of Directors make any decision about a commitment to the Constellium group, Stéphanie Frachet will abstain from the discussions and vote on any such decision;
- the Group and the BNP Paribas group, which is one of the Group's main financial services providers and also provides the Group with real estate services. On the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee and after an analysis of the situation, the Board of Directors expressly authorized Jacques Aschenbroich to accept a directorship in BNP Paribas in 2017. The business relationship with BNP Paribas is longstanding and existed prior to Jacques Aschenbroich's appointment as Chief Executive Officer of the Group on March 20, 2009. It has not evolved significantly over the past few years. The Group has other financial and real estate services providers and its practice is to go out to tender for any new financial service in order to obtain the best possible terms and conditions. Furthermore, Jacques Aschenbroich does not hold any executive office within the BNP Paribas group. Should the Board of Directors make any decision about a commitment to BNP Paribas, Jacques Aschenbroich will abstain from the discussions and vote on any such decision.

The Internal Procedures, including the rules on preventing conflicts of interest, are available on the "Corporate Governance" page of the Company's website (www.valeo.com).

Service contracts between the members of the Board of Directors and the Company or any of its subsidiaries

No service contracts have been entered into between the members of the Board of Directors and the Company or any of its subsidiaries providing for the granting of benefits.

Other declarations concerning members of the Board of Directors

In accordance with the provisions of the Internal Procedures, directors must inform the Chairman and Chief Executive Officer and the Chairman of the Governance, Appointments & Corporate Social Responsibility Committee if they are solicited to hold a corporate office outside the Company, so as to enable said persons to consider the action to be taken, where applicable in conjunction with the Board of Directors. In addition, the Internal Procedures stipulate that each executive corporate officer must seek the opinion of the Board of Directors before accepting a new corporate office in a listed company.

To the best of the Company's knowledge, there are no family ties between the members of the Board of Directors.

As far as the Company is aware, in the past five years no member of the Board of Directors has (i) been convicted of a fraudulent offense, (ii) been involved in any bankruptcies, receiverships or liquidations, (iii) been issued any official public incriminations and/or sanctions by statutory or regulatory authorities (including designated professional bodies), or (iv) been disqualified by a court of law from acting as a member of the administrative, management or supervisory bodies of an issuer, or from acting in the management or conduct of the affairs of any issuer.

As far as the Company is aware, none of the members of the Board of Directors have agreed to any restrictions concerning the disposal of their interests in the Company's share capital within a certain period of time, other than the restrictions set down by the applicable laws and regulations, the Company's articles of association or pursuant to the Code of Conduct described in section 3.2.2 of this chapter, paragraph "Directors' rights and duties", pages 133 to 134.

As indicated in section 3.3.1 of this chapter, "Compensation policies for corporate officers", pages 154 to 177, the Chairman and Chief Executive Officer is subject to holding obligations and, in accordance with the Company's articles of association and the Internal Procedures, directors (except for the director representing employees) must hold at least 1,500 shares in the Company during their term of office.

As far as the Company is aware, no arrangement or agreement has been signed with the main shareholders, or with customers or suppliers, under which one of them is selected to become a director of Valeo or a member of its General Management.

3.2.4 Corporate Governance Code

In 2020, the Company referred to the AFEP-MEDEF Corporate Governance Code of Listed Companies, which is available on the MEDEF website (www.medef.com). In accordance with the AFEP-MEDEF Code, the High Committee on Corporate Governance is responsible for overseeing its application.

The Company's practices comply with the recommendations set out in the AFEP-MEDEF Code, which requires specific disclosures regarding the application of its recommendations and explanations, where appropriate, of the reasons for which a company has not implemented certain recommendations. In this case, for 2020, this involves the recommendations set out in the following table.

Recommendations	Explanation
Board of Directors' compensation (Article 21.1 of the AFEP-MEDEF Code) *"It should be recalled that the method of allocation of this compensation, the total amount of which is determined by the shareholders' meeting, is set by the Board of Directors. It should take account, in such ways as it shall determine, of the directors' actual attendance at meetings of the Board and committees, and the amount shall therefore consist primarily of a variable portion."*	The rules for allocating directors' compensation are based on the directors' attendance at Board of Directors' and committee meetings, such that the variable portion has the heavier weighting. However, this rule is not followed for the committee Chairs and the Lead Director, given the special duties they assume.
Supplementary pension schemes with defined benefits governed by Article L.137-11 of the French Social Security Code *(Code de la sécurité sociale)* (Article 25.6.2 of the AFEP-MEDEF Code) *"(...) the beneficiaries must meet reasonable requirements of seniority within the company, equal to at least two years, as determined by the Board of Directors, before they benefit from payments from a pension plan with defined benefits."*	The Board of Directors' meetings of April 9, 2009 and October 20, 2009, on the recommendation of the Appointments, Compensation & Governance Committee, decided to credit Jacques Aschenbroich, on appointment, with five additional years of service in view of his age and the fact that he was not covered by any other supplementary pension plan so that he could benefit from the supplementary pension plan as from January 1, 2010. The pension plan, which came into effect on January 1, 2010, no longer welcomes new members since July 1, 2017. In accordance with French Ordinance No. 2019-697 of July 3, 2019, the pension plan no longer allows for the acquisition of new rights as from January 1, 2020 (the "Closed Plan"). The rights under the Closed Plan crystallized at December 31, 2019 and remain conditional on the presence of Jacques Aschenbroich within Valeo at the time of his retirement. A new commitment, effective as of January 1, 2020, has been made to Jacques Aschenbroich (the "New Plan"). Under the New Plan, the rights of Jacques Aschenbroich will vest without condition of presence within the Company at the end of his career(1).

(1) The New Plan was approved at a rate of 98.19% by the Shareholders' Meeting of June 25, 2020 within the scope of the procedure for related party agreements under the 4th resolution, and at a rate of 94.03% within the scope of the compensation policy for Jacques Aschenbroich under the 13th resolution.

3.2.5 Authorizations granted regarding sureties, endorsements and guarantees governed by Article R.225-28 of the French Commercial Code

By decision of January 23, 2020, the Board of Directors authorized the Chairman and Chief Executive Officer, with the power to subdelegate:

- for a period of one year as of January 23, 2020, to issue sureties, endorsements and guarantees in the Company's name up to a maximum amount of 40 million euros, and to maintain in effect the sureties, endorsements and guarantees previously issued;
- for a period of one year as of January 23, 2020, to issue sureties, endorsements and guarantees in the Company's name to guarantee commitments made by controlled companies within the meaning of Article L.233-16, II of the French Commercial Code, with no maximum limit;
- for a period of one year as of January 23, 2020, to issue sureties, endorsements and guarantees in the Company's name to tax and customs authorities, with no maximum limit.

During 2020, no further commitments of this type were made by the Company's Chairman and Chief Executive Officer.

These authorizations granted to the Chairman and Chief Executive Officer to issue sureties, endorsements and guarantees, were renewed on the same terms and conditions by the Board of Directors on January 26, 2021, for a period of one year as of that date.

3.2.6 General Management of the Company and limitations on the powers of the Chief Executive Officer

The Chairman of the Board of Directors organizes and presides over the work performed by the Board of Directors and presents a report on its activities to the Shareholders' Meeting. He ensures that the Company's governance functions effectively and that the directors are able to perform their duties. Furthermore, the Chief Executive Officer has the widest possible powers to act in the Company's name, within the limits provided for by law, the Company's articles of association and/or the Internal Procedures. The Chief Executive Officer also represents the Company in its relations with third parties or in any legal proceedings.

From March 20, 2009 to February 18, 2016, the roles of Chairman of the Board of Directors and Chief Executive Officer were split. During that period, Pascal Colombani was Chairman of the Board of Directors and Jacques Aschenbroich was Chief Executive Officer. Restrictions on the powers of the Chief Executive Officer were also provided for and reflected in the provisions of the Internal Procedures. In accordance with the Internal Procedures, the Chief Executive Officer was required to obtain the prior approval of the Board of Directors for the acquisition or sale of any subsidiary, interest or any other asset or investment of any kind for a sum of more than 50 million euros per transaction.

On February 18, 2016, Pascal Colombani, having reached the age limit set out in the articles of association, stepped down from his position. On that same day, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, unanimously decided (Jacques Aschenbroich did not take part in the vote) to appoint Jacques Aschenbroich as Chairman of the Board of Directors, Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer of Valeo following the Board of Directors' decision, on the same day, to combine the roles of Chairman of the Board of Directors and Chief Executive Officer. The powers of the Chairman and Chief Executive Officer are subject to the same limitation as previously applicable to the Chief Executive Officer.

The Board of Directors' meeting of February 18, 2016 noted that under the leadership of Jacques Aschenbroich, since his appointment as Chief Executive Officer on March 20, 2009, Valeo had experienced a spectacular recovery and improved operating performance (revenue, operating margin, EBITDA and net attributable income). This operating performance also enabled Valeo to pay annual dividends, which have been resumed since 2010 (rising from 0 euros per share in respect of 2009 to 0.40 euros per share[(1)] in respect of 2010 and 1 euro per share[(2)] in respect of 2015). Since 2016, dividends have stabilized at 1.25 euros per share (except for the 2019 dividend, which was reduced to 0.20 euros per share due to the Covid-19 pandemic).

The Board of Directors' decision to combine the roles of Chairman of the Board of Directors and Chief Executive Officer was accompanied by all the guarantees required to preserve the quality of the Group's governance. The balance of power is assured through:

- the strong presence of independent directors on the Board of Directors (11 out of 12 members at December 31, 2020[(3)]), the Audit & Risks Committee (seven out of seven members at December 31, 2020), the Governance, Appointments & Corporate Social Responsibility Committee (six out of six members at December 31, 2020), the Compensation Committee (six out of six members[(4)] at December 31, 2020) and the Strategy Committee (four out of four[(5)] members at December 31, 2020);
- the presence of a Lead Director (Gilles Michel) with the widest powers for the purpose of (i) providing additional assurance as to the smooth operation of the Board of Directors and the balance of powers within General Management and the Board of Directors, and (ii) ensuring the avoidance of potential conflicts of interest. The role and powers of the Lead Director are described in section 3.2.1 of this chapter, paragraph "Lead Director", pages 112 to 114.

Furthermore, the combination of roles has not interfered with the quality of operational management or main Group decisions, but on the contrary has strengthened the relationship between the shareholders and Valeo's executive management.

In addition, at its meeting on January 21, 2016, the Board of Directors, on the recommendation of the Appointments, Compensation & Governance Committee based on the results of the Board of Directors' self-assessment for 2015, approved the holding of Board of Directors' and specialized committee meetings without the executive corporate officer being present, to enable directors to address matters concerning the executive corporate officer, corporate governance or any other issue concerning the Company.

The Lead Director also has the power to hold and chair meetings, at least once a year, without executive corporate officers being present, for purposes of, including but not limited to, the assessment of (i) the performance of General Management, and (ii) the operation of the Board of Directors. These practices have been in place and meetings held periodically in the absence of the executive corporate officers since 2016. On February 22, 2018, the Internal Procedures were amended to enable these meetings to be held without executive corporate officers or non-independent directors being present unless invited, and to enable the Lead Director to hold such a meeting each time a Board meeting is held.

(1) This figure has been adjusted to reflect the three-for-one stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date.

(2) This figure has been adjusted to reflect the three-for-one stock split, which was approved by the Shareholders' Meeting of May 26, 2016 and implemented by the Board of Directors on the same date.

(3) The Board of Directors has 14 members. However, Éric Chauvirey and Grzegorz Szelag, directors representing employees, do not count for the purpose of determining the percentage of independent directors, in accordance with the recommendation in Article 9.3 of the AFEP-MEDEF Code.

(4) The Compensation Committee has seven members. However, Éric Chauvirey, director representing employees, does not count for the purpose of determining the percentage of independent directors, in accordance with the recommendation in Article 15.1 of the AFEP-MEDEF Code.

(5) The Strategy Committee has five members. However, Éric Chauvirey, director representing employees, does not count for the purpose of determining the percentage of independent directors, in accordance with the recommendation in Article 15.1 of the AFEP-MEDEF Code.

During 2020, Jacques Aschenbroich, Chairman and Chief Executive Officer, did not perform any duties other than those conferred on him by law.

On the recommendation of the Governance, Appointments & Corporate Social Responsibility Committee, the Board of Directors decided as follows at its meetings of February 21, 2019 and March 21, 2019:

- to reappoint Jacques Aschenbroich as Chairman and Chief Executive Officer, following his reappointment as a director, during the meeting of the Board of Directors held immediately following the Shareholders' Meeting of May 23, 2019;
- to implement a separation of the roles of Chairman of the Board of Directors and Chief Executive Officer within a period of two years following Jacques Aschenbroich's reappointment as Chairman and Chief Executive Officer.

During the second half of 2019, the Board of Directors of Valeo started working, under the guidance of the Governance, Appointments & Corporate Social Responsibility Committee, on a comprehensive process to decide on a succession plan for Jacques Aschenbroich.

The succession plan was unanimously approved by the Board of Directors of Valeo at its meeting held on October 27, 2020 and announced publicly the same day.

In accordance with the succession plan, Jacques Aschenbroich will continue to act as Chairman of the Board of Directors until the end of his current term of office as director, i.e., until May 2023, and will be vested with specific missions which aim to ensure a smooth transition with Christophe Périllat, previously Chief Operating Officer of Valeo, who will succeed him in his role as Chief Executive Officer of the Company from January 2022 (see section 3.2.1 of this chapter "Succession plan", page 115).

3.2.7 Agreements governed by Articles L.225-38 *et seq.* of the French Commercial Code already approved by the Shareholders' Meeting which continued to be implemented during the year

The commitments listed below, relating to Jacques Aschenbroich and the agreements entered into with him, already authorized by the Board of Directors and approved by the Shareholders' Meeting, in previous years in accordance with the previous version of Article L.225-42-1 of the French Commercial Code (repealed by French Ordinance No. 2019-1234 of November 27, 2019) and which remained in force during 2020, were reviewed by the Board of Directors at its meeting on January 26, 2021:

- the non-compete clause under which Jacques Aschenbroich is prohibited from working in any way for an automotive supplier or, more generally, for any of Valeo's competitors. The clause shall apply for 12 months after the termination of his term of office as Chief Executive Officer of Valeo, regardless of the reason for termination;

  Jacques Aschenbroich informed the Board of Directors of his decision to waive his right to non-compete compensation. In order to comply with the AFEP-MEDEF Code, the Board of Directors formally noted this decision at its meeting on February 21, 2019 and consequently decided to amend the non-compete agreement accordingly on March 21, 2019;
- the commitment regarding the defined benefit pension plan made in favor of Jacques Aschenbroich, Chairman and Chief Executive Officer, upon his reappointment on May 23, 2019 (the "**Closed Plan**"). This plan no longer welcomes new members since July 1, 2017 and no longer allows for the acquisition of new rights as from January 1, 2020;

  A new pension commitment has been made in favor of Jacques Aschenbroich in accordance with the new legal provisions. The new plan (the "**New Plan**") is effective as of January 1, 2020.

In addition, a commitment in the form of life insurance covering death, disability or the consequences of any accidents that may occur during business travel (Board of Directors' decision of April 9, 2009) remained in force during the year. This policy is described in section 3.3.1 of this chapter, paragraph "Benefits in kind", page 159.

In accordance with Article L.225-40-1 of the French Commercial Code, a special report on related party agreements has been drawn up by the Statutory Auditors in respect of the below-mentioned commitments relating to Jacques Aschenbroich and the agreements entered into with him, which were reviewed by the Board of Directors at its meeting on January 26, 2021 (see Chapter 5, section 5.7 "Statutory Auditors' special report on related party agreements", pages 427 and 428):

- the New Plan, which was authorized by the Board of Directors on February 20, 2020 and approved by the Shareholders' Meeting on June 25, 2020. The New Plan includes the same ceilings and performance conditions as the Closed Plan:
  - supplementary pension rights are equal to 1% of the reference salary per vesting year;
  - the vesting of supplementary pension rights is subject to a performance condition, which is deemed to have been met if the variable portion of Jacques Aschenbroich's compensation, paid in year Y+1 in respect of year Y, reaches 100% of his fixed compensation due in respect of year Y. In the event that the variable portion does not reach 100% of the fixed compensation, the rights granted will be calculated on a *pro rata* basis;
  - the reference salary is the base salary and the variable compensation received in each year of vesting;
  - the cap due to the nature of the plan: a cap of 20% of the final reference salary as defined in the Closed Plan (cap which applies to the sum of the rights acquired under the Closed Plan and under the new plan);
  - the cap on the base for determining entitlements: all plans combined are capped at 55% of the final reference salary.

3.2.8 Agreements governed by Article L.225-37-4, paragraph 2 of the French Commercial Code

None.

3.2.9 Procedure implemented pursuant to Article L.22-10-12 of the French Commercial Code

An internal Valeo charter on related party agreements (the "**Charter**") has been drawn up in accordance with AMF recommendation DOC-2012-05 as amended on October 5, 2018 and Article L.22-10-12 of the French Commercial Code. The Charter sets out the procedure for controlling related party agreements and for reviewing agreements entered into in the ordinary course of business on an arm's length basis. It was adopted by the Board of Directors at its meeting of January 23, 2020 and is available on Valeo's website. It may be amended at any time by decision of the Board of Directors, in particular to take into account any legislative or regulatory changes.

In accordance with the law, agreements entered into between the persons referred to in Article L.225-38 of the French Commercial Code (i.e., agreements entered into, whether directly or through an intermediary, between the Company and its Chief Executive Officer, a Deputy Chief Executive Officer, a director or a shareholder holding more than 10% of the voting rights or, in the case of a shareholder corporation, the company that controls it within the meaning of Article L.233-3 of the code), which involve transactions carried out in the ordinary course of business on an arm's length basis, are not subject to prior authorization from the Board of Directors ("**Arm's Length Agreements**").

Under the procedure set out by the Charter, Valeo's Legal Department periodically, and at least once a year, sends the Governance, Appointments & Corporate Social Responsibility Committee for review a list and description of all Arm's Length Agreements entered into since the Governance, Appointments & Corporate Social Responsibility Committee's last review. Members of the Governance, Appointments & Corporate Social Responsibility Committee who are directly or indirectly concerned by the agreement do not take part in the review.

The Governance, Appointments & Corporate Social Responsibility Committee makes sure that the agreements meet the conditions to qualify as an Arm's Length Agreement, i.e., they involve transactions carried out in the ordinary course of business on an arm's length basis.

The conclusions of the Governance, Appointments & Corporate Social Responsibility Committee's review are written up in a report.

The list and description of all agreements reviewed by the Governance, Appointments & Corporate Social Responsibility Committee and the conclusions of its review are then presented to the Board of Directors.

The Board of Director's role is to validate the Governance, Appointments & Corporate Social Responsibility Committee's review. It may either confirm that these agreements qualify as Arm's Length Agreements or consider that they should be subject to the procedure for related party agreements and, therefore, subject to the Board's ratification.

If the Governance, Appointments & Corporate Social Responsibility Committee considers that an agreement initially qualified as an Arm's Length Agreement falls within the scope of a related party agreement, it is subject to ratification by the Board of Directors. The person directly or indirectly concerned by the related party agreement does not take part in the discussions or the vote.

3.2.10 Arrangements for attendance at Shareholders' Meetings

Shareholders' Meetings are convened and conduct business in accordance with the law and the Company's articles of association.

Articles 21 to 26 of Valeo's articles of association cover the provisions relating to Shareholders' Meetings and the exercise of voting rights. The articles of association are available online on Valeo's website, under "Financial & Legal documents" (https://www.valeo.com/en/financial-and-legal-documents).

Article 23 of the Company's articles of association provides that double voting rights are attached to all fully paid-up shares that have been registered in the name of the same holder for at least four years.

3.2.11 Information likely to have an impact in the event of a public tender offer

Share ownership and direct or indirect shareholdings in the Company brought to the Company's attention

The ownership of the Company's share capital is described in Chapter 6, section 6.4.1 "Ownership structure", page 435.

Direct or indirect shareholdings in the Company brought to the Company's attention are described in Chapter 6, section 6.4.2 "Direct or indirect shareholdings in the Company brought to the Company's attention", pages 436 to 439.

Restrictions on the exercise of voting rights

The Company's articles of association provide for a disclosure obligation imposed on any shareholder who acquires or sells a fraction equal to 2% of the share capital or voting rights of the Company or a multiple of this fraction, from the date when one of the thresholds is crossed. If a shareholder fails to comply with the disclosure obligation and one or more shareholders holding 2% of the voting rights submits a request, the voting rights exceeding the relevant threshold that should have been disclosed cannot be exercised at Shareholders' Meetings held within the two-year period from the date when the omission is remedied. The stated thresholds are calculated in accordance with Articles L.233-7 and L.233-9 of the French Commercial Code and with the AMF's General Regulations.

Powers of the Board of Directors

In accordance with the resolution passed by the shareholders at the Shareholders' Meeting on June 25, 2020, the Board of Directors may not use the Company's share buyback program while a public tender offer for the Company's shares is in progress.

Furthermore, in accordance with the resolution passed at the Shareholders' Meeting on May 23, 2019, the Board of Directors may not decide to issue shares or other securities with or without pre-emptive subscription rights while a public tender offer for the Company's shares is in progress. However, in accordance with the resolution passed at the Shareholders' Meeting of May 23, 2019, free shares may be allotted during such periods.

Agreements entered into by the Company that would change or terminate if there were a change in control of the Company, with the exception of those agreements whose disclosure would seriously harm its interests (except in the event of a legal obligation to disclose)

As specified in Chapter 5, section 5.4.6, Note 8.1.2 "Gross debt" to the consolidated financial statements, pages 362 to 366, all of the bonds issued under the Euro Medium Term Note (EMTN) program include an option allowing bondholders to request early repayment or redemption of their bonds in the event of a change of control of Valeo that leads to (i) the bond's rating being withdrawn, or (ii) the bond's rating being downgraded to below investment grade, assuming it was previously rated in that category, or (iii) if the previous rating was below investment grade, a downgrade of one rating category (e.g., from Ba1 to Ba2).

In addition, for the European Investment Bank credit facility, the EIB may request early repayment of the loans in the event of a change of control. The convertible loan also includes a change of control clause under which investors can request early repayment or – at the choice of the issuer – buyback.

The *Schuldschein* loan also includes a change of control clause under which investors can request early repayment on an individual basis.

Some of Valeo's customers have a clause in their general purchasing conditions allowing them to terminate their contract with Valeo in the event of a change in control.

Lastly, the agreement entered into by Valeo and Siemens for the creation in 2016 of the Valeo Siemens eAutomotive joint venture specializing in high-voltage powertrain systems contains clauses providing for the possibility for the Group – from 2021 – to acquire the stake in the joint venture currently held by Siemens. These clauses take the form of put/call options which the parties may exercise under the terms and conditions and at the prices set out in the agreement. In particular, the options may be triggered by a change in control at either of the parties to the agreement (under certain conditions).

3.2.12 Summary table of powers currently delegated by the Shareholders' Meeting to the Board of Directors with respect to raising new equity and the use made of such delegations during the year

Authorizations granted Date of Shareholders' Meeting (duration of authorization/ delegation and expiration date)	Maximum amount of issue	Maximum amount of debt securities	Comments on/Utilization of authorizations during the year
1. AUTHORIZATION TO INCREASE CAPITAL WITH PRE-EMPTIVE RIGHTS			
Delegation of authority to issue shares and/or securities giving immediate or future access to the share capital of the Company or one of its subsidiaries (A) Shareholders' Meeting of May 23, 2019 – 12th resolution Expiring on July 23, 2021 (26 months)	70 million euros (A) + (B) + (C) + (D) + (E) + (F) + (G) combined share capital ceiling (the "Combined Share Capital Ceiling") = 131 million euros	1.5 billion euros (A) + (C) + (D) + (E) + (F) + (G) combined debt ceiling (the "Combined Debt Ceiling") = 1.5 billion euros	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 23, 2017 (12th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
Delegation of authority to increase the share capital by capitalization of reserves, profits, additional paid-in capital or other amounts that may be capitalized (B) Shareholders' Meeting of May 23, 2019 – 16th resolution Expiring on July 23, 2021 (26 months)	30 million euros Included in the Combined Share Capital Ceiling	N/A	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 23, 2017 (16th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
2. AUTHORIZATION TO INCREASE CAPITAL WITHOUT PRE-EMPTIVE RIGHTS			
Delegation of authority to issue shares and/or securities giving immediate or future access to the share capital of the Company or one of its subsidiaries by way of a public offer (delegation that can also be used as consideration for securities tendered to a public exchange offer initiated by the Company) (C) Shareholders' Meeting of May 23, 2019 – 13th resolution Expiring on July 23, 2021 (26 months)	23 million euros Ceiling for (C) + (D) + (E) Included in the Combined Share Capital Ceiling	1.5 billion euros Included in the Combined Debt Ceiling	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 23, 2017 (13th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
Delegation of authority to issue shares and/or securities giving access to the Company's share capital by way of private placement (D) Shareholders' Meeting of May 23, 2019 – 14th resolution Expiring on July 23, 2021 (26 months)	23 million euros Ceiling for (C) + (D) + (E) Included in the Combined Share Capital Ceiling	1.5 billion euros Included in the Combined Debt Ceiling	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 23, 2017 (14th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
Delegation of power to issue shares and/or securities giving immediate or future access to the Company's share capital to be used as consideration for contributions in kind granted to the Company (E) Shareholders' Meeting of May 23, 2019 – 17th resolution Expiring on July 23, 2021 (26 months)	23 million euros Ceiling for (C) + (D) + (E) Included in the Combined Share Capital Ceiling	1.5 billion euros Included in the Combined Debt Ceiling	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 23, 2017 (17th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
Delegation of authority to issue shares and/or securities giving immediate or future access to the share capital restricted to members of an employee share ownership plan (F) Shareholders' Meeting of May 23, 2019 – 18th resolution Expiring on July 23, 2021 (26 months)	5 million euros Included in the Combined Share Capital Ceiling	1.5 billion euros Included in the Combined Debt Ceiling	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 23, 2017 (18th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Used during the year for the employee share issue made on November 16, 2020

Authorizations granted Date of Shareholders' Meeting (duration of authorization/ delegation and expiration date)	Maximum amount of issue	Maximum amount of debt securities	Comments on/Utilization of authorizations during the year
3. AUTHORIZATION TO INCREASE CAPITAL WITH OR WITHOUT PRE-EMPTIVE RIGHTS			
Delegation of authority to increase the number of securities to be issued with or without pre-emptive rights under an overallotment option (G) Shareholders' Meeting of May 23, 2019 – 15th resolution Expiring on July 23, 2021 (26 months)	The ceiling is specified in the applicable regulation (currently 15% of the initial issuance), not exceeding the ceiling applicable to the initial issuance, determined pursuant to resolution (A), resolution (C) or resolution (D)	The ceiling is determined pursuant to resolution (A), resolution (C) or resolution (D)	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 23, 2017 (15th resolution) for the same purpose Resolution may not be used in the event of a public tender offer Not used during the year
4. ALLOTMENT OF FREE SHARES			
Authorization to allot free existing or new shares to Group employees and corporate officers Shareholders' Meeting of May 23, 2019 – 19th resolution Expiring on July 23, 2021 (26 months)	Maximum number of shares (existing or to be issued) allotted: 4,445,000 (with a sub-ceiling of 250,000 shares for executive corporate officers), these allotments may not exceed more than 10% of the share capital at the date of the Board of Directors' decision	N/A	Delegation of authority replacing the previous delegation granted by the Shareholders' Meeting of May 23, 2018 (12th resolution) for the same purpose Used by the Board of Directors at its meeting of March 24, 2020 (2,342,306 shares allotted)

3.3 COMPENSATION OF CORPORATE OFFICERS

In accordance with Article L.22-10-8 (former Article L.225-37-2) of the French Commercial Code, the Shareholders' Meeting of May 26, 2021 will be called upon to approve the elements of the compensation policy for Valeo's corporate officers, i.e., (i) the Chairman and Chief Executive Officer of Valeo and the Deputy Chief Executive Officer (*Directeur Général Délégué*) to be appointed after the Shareholders Meeting of May 26, 2021, (ii) the Chief Executive Officer and the Chairman of the Board of Directors in anticipation of the separation of roles of Chairman of the Board of Directors and Chief Executive Officer as from January 2022, and (iii) its directors (see section 3.2.1 "Composition of the Board of Directors", "Succession plan" page 115), as determined by the Board of Directors on the recommendation of the Compensation Committee (eleventh, twelfth, thirteenth, fourteenth and fifteenth resolutions).

3.3.1 Compensation policies for corporate officers

General principles applicable to the compensation policies for corporate officers

In the first instance, it is recalled that Valeo's corporate officers' compensation package is determined by the Board of Directors, acting on the recommendation of the Compensation Committee, and in compliance with the AFEP-MEDEF Code as applicable at the time of the decision.

Accordingly, for the preparation and determination of the compensation policy, Valeo takes into account the Company's general interest, the shareholders' interest, market practices and the performance of the executive corporate officers, as well as the other stakeholders in the Company.

Valeo assesses compensation as a whole, taking into account each component granted or paid to the corporate officers.

The compensation components are complementary and meet various objectives. The structure and allocation of the various components of compensation and the related amounts are subject to comparative studies. This enables Valeo to track and align its compensation policy with market practices.

The Board of Directors considers that the compensation policy for the corporate officers is in line with the corporate interest by contributing to the implementation of its strategy and long-term development and by taking into account the social and environmental impacts of its operations, thus assuring its long-term future.

The compensation policy for the executive corporate officers includes financial criteria selected for their consistency with regard to the achievement of its objectives, thus tying the executive corporate officers' compensation to the Group's performance and its short- and long-term value creation. More particularly, to foster the Company's long-term development, the compensation policy includes conditions related to order intake, strategic vision, risk management, in particular the quality of management of the Covid-19 crisis in 2020 and controlling the aftermath of the Covid-19 crisis in 2021, and social and environmental responsibility.

In addition, in preparing, determining and reviewing the compensation policy for executive corporate officers, the Board of Directors takes into account the various indicators related to the Company's employees, thus supporting its development model. A portion of the variable compensation of the executive corporate officers is therefore based on compliance with conditions relating to corporate social responsibility including, for 2020, the implementation of a plan to increase the number of women on the various management committees by 2030 (with intermediate targets for 2024 and 2027), which was approved by the Board of Directors on March 24, 2020, the number of lost-time accidents and the decrease in the number of categories 1 and 2 accidents, as well as the presentation of a Carbon Neutrality Plan, which was approved by the Board of Directors on November 12, 2020 and disclosed to the public on February 4, 2021.

Compensation policy for the Chairman and Chief Executive Officer

The compensation policy for the Chairman and Chief Executive Officer sets out the principles and criteria for determining, structuring and awarding the fixed, variable and exceptional components of his total compensation and benefits package. It is determined by the Board of Directors on the recommendation of the Compensation Committee and then submitted to the Shareholders' Meeting for approval. This section describes the compensation policy for the Chairman and Chief Executive Officer for 2020 and 2021.

Overview of the 2020 Compensation Policy for the Chairman and Chief Executive Officer

This section sets out the principles and criteria for determining, structuring and awarding the fixed, variable and exceptional components of the Chairman and Chief Executive Officer's total compensation and benefits package for the financial year ended December 31, 2020, constituting the compensation policy for the Chairman and Chief Executive Officer for 2020 approved at a rate of 94.03% by the Shareholders' Meeting of June 25, 2020 (the "**2020 Compensation Policy for the Chairman and Chief Executive Officer**").

In determining the 2020 Compensation Policy for the Chairman and Chief Executive Officer, the Compensation Committee analyzed the structure of the Chairman and Chief Executive Officer's compensation based on a comparative review on the basis of four panels used by Valeo[1], with particular attention paid to the European car makers and OEMs panel (the "**2020 Comparative Study**"). The panels are available on the Company's website (www.valeo.com), under "Corporate Governance".

In general, the 2020 Comparative Study showed that the fixed compensation as well as the ceilings for variable and long-term compensation were in line with the market and therefore remained unchanged in the 2020 Compensation Policy for the Chairman and Chief Executive Officer compared to those set in the compensation policy for the Chairman and Chief Executive Officer for the year ended December 31, 2019 ("**2019 Compensation Policy for the Chairman and Chief Executive Officer**") approved at a rate of 91.92% by the Shareholders' Meeting of May 23, 2019 under its tenth resolution.

Following the analysis process, the Compensation Committee nevertheless suggested to the Board of Directors the following adjustments to the assessment of the qualitative criteria.

At its meeting held on March 24, 2020, the Board of Directors, on the recommendation of the Compensation Committee, established the 2020 Compensation Policy for the Chairman and Chief Executive Officer, as described below.

The 2020 Compensation Policy for the Chairman and Chief Executive Officer was approved at a rate of 94.03% by the Shareholders' Meeting of June 25, 2020 under its thirteenth resolution. For greater clarity, a full description of the 2020 Compensation Policy for the Chairman and Chief Executive Officer is given below, whereas the description given in the 2019 Universal Registration Document contained a large number of references to the 2019 Compensation Policy for the Chairman and Chief Executive Officer (see Chapter 3, section 3.3.1, paragraph "Compensation Policy for the Chairman and Chief Executive Officer for the year ending December 31, 2020", pages 159 to 163).

Fixed compensation

The annual fixed compensation notably remunerates for responsibilities associated with the duties of Chairman and Chief Executive Officer. In accordance with the AFEP-MEDEF Code, fixed compensation is reviewed at relatively long intervals.

The Chairman and Chief Executive Officer's annual fixed compensation has been set at 1,100,000 euros since May 23, 2019.

There are no plans to change this amount until the end of Jacques Aschenbroich's current term of office as Chairman and Chief Executive Officer.

It is also specified that Jacques Aschenbroich donated 25% of his 2020 fixed compensation for the duration of the shutdown to support Covid-19-related solidarity initiatives[2].

Variable compensation

The variable portion of the compensation must be in line with the Chairman and Chief Executive Officer's performance, as well as the Company's strategy and progress. It was therefore determined partly according to quantifiable, strict and ambitious criteria based on the Group's operating and financial performance, and partly on a qualitative basis. The quantifiable and qualitative objectives to be reached were set according to specific, strict and ambitious predetermined objectives. These criteria are determined each year by the Board of Directors, based on recommendations made by the Compensation Committee.

The principles and criteria relating to this component of compensation under the 2020 Compensation Policy for the Chairman and Chief Executive Officer remained unchanged from the 2019 Compensation Policy for the Chairman and Chief Executive Officer, subject to several adjustments regarding the assessment of the qualitative criteria (in particular, addition in the 2020 Compensation Policy for the Chairman and Chief Executive Officer of sub-criteria on the quality of management of and adaptability to the effects of the Covid-19 crisis, the presentation in 2020 of a vision of carbon neutrality for Valeo including five-year objectives, and the presentation of a plan to increase the number of women on the management committees by 2024 and 2030).

The Chairman and Chief Executive Officer's annual variable compensation for 2020 was therefore based on (i) the same quantifiable criteria as those used in the 2019 Compensation Policy for the Chairman and Chief Executive Officer, and (ii) qualitative criteria similar to those used in the 2019 Compensation Policy, subject to several adjustments regarding the assessment of the qualitative criteria.

The quantifiable and qualitative criteria used for the 2020 Compensation Policy for the Chairman and Chief Executive Officer are therefore as follows[3]:

- **five quantifiable criteria:** (i) operating margin rate, (ii) free cash flow, (iii) net income, (iv) return on capital employed rate (ROCE rate), and (v) Group order intake;
- **three qualitative criteria:** (i) strategic vision, (ii) risk management, and (iii) corporate social responsibility.

In accordance with the recommendations of the AFEP-MEDEF Code, the total amount of the variable portion is expressed as a percentage of the annual fixed compensation, each criterion granting entitlement to a percentage of the annual fixed compensation.

The Chairman and Chief Executive Officer's variable portion was capped at 170% of his annual fixed compensation. The decision to cap his variable compensation at 170% of his annual fixed compensation was made by the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, on July 24, 2015 during a review of his variable compensation, in view of the Company's strong operating performance and after noting that his variable compensation was misaligned with the median variable compensation reported in various comparative studies on the compensation of Chief Executive Officers and Chairmen and Chief Executive Officers of

(1) *CAC 40; 2. CAC 40 excluding finance and luxury sector companies; 3. European car makers and original equipment manufacturers; and 4. International original equipment manufacturers. The panels are available on the Company's website (www.valeo.com), under "Corporate Governance".*

(2) *The directors and all members of the Operations Committee decided to follow this initiative.*

(3) *The achievement rate of these criteria in 2020 is presented in section 3.3.2, paragraph "Variable compensation", pages 178 to 181.*

companies in the CAC 40 index and comparable European industrial companies[1]. This cap was included in the 2019 Compensation Policy for the Chairman and Chief Executive Officer and remained unchanged in the 2020 Compensation Policy for the Chairman and Chief Executive Officer (170% of annual fixed compensation), as the review conducted by the two consulting firms confirmed that this was an appropriate cap.

The maximum amount of annual variable compensation (170% of annual fixed compensation) is contingent on the achievement of ambitious objectives set by the Board of Directors based on the recommendation of the Compensation Committee.

For each quantifiable criterion, the variable portion varies within a range of 0% to 100% of the maximum amount of annual fixed compensation obtainable under the relevant criterion.

The following table summarizes the applicable quantifiable and qualitative criteria, the entitlement relating to each of these criteria as a percentage of the annual fixed compensation, and the maximum variable compensation for 2020. Thus, the principles and criteria relating to the annual variable compensation will be as follows for 2020:

Quantifiable criteria[(1)(2)]

Nature of the quantifiable criterion	Maximum amount of the variable portion as a % of the annual fixed compensation
Operating margin rate[(3)]	25%
Free cash flow	25%
Net income	20%
ROCE rate[(3)]	20%
Group order intake[(4)]	25%
TOTAL QUANTIFIABLE CRITERIA	**115%**

Qualitative criteria

Nature of the qualitative criterion	Maximum amount of the variable portion as a % of the annual fixed compensation
Strategic vision *Strategic vision is assessed against the following indicators:* • *strategic and technological operations carried out by Valeo;* • *development of technological platforms in line with the Investor Day communication;* • *new evaluation of the presentation at the next strategy seminar of a technology roadmap, and its impact on R&D and human resources.*	20%
Risk management *This criterion is measured, in particular, by the following indicators:* • *compliance: continued and intensified measures to reinforce the compliance policy;* • *management of the Group's cash;* • *the Company's transformation, organizational changes, evolution of professions, implementation of industrial and human resources to make the transformation successful;* • *quality of management and adaptability to the effects of the Covid-19 crisis.*	15%
Corporate social responsibility *Assessment of overall safety performance, in particular via the following key indicators:* • *number of lost-time workplace accidents;* • *decrease in the number of category 1 accidents (death, amputation, severe trauma, disability/incapacity) and category 2 accidents (major material damage and major accident).* *Progress made by Valeo in terms of skills and diversity management:* • *presentation of a plan to increase the number of women on the management committees by 2024 and 2030 (quantitative objectives and accompanying measures).* *Build and present a vision of carbon neutrality for Valeo in 2020, including five-year objectives.*	20%
TOTAL QUALITATIVE CRITERIA	**55%**
TOTAL QUANTIFIABLE AND QUALITATIVE CRITERIA	**170%**

(1) Excluding tax and regulatory impacts.
(2) Concerning the quantifiable criteria, excluding the impact of the Covid-19 pandemic, whose impact on the Group cannot be predicted at the date of this Universal Registration Document[(5)]. Thus, when assessing the degree of achievement of these quantifiable objectives, the Board of Directors may take this impact into account.
(3) Excluding the Top Column Module (TCM) business.
(4) Excluding the Top Column Module (TCM) business and Valeo Siemens eAutomotive (VSeA).
(5) I.e., Valeo's 2019 Universal Registration Document.

(1) A summary of the results of the comparative studies and the panels used can be found in the Corporate Governance section of Valeo's website.

Long-term compensation policy – Allotment of performance shares

The Chairman and Chief Executive Officer's maximum long-term variable compensation, which in any event remains capped at 270% of annual fixed compensation, remained unchanged compared with the 2019 Compensation Policy for the Chairman and Chief Executive Officer, as the 2020 Comparative Study confirmed that this was an appropriate level.

As indicated in the 2019 Compensation Policy for the Chairman and Chief Executive Officer, the aim of allotting performance shares is not only to encourage the Chairman and Chief Executive Officer to take a long-term approach to his duties, but also to retain him and align his interests with those of Valeo and its shareholders. Under the performance share plans, performance criteria must be met over a period of three consecutive years. Valeo applies strict and ambitious financial and operating performance criteria considered as particularly representative of the Company's performance. The Board of Directors, acting on the recommendation of the Compensation Committee, decided to make some adjustments to the criteria used in previous years for the 2019 Compensation Policy for the Chairman and Chief Executive Officer. These adjustments were aimed at better reflecting, in the proposed criteria, the Group's strategy, financial and operational performance objectives, value creation for Valeo's shareholders measured using the new external performance criterion, Total Shareholder Return (TSR), and performance measurement. These criteria remained unchanged in the 2020 Compensation Policy for the Chairman and Chief Executive Officer.

The final allocation of performance shares depends on performance, based on two internal performance criteria already used – namely the operating margin rate and the rate of return on assets (ROA) – as well as the Total Shareholder Return (TSR). Valeo's TSR is measured against the CAC 40 index and a panel of European automotive companies. Internal performance criteria represent a maximum of 80% of allotted shares (40% for each criterion), while the external performance criterion represents no more than 20% of the allotment.

The table below summarizes in a synthetic way the criteria and methods used to assess the performance shares as part of the 2020 Compensation Policy for the Chairman and Chief Executive Officer:

Criterion	Weight/Assessment
Internal performance criterion: ROA rate[1] (40%) **Internal performance criterion: operating margin rate[1] (40%)**	Performance measured by two criteria (ROA rate and operating margin rate) for each of the three financial years (Y, Y+1 and Y+2) of the vesting period. The criterion will be satisfied if, for each financial year covered under the allotment, the rate effectively achieved for each criterion is greater than or equal to the target rate established by the Board of Directors, it being understood that (i) the target rate cannot be lower than the guidance for the financial year of reference, (ii) the selected criterion cannot be changed by the Board of Directors at a later date and (iii) the target rates cannot be changed by the Board of Directors at a later date, except by a duly justified decision in the context of exceptional circumstances beyond the beneficiaries' control. • If, for each financial year covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for each of those three financial years: 100%. • If, for only two of the financial years covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for each of those two financial years: 50%. • If, for only one of the financial years covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for that financial year: 20%. • If the target rate for the corresponding criterion is not satisfied for any of the financial years covered by the scheme: 0%.
External performance criterion: TSR (20%)	TSR recorded over a period of three years from January 1 of the allotment year to December 31 of the year prior to delivery. • If Valeo's TSR recorded over the reference period is greater than the CAC 40 index's TSR recorded over the reference period: 10% (0% if equal or lower). • If Valeo's TSR recorded over the reference period is greater than the median of the TSRs of the companies in the European Automotive Panel[2] over the reference period: 10% (0% if equal or lower).

(1) For 2020, the guidance is 10% for the ROA rate (taking into account share in net earnings of equity-accounted companies) and for the operating margin rate (excluding share in net earnings of equity-accounted companies), the guidance is 6%. It should be noted that the Group's guidance excludes the impact of the Covid-19 pandemic, whose impact on the Group cannot be predicted at the date of this Universal Registration Document[3]. The Board of Directors may take this possible impact into account.

(2) The European Automotive Panel was amended by the Board of Directors at its meeting of October 24, 2019. GKN, a panel member, was acquired by a fund and then delisted. Its inclusion in the panel was no longer relevant and it was therefore replaced by Schaeffler, a German automotive equipment manufacturer.

(3) I.e., Valeo's 2019 Universal Registration Document.

In addition, a presence condition must be met at the time of the allotment. Thus, the performance shares allotted to the Chairman and Chief Executive Officer will vest only if his term of office[1] has not expired on the vesting date. Entitlement to the performance shares will be lost in the event of (i) dismissal due to gross negligence or wilful misconduct or (ii) dismissal for reasons attributable to the Chairman and Chief Executive Officer's performance, before the expiry of the vesting period. Except for these two cases, the Board of Directors will determine whether or not the Chairman and Chief Executive Officer will retain his entitlement to the performance shares before the expiry of the vesting period based on an in-depth analysis of the reasons for and circumstances surrounding his departure. In any event, the shares will only vest if the performance criteria are achieved. By way of exception to the foregoing, in the event of termination of

(1) Or, if the roles of Chairman of the Board of Directors and Chief Executive Officer are separated before the final award date, his office as Chairman of the Board of Directors or as Chief Executive Officer. For the purposes of the performance shares allotted in 2020, in the event that, following the separation of Chairman of the Board of Directors and Chief Executive Officer roles, Jacques Aschenbroich would remain Chairman of the Board of Directors until the expiry of the vesting period of the performance shares granted in 2020, it was agreed that the number of performance shares that would definitively be granted to him would be reduced to be adjusted on a pro rata basis for the period during which he was both Chairman and Chief Executive Officer.

his corporate office in connection with the liquidation of mandatory and supplementary pension plans, death or disability, entitlement to performance shares will be maintained and the performance criteria will apply to retirement but not to death or disability.

Each time that it decides to allot performance shares, the Board of Directors ensures that performance share allotments, valued under IFRS, do not represent a disproportionate percentage of all compensation and performance shares allotted, that they have a limited impact in terms of dilution (i.e., for information purposes, a maximum of 250,000 under the nineteenth resolution of the Shareholders' Meeting of May 23, 2019) and that the allotments are made at the same times of the year. In accordance with applicable laws and Company practices, the Group's executive managers and employees are also entitled to performance shares.

The maximum amount of performance shares allotted to the Chairman and Chief Executive Officer, valued under IFRS, must not exceed 270% of his annual fixed compensation (i.e., 100% of the maximum annual combined fixed and variable compensation). The cap of 270% of annual fixed compensation is a maximum amount and the Board of Directors reserves the right to award a lower percentage depending on Valeo's performance(1).

It should also be noted that, due to the challenging performance criteria, none of the performance shares allotted to Jacques Aschenbroich under the 2016 and 2017 performance share plans definitively vested.

In accordance with the recommendations of the AFEP-MEDEF Code and the provisions of the Code of Conduct, the Chairman and Chief Executive Officer is not permitted to use hedging transactions to reduce his risk. He has made a formal commitment in this respect as required by the AFEP-MEDEF Code. At the end of the holding period set by the Board of Directors, the Chairman and Chief Executive Officer must also hold a significant number of vested performance shares in the form of registered shares until the end of his term of office. This holding obligation corresponds to 50% of the vested performance shares(2).

Defined benefit pension plan

Jacques Aschenbroich benefits from a defined benefit pension plan in accordance with Group and market practices.

With a view to retaining and motivating the executive corporate officer with regard to the Company's objectives, general interest and market practices, at its meeting of April 9, 2009, when determining the executive corporate officer's overall compensation, the Board of Directors decided to register Jacques Aschenbroich with the supplementary defined benefit pension plan for the Group's senior executives (*hors catégorie*) and referred to in Article L.137-11 of the French Social Security Code. This decision was implemented on October 20, 2009. In view of Jacques Aschenbroich's age and the fact that he was not covered by any other supplementary pension plan, the decision was made to credit him with five additional years of service at the start of his tenure.

There is a cap both on the amount of this pension plan, which came into effect on January 1, 2010 and no longer welcomes new members since July 1, 2017 (entitlement pursuant to the plan's conditions corresponding to 1% of the reference salary per year of service, capped at 20%) and on the basis for determining entitlements (additional pension benefits, all plans combined, are capped at 55% of the reference salary).

In accordance with French Ordinance No. 2019-697 of July 3, 2019, Valeo's so-called "Article 39" defined benefit pension plan (the "**Closed Plan**"), which no longer welcomes new members since July 1, 2017, no longer allows for the acquisition of new rights as from January 1, 2020, and, in accordance with the new legal provisions, a new commitment has been made in favor of Jacques Aschenbroich. This new plan, effective as of January 1, 2020, in accordance with Article L.137-11-2 of the French Social Security Code, includes the same ceilings and performance conditions as the Closed Plan.

Its main characteristics are the following:

- supplementary pension rights are equal to 1% of the reference salary per vesting year;
- the vesting of supplementary pension rights is subject to a performance condition, which is deemed to have been met if the variable portion of Jacques Aschenbroich's compensation, paid in year Y+1 in respect of year Y, reaches 100% of his fixed compensation due in respect of year Y. In the event that the variable portion does not reach 100% of the fixed compensation, the rights granted will be calculated on a *pro rata* basis;
- the reference salary is the base salary and the variable compensation received in each year of vesting;
- the cap due to the nature of the plan: a cap of 20% of the final reference salary as defined in the Closed Plan (cap which applies to the sum of the rights acquired under the Closed Plan and under the new plan);
- the cap on the base for determining entitlements: all plans combined are capped at 55% of the final reference salary.

Under this new plan, the rights of Jacques Aschenbroich will vest without condition of presence in the Company at the end of his career.

The rights under the Closed Plan crystallized at December 31, 2019 and remain conditional on the presence of Jacques Aschenbroich within Valeo at the time of his retirement.

(1) *Therefore, at its meeting on March 24, 2020, and after consulting the Compensation Committee, the Board of Directors decided to grant 130,000 performance shares to the Chairman and Chief Executive Officer for 2020. Due to the extreme volatility of the automobile market and the Covid-19 pandemic, which affected Valeo's share price, in accordance with the approach retained exceptionally in 2019 in similar market circumstances, and to take into account the significant fall in the share price in early 2020, the number of performance shares allotted to the Chairman and Chief Executive Officer (IFRS valuation) was calculated with a discount of 39% as compared to the maximum permitted under the compensation policy (270% of annual fixed compensation). This discount corresponds to the ratio between the share price for the last 20 days and the share price over the last 18 months prior to the allotment of the performance shares. Based on the share price on the date of the Board of Directors' meeting (average of 20 days, IFRS valuation), this corresponds to 130,000 shares, valued under IFRS at 1,821,300 euros, i.e., 61% as compared to the maximum permitted under the compensation policy.*

(2) *Since joining the Group as Chief Executive Officer on March 20, 2009, Jacques Aschenbroich has not sold any shares obtained by exercising stock purchase or subscription options allotted to him, nor sold any vested performance shares.*

Non-compete compensation

In order to protect the Company's interests, a non-compete clause binding the executive corporate officer was put in place by the Board of Directors.

If the Company triggers the non-compete clause, the executive corporate officer will be prohibited from working in any way for an automotive supplier or, more generally, for any of Valeo's competitors. The clause will apply for 12 months after the end of his term of office as Chief Executive Officer of Valeo, regardless of the reason for termination.

In consideration, the executive corporate officer will receive non-compete compensation equal to 12 months of compensation (calculated by taking the average compensation (fixed and variable) paid for the three financial years preceding the year of departure). The compensation will be paid in equal monthly installments over the entire period to which the non-compete clause applies.

It should be noted that the Board of Directors will have to decide whether or not the non-compete agreement will be applied at the time the executive corporate officer leaves, particularly if he leaves Valeo to claim, or after claiming, retirement benefits. The Company reserves the right not to implement this agreement and to waive the non-compete clause, in which case no compensation will be owed.

This non-compete clause, which applies to Jacques Aschenbroich, has been in force since February 24, 2010. To comply with the AFEP-MEDEF Code as amended in June 2013, at its meeting on February 24, 2015, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, amended the non-compete clause, which was approved by the Shareholders' Meeting of May 26, 2015 in its fifth resolution pursuant to Article L.225-42-1 of the French Commercial Code (since repealed).

Given the recommendations of the AFEP-MEDEF Code on non-compete agreements, Jacques Aschenbroich announced his decision to waive his right to non-compete compensation. In order to comply with the AFEP-MEDEF Code, the Board of Directors formally noted this decision at its meeting on February 21, 2019 and consequently decided to amend the non-compete agreement accordingly. The amendment was approved at a rate of 99.88% by the Shareholders' Meeting of May 23, 2019 under the fourth resolution.

Benefits in kind

The Chairman and Chief Executive Officer is also entitled to benefits in kind which were set by the Board of Directors, at its meeting of April 9, 2009, when determining the executive corporate officer's overall compensation. He is therefore entitled to coverage under the unemployment insurance fund for company managers, the collective and mandatory health, death and disability plan and life insurance covering death, disability or the consequences of any accidents that may occur during business travel. Valeo also provides him with a company car.

Other compensation components – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, directors' compensation, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation

The Chairman and Chief Executive Officer is not entitled to multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation or termination benefits. In this respect, it should be noted that Jacques Aschenbroich was entitled to termination benefits as Chief Executive Officer before his appointment as Chairman of the Board of Directors, which he waived when the roles of Chairman of the Board of Directors and Chief Executive Officer were combined on February 18, 2016. His decision was formally noted by the Board of Directors the same day.

The Chairman and Chief Executive Officer does not receive compensation in his capacity as director. He is not entitled to any compensation or other benefits as a result of agreements entered into with the Company or any Group company.

No stock purchase or subscription options or other long-term component of compensation other than performance shares were allotted to the Chairman and Chief Executive Officer in 2020.

In accordance with Articles L.22-10-8 and L.22-10-34 (former Articles L.225-37-2 and L.225-100 II and III) of the French Commercial Code, the Chairman and Chief Executive Officer's variable compensation for 2020 will only be paid once the fixed, variable and exceptional components comprising the total compensation and benefits package paid or awarded to him in respect of the 2020 financial year have been approved by the shareholders at an Ordinary Shareholders' Meeting (*ex post* vote).

In accordance with Article L.22-10-8 III (former Article L.225-37-2 III) of the French Commercial Code, having consulted the Compensation Committee and, where appropriate, the other Specialized Committees, the Board of Directors, in exceptional circumstances, temporarily has the discretionary power to adjust the provisions relating to the quantifiable variable components of the 2020 Compensation Policy for the Chairman and Chief Executive Officer, in particular where the changes made are in line with the corporate interest and necessary to guarantee Valeo's long-term future or viability. Events that may lead to the use of this option include events outside Valeo's control that could not have been reasonably foreseen or quantified when the compensation policy was drawn up, such as the impact of the Covid-19 pandemic.

2021 Compensation Policy for the Chairman and Chief Executive Officer

This section sets out the principles and criteria for determining, structuring and awarding the fixed, variable and exceptional components of the Chairman and Chief Executive Officer's total compensation and benefits package for the year ending December 31, 2021, constituting his compensation policy for 2021 (the "**2021 Compensation Policy for the Chairman and Chief Executive Officer**"). It forms part of the report prepared in accordance with Article L.225-37 of the French Commercial Code and contains the information required pursuant to Article L.22-10-8 (former Article L.225-37-2) of said Code.

Given the current economic situation and the fact that the 2020 Comparative Study confirmed that the fixed compensation as well as the ceilings for variable and long-term compensation of the Chairman and Chief Executive Officer are in line with the market, the Compensation Committee recommended to the Board of Directors that these remain unchanged both for the 2020 Compensation Policy for the Chairman and Chief Executive Officer(1) and for the 2019 Compensation Policy for the Chairman and Chief Executive Officer(2).

Following the analysis process, the Compensation Committee nevertheless proposed to the Board of Directors adjustments to the elements used to assess the qualitative and quantifiable criteria of the variable compensation, as described below.

At its meeting held on March 24, 2021, the Board of Directors, on the recommendation of the Compensation Committee, set the 2021 Compensation Policy for the Chairman and Chief Executive Officer, as described below. In accordance with Article L.22-10-8 (former Article L.225-37-2) of the French Commercial Code, the Shareholders' Meeting of May 26, 2021 will be called upon to approve the elements of the 2021 Compensation Policy for the Chairman and Chief Executive Officer.

Fixed compensation

The annual fixed compensation notably remunerates for responsibilities associated with the role of Chairman and Chief Executive Officer. In accordance with the AFEP-MEDEF Code, fixed compensation is reviewed at relatively long intervals.

The Chairman and Chief Executive Officer's annual fixed compensation has been set at 1,100,000 euros since May 23, 2019.

Variable compensation

The maximum amount of the Chairman and Chief Executive Officer's variable portion is 170% of the annual fixed compensation, unchanged compared to those set in the 2019 Compensation Policy for the Chairman and Chief Executive Officer and in the 2020 Compensation Policy for the Chairman and Chief Executive Officer.

In assessing the 2021 Compensation Policy for the Chairman and Chief Executive Officer, on March 24, 2021, the Board of Directors, on the recommendation of the Compensation Committee, decided to make adjustments to the quantifiable criteria and the qualitative sub-criteria previously used. These adjustments are aimed at better reflecting the Group's current financial, non-financial and operational performance objectives.

Thus, for the quantifiable criteria, the Board of Directors, on the recommendation of the Compensation Committee, decided to replace the operating margin rate with an EBITDA level which reflects the new criterion for the guidance published by the Group in February 2021. In addition, and in order to be consistent with the adjustments to the internal performance criteria of the performance share plans decided by the Board of Directors (as described below) and in particular the insertion of an internal performance criterion relating to the rate of return on capital employed (ROCE), the rate of return on capital employed (ROCE) previously used has been removed from the quantifiable criteria of the variable compensation and the respective weighting of each of the other quantifiable criterion has been adjusted accordingly.

The qualitative criteria for the annual variable compensation of the Chairman and Chief Executive Officer for 2021 are exactly the same as those stated in the 2020 Compensation Policy for the Chairman and Chief Executive Officer, with an adjustment to qualitative sub-criteria (see table below).

The quantifiable and qualitative criteria used for the 2021 Compensation Policy for the Chairman and Chief Executive Officer are therefore as follows:

- **four quantifiable criteria:** (i) EBITDA, (ii) free cash flow, (iii) net income, and (iv) Group order intake;
- **three qualitative criteria:** (i) strategic vision, (ii) risk management, and (iii) corporate social responsibility.

For each quantifiable criterion, the variable portion varies within a range of 0% to 100% of the maximum amount of annual fixed compensation obtainable under the relevant criterion.

(1) Approved at a rate of 94.03% by the Shareholders' Meeting of June 25, 2020 under its thirteenth resolution.

(2) Approved at a rate of 91.92% by the Shareholders' Meeting of May 23, 2019 under its tenth resolution.

The table below summarizes in a synthetic way the quantifiable and qualitative criteria, the percentage of the fixed annual compensation related to each of those criteria as well as the maximum amount of the variable portion for 2021. The principles and criteria relating to the annual variable compensation for 2021 will be as follows:

Quantifiable criteria[(1)(2)]

Nature of the quantifiable criterion	Maximum amount of the variable portion as a % of the annual fixed compensation
EBITDA[(3)]	30%
Free cash flow	30%
Net income	25%
Group order intake[(4)]	30%
TOTAL QUANTIFIABLE CRITERION	**115%**

Qualitative criteria

Nature of the qualitative criterion	Maximum amount of the variable portion as a % of the annual fixed compensation
Strategic vision *Strategic vision is assessed against the following elements:* • *strategic and technological operations carried out;* • *development of technological platforms;* • *new evaluation of the presentation at the next strategy seminar of a technology roadmap and its directions on software.*	20%
Risk management *This criterion is assessed in particular against the following elements:* • *compliance: new measures implemented to ensure the strict enforcement of anti-corruption, anti-trust and personal data protection rules (GDPR);* • *risk management related to the adaptation of the production plant given the new product launches and customer disputes (evolution of the number of "red launches");* • *controlling the aftermath of the Covid-19 crisis during 2021;* • *quality of the supplies crisis management (electronic components and raw materials).*	15%
Corporate social responsibility *CSR is assessed in particular against the following elements:* • *overall assessment of safety performance through the number of lost-time workplace accidents. Particular attention will be paid to France in 2021 with respect to lost-time workplace accidents;* • *implementation of specific action plans following the measurement of employees engagement in the first quarter survey;* • *progression of the Gender Equity Index in 2021 to an average of 85 for the Group with no country below 75.*	20%
TOTAL QUALITATIVE CRITERIA	**55%**
TOTAL QUANTIFIABLE AND QUALITATIVE CRITERIA	**170%**

(1) Excluding tax and regulatory impacts.
(2) Concerning the quantifiable criteria, the impacts of the Covid-19 epidemic and its potential consequences on the Group for the financial year ending December 31, 2021 cannot be predicted on the date of this Universal Registration Document (including the resulting components and raw materials crisis which massively impacts the whole automotive industry and will lead notably to a loss of production that cannot be assessed at the date of this Universal Registration Document). Thus, when assessing the degree of achievement of these quantifiable objectives, the Board of Directors may take these potential impacts into account.
(3) Including the Top Column Module (TCM) business.
(4) Excluding the Top Column Module (TCM) business and Valeo Siemens eAutomotive (VSeA).

Long-term compensation policy – Allotment of performance shares

The maximum amount of the Chairman and Chief Executive Officer's long-term variable compensation is 270% of the annual fixed compensation, unchanged compared to the amount set in the 2020 Compensation Policy for the Chairman and Chief Executive Officer (unchanged since February 18, 2016), in light of the current economic environment and the fact that the 2020 Comparative Study confirmed that this was an appropriate level.

As indicated in the 2020 Compensation Policy for the Chairman and Chief Executive Officer, the aim of allotting performance shares is not only to encourage the Chairman and Chief Executive Officer to take a long-term approach to his duties, but also to retain him and align his interests with those of Valeo and its shareholders. Under the performance share plans, performance criteria must be met over a period of three consecutive years[1]. Valeo applies strict and ambitious financial and operating performance criteria considered as particularly representative of the Company's performance. The Board of Directors, on the recommendation of the Compensation Committee, decided, as part of the 2021 Compensation Policy for the Chairman and Chief Executive Officer, to make adjustments to the criteria used in previous years. These adjustments are aimed at better reflecting the Group's strategy, financial, non-financial and operational performance objectives, the creation of value for Valeo's shareholders measured against the external performance criterion, the Total Shareholder Return (TSR) and performance measurement in the proposed criteria.

Thus, the Board of Directors, on the recommendation of the Compensation Committee, has decided to replace the internal performance criteria previously used as follows:

(i) the operating margin rate is replaced with an EBITDA level, which reflects the new criterion for the guidance published by the Group in February 2021; and

(ii) the rate of return on assets (ROA) is replaced with the rate of return on capital employed (ROCE) (a criterion previously used for the annual variable compensation of the Chairman and Chief Executive Officer but which was removed in the 2021 Compensation Policy for the Chairman and Chief Executive Officer), which is more relevant today, and on which all beneficiaries of performance shares concerned by this criterion have a more direct influence compared to the ROA criterion.

In addition, given the importance of corporate social responsibility (CSR) issues, the Board of Directors, on the recommendation of the Compensation Committee, has considered it appropriate to add two CSR criteria to the long-term compensation of the Chairman and Chief Executive Officer, namely an environmental criterion and a gender diversity criterion, whose ambitious objectives, published at the time of the free share allocation, will be measured over three years. These objectives will be consistent with the carbon neutrality objectives described in Chapter 4, section 4.1.3 "Valeo's Carbon Neutrality Plan by 2050" of this Universal Registration Document and with the gender diversity targets described in sub-section 3.2.1 "Composition of the Board of Directors", paragraph "Diversity policy within the governing bodies" of this Universal Registration Document. This decision reflects the importance Valeo attaches to these elements and the desire of the Board of Directors to make them part of the long-term objectives.

Thus, the allocation of performance shares would depend on performance measured against the following criteria:

(i) two internal performance criteria, namely the EBITDA level (which has replaced the operating margin rate) as well as the rate of return on capital employed (ROCE) (which has replaced the rate of return on assets (ROA)). The internal performance criteria will represent no more than 60% of the allocated shares (30% for each criterion);

(ii) an external performance criterion, Valeo's TSR, which will be measured against the CAC 40 index (10%) and against a European Automotive Panel[2] (10%). Thus, the external performance criterion will represent no more than 20% of the allocated shares;

(iii) two corporate social responsibility (CSR)-related criteria: an environmental criterion relating to the level of CO_2 emissions and a gender diversity criterion based on the number of women within the Group's management committees (relating to the 300 most important Group management positions). The CSR criteria will represent no more than 20% of the allocated shares (10% for each criterion).

(1) It is noted that following the separation of the roles of Chairman and Chief Executive Officer planned for January 2022, Jacques Aschenbroich will remain Chairman of the Board of Directors until the end of his term of office as director, i.e. until May 2023. For the purposes of the grant made in 2021, (i) it is expected that the right to performance shares will be maintained and that the performance criteria will apply and (ii) it has been agreed that the number of performance shares that would be definitively granted to him under the 2021 plan would be reduced on a pro rata basis according to the period during which he will have exercised the associated functions of Chairman and Chief Executive Officer.

(2) The Automotive European Panel was modified by the Board of Directors at its meeting of March 24, 2021 on the proposal of an external consultant, Willis Towers Watson. Fiat Chrysler Automobiles and PSA were replaced by Stellantis and Volkswagen was added. This panel is available on the Company's website (www.valeo.com), under "Corporate Governance".

The table below summarizes in a synthetic way the criteria and methods used to assess the performance shares selected as part of the 2021 Compensation Policy for the Chairman and Chief Executive Officer:

Criterion	Weight/Assessment
Internal performance criterion: ROCE rate[(1)] (30%) **Internal performance criterion: EBITDA level[(1)] (30%)**	Performance measured by two criteria (ROCE rate and EBITDA level) for each of the three financial years (Y, Y+1, and Y+2) of the vesting period. The criterion will be satisfied if, for each financial year covered under the grant, the rate effectively achieved for each criterion is greater than or equal to the target rate established by the Board of Directors, it being understood that (i) the target rate cannot be lower than the guidance for the financial year of reference, (ii) the selected criterion cannot be changed by the Board of Directors at a later date and (iii) the target rates cannot be changed by the Board of Directors at a later date, except by a duly justified decision in the context of exceptional circumstances beyond the beneficiaries' control. • If, for each financial year covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for each of those three financial years: 100%. • If, for only two of the financial years covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for each of those two financial years: 50%. • If, for only one of the financial years covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for that financial year: 20%. • If the target rate for the corresponding criterion is not satisfied for any of the financial years covered by the scheme: 0%.
External performance criterion: TSR (20%)	TSR recorded over a period of three years from January 1 of the allotment year to December 31 of the year prior to delivery. • If Valeo's TSR recorded over the reference period is greater than the CAC 40 index's TSR recorded over the reference period: 100% (0% if equal or lower). • If Valeo's TSR recorded over the reference period is greater than the median of the TSRs of the companies in the European Automotive Panel over the reference period: 100% (0% if equal or lower).
Corporate social responsibility: CO_2 emissions[(2)] (10%)	CSR criterion recorded over a period of three years from January 1 of the allotment year to December 31 of the year prior to delivery and published at the time of the free share allotment: • If the level of CO_2 emissions recorded over the reference period is lower than or equal to the target rate established for the reference period: 100% (0% if greater).
Corporate social responsibility: the number of women within the Group's management committees (relating to the 300 most important Group management positions)[(3)] (10%)	• If the number of women within the Group's management committees (relating to the 300 most important Group management positions) recorded over the reference period is greater than or equal to the target rate established for the reference period: 100% (0% if lower).

(1) For 2021, the guidance is 11.10% for the ROCE rate (excluding the Top Column Module (TCM) business) and 12.80% for the EBITDA (including the Top Column Module (TCM) business). It should be noted that the impacts of the Covid-19 epidemic and its potential consequences on the Group for the financial year ending December 31, 2021 cannot be predicted on the date of this Universal Registration Document (including the resulting components and raw materials crisis which massively impacts the whole automotive industry and will lead notably to a loss of production that cannot be assessed at the date of this Universal Registration Document). Thus, when assessing the achievement of the internal performance criteria, the Board of Directors may take these potential impacts into account.

(2) For the 2021 plan, the achievement of this target will be assessed as at December 31, 2023, on the basis of the carbon neutrality objective by 2050 and, by December 31, 2030, a plan to reduce emissions related to its operating activities (Scopes 1 and 2) by 75% and emissions related to its supply chain and to the end use of its products (Scope 3) by 15% compared to January 1, 2020, as presented in Chapter 4, section 4.1.3 "Valeo's Carbon Neutrality Plan by 2050" of this Universal Registration Document. This 2030 objective implies an annual reduction of 0.75 $MtCO_2$ from 49.6 $MtCO_2$ at January 1, 2020 to 41.4 $MtCO_2$ at December 31, 2030. Accordingly, based on a linear annual progression until 2030, the rate of achievement of this target is set at a maximum of 46.6 $MtCO_2$ by December 31, 2023.

(3) For the 2021 plan, the achievement of this target will be assessed as at December 31, 2023 on the basis of the objective of doubling the number of women on the various Group's management committees (relating to the 300 most important Group management positions) from 16% of women as at January 1, 2020 to 32% of women as at December 31, 2030. Accordingly, based on a linear annual progression, the rate of achievement of this target is set at a minimum of 22% of women in the Group's management committees (relating to the 300 most important Group management positions) by December 31, 2023, on a like-for-like basis, which constitutes an acceleration of the intermediate objective for 2024 set at 20% by Valeo's Board of Directors in 2020 (as described in sub-section 3.2.1 "Composition of the Board of Directors", paragraph "Diversity policy within the governing bodies" of this Universal Registration Document).

In addition, a presence condition must be met at the time of the allotment. Thus, the performance shares allotted to the Chairman and Chief Executive Officer will vest only if his term of office[(1)] has not expired on the vesting date. Entitlement to the performance shares will be lost in the event of (i) dismissal due to gross negligence or wilful misconduct or (ii) dismissal for reasons attributable to the Chairman and Chief Executive Officer's performance, before the expiry of the vesting period. Except for these two cases, the Board of Directors will determine whether or not the Chairman and Chief Executive Officer will retain his entitlement to the performance shares before the expiry of the vesting period based on an in-depth analysis of the reasons for and circumstances surrounding his departure. In any event, the shares will only vest if the performance criteria are achieved. By way of exception to the foregoing, in the event of termination of his corporate office in connection with the liquidation of mandatory and supplementary pension plans, death or disability, entitlement to performance shares will be maintained and the performance criteria will apply to retirement but not to death or disability.

(1) Or, as from the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer, his office as Chairman of the Board of Directors subject to adjustment of the number of performance shares that would definitively vest on a pro rata basis for the period during which he held the combined roles of Chairman of the Board of Directors and Chief Executive Officer.

It is understood that with the separation between the roles of Chairman of the Board of Directors and Chief Executive Officer scheduled for January 2022, Jacques Aschenbroich will remain Chairman of the Board of Directors until the end of his term of office as director in May 2023. For the purposes of the allotment made in 2021 and in keeping with the plan as described in this section, (i) the entitlement to performance shares will be maintained and performance criteria will apply, and (ii) it is agreed that the number of performance shares to vest under the 2021 plan will be reduced *pro rata* to the period during which he held the combined roles of Chairman of the Board of Directors and Chief Executive Officer. It should be noted that given the demanding performance criteria, no performance shares allotted to Jacques Aschenbroich under the 2016, 2017, and 2018 performance share plans have vested.

Each time that it decides to allot performance shares, the Board of Directors ensures that performance share allotments, valued under IFRS, do not represent a disproportionate percentage of all compensation and performance shares allotted, that they have a limited impact in terms of dilution (i.e., for information purposes, a maximum of 250,000 under the nineteenth resolution of the Shareholders' Meeting of May 23, 2019) and that the allotments are made at the same times of the year. In accordance with applicable laws and Company practices, the Group's executive managers and employees are also entitled to performance shares.

The maximum amount of performance shares allotted to the Chairman and Chief Executive Officer, valued under IFRS, must not exceed 270% of his annual fixed compensation (i.e., 100% of the maximum annual combined fixed and variable compensation). The cap of 270% of annual fixed compensation is a maximum amount and the Board of Directors reserves the right to award a lower percentage depending on Valeo's performance.

In accordance with the recommendations of the AFEP-MEDEF Code and the provisions of the Code of Conduct, the Chairman and Chief Executive Officer is not permitted to use hedging transactions to reduce his risk. He has made a formal commitment in this respect as required by the AFEP-MEDEF Code. At the end of the holding period set by the Board of Directors, the Chairman and Chief Executive Officer must also hold a significant number of vested performance shares in the form of registered shares until the end of his term of office. This holding obligation corresponds to 50% of the vested performance shares[(1)].

Defined benefit pension plan

Jacques Aschenbroich benefits from a defined benefit pension plan in accordance with Group and market practices.

With a view to retaining and motivating the executive corporate officer with regard to the Company's objectives, general interest and market practices, at its meeting of April 9, 2009, when determining the executive corporate officer's overall compensation, the Board of Directors decided to register Jacques Aschenbroich with the supplementary defined benefit pension plan for the Group's senior executives (*hors catégorie*) and referred to in Article L.137-11 of the French Social Security Code. This decision was implemented on October 20, 2009. In view of Jacques Aschenbroich's age and the fact that he was not covered by any other supplementary pension plan, the decision was made to credit him with five additional years of service at the start of his tenure.

There is a cap both on the amount of this pension plan, which came into effect on January 1, 2010 and no longer welcomes new members since July 1, 2017 (entitlement pursuant to the plan's conditions corresponding to 1% of the reference salary per year of service, capped at 20%), and on the basis for determining entitlements (additional pension benefits, all plans combined, are capped at 55% of the reference salary).

In accordance with French Ordinance No. 2019-697 of July 3, 2019, the so-called "Article 39" defined benefit pension plan, which no longer welcomes new members since July 1, 2017, no longer allows for the acquisition of new rights as from January 1, 2020 (the "**Closed Plan**"). Thus, in accordance with the new legal provisions, a new commitment has been made in favor of Jacques Aschenbroich. This new plan (the "**New Plan**"), effective as of January 1, 2020, in accordance with Article L.137-11-2 of the French Social Security Code, includes the same ceilings and performance conditions as the Closed Plan[(2)].

Its main characteristics are the following:

- supplementary pension rights are equal to 1% of the reference salary per vesting year;
- the vesting of supplementary pension rights is subject to a performance condition, which is deemed to have been met if the variable portion of Jacques Aschenbroich's compensation, paid in year Y+1 in respect of year Y, reaches 100% of his fixed compensation due in respect of year Y. In the event that the variable portion does not reach 100% of the fixed compensation, the rights granted will be calculated on a *pro rata* basis down to zero;
- the reference salary is the base salary and the variable compensation received in each year of vesting;
- the cap due to the nature of the plan: a cap of 20% of the final reference salary as defined in the Closed Plan (cap which applies to the sum of the rights acquired under the Closed Plan and under the New Plan);
- the cap on the base for determining entitlements: all plans combined are capped at 55% of the final reference salary.

Under this New Plan, the rights of Jacques Aschenbroich will vest without condition of presence in the Company at the end of his career.

(1) Since joining the Group as Chief Executive Officer on March 20, 2009, Jacques Aschenbroich has not sold any shares obtained by exercising stock purchase or subscription options allotted to him, nor sold any vested performance shares.

(2) The New Plan was approved at a rate of 94.03% by the Shareholders' Meeting of June 25, 2020 in connection with the 2020 Compensation Policy for the Chairman and Chief Executive Officer (thirteenth resolution) and a rate of 98.19% in connection with related party undertakings and agreements (fourth resolution).

The rights under the Closed Plan crystallized at December 31, 2019 and remain conditional on the presence of Jacques Aschenbroich within Valeo at the time of his retirement.

Non-compete compensation

The Board of Directors may decide to make a non-compete commitment to the executive corporate officer in accordance with the recommendations of the AFEP-MEDEF Code.

Jacques Aschenbroich has had a non-compete agreement since February 24, 2010 (see paragraph "Non-compete compensation" of this section, page 159).

Given the recommendations of the AFEP-MEDEF Code on non-compete agreements, Jacques Aschenbroich announced his decision to waive his right to non-compete compensation. In order to comply with the AFEP-MEDEF Code, the Board of Directors formally noted this decision at its meeting on February 21, 2019 and consequently decided to amend the non-compete agreement accordingly.

Benefits in kind

The principles and criteria for this compensation component set out in the 2020 Compensation Policy for the Chairman and Chief Executive Officer (see paragraph "Benefits in kind" of this section, page 159), remain unchanged in the 2021 Compensation Policy for the Chairman and Chief Executive Officer.

Other compensation components – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, directors' compensation, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation

The principles and criteria relating to this component of compensation set out in the 2020 Compensation Policy for the Chairman and Chief Executive Officer (see paragraph "Other compensation components – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, directors' compensation, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation" of this section, page 159), remain unchanged in the 2021 Compensation Policy for the Chairman and Chief Executive Officer.

Accordingly, the Chairman and Chief Executive Officer will not be entitled to multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation or termination benefits. In this respect, it should be noted that Jacques Aschenbroich was entitled to termination benefits as Chief Executive Officer before his appointment as Chairman of the Board of Directors, which he waived following the combination of the roles of Chairman of the Board of Directors and Chief Executive Officer on February 18, 2016. At its meeting on that date, the Board of Directors duly noted his decision.

The Chairman and Chief Executive Officer does not receive compensation in his capacity as director. He is not entitled to any compensation or other benefits as a result of agreements entered into with the Company or any Group company.

No stock purchase or subscription options or other long-term component of compensation other than performance shares will be allotted to the Chairman and Chief Executive Officer in 2021.

In accordance with Articles L.22-10-8 and L.22-10-34 (former Articles L.225-37-2 and L.225-100 II and III) of the French Commercial Code, the Chairman and Chief Executive Officer's variable compensation for 2021 will only be paid once the fixed, variable and exceptional components comprising the total compensation and benefits package paid or awarded to him in respect of the 2021 financial year have been approved by the shareholders at an Ordinary Shareholders' Meeting (*ex post* vote).

In accordance with Article L.22-10-8 III (former Article L.225-37-2 III) of the French Commercial Code, having consulted the Compensation Committee and, where appropriate, the other Specialized Committees, the Board of Directors will, in exceptional circumstances, temporarily have the discretionary power to adjust the provisions relating to the quantifiable variable components of the 2021 Compensation Policy for the Chairman and Chief Executive Officer, in particular where the changes made are in line with the corporate interest and necessary to guarantee Valeo's long-term future or viability. Events that may lead to the use of this option include events outside Valeo's control that could not have been reasonably foreseen or quantified when the compensation policy was drawn up, such as the impact of the Covid-19 epidemic and its potential consequences on the Group for the financial year ending December 31, 2021, including the resulting components and raw materials crisis which massively impacts the whole automotive industry and will lead notably to a loss of production that cannot be assessed at the date of this Universal Registration Document.

Compensation policies for Christophe Périllat as Deputy Chief Executive Officer and then Chief Executive Officer

It is noted that during the second half of 2019, the Board of Directors of Valeo started working, under the guidance of the Governance, Appointments & Corporate Social Responsibility Committee, on a comprehensive process to decide on a succession plan for Jacques Aschenbroich. This plan, unanimously approved by the Board of Directors of Valeo at its meeting held on October 27, 2020 and disclosed on the same day follows the decision taken by the Board of Directors, within the context of Jacques Aschenbroich's reappointment as director at the General Meeting held on May 23, 2019, to implement the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer within two years.

In accordance with this succession plan, Jacques Aschenbroich will continue to act as Chairman of the Board of Directors until the end of his current term of office as director, i.e. until May 2023, with specific missions which aim to ensure a smooth transition with Christophe Périllat, previously the Chief Operating Officer of Valeo, who will succeed Jacques Aschenbroich in his role as Chief Executive Officer of the Company from January 2022.

In this context, Christophe Périllat was appointed as Associate Chief Executive Officer *(Directeur Général Adjoint)* of Valeo as of October 27, 2020 and until the Annual Shareholders' Meeting to be held on May 26, 2021. It is expected that on that date the Board of Directors will appoint him as Deputy Chief Executive Officer *(Directeur Général Délégué)* of Valeo and his employment contract will be suspended for the duration of his term of office as Deputy Chief Executive Officer and until his appointment as Chief Executive Officer, at which date his employment contract will be terminated. The appointment of Christophe Périllat as a director of Valeo will also be put to the Shareholders' Meeting which will be held on May 26, 2021.

At its meeting held on March 24, 2021, the Board of Directors, on the recommendation of the Compensation Committee, set the compensation policy for the Deputy Chief Executive Officer and, in anticipation of the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer, the compensation policy for the Chief Executive Officer and the compensation policy for the Chairman of the Board of Directors.

Compensation policy for Christophe Périllat as Deputy Chief Executive Officer

This section sets out the principles and criteria for determining, structuring and awarding the fixed, variable and exceptional components of the Deputy Chief Executive Officer's total compensation and benefits package for the year ending December 31, 2021, constituting his compensation policy for 2021 (the "**2021 Compensation Policy for the Deputy Chief Executive Officer**").

It is expected that the components of Christophe Périllat's remuneration as Associate Chief Executive Officer *(Directeur Général Adjoint)*, unchanged from those received as Chief Operating Officer, will remain unchanged after his appointment as Deputy Chief Executive Officer. These components are therefore reflected in the 2021 Compensation Policy for the Deputy Chief Executive Officer, it being specified that the criteria for the variable remuneration for the Deputy Chief Officer are aligned with those applicable to the Chairman and Chief Executive Officer.

Fixed compensation

At its meeting held on March 24, 2021, on the recommendation of the Compensation Committee, the Board of Directors set the annual fixed compensation of the Deputy Chief Executive Officer at 725,000 euros which corresponds to the same level as that of Chief Operating Officer and Associate Chief Executive Officer (since October 27, 2020).

Variable compensation

The variable portion of the compensation must be in line with the Deputy Chief Executive Officer's performance, as well as the Company's strategy and progress. It was therefore determined partly according to quantifiable, strict and ambitious criteria based on the Group's financial, non-financial and operational performance, and partly on a qualitative basis. The quantifiable and qualitative objectives to be reached were set according to specific, strict and ambitious predetermined objectives. These criteria are determined each year by the Board of Directors, based on recommendations made by the Compensation Committee.

During its review of the 2021 Compensation Policy for the Deputy Chief Executive Officer, at its meeting of March 24, 2021, the Board of Directors, acting on the recommendation of the Compensation Committee, decided to set the following quantifiable and qualitative criteria, which are identical to those applicable to the variable compensation of the Chairman and Chief Executive Officer for the 2021 financial year:

- **four quantifiable criteria:** (i) EBITDA, (ii) free cash flow, (iii) net income, and (iv) Group order intake;
- **three qualitative criteria:** (i) strategic vision, (ii) risk management, and (iii) corporate social responsibility.

In accordance with the recommendations of the AFEP-MEDEF Code, the total amount of the variable portion is expressed as a percentage of the annual fixed compensation, each criterion granting entitlement to a percentage of the annual fixed compensation.

The maximum amount of the Deputy Chief Executive Officer's variable compensation was set at 120% of his annual fixed compensation. The decision to cap his variable compensation at 120% of his annual fixed compensation was made by the Board of Directors at its meeting held on March 24, 2021, on the recommendation of the Compensation Committee which corresponds to the same level that as Chief Operating Officer and Associate Chief Executive Officer.

The maximum amount of annual variable compensation (120% of annual fixed compensation) is contingent on the achievement of ambitious objectives set by the Board of Directors acting on the recommendation of the Compensation Committee.

For each quantifiable criterion, the variable portion will vary within a range of 0% to 100% of the maximum amount of annual fixed compensation obtainable under the relevant criterion.

The table below summarizes in a synthetic way the quantifiable and qualitative criteria, the percentage of the annual fixed compensation related to each of those criteria as well as the maximum amount of the variable portion for 2021:

Quantifiable criteria(1)(2)

Nature of the quantifiable criterion	Maximum amount of the variable portion as a % of the annual fixed compensation
EBITDA(3)	21%
Free cash flow	21%
Net income	17%
Group order intake(4)	21%
TOTAL QUANTIFIABLE CRITERIA	**80%**

Qualitative criteria

Nature of the qualitative criterion	Maximum amount of the variable portion as a % of the annual fixed compensation
Strategic vision *Strategic vision is assessed against the following elements:* • *strategic and technological operations carried out;* • *development of technological platforms;* • *new evaluation of the presentation at the next strategy seminar of a technology roadmap and its directions on software.*	14%
Risk management *This criterion is measured, in particular, against the following elements:* • *compliance: new measures implemented to ensure the strict enforcement of anti-corruption, anti-trust and personal data protection rules (GDPR);* • *risk management related to the adaptation of the production plant given the new product launches and customer disputes (evolution of the number of "red launches");* • *controlling the aftermath of the Covid-19 crisis during 2021;* • *quality of the supplies crisis management (electronic components and raw materials).*	12%
Corporate social responsibility *CSR assessed in particular against the following elements:* • *overall assessment of safety performance through the number of lost-time workplace accidents. Particular attention will be paid to France in 2021 with respect to lost-time workplace accidents;* • *implementation of specific action plans following the measurement of employees engagement in the first quarter survey;* • *progression of the Gender Equity Index in 2021 to an average of 85 for the Group with no country below 75.*	14%
TOTAL QUALITATIVE CRITERIA	**40%**
TOTAL QUANTIFIABLE AND QUALITATIVE CRITERIA	**120%**

(1) Excluding tax and regulatory impacts.
(2) Concerning the quantifiable criteria, the impacts of the Covid-19 epidemic and its potential consequences on the Group for the financial year ending December 31, 2021 cannot be predicted on the date of this Universal Registration Document (including the resulting components and raw materials crisis which massively impacts the whole automotive industry and will lead notably to a loss of production that cannot be assessed at the date of this Universal Registration Document). Thus, when assessing the degree of achievement of these quantifiable objectives, the Board of Directors may take these potential impacts into account.
(3) Including the Top Column Module (TCM) business.
(4) Excluding the Top Column Module (TCM) business and Valeo Siemens eAutomotive (VSeA).

Long-term compensation policy – Allotment of performance shares

The aim of allotting performance shares is not only to encourage the Deputy Chief Executive Officer to take a long-term approach to his duties, but also to retain him and align his interests with those of Valeo and its shareholders. Under the performance share plans, performance criteria must be met over a period of three consecutive years. Valeo applies strict and ambitious performance criteria considered as particularly representative of the Company's performance. Indeed, the proposed criteria are aimed at reflecting the Group's strategy, financial, non-financial and operational performance objectives, value creation for Valeo's shareholders measured using the external performance criterion, the Total Shareholder Return (TSR), and performance measurement.

Thus, for the sake of consistency with the 2021 Chairman and Chief Executive Officer long-term compensation criteria, the Board of Directors, on the recommendation of the Compensation Committee, established an internal performance criterion relating to the return on capital employed rate (ROCE) as well as an internal performance criterion relating to an EBITDA level which reflects the new criterion for the guidance published by the Group in February 2021. In addition, given the importance of corporate social responsibility (CSR) issues, the Board of Directors, on the recommendation of the Compensation Committee, has considered it appropriate to set two CSR criteria to the long-term compensation of the Deputy Chief Executive Officer, namely an environmental criterion and a gender diversity criterion whose ambitious objectives, published at the time of the free share allocation, will be measured over three years. These objectives will be consistent with the carbon neutrality objectives described in Chapter 4, section 4.1.3 "Valeo's Carbon Neutrality Plan for 2050" of this Universal Registration Document and the gender diversity targets described in sub-section 3.2.1 "Composition of the Board of Directors", paragraph "Diversity policy within the governing bodies" of this Universal Registration Document. This decision reflects the importance Valeo attaches to these elements and the desire of the Board of Directors to make them part of the long-term objectives.

The performance shares will depend on performance measured against the following criteria, identical to those applicable to the 2021 long-term compensation of the Chairman and Chief Executive Officer:

(i) two internal performance criteria, namely the EBITDA level as well as the return on capital employed rate (ROCE). The internal performance criteria will represent no more than 60% of the allocated shares (30% for each criterion);

(ii) an external performance criterion, Valeo's TSR, which will be measured against the CAC 40 index (10%) and against the European Automotive Panel[1] (10%). Thus, the external performance criterion will represent no more than 20% of the allocated shares;

(iii) two corporate social responsibility (CSR)-related criteria: an environmental criterion relating to the level of CO_2 emissions and a gender diversity criterion based on the number of women in the Group's management committees (relating to the 300 most important Group management positions). The CSR criteria will represent no more than 20% of the allocated shares (10% for each criterion).

The Board of Directors, at its meeting held on March 24, 2021, set the maximum amount of the Deputy Chief Executive Officer's long-term compensation at 200% of his annual fixed compensation which corresponds to the same level that as Chief Operating Officer and Associate Chief Executive Officer.

(1) The Automotive European Panel was modified by the Board of Directors at its meeting of March 24, 2021 on the proposal of an external consultant, Willis Towers Watson. Fiat Chrysler Automobiles and PSA were replaced by Stellantis and Volkswagen was added. This panel is available on the Company's website (www.valeo.com), under "Corporate Governance".

The table below summarizes in a synthetic way the criteria and methods used to assess the performance shares selected as part of the 2021 Deputy Chief Executive Officer Compensation Policy:

Criterion	Weight/Assessment
Internal performance criterion: ROCE rate[1] (30%)	Performance measured by two criteria (ROCE rate and EBITDA level) for each of the three financial years (Y, Y+1, and Y+2) of the vesting period. The criterion will be satisfied if, for each financial year covered under the grant, the rate effectively achieved for each criterion is greater than or equal to the target rate established by the Board of Directors, it being understood that (i) the target rate cannot be lower than the guidance for the financial year of reference, (ii) the selected criterion cannot be changed by the Board of Directors at a later date and (iii) the target rates cannot be changed by the Board of Directors at a later date, except by a duly justified decision in the context of exceptional circumstances beyond the beneficiaries' control. • If, for each financial year covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for each of those three financial years: 100%. • If, for only two of the financial years covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for each of those two financial years: 50%. • If, for only one of the financial years covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for that financial year: 20%. • If the target rate for the corresponding criterion is not satisfied for any of the financial years covered by the scheme: 0%.
Internal performance criterion: EBITDA level[1] (30%)	
External performance criterion: TSR (20%)	TSR recorded over a period of three years from January 1 of the allotment year to December 31 of the year prior to delivery. • If Valeo's TSR recorded over the reference period is greater than the CAC 40 index's TSR recorded over the reference period: 100% (0% if equal or lower). • If Valeo's TSR recorded over the reference period is greater than the median of the TSRs of the companies in the European Automotive Panel over the reference period: 100% (0% if equal or lower).
Corporate social responsibility: CO_2 emissions[2] (10%)	CSR criterion recorded over a period of three years from January 1 of the allotment year to December 31 of the year prior to delivery and published at the time of the free share allotment: • If the level of CO_2 emissions recorded over the reference period is lower than or equal to the target rate established for the reference period: 100% (0% if greater).
Corporate social responsibility: the number of women within the Group's management committees (relating to the 300 most important Group management positions)[3] (10%)	• If the number of women within the Group's management committees (relating to the 300 most important Group management positions) recorded over the reference period is greater than or equal to the target rate established for the reference period: 100% (0% if lower).

(1) For 2021, the guidance is 11.10% for the ROCE rate (excluding the Top Column Module (TCM) business) and 12.80% for the EBITDA (including the Top Column Module (TCM) business). It should be noted that the impacts of the Covid-19 epidemic and its potential consequences on the Group for the financial year ending December 31, 2021 cannot be predicted on the date of this Universal Registration Document (including the resulting components and raw materials crisis which massively impacts the whole automotive industry and will lead notably to a loss of production that cannot be assessed at the date of this Universal Registration Document). Thus, when assessing the achievement of the internal performance criteria, the Board of Directors may take these potential impacts into account.

(2) For the 2021 plan, the achievement of this target will be assessed as at December 31, 2023, on the basis of the carbon neutrality objective by 2050 and, by December 31, 2030, a plan to reduce emissions related to its operating activities (Scopes 1 and 2) by 75% and emissions related to its supply chain and to the end use of its products (Scope 3) by 15% compared to January 1, 2020, as presented in Chapter 4, section 4.1.3 "Valeo's Carbon Neutrality Plan by 2050" of this Universal Registration Document. This 2030 objective implies an annual reduction of -0.75 $MtCO_2$ from 49.6 $MtCO_2$ at January 1, 2020 to 41.4 $MtCO_2$ at December 31, 2030. Accordingly, based on a linear annual progression until 2030, the rate of achievement of this target is set at a maximum of 46.6 $MtCO_2$ by December 31, 2023.

(3) For the 2021 plan, the achievement of this target will be assessed as at December 31, 2023 on the basis of the objective of doubling the number of women on the various Group's management committees (relating to the 300 most important Group management positions) from 16% of women as at January 1, 2020 to 32% of women as at December 31, 2030. Accordingly, based on a linear annual progression, the rate of achievement of this target is set at a minimum of 22% of women in the Group's management committees (relating to the 300 most important Group management positions) by December 31, 2023, on a like-for-like basis, which constitutes an acceleration of the intermediate objective for 2024 set at 20% by Valeo's Board of Directors in 2020 (as described in sub-section 3.2.1 "Composition of the Board of Directors", paragraph "Diversity policy within the governing bodies" of this Universal Registration Document).

In addition, a presence condition must be met at the time of the allotment. Thus, the performance shares allotted to the Deputy Chief Executive Officer will vest only if his term of office has not expired on the vesting date. Entitlement to the performance shares will be lost in the event of (i) dismissal due to gross negligence or wilful misconduct or (ii) dismissal for reasons attributable to the Deputy Chief Executive Officer's performance, before the expiry of the vesting period.

Except for these two cases, the Board of Directors will determine whether or not the Deputy Chief Executive Officer will retain his entitlement to the performance shares before the expiry of the vesting period, based on an in-depth analysis of the reasons for and circumstances surrounding his departure, it being specified that, in these cases, the benefit of performance shares granted to the Deputy Chief Executive Officer before the expiry of the vesting period will be maintained on a *pro rata temporis* basis of his presence as an executive corporate officer of Valeo. In any event, the shares will only vest if the performance criteria are achieved. By way of exception to the foregoing, in the event of termination of his corporate office in connection with the liquidation of mandatory and supplementary pension plans, death or disability, entitlement to performance shares will be maintained and the performance criteria will apply to retirement, but not to death or disability.

Each time that it decides to allot performance shares, the Board of Directors ensures that performance share allotments, valued under IFRS, do not represent a disproportionate percentage of all compensation and performance shares allotted, that they have a limited impact in terms of dilution and that the allotments are made at the same times of the year. In accordance with applicable laws and Company practices, the Group's executive managers and employees are also entitled to performance shares.

The maximum amount of performance shares allotted to the Deputy Chief Executive Officer, valued under IFRS, must not exceed 200% of his annual fixed compensation (i.e., 91% of the maximum annual combined fixed and variable compensation), which corresponds to the same level as that of Chief Operating Officer and Associate Chief Executive Officer *(Directeur Général Adjoint)*. The cap of 200% of annual fixed compensation is a maximum amount and the Board of Directors reserves the right to award a lower percentage depending on Valeo's performance.

In accordance with the recommendations of the AFEP-MEDEF Code and the provisions of the Code of Conduct, the Deputy Chief Executive Officer is not permitted to use hedging transactions to reduce his risk. He has made a formal commitment in this respect as required by the AFEP-MEDEF Code. At the end of the holding period set by the Board of Directors, the Deputy Chief Executive Officer must also hold a significant number of vested performance shares in the form of registered shares until the end of his term of office. This holding obligation corresponds to 50% of the vested performance shares.

Supplementary pension

As an employee of the Group, Christophe Périllat benefits from the so-called "article 39" defined benefit pension plan, which no longer allows for the acquisition of new rights as from January 1, 2020 (the "**Closed Plan**"). Thus, in accordance with the new legal provisions, a new commitment, has been made in favor of Christophe Périllat, as an employee of the Group, which will continue during his term of office as Deputy Chief Executive Officer during which his employment contract will be suspended. This new plan (the "**New Plan**"), effective as of January 1, 2020, in accordance with article L.137-11-2 of the French Social Security Code, includes the same ceilings as the Closed Plan.

Its main characteristics are the following:

- supplementary pension rights are equal to 1% of the reference salary per vesting year;
- the vesting of supplementary pension rights is subject to a performance condition, which is deemed to have been met if the variable portion of Christophe Périllat's compensation, paid in year Y+1 in respect of year Y, reaches 70% of his fixed compensation due in respect of year Y. In the event that the variable portion does not reach 70% of the fixed compensation, the rights granted will be calculated on a *pro rata* basis down to zero;
- the reference salary is the base salary and the variable compensation received in each year of vesting;
- the cap due to the nature of the plan: a cap of 20% of the final reference salary as defined in the Closed Plan (cap which applies to the sum of the rights acquired under the Closed Plan and under the New Plan);
- the cap on the base for determining entitlements: all plans combined are capped at 55% of the final reference salary.

Under the New Plan, the rights of the beneficiary will vest without condition of presence in the Company at the end of his career.

The rights under the Closed Plan crystallized at December 31, 2019 and remain conditional on the presence of the beneficiary within Valeo at the time of his retirement.

Employment contract

Christophe Périllat's employment contract will be suspended as from his appointment as Deputy Chief Executive Officer until the end of his term of office as Deputy Chief Executive Officer and until his appointment as Chief Executive Officer, at which date his employment contract will be terminated.

Benefits in kind

The Deputy Chief Executive Officer is also entitled to benefits in kind set by the Board of Directors. He is therefore entitled to coverage under the unemployment insurance fund for company managers, the collective and mandatory health, death and disability plan and life insurance covering death, disability or the consequences of any accidents that may occur during business travel. Valeo also provides him with a company car and a driver.

Other compensation components – No multi annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, non-compete compensation, directors' compensation, benefits of any kind under agreements with the Company or any Group company or options or any other long-term compensation component

The Deputy Chief Executive Officer will not be entitled to multi annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits or non-compete compensation.

The Deputy Chief Executive Officer benefits from termination compensation and non-compete compensation for his employment contract, which will be suspended during his term of office as Deputy Chief Executive Officer and will be unchanged compared to those from which benefited as Chief Operating Officer and Associate Chief Executing Officer.

Christophe Périllat's employment contract provides, under certain conditions, (i) a non-compete clause for a period of 12 months in exchange for the payment of monthly compensation equal to five tenths of the average monthly compensation (fixed, variable and other benefits) from which Christophe Périllat has benefited during the 12 months preceding his departure and (ii) payment of termination compensation corresponding to 18 months' fixed salary in force at the time of departure in the event of dismissal (except in the case of gross negligence, wilful misconduct or force majeure), these benefits not being cumulative with standard termination compensation, with only the higher of the two being due.

As from his appointment, the Deputy Chief Executive Officer will not receive compensation in his capacity as director. He will not be entitled to any compensation or other benefits as a result of agreements entered into with the Company or any Group company.

No stock purchase or subscription options or other long-term compensation component other than performance shares will be granted to the Deputy Chief Executive Officer (in this capacity) in the 2021 financial year.

In accordance with Articles L.22-10-8 and L.22-10-34 (former Articles L.225-37-2 and L.225-100 II and III) of the French Commercial Code, the Deputy Chief Executive Officer's variable compensation for 2021 (as of his appointment as Deputy Chief Executive Officer) will only be paid once the fixed, variable and exceptional components comprising the total compensation and benefits package paid or awarded to him in respect of the 2021 financial year have been approved by the shareholders at an Ordinary Shareholders' Meeting (*ex post* vote).

In accordance with Article L.22-10-8 III (former Article L.225-37-2 III) of the French Commercial Code, having consulted the Compensation Committee and, where appropriate, the other Specialized Committees, the Board of Directors will, in exceptional circumstances, temporarily have the discretionary power to adjust the provisions relating to the quantifiable variable components of the 2021 Compensation Policy for the Deputy Chief Executive Officer, in particular where the changes made are in line with the corporate interest and necessary to guarantee Valeo's long-term future or viability. Events that may lead to the use of this option include events outside Valeo's control that could not have been reasonably foreseen or quantified when the compensation policy was drawn up, such as the impact of the Covid-19 epidemic and its potential consequences on the Group for the financial year ending December 31, 2021, including the resulting components and raw materials crisis, which massively impacts the whole automotive industry and will lead notably to a loss of production that cannot be assessed at the date of this Universal Registration Document.

Compensation policy for Christophe Périllat for his role as Chief Executive Officer in anticipation of the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer

At its meeting held on October 27, 2020, the Board of Directors approved the succession plan for Jacques Aschenbroich according to which Christophe Périllat will succeed him in his role as Chief Executive Officer of Valeo from January 2022. It is noted that as from the appointment of Christophe Périllat as Chief Executive Officer, his employment contract will be terminated, in accordance with the recommendations of the AFEP-MEDEF Code.

At its meeting held on March 24, 2021, and on the recommendation of the Compensation Committee, the Board of Directors set the compensation policy of the Chief Executive Officer in anticipation of the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer planned for January 2022. The Shareholders' Meeting of May 26, 2021 will be called upon to approve the elements of the compensation policy for the new Chief Executive Officer.

The compensation policy of the Chief Executive Officer (following the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer) was set by the Board of Directors, on the recommendation of the Compensation Committee, taking into consideration the current compensation of Christophe Périllat and the compensation and other benefits of Jacques Aschenbroich as Chief Executive Officer of Valeo before the merger of the roles of Chief Executive Officer and Chairman of the Board of Directors in February 2016 (while taking into consideration the evolution of the market). The Board of Directors also relied on a benchmark study carried out by an external advisor (Willis Towers Watson) on compensation practices for similar roles in a sample of CAC 40 and SBF 120 companies, excluding finance and luxury sector companies[1].

This section sets out the principles and criteria for determining, structuring and awarding the fixed, variable and exceptional components of the Chief Executive Officer's total compensation and benefits package as of his appointment, constituting the compensation policy for the Chief Executive Officer applicable at that date.

Fixed compensation

At its meeting held on March 24, 2021, the Board of Directors, on the recommendation of the Compensation Committee, set the annual fixed compensation of the Chief Executive Officer at 975,000 euros.

Variable compensation

The variable portion of the compensation must be in line with the Chief Executive Officer's performance, as well as the Company's strategy and progress. It will therefore be determined partly according to quantifiable, strict and ambitious criteria based on the Group's financial, non-financial and operational performance, and partly on a qualitative basis. The quantifiable and qualitative objectives to be reached will be set according to specific, strict and ambitious predetermined objectives. These criteria will be determined each year by the Board of Directors, based on recommendations made by the Compensation Committee.

(1) The CAC 40 and SBF120 Panel, excluding finance and luxury sector companies, is available on the Company's website (www.valeo.com), under "Corporate Governance".

In accordance with the recommendations of the AFEP-MEDEF Code, the total amount of the variable portion will be expressed as a percentage of the annual fixed compensation, each criterion granting entitlement to a percentage of the annual fixed compensation.

The maximum amount of the Chief Executive Officer's variable portion, will be set at 120% of his annual fixed compensation which corresponds to the same level as that of the Chief Operating Officer, the Associate Chief Executive Officer *(Directeur Général Adjoint)* and the Deputy Chief Executive Officer *(Directeur Général Délégué)*. The decision to cap his variable compensation at 120% of his annual fixed compensation was made by the Board of Directors at its meeting held on March 24, 2021, on the recommendation of the Compensation Committee.

The maximum amount of annual variable compensation (120% of annual fixed compensation) is contingent on the achievement of ambitious objectives to be set by the Board of Directors at a later stage, on the recommendation of the Compensation Committee, and submitted for approval at the 2022 Shareholders' Meeting called upon to approve the elements of the 2022 compensation policy of the Chief Executive Officer.

For each quantifiable criterion, the variable portion will vary within a range of 0% to 100% of the maximum amount of annual fixed compensation obtainable under the relevant criterion.

Long-term compensation policy – Allotment of performance shares

The aim of allotting performance shares is not only to encourage the Chief Executive Officer to take a long-term approach to his duties, but also to retain him and align his interests with those of Valeo and its shareholders. Under the performance share plans, performance criteria must be met over a period of three consecutive years. Valeo applies strict and ambitious performance criteria considered as particularly representative of the Company's performance. Indeed, the proposed criteria are aimed at reflecting the Group's strategy, financial, non-financial and operational performance objectives, value creation for Valeo's shareholders measured using the external performance criterion, Total Shareholder Return (TSR), and performance measurement.

Thus, for the sake of consistency with the 2021 Chairman and Chief Executive Officer and with the 2021 Deputy Chief Executive Officer long-term compensation criteria, the Board of Directors, on the recommendation of the Compensation Committee, established an internal performance criterion relating to the return on capital employed rate (ROCE) as well as an internal performance criterion relating to an EBITDA level which reflects the new criterion for the guidance published by the Group in February 2021, which will also be used in 2022. In addition, given the importance of corporate social responsibility (CSR) issues, the Board of Directors, on the recommendation of the Compensation Committee, has considered it appropriate to set two CSR criteria to the long-term compensation of the Chief Executive Officer, namely an environmental criterion and a gender diversity criterion whose ambitious objectives, published at the time of the free share allocation, will be measured over three years. These objectives will be consistent with the carbon neutrality objectives described in Chapter 4, section 4.1.3 "Valeo's Carbon Neutrality Plan by 2050" of this Universal Registration Document and with the gender diversity targets described in sub-section 3.2.1 "Composition of the Board of Directors", paragraph "Diversity policy within the governing bodies" of this Universal Registration Document. This decision reflects the importance Valeo attaches to these elements and the desire of the Board of Directors to make them part of the long-term objectives.

The performance shares will depend on performance, measured against the following criteria, identical to those applicable to the 2021 Chairman and Chief Executive Officer and to the 2021 Deputy Chief Executive Officer long-term compensation:

(i) two internal performance criteria, namely the EBITDA level as well as the return on capital employed rate (ROCE). The internal performance criteria will represent no more than 60% of the allocated shares (30% for each criterion);

(ii) an external performance criterion, Valeo's TSR, which will be measured against the CAC 40 index (10%) and against the European Automotive Panel (10%). Thus, the external performance criterion will represent no more than 20% of the allocated shares;

(iii) two corporate social responsibility (CSR)-related criteria: an environmental criterion relating to the level of CO_2 emissions and a gender diversity criterion based on the number of women in the Group's management committees (relating to the 300 most important Group management positions). The CSR criteria will represent no more than 20% of the allocated shares (10% for each criterion).

The maximum amount of long-term compensation of the Chief Executive Officer will be set at 200% of his annual fixed compensation.

The table below summarizes in a synthetic way the criteria and methods used to assess the performance shares selected as part of the compensation policy of the Chief Executive Officer as from the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer:

Criterion	Weight/Assessment
Internal performance criterion: ROCE rate (30%) **Internal performance criterion: EBITDA level (30%)**	Performance measured by two criteria (ROCE rate and EBITDA level) for each of the three financial years (Y, Y+1, and Y+2) of the vesting period. The criterion will be satisfied if, for each financial year covered under the grant, the rate effectively achieved for each criterion is greater than or equal to the target rate established by the Board of Directors, it being understood that (i) the target rate cannot be lower than the guidance for the financial year of reference, (ii) the selected criterion cannot be changed by the Board of Directors at a later date and (iii) the target rates cannot be changed by the Board of Directors at a later date, except by a duly justified decision in the context of exceptional circumstances beyond the beneficiaries' control. • If, for each financial year covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for each of those three financial years: 100%. • If, for only two of the financial years covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for each of those two financial years: 50%. • If, for only one of the financial years covered by the scheme, the rate of achievement of the corresponding criterion is greater than or equal to the target rate for that financial year: 20%. • If the target rate for the corresponding criterion is not satisfied for any of the financial years covered by the scheme: 0%.
External performance criterion: TSR (20%)	TSR recorded over a period of three years from January 1 of the allotment year to December 31 of the year prior to delivery. • If Valeo's TSR recorded over the reference period is greater than the CAC 40 index's TSR recorded over the reference period: 100% (0% if equal or lower). • If Valeo's TSR recorded over the reference period is greater than the median of the TSRs of the companies in the European Automotive Panel over the reference period: 100% (0% if equal or lower).
Corporate social responsibility: CO_2 emissions (10%) **Corporate social responsibility: the number of women within the Group's management committees (relating the 300 most important Group management positions) (10%)**	CSR criterion recorded over a period of three years from January 1 of the allotment year to December 31 of the year prior to delivery and published at the time of the free share allotment: • If the level of CO_2 emissions recorded over the reference period is lower than or equal to the target rate established for the reference period: 100% (0% if greater). • If the number of women within the Group's management committees (relating to the 300 most important Group management positions) recorded over the reference period is greater than or equal to the target rate established for the reference period: 100% (0% if lower).

In addition, a presence condition must be met at the time of the allotment. Thus, the performance shares allotted to the Chief Executive Officer will vest only if his term of office has not expired on the vesting date. Entitlement to the performance shares will be lost in the event of (i) dismissal due to gross negligence or wilful misconduct or (ii) dismissal for reasons attributable to the Chief Executive Officer's performance, before the expiry of the vesting period.

Except for these two cases, the Board of Directors will determine whether or not the Chief Executive Officer will retain his entitlement to the performance shares before the expiry of the vesting period based on an in-depth analysis of the reasons for and circumstances surrounding his departure, it being specified that, in these cases, the benefit of performance shares granted to the Chief Executive Officer before the expiry of the vesting period will be maintained on a *pro rata temporis* basis of his presence as an executive corporate officer of Valeo. In any event, the shares will only vest if the performance criteria are achieved. By way of exception to the foregoing, in the event of termination of his corporate office in connection with the liquidation of any mandatory and supplementary pension plans, death or disability, entitlement to performance shares will be maintained and the performance criteria will apply to retirement but not to death or disability.

Each time that it decides to allot performance shares, the Board of Directors will ensure that performance share allotments, valued under IFRS, do not represent a disproportionate percentage of all compensation and performance shares allotted, that they have a limited impact in terms of dilution and that the allotments are made at the same times of the year. In accordance with applicable laws and Company practices, the Group's executive managers and employees will also be entitled to performance shares.

The maximum amount of performance shares allotted to the Chief Executive Officer, valued under IFRS, must not exceed 200% of the Chief Executive Officer annual fixed compensation (i.e., 91% of the maximum annual combined fixed and variable compensations), which corresponds to the same level as that of Chief Operating Officer, Associate Chief Executive Officer *(Directeur Général Adjoint)* and Deputy Chief Executive Officer *(Directeur Général Délégué)*. The cap of 200% of annual fixed compensation is a maximum amount and the Board of Directors will reserve the right to award a lower percentage depending on Valeo's performance.

In accordance with the recommendations of the AFEP-MEDEF Code and the provisions of the Code of Conduct, the Chief Executive Officer is not permitted to use hedging transactions to reduce his risk. It is contemplated that he will make a formal commitment in this respect as required by the AFEP-MEDEF Code. At the end of the holding period set by the Board of Directors, the Chief Executive Officer must also hold a significant number of vested performance shares in the form of registered shares until the end of his term of office. This holding obligation will correspond to 50% of the vested performance shares.

Pension

As an employee of the Group, Christophe Périllat benefits from the so-called "article 39" defined benefit pension plan, which no longer allows for the acquisition of new rights as from January 1, 2020 (the "**Closed Plan**"). Thus, in accordance with the new legal provisions, a new commitment, effective as of January 1, 2020, in accordance with article L.137-11-2 of the French Social Security Code, has been made in favor of Christophe Périllat, as an employee of the Group (the "**New Plan**"), which will continue during his term of office as Deputy Chief Executive Officer during which his employment contract will be suspended.

It is noted that, as from the appointment of the Deputy Chief Executive Officer as Chief Executive Officer, his employment contract will be terminated. The termination of Christophe Périllat's employment contract will entail the loss of the benefit of the supplementary pension plan currently attached to his status as employee for the defined benefit pension plan to which he would have been entitled to the benefit of a supplementary pension plan if he had remained an employee within Valeo until his retirement, except for the rights acquired under the New Plan put in place as of January 1, 2020 until the term of his employment contract (i.e., as of the date of his appointment as Chief Executive Officer).

Thus, as of January 2022, the Chief Executive Officer will benefit from an optional defined contribution plan, to replace the acquisition of rights under the defined benefit pension plan.

This plan is governed by Article 82 of the French General Tax Code and allows the employee to build up a capital sum to which he is entitled at retirement. Thus, Valeo will no longer guarantee a certain level of pension but will pay an annual contribution.

Under this new mechanism, the amount paid by the Company will be split between a payment to the insurance company on an individual account in Christophe Périllat's name and a payment to Christophe Périllat to take into account the social costs and taxes due on the payments made to the insurance company.

The annual gross amount of the payments made by the Company to the insurance company will total 10% of the annual fixed and variable compensation received in each year of vesting, subject to the achievement of the performance condition described hereunder.

Given the loss of the defined benefit pension plan and the accrued rights at the end of 2019, a gross annual amount will also be paid to the insurance company amounting to:

- 10% for the 2022 and 2023 financial years;
- 12.5% for the 2024 and 2025 financial years;
- 15% for the 2026 and 2027 financial years;
- 20% for the 2028 to 2030 financial years (or following financial years).

These rates will apply to the annual fixed and variable compensation received in each year of vesting, subject to the achievement of a performance condition.

Thus, the gross annual amount paid to the insurance company is subject to a performance condition considered to be achieved if the variable portion of the beneficiary's compensation, paid in year Y+1 in respect of year Y, reaches 70% of his fixed compensation due in respect of year Y. In the event that the variable portion does not reach 70% of the fixed compensation, the gross annual amount paid will be calculated on a *pro rata basis* down to zero.

This new scheme was chosen between several alternatives and represents a lower total cost for the Company than the previous plans by approximately 36%, while retaining a retention effect similar to these previous pensions plans insofar as Christophe Périllat will have to remain with Valeo until the age of 65 to benefit from a supplementary pension of equivalent value to that which he had at the time his employment contract was terminated. For example, if he were to retire at 62 (age at which Christophe Périllat will be entitled to claim his legal, and therefore supplementary, pension entitlements) under this new scheme, he would receive a lower pension than under the old plan, with a discount of more than 40%.

Benefits in kind

The Chief Executive Officer will also be entitled to benefits in kind which will be set by the Board of Directors when determining the executive corporate officer's overall compensation. He will therefore be entitled to coverage under the unemployment insurance fund for company managers, the collective and mandatory health, death and disability plan and life insurance covering death, disability or the consequences of any accidents that may occur during business travel. Valeo will also provide him with a company car and a driver.

Non-compete payment and termination benefits

Non-compete compensation

In order to protect the Company's interests, a non-compete clause binding the Chief Executive Officer will be put in place by the Board of Directors.

If the Company triggers the non-compete clause, the executive corporate officer would be prohibited from working in any way for an automotive supplier or, more generally, for any of Valeo's competitors. The clause will apply for 12 months after the end of his term of office as Chief Executive Officer of Valeo, regardless of the reason for termination.

In consideration, the executive corporate officer will receive non-compete compensation equal to 12 months of compensation (calculated by taking the average compensation (fixed and variable) paid as Chief Executive Officer and, as the case may be, as an employee for the 36 months preceding the month of departure). The compensation will be paid in equal monthly instalments over the entire period to which the non-compete clause applies.

If the Company triggers the non-compete clause, the amount owed would be taken into account to determine his termination benefits, as described below. As a result, the maximum amounts likely to be paid to the Chief Executive Officer in the form of a non-compete payment and/or termination benefits would be equal to twice the annual compensation (fixed and variable), in accordance with the recommendations of the AFEP-MEDEF Code.

In any event, in accordance with the recommendations of the AFEP-MEDEF Code, no non-compete compensation shall be paid beyond the age of 65 or if the Chief Executive Officer claims his retirement benefits. The Board of Directors will have to decide whether or not the non-compete agreement will be applied at the time the Chief Executive Officer leaves.

The Company reserves the right not to implement this agreement and to waive the non-compete clause, in which case no compensation will be owed.

Termination benefits

In the event of early termination of his duties following a change in control or strategy, the Chief Executive Officer shall be entitled, at the initiative of the Company and with the approval of the Board of Directors, except on the grounds of wilful misconduct in the performance of his duties, to termination benefits paid by the Company for a maximum amount of his total compensation as Chief Executive Officer and, as the case may be, as an employee, during the two years preceding the end of his term of office.

Those termination benefits are submitted to performance criteria applicable to the annual variable compensation, in accordance with the following formula:

Total compensation paid as Chief Executive Officer and, as the case may be, as an employee during the two years preceding the end of his term of office

×

average (in %) of the results achieved for the annual variable compensation as Chief Executive Officer and, as the case may be, as an employee, applicable to the three financial years preceding the departure.

Furthermore, the amount effectively paid by the Company would be reduced, as the case may be, so that any other compensation would not have an effect of awarding him with a total compensation higher than the aforementioned amount of two years of compensation, in accordance with the AFEP-MEDEF Code.

Other compensation components – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, directors’ compensation, benefits of any kind under agreements with the Company or any Group company or options or any other long-term compensation component

The Chief Executive Officer will not be entitled to multi-annual variable compensation, compensation or benefits on appointment or exceptional compensation.

The Chief Executive Officer will not receive any compensation in his capacity as director. He will not be entitled to any compensation or other benefits as a result of agreements entered into with the Company or any Group company.

No stock purchase or subscription options or other long-term compensation component other than performance shares will be granted to the Chief Executive Officer.

In accordance with Articles L.22-10-8 and L.22-10-34 (former Articles L.225-37-2 and L.225-100 II and III) of the French Commercial Code, the Chief Executive Officer’s variable compensation for a given financial year will only be paid once the fixed, variable and exceptional components comprising the total compensation and benefits package paid or awarded to the Chief Executive Officer in respect of the relevant financial year have been approved by the shareholders at an Ordinary Shareholders’ Meeting (*ex post* vote).

In accordance with Article L.22-10-8 III (former Article L.225-37-2 III) of the French Commercial Code, having consulted the Compensation Committee and, where appropriate, the other Specialized Committees, the Board of Directors will, in exceptional circumstances, temporarily have the discretionary power to adjust the provisions relating to the quantifiable variable components of the compensation policy for the Chief Executive Officer, in particular where the changes made are in line with the corporate interest and necessary to guarantee Valeo’s long-term future or viability. Events that may lead to the use of this option include events outside Valeo’s control that could not have been reasonably foreseen or quantified when the compensation policy was drawn up.

Compensation policy for Jacques Aschenbroich for his role as Chairman of the Board of Directors in anticipation of the separation of the roles of the Chairman of the Board of Directors and Chief Executive Officer

In accordance with the succession plan unanimously approved by the Board of Directors on October 27, 2020 and disclosed on the same day, Jacques Aschenbroich will continue to act as Chairman of the Board of Directors until the end of his current term of office as director, i.e. until May 2023, and will be vested with specific missions which aim to ensure a smooth transition with Christophe Périllat who will succeed Jacques Aschenbroich in his role as Chief Executive Officer of the Company from January 2022 (see section 3.2.1 “Composition of the Board of Directors”, “Succession Plan”, page 115).

Jacques Aschenbroich does not have an employment contract with the Valeo Group.

The Board of Directors held on March 24, 2021, on the recommendation of the Compensation Committee, set the compensation policy of the Chairman of the Board of Directors which will be submitted for approval at the Shareholders' Meeting of May 26, 2021 in anticipation of the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer planned for January 2022.

Fixed compensation

The Chairman of the Board of Directors is entitled to an annual fixed compensation, excluding any other compensation element, in accordance with the recommendations of the AFEP-MEDEF Code.

The Board of Directors' meeting held on March 24, 2021, decided, on the recommendation of the Compensation Committee, to set Jacques Aschenbroich's annual fixed compensation for his role as Chairman of the Board of Directors following the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer taking into consideration the following elements:

- Jacques Aschenbroich's experience, skills and career within Valeo;
- the range and scope of the specific missions that would be assigned to him as Chairman of the Board of Directors during the managerial transition period[(1)];
- the benchmark study of an external advisor (Willis Towers Watson) on the compensation of Chairmen of a Board of Directors who have specific missions and who previously held executive positions in the same company[(2)];
- the compensation given to Jacques Aschenbroich as Chairman of the Board of Directors being (i) temporary (until the end of his term of office as director in May 2023), (ii) expressly indexed on Jacques Aschenbroich's role during the transition period and not constituting a reference point for a future role as Chairman of the Board of Directors and (iii) related to exceptional circumstances necessary for the implementation of the succession plan within Valeo, in this particularly complex period due to the Covid-19 crisis, and to the essential role of Jacques Aschenbroich in such implementation;
- his contribution to a successful managerial transition.

On this basis, the Board of Directors held on March 24, 2021, on the recommendation of the Compensation Committee, set Jacques Aschenbroich's annual fixed compensation following the separation of the roles of Chairman of the Board of Directors and of Chief Executive Officer until the end of his term of office which will terminate in May 2023 at 800,000 euros.

Variable compensation

Jacques Aschenbroich will not be entitled to any variable compensation.

Long-term compensation policy – Allotment of performance shares

No performance shares will be allotted to Jacques Aschenbroich for his sole role as Chairman of the Board of Directors.

At the end of the holding period set out by the Board of Directors, the Chairman of the Board of Directors will also have to hold a significant number of vested performance shares in the form of registered shares until the end of his term of office. This holding obligation corresponds to 50% of the vested performance shares[(3)].

Pension plan

The Chairman of the Board of Directors will not benefit from any additional right in the Company supplementary pension plan.

Benefits in kind

Jacques Aschenbroich will be provided, as Chairman of the Board of Directors, with a company car and a driver.

Other compensation components – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, non-compete compensation, directors' compensation, benefits of any kind under agreements with the Company or any Group company or options or any other long-term compensation component

The Chairman of the Board of Directors will not be entitled to multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits or non-compete compensation.

The Chairman of the Board of Directors will not receive compensation in his capacity as director. The Chairman of the Board of Directors will not be entitled to any compensation or other benefits as a result of agreements entered into with the Company or any Group company.

No stock purchase or subscription options or other long-term compensation component will be granted to the Chairman of the Board of Directors.

(1) The specific missions entrusted to Jacques Aschenbroich as Chairman of the Board of Directors will be carried out at the request of the Chief Executive Officer and will be without prejudice to (i) the executive functions of the Chief Executive Officer, who alone is responsible for the executive and operational management of Valeo and (ii) the powers of the Board of Directors:
(i) contribution to General Management: consultation of the Chairman of the Board of Directors by the Chief Executive Officer (at his request), support and advice to the Chief Executive Officer on various subjects relating to Valeo (governance, strategy, operations and significant projects);
(ii) relations with public authorities, institutions and business partners: representation of Valeo (at the Chief Executive Officer's request) on a national and international scale with respect to public authorities, institutions and business partners (in particular, Chinese customers and other Asian customers). Assistance to the Chief Executive Officer (at his request) in the context of Valeo's relationship with its historical and strategic partners;
(iii) relationship with the shareholders: monitoring, in coordination with the Chief Executive Officer, the quality of relations and dialogue with Valeo's shareholders; and
(iv) corporate social responsibility: promoting Valeo's values, image and culture. Joint participation with the Chief Executive Officer, in actions carried out by Valeo, in particular in the field of corporate social responsibility, ethics and compliance.

(2) This panel is available on the Company's website (www.valeo.com), under "Corporate Governance".

(3) Since joining the Group as Chief Executive Officer on March 20, 2009, Jacques Aschenbroich has not sold any shares obtained by exercising stock purchase or subscription options allotted to him, nor sold any vested performance shares.

Compensation policy for other directors (non-executive corporate officers) for the year ending December 31, 2021

Non-executive corporate officers receive compensation (previously known as attendance fees) for their presence at Board of Directors' and committee meetings.

In accordance with the French Commercial Code, the articles of association, the Board's Internal Procedures and the internal procedures of the Compensation Committee, the Board of Directors has authority to decide how this compensation should be allocated. The Compensation Committee makes recommendations to the Board of Directors on the rules for allocating directors' compensation and the individual amounts to be paid to each director, taking into account the actual number of Board and committee meetings attended. The variable portion linked to attendance must, other than in exceptional circumstances, have a heavier weighting than the fixed portion (see the exception in 2020, for which an explanation is provided in the table concerning the application of the AFEP-MEDEF Code in section 3.2.4 of this chapter, page 147).

When determining the rules for allocating directors' compensation, the Board of Directors considers the corporate interest and the Company's long-term future by taking into account market practices and encouraging director attendance at meetings. The weighting of the variable portion of directors' compensation, which is based on attendance at meetings, therefore contributes to the objectives of the compensation policy.

In accordance with the requirements of Article L.22-10-8 (former Article L.225-37-2) of the French Commercial Code, this compensation policy will be submitted for approval at the Shareholders' Meeting of May 26, 2021.

Following the Shareholders' Meeting of May 26, 2016 (eleventh resolution), the budget for directors' compensation was set at 1,100,000 euros for 2016 and subsequent years until a new decision of the Shareholders' Meeting, compared to 700,000 euros for 2014 and 2015 as approved at the Shareholders' Meeting of May 21, 2014. In 2018, and in January 2019, the Compensation Committee carried out a comparative study on the basis for allocating directors' compensation in CAC 40 companies. This study confirmed that the amounts budgeted for the remuneration of Valeo's directors was appropriate (although slightly below the average of the study sample), and the Board of Directors, acting on the recommendation of the Compensation Committee, decided not to ask the shareholders to increase this amount.

The basis for allocating directors' compensation is as follows:

(i) each director receives:
- fixed portion: 25,000 euros/year,
- variable portion: 3,000 euros/meeting attended;

(ii) each director who is a member (but not Chair(man)) of a Board committee also receives:
- fixed portion: 0 euros/year,
- variable portion: 3,000 euros/meeting attended;

(iii) the director who is also Chair(man) of the Audit & Risks Committee also receives:
- fixed portion: 15,000 euros/year,
- variable portion: 3,000 euros/meeting attended;

(iv) each director who is also Chair(man) of a Board committee (other than the Audit & Risks Committee) also receives:
- fixed portion: 12,000 euros/year,
- variable portion: 3,000 euros/meeting attended.

These payments are not capped, but if the budget is exceeded in any one year, the following formula is applied:

$$\frac{\text{Compensation allocated to an individual director}}{\text{Total compensation paid to all directors}} \times 1{,}100{,}000 \text{ euros}$$

Compensation is paid every six months, according to the following rules:

- payment of the fixed portion (where applicable, *pro rata* to the period of the year during which the director held office, as described below);
- payment of the variable portion based on the number of meetings that the director actually attended during the year.

For directors joining or leaving the Board during 2021, the fixed compensation will be calculated *pro rata* to the length of time the director holds office during the year. The variable portion is based on the number of Board and committee meetings attended during the period.

On February 12, 2009, acting on the recommendation of the Appointments, Compensation & Governance Committee, the Board of Directors decided that no directors' compensation would be paid to corporate officers in respect of any offices held in the Group (other than those within Valeo). The Chairman and Chief Executive Officer does not receive any directors' compensation for offices held in the Group. This principle is expressly included in the 2020 Compensation Policy for the Chairman and Chief Executive Officer and the 2021 Compensation Policy for the Chairman and Chief Executive Officer.

The compensation of the Lead Director is equal to the fixed portion and variable portion that he/she receives as director for a given year, in accordance with the Board of Directors' decision of October 21, 2015.

Apart from Jacques Aschenbroich and Christophe Périllat (whose appointment as director will be proposed to the Shareholders' Meeting of May 26, 2021), no Board member was (i) paid any other compensation or benefits during the year other than directors' compensation, or (ii) allocated any stock subscription or purchase options or performance shares. Apart from Jacques Aschenbroich and Christophe Périllat (whose appointment as director will be proposed to the Shareholders' Meeting of May 26, 2021), no director holds any stock subscription or purchase options, free shares or performance shares. However, the directors representing employees are Group employees with an employment contract and thus receive a salary. Alongside the Group's other employees, they may also be entitled to allotments of free shares.

3.3.2 Compensation of corporate officers in respect of the year ended December 31, 2020

Compensation of Jacques Aschenbroich, Chairman and Chief Executive Officer, for the year ended December 31, 2020

The compensation paid or awarded by Valeo to Jacques Aschenbroich, Chairman and Chief Executive Officer, in respect of the year ended December 31, 2020, is presented below. An overview of certain components of compensation in prior years is also provided. Jacques Aschenbroich does not have an employment contract with the Valeo Group.

Compensation in respect of the year ended December 31, 2020

In accordance with Article L.22-10-34 I (former Article L.225-100 II) of the French Commercial Code, the Shareholders' Meeting must approve the fixed, variable and exceptional components comprising the total compensation and benefits package paid during or awarded to the Chairman and Chief Executive Officer in respect of 2020 under the 2020 Compensation Policy for the Chairman and Chief Executive Officer. Payment of his variable compensation for 2020 is subject to approval by the Shareholders' Meeting of May 26, 2021 of the components described in the 2020 Compensation Policy for the Chairman and Chief Executive Officer, which are described in detail below.

The compensation paid or awarded in respect of 2020, as described below, is in line with the 2020 Compensation Policy for the Chairman and Chief Executive Officer approved at a rate of 94.03% by the Shareholders' Meeting of June 25, 2020 (thirteenth resolution). This policy includes conditions designed to encourage the Company's long-term development and performance. Those conditions reflect the ambitious objectives set by the Board of Directors, on the recommendation of the Compensation Committee, as regards achievement of the performance criteria, as well as the difficult market conditions in a context of economic and health crisis triggered by the Covid-19 pandemic.

Fixed compensation

In accordance with the 2020 Compensation Policy for the Chairman and Chief Executive Officer (see "Fixed compensation" of this section, page 155), Jacques Aschenbroich received gross fixed compensation of 1,100,000 euros from Valeo in 2020. It represents 50% of the total compensation due to Jacques Aschenbroich in 2020.

The amount of the Chairman and Chief Executive Officer's annual fixed compensation has remained unchanged since May 23, 2019 and there are no plans to change this amount until the end of Jacques Aschenbroich's current term of office as Chairman and Chief Executive Officer.

It is also specified that Jacques Aschenbroich donated 25% of his fixed compensation for the duration of the shutdown to support Covid-19-related solidarity initiatives[1].

Variable compensation

At its meeting on March 24, 2021, the Board of Directors, acting on the recommendation of the Compensation Committee, assessed the degree of achievement of the quantifiable and qualitative criteria for Jacques Aschenbroich's annual variable compensation and set the amount in accordance with the method described in its 2020 Compensation Policy for the Chairman and Chief Executive Officer (see paragraph "Variable Compensation" of this section, pages 155 to 156).

The 2020 Compensation Policy for the Chairman and Chief Executive Officer was set by the Board of Directors at its meeting on March 24, 2020, acting on the recommendation of the Compensation Committee[2].

Qualitative criteria

In order to assess the degree of achievement of each of the qualitative criteria set for 2020, which are described in the table below, the Board of Directors, acting on the recommendation of the Compensation Committee, carried out a detailed analysis and found a high level of achievement for each of the criteria. The following elements are particularly representative of the year 2020 (see also the table below for further details in respect of the elements considered):

- remarkable management of the Covid-19 crisis with the implementation of a strict and effective safety protocol, which allowed the Group's 154 plants to restart production under good operating conditions, enabling an incredible recovery in activity in the second half of 2020;
- Valeo's best ever performance in terms of lost-time accidents and severity rates, as well as a decrease of category 1 accidents;
- excellent results in relation to non-financial criteria (leader in the Dow Jones Sustainability World index for the fifth year running, Valeo ranked first in the automotive sector in terms of sustainable development by Corporate Knights, the top-ranked automotive parts supplier by the non-financial rating agencies MSCI, CDP, Sustainalytics and SAM);
- development in 2020 of a carbon neutrality plan, disclosed on February 4, 2021, which includes ambitious objectives to achieve carbon neutrality by 2050 with intermediate objectives at 5, 10 and 30 years;
- significant organizational change characterized by the transfer of the Group's operational, supply chain and resource responsibilities to the Business Groups;
- strengthening of compliance policies (worldwide deployment of the personal data protection compliance program, reinforcement of the Anti-Corruption and Export Control programs, compliance training for 99% of the target population (36,870 of the Group's engineers and managers)).

(1) The directors and all members of the Operations Committee decided to follow this initiative.

(2) Approved at a rate of 94.03% by the Shareholders' Meeting of June 25, 2020 pursuant to the vote on the 2020 Compensation Policy for the Chairman and Chief Executive Officer.

Based on these considerations, the Board of Directors, on the recommendation of the Compensation Committee, noted that the achievement rate for the qualitative criteria is 53% (out of maximum percentage of 55%) of the annual fixed compensation due to Jacques Aschenbroich for the financial year ended 31 December 2020.

Quantifiable criteria

The quantifiable criteria of Jacques Aschenbroich's annual variable compensation have been set by the Board of Directors, acting on the recommendation of the Compensation Committee, based on the Valeo budget for 2020 and the guidance published in February 2020.

The 2020 Compensation Policy for the Chairman and Chief Executive Officer provides that the quantifiable criteria of Jacques Aschenbroich's annual variable compensation exclude the impact of the Covid-19 epidemic and that the Board of Directors may take this impact into account when assessing the degree of achievement of the quantifiable objectives.

Given the exceptional circumstances of the year 2020 related to the Covid-19 epidemic and in accordance with the flexibility granted by the 2020 Compensation Policy for the Chairman and Chief Executive Officer, the Board of Directors, on the recommendation of the Compensation Committee, started to consider taking into account the impact of the Covid-19 epidemic in its assessment of the variable performance of the Chairman and Chief Executive Officer. In this context, the Board of Directors paid particular attention to ensuring that its assessment was in line with the compensation policy, fair, and incentive-based with regard to the performance of the Chairman and Chief Executive Officer, as well as being reasonable and balanced with regard to the Company's performance in a context of crisis, and consistent with the situation of the Company's various stakeholders (employees, shareholders, public authorities).

The following considerations were identified as particularly relevant by the Board of Directors:

- the first half of the year was not focused on economic performance (in this respect, Valeo suspended its guidance in April 2020) but rather on "protection" (of employees, assets, the company and operations) in order to ensure, at the appropriate time, a rapid return to activity and the restart production of the Group's 154 plants under good operating conditions, while ensuring maximum protection for all of its employees;
- moreover, despite the crisis, the Group's liquidity position was strengthened in the first half of the year with 2.3 billion euros available in undrawn credit lines and 2.1 billion euros in net cash and cash equivalents at June 30, 2020. The variabilization of costs' effort in the first half was significant;
- the second half of the year was marked by a return to activity and economic management, with highly satisfying results:
  - strong recovery with a sharp rebound in business and a return to a level in the order of magnitude of the second half of 2019,
  - EBITDA margin at 13.9% of sales and record Group free cash flow of 1.343 billion euros,
  - order intake of 13.3 billion euros, book-to-bill ratio of 1.7 and 56% related to innovative products,
  - better results than the guidance published by the Group in October 2020, which had itself been revised upwards from the second-half guidance originally published by the Group in July 2020[1];
- for the whole year 2020:
  - Valeo will have generated 294 million euros in free cash flow,
  - net debt has been reduced to 2.944 billion euros at the end of 2020, one year ahead of the Group schedule,
  - at the end of 2020, the Group's liquidity situation is very healthy with significant available cash (almost 3 billion euros) and a total of 2.3 billion euros in undrawn credit lines.

Moreover, the Board of Directors has taken into account the situation of the Company's different stakeholders, notably through the following considerations:

- evolution of Valeo's share price over the year 2020 (up 2.77% when the CAC 40 index fell 7.14%);
- during the period from January 1, 2019 to December 31, 2020, Valeo's Total Shareholder Return (TSR) increased by 37% while over the same period, the CAC 40 TSR increased by 16% and the median TSR of the European Automotive Panel by 21%. Valeo's TSR recorded over this period is ranked second out of 14 companies in this Panel;
- despite the uncertain context and in view of the interest of stakeholders, the payment in 2020 of a dividend of 48 million euros (0.20 euros per share) in respect of the 2019 financial year. In addition, a dividend of 0.30 euros per share will be proposed to the Shareholders' Meeting of May 26, 2021 in respect of the 2020 financial year;
- Valeo resorted to part-time unemployment in 2020 like its competitors but did not resort to collective redundancy plans (on the contrary, a collective performance agreement in France with job guarantees and commitment to keep all of sites open over the next two years was signed), and did not resort to State guaranteed loans and deferral of tax and social charges.

On the basis of these elements, after taking into account the Company's performance and the situation of the various stakeholders and exercising its discretion in accordance with the 2020 Compensation Policy for the Chairman and Chief Executive Officer, the Board of Directors, on the recommendation of the Compensation Committee, considered that the quantifiable objectives, as far as the first half of 2020 is concerned, have become irrelevant (despite exemplary crisis management). However, for the second half of the year, the Board of Directors noted that the Group's performance has been excellent whatever the criteria used: in absolute value, in respect of the guidance published in July and October 2020, particularly in terms of the Group's liquidity or order intake; and has decided to attribute a maximum degree of achievement of the quantifiable objectives.

(1) Pursuant to the October 2020 guidance, EBITDA margin for the second half of the year above 12% and free cash flow above 600 million euros and by extrapolating the EBITDA margin, an operating margin at 3.8% and ROCE rate at 10%. Pursuant to the July 2020 guidance, EBITDA margin for the second half of the year of around 10% and free cash flow above 400 million euros and by extrapolation of EBITDA margin, an operating margin at 2.10% and ROCE rate at 3.30%. These figures were confirmed by the Statutory Auditors of the Group.

The Board of Directors therefore noted a rate of achievement for the quantifiable criteria for 2020 of 0% for the first half of 2020 and 100% for the second half of 2020, amounting to 50% for the whole year. With a maximum percentage of 115%, the result for 2020 is therefore 57.50%, i.e. 50% compared to the maximum percentage. However, after recalling that the achievement rate of the quantifiable criteria of the Chairman and Chief Executive Officer's 2019 variable compensation was also 57.50% and after taking into account the current economic situation and the situation of the various stakeholders and exercising its discretion in accordance with the 2020 Compensation Policy for the Chairman and Chief Executive Officer, the Board of Directors considered it fair to make a downward adjustment of 20% to the achievement rate of the quantifiable criteria. Accordingly, the Board of Directors, on the recommendation of the Compensation Committee, has decided to set the achievement rate for the quantifiable criteria for 2020 at 46%, which represents 40% of the maximum percentage of 115% provided for in the 2020 Compensation Policy for the Chairman and Chief Executive Officer.

Therefore, the rate of achievement of the 2020 qualitative and quantifiable criteria is 99% of the annual fixed compensation due to Jacques Aschenbroich in respect of the financial year ended 31 December 2020, i.e. 1,089,000 euros, out of a maximum percentage of 170% of the fixed compensation that the variable compensation may represent for that financial year, i.e., 58% in relation to the maximum allowed by the 2020 Compensation Policy for the Chairman and Chief Executive Officer.

The variable compensation therefore represents 49% of the total amount of compensation paid to Jacques Aschenbroich in 2020.

The following table summarizes in a synthetic way the applicable quantifiable and qualitative criteria, the degree of achievement of each quantifiable criterion, the entitlement relating to each of these criteria in terms of percentage of the annual fixed compensation, and the maximum variable compensation for the financial year ended December 31, 2020. The specific, predetermined and unchanged targets underlying the quantifiable criteria have not been publicly disclosed for reasons of confidentiality, as provided for in recommendation 26.2 of the AFEP-MEDEF Code:

Quantifiable criteria[(1)(2)]

Nature of the quantifiable criterion	Maximum amount of the variable portion as a % of the annual fixed compensation	Amount of the variable portion obtained as a % of the annual fixed compensation[(5)]	Percentage of achievement of the criterion compared to the maximum
Operating margin rate[(3)]	25%	12.50%[(6)]	50%
Free cash flow	25%	12.50%[(7)]	50%
Net income	20%	10%[(8)]	50%
ROCE rate[(3)]	20%	10%[(9)]	50%
Group order intake[(4)]	25%	12.50%[(10)]	50%
TOTAL QUANTIFIABLE CRITERIA	**115%**	**57.50%**	**50%**
TOTAL QUANTIFIABLE CRITERIA AFTER 20% ADJUSTMENT	**115%**	**46%**	**40%**

Qualitative criteria	Maximum amount of the variable portion as a % of the annual fixed compensation	Amount of the variable portion obtained as a % of the annual fixed compensation
Nature of the qualitative criterion		
Strategic vision *Strategic vision is assessed against the following elements:* • *strategic and technological operations carried out by Valeo;* • *development of technological platforms in line with the Investor Day communication;* • *new evaluation of the presentation at the next strategy seminar of a technology roadmap, and its impact on R&D and human resources.*	20%	20%(11)
Risk management *This criterion is measured, in particular, by the following elements:* • *compliance: continued and intensified measures to reinforce the compliance policy;* • *management of the Group's cash;* • *the Company's transformation, organizational changes, evolution of professions, implementation of industrial and human resources to make the transformation successful;* • *quality of management and adaptability to the effects of the Covid-19 crisis.*	15%	15%(12)
Corporate social responsibility *Assessment of overall safety performance, in particular via the following key indicators:* • *number of lost-time workplace accidents;* • *decrease in the number of category 1 accidents (death, amputation, severe trauma, disability/incapacity) and category 2 accidents (major material damage and major accident).* *Progress made by Valeo in terms of skills and diversity management:* • *presentation of a plan to increase the number of women on the management committees by 2024 and 2030 (quantitative objectives and accompanying measures).* *Build and present a vision of carbon neutrality for Valeo in 2020, including five-year objectives.*	20%	18%(13)
TOTAL QUALITATIVE CRITERIA	**55%**	**53%**
TOTAL QUANTIFIABLE CRITERIA (AFTER ADJUSTMENT) AND QUALITATIVE CRITERIA	**170%**	**99%**

(1) Excluding tax and regulatory impacts.
(2) Concerning the quantifiable criteria, "excluding the impact of the Covid-19 pandemic". According to the 2020 Compensation Policy for the Chairman and Chief Executive Officer, when assessing the degree of achievement of these quantifiable objectives, the Board of Directors may take this impact into account.
(3) Excluding the Top Column Module (TCM) business, which is being phased out.
(4) Excluding the Top Column Module (TCM) business and Valeo Siemens eAutomotive (VSeA).
(5) It is understood that, for each quantifiable criterion, the variable portion ranges from 0% to 100% of the maximum amount of annual fixed compensation that may be obtained for this criterion.
(6) Operating margin rate for the second half of 2020 of 5.0% above the Group's guidance for the second half of 2020 published in October 2020, set at 3.8%, by extrapolating the EBITDA margin for the second half of 2020 of above 12% as per the October 2020 guidance. These figures were confirmed by the Statutory Auditors of the Group.
(7) Free cash flow generation in the second half of 2020 at 1,343 million euros, above the Group's guidance for the second half of 2020 published in October 2020 of above 600 million euros.
(8) Net income in the second half of 2020 of 126 million euros, including the Top Column Module (TCM) business.
(9) ROCE rate for the second half of 2020 of 15%, above the Group's guidance for the second half of 2020 published in October 2020 of 10%, by extrapolating the EBITDA margin for the second half of 2020 of above 12% as per the October 2020 guidance. These figures were confirmed by the Statutory Auditors of the Group.
(10) Order intake in the second half of 2020 of 13.3 billion euros for a total order intake in 2020 of 18.9 billion euros.
(11) Some of the factors considered are as follows. With regard to strategic movements, in 2020 Valeo initiated strategic reflections on the development of New Players in the United States and China and supported the launch of electric engines.
(12) Some of the factors considered are as follows. In the exceptional context of the health crisis, a demanding and effective Health and Safety Protocol was put in place and allowed all our plants to restart production under good operating conditions. This Protocol, which has been the subject of a number of internal audits, has been praised by the unions and employees and constitutes an external reference. The year 2020 was marked by the continuation and deepening of the actions undertaken to reinforce Valeo's compliance policy through various actions including: the worldwide deployment of the personal data protection compliance program, the reinforcement of the anti-corruption program, and export control procedures. The "Compliance 2020" campaign to raise awareness and train employees on the compliance policy was a success, with 99.9% of the target population (36,870 Group engineers and managers) taking part. In addition, the main organizational change in 2020 is characterized by the decision to transfer responsibilities from Group operations to the Business Groups.
(13) Some of the factors considered are as follows: The year 2020 produced excellent results in terms of non-financial criteria (Valeo is the leader in the Dow Jones Sustainability World Index for the fifth year running, is ranked first in the automotive sector in terms of sustainable development by Corporate Knights and is the highest rated automotive supplier by non-financial rating agencies MSCI, CDP, Sustainalytics and SAM). Objectives to encourage diversity within Valeo's governing bodies have been set by the Governance, Appointments and Corporate Social Responsibility Committee for 2030. Gender diversity is a priority for Valeo and it is planned to double the number of women within the Group's management committees over the next ten years. Intermediate targets have been set for 2024 and 2027. Valeo has pursued its objectives in terms of sustainable development with the establishment in 2020 of a Carbon Neutrality Plan, which includes a commitment to reduce direct and indirect emissions by 2030 (by 50% and 15% respectively) and to be carbon neutral in Europe and for global operations by 2050 or earlier. Finally, the year 2020 is also marked by Valeo's best-ever performance in terms of the number of lost-time accidents and the severity rate. Category 1 accidents have also decreased.

Long-term compensation policy – Allotment of performance shares

In accordance with the provisions of Article L.225-197-1 of the French Commercial Code, the number of free shares allotted may not represent more than 10% of the Company's share capital on the date of the Board of Directors' decision. The maximum amount provided for in the nineteenth resolution of the Shareholders' Meeting of May 23, 2019, which is effective for a period of 26 months, was 4,445,000 shares (i.e., about 1.85% of the share capital at December 31, 2018), with a specific sub-limit of 250,000 shares (i.e., about 0.10% of the share capital at December 31, 2018) for the Chairman and Chief Executive Officer. The free shares outstanding at the year-end preceding the shareholder vote on the aforementioned resolution represented 1.33% of the Company's share capital.

In accordance with the 2020 Compensation Policy for the Chairman and Chief Executive Officer, the Board of Directors, acting on the recommendation of the Compensation Committee, decided at its meeting of March 24, 2020 to allot 130,000 performance shares to Jacques Aschenbroich pursuant to the nineteenth resolution of the General Shareholders' Meeting of May 23, 2019. Due to the extreme volatility of the automotive market and the Covid-19 epidemic which affected Valeo's share price, and in keeping with the approach used, on an exceptional basis, in 2019 in similar market conditions in order to reflect the significant decline in the share price in early 2020, the number of performance shares allotted to the Chairman and Chief Executive Officer (IFRS valuation) was calculated with a discount of 39% as compared to the maximum permitted under the compensation policy (270% of annual fixed compensation). This discount corresponds to the ratio between the share price for the last 20 days and the share price over the last 18 months prior to the allotment of the performance shares. Based on the share price on the date of the Board of Directors' meeting (average of 20 days, IFRS valuation), this corresponds to 130,000 shares, valued at €1,821,300 under IFRS, i.e. 61% of the maximum amount permitted under the compensation policy.

Ceilings, criteria and conditions for this allotment are described in the 2020 Compensation Policy for the Chairman and Chief Executive Officer (see paragraph "Long-term compensation policy – Allotment of performance shares" of this section, pages 157 to 158).

87,122 performance shares (i.e., 73% of the maximum permitted under the 2019 Compensation Policy for the Chairman and Chief Executive Officer) and 55,026 performance shares (i.e., 96% of the maximum permitted under the compensation policy for the Chairman and Chief Executive Officer for the year ended December 31, 2018) were allotted to the Chairman and Chief Executive Officer under, respectively, the 2019 and 2018 plans.

It is also understood that final awards are subject to the achievement of objectives for each internal performance criterion set at the beginning of the year based on guidance at the Group level. Assessment of performance criteria is binary (achieved/not achieved). The objectives set for the 2020 financial year are therefore relevant to the 2018, 2019 and 2020 plans which set out performance criteria to be met over a period of three consecutive years.

According to the 2020 Compensation Policy for the Chairman and Chief Executive Officer, Group guidance excludes the impact of the Covid-19 pandemic and the Board of Directors may take this impact into account when assessing whether financial targets have been achieved. Also according to the 2020 Compensation Policy for the Chairman and Chief Executive Officer, target rates cannot be modified by the Board of Directors at a later date except by duly motivated decision in exceptional circumstances beyond the control of beneficiaries. The ability to make adjustments is also provided for in the 2019 Compensation Policy for the Chairman and Chief Executive Officer; which was approved by the Shareholders' Meeting of May 23, 2019 by a 91.92% majority (tenth resolution).

For 2020 internal performance criteria, initial guidance published in February 2020 was 10% for the ROA rate(1), 15% for the ROCE rate(1) (for the 2018 plan) and 6% for the operating margin rate(2).

Given the exceptional circumstances of the Covid-19 pandemic in 2020 that were out of the control of beneficiaries and the suspension of Group guidance in April 2020, the Board of Directors, acting on the recommendation of the Compensation Committee, reflected on the degree of actual achievement in 2020 of the financial performance objectives from the performance share plans containing 2020 objectives, and decided that taking the impact of the pandemic into account was justified but only for the 2019 and 2020 plans. The Board of Directors therefore decided not to make any adjustments to the 2018 plan. Thus, no shares were ultimately awarded to the Chairman and Chief Executive Officer under the 2018 plan.

In making its assessment, the Board of Directors considered the following:

- Since the guidance published in February 2020 is no longer relevant to assess the degree of achievement of financial performance criteria, the only objectives available for 2020 were those from the guidance in July and October 2020(3);
- The objectives from the guidance in July and October were either achieved or exceeded. The EBITDA margin for the second half of the year was 13.9% of sales. This EBITDA margin can be extrapolated to ascertain whether or not the financial performance criteria were achieved. These were an operating margin rate of 5.0% and a ROA rate of 9.0%, higher than the results obtained on the basis of October guidance(4). These figures have been confirmed by the statutory auditors.

Based on the above, after taking into account the Company's performance in a crisis context as well as the circumstances of the different stakeholders, the Board of Directors, at its meeting held on March 24, 2021 and acting on the recommendation of the Compensation Committee, decided the two financial performance criteria (operating margin and ROA) would be considered achieved for 2020 in respect of the 2019 and 2020 plans. However, in light of the fact that these financial performance criteria were achieved for the second half of 2020 only, the Board of Directors, acting on the recommendation of the Compensation Committee, decided

(1) Including share in net earnings of equity-accounted companies.

(2) Excluding share in net earnings of equity-accounted companies.

(3) According to October 2020 guidance, an EBITDA margin greater than 12% in the second half of the year and free cash flow of above 600 million euros. According to July 2020 guidance, an EBITDA margin of around 10% in the second half of the year and free cash flow of above 400 million euros.

(4) 3.8% for the operating margin and 6.0% for the ROA, calculated by extrapolation from October guidance (second semester EBITDA margin over 12%). These figures have been confirmed by the statutory auditors.

to deduct one-sixth of performance shares allotted under the 2019 and 2020 plans[1] from the portion represented by internal performance criteria (80%). As a result of this decision not to adjust the 2018 plan and to deduct one-sixth of shares awarded under the 2019 and 2020 plans (taking into account the pro rata temporis rule on the 2020 plan described below), the Board of Directors, acting on the recommendation of the Compensation Committee, recorded a total reduction of over one-third (34.17%) of shares allotted under the relevant performance share plans for the objectives set for the 2020 financial year (i.e. the 2018, 2019 and 2020 plans).

As a reminder, no final award of shares was made to Jacques Aschenbroich in 2019 under the 2016 plan, in 2020 under the 2017 plan, and in 2021 under the 2018 plan; the last final award of shares was in 2018 under the 2015 plan.

As a result of the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer planned for January 2022 and Jacques Aschenbroich's continued service as Chairman of the Board of Directors until the end of his term of office as director in May 2023, the number of performance shares allotted to Jacques Aschenbroich under the 2020 plan will be reduced to two-thirds of the original number shares allotted, which covers the period for which he held the combined roles of Chairman of the Board of Directors and Chief Executive Officer, i.e. a reduction of 43,334 shares. This proportional rule will also apply to the allotment to be made in 2021.

The Board of Directors thus recorded a reduction of 121,531 shares of a total of 272,148 shares initially allotted to Jacques Aschenbroich under the 2018, 2019 and 2020 plans, i.e., a reduction of 44.6%[2], taking into account the total reduction in the shares allotted under the plans concerned by 2020 (i.e., the 2018, 2019 and 2020 plans) as described above and the shares not allotted due to the *pro rata* rule (43,334 shares). The remaining 150,617 shares will not vest unless the performance criteria for the three-year period concerned by the 2019 and 2020 plans are met.

In accordance with the recommendations of the AFEP-MEDEF Code and the provisions of the Code of Conduct, Jacques Aschenbroich is not permitted to use hedging transactions to reduce his risk and he has signed a formal commitment to that effect. No hedging instruments have been used with respect to his performance shares.

Since joining the Group as Chief Executive Officer on March 20, 2009, Jacques Aschenbroich has not sold any shares obtained by exercising stock purchase options allotted to him, nor sold any vested performance shares.

Defined benefit pension plan

The Closed Plan

In accordance with the 2019 Compensation Policy for the Chairman and Chief Executive Officer, Jacques Aschenbroich continued to benefit from a defined benefit pension plan provided by the Company until December 31, 2019 (the "**Closed Plan**"). The plan was approved as a related party agreement pursuant to Article L.225-38 of the French Commercial Code by the Shareholders' Meeting of June 3, 2010 in its twelfth resolution, and as a related party commitment pursuant to Article L.225-42-1 of the French Commercial Code (since repealed) by the Shareholders' Meeting of May 26, 2016 in its fifth resolution. In accordance with the applicable provisions, the renewal of this commitment to the executive corporate officer was approved at the Shareholders' Meeting of May 23, 2019.

The method and performance conditions applicable to the defined benefit pension plan are described in the 2020 Compensation Policy for the Chairman and Chief Executive Officer (see paragraph "Defined benefit pension plan" of this section, page 158).

In accordance with French Ordinance No. 2019-697 of July 3, 2019, the so-called "Article 39" defined benefit pension plan, which no longer welcomes new members since July 1, 2017, no longer allows for the acquisition of new rights as from January 1, 2020, and the years of service acquired by Jacques Aschenbroich thus ceased definitively on December 31, 2019.

To be applicable, this plan requires the Chairman and Chief Executive Officer to end his professional career within the Group. In addition, all of the Chairman and Chief Executive Officer's[3] statutory pensions must have been settled.

The New Plan

In keeping with the new provisions of law, a new commitment was made to Jacques Aschenbroich. The New Plan, effective since January 1, 2020, includes the same ceilings and performance conditions as the Closed Plan, in accordance with Article L.137-11-2 of the French Social Security Code[4].

The method and performance conditions applicable to this defined benefit pension plan are described in this 2020 Compensation Policy for the Chairman and Chief Executive Officer (see paragraph "Defined benefit pension plan" of this section, page 158).

(1) *Adjusted to the* pro rata temporis *that would apply to the 2020 plan starting from the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer as described below.*

(2) *Which, by way of illustration, represents a value of 3,566,935 euros based on Valeo's closing share price at March 30, 2021.*

(3) *In accordance with French Ordinance No. 2019-697 of July 3, 2019, the so-called "Article 39" defined benefit pension plan, which no longer welcomes new members since July 1, 2017, no longer allows for the acquisition of new rights as from January 1, 2020. However, the rights under this plan crystallized at December 31, 2019 and remain conditional on the presence of the Chairman and Chief Executive Officer within Valeo at the time of his retirement.*

(4) *The New Plan was approved at a rate of 98.19% by the Shareholders' Meeting of June 25, 2020 in connection with related party commitments and agreements (fourth resolution), and at a rate of 94.03% in connection with the 2020 Compensation Policy for the Chairman and Chief Executive Officer (thirteenth resolution).*

At its meeting held on March 24, 2021, the Board of Directors, acting on the recommendation of the Compensation Committee, reviewed and determined the performance condition rate of achievement for 2020. This performance condition is deemed to have been met if the variable portion of the compensation of the Chairman and Chief Executive Officer paid in year Y+1 in respect of year Y reaches 100% of the fixed compensation due in respect of year Y. In the event the variable portion does not reach 100% of the fixed compensation, rights would be calculated on a pro rata basis. As the annual variable compensation amounted to 99% of the fixed compensation due for 2020, the Board of Directors recorded that (i) the 2020 variable compensation was lower than 100% of the 2020 fixed compensation, which was set at 99% of the 2020 fixed compensation amount and therefore, (ii) the rights granted *pro rata* total 0.99%.

At December 31, 2020, Jacques Aschenbroich's entitlements under these plans represented a total amount of 10,647,565 euros, i.e., a yearly pension allowance of 378,985 euros (it being specified that social security contributions at a rate of 32% are payable on annuities paid).

As the Chairman and Chief Executive Officer did not claim his pension entitlements in 2020, no amount was paid to him for 2020.

The Chairman and Chief Executive Officer's supplementary pension plan is financed annually through the payment of premiums to the service provider in charge of administering the annuities.

Non-compete compensation

For information purposes, given the recommendations of the AFEP-MEDEF Code on non-compete agreements, Jacques Aschenbroich announced his decision to waive his right to non-compete compensation. In order to comply with the AFEP-MEDEF Code, the Board of Directors formally noted this decision at its meeting on February 21, 2019 and consequently decided to amend the non-compete agreement accordingly.

Under the 2020 Compensation Policy for the Chairman and Chief Executive Officer, Jacques Aschenbroich may be subject to a non-compete clause (see paragraph "Non-compete compensation" of this section, page 159). This was decided by the Board of Directors at its meeting on February 24, 2010 and approved by the Shareholders' Meeting of June 3, 2010 in its eleventh resolution. It was then renewed without change at the Board of Directors meeting of February 24, 2011, on the recommendation of the Appointments, Compensation & Governance Committee. The non-compete commitment was then modified and approved as a related party commitment pursuant to Article L.225-42-1 of the French Commercial Code at the Shareholders' Meeting of May 26, 2015 in its fifth resolution. The principles and criteria relating to the non-compete commitment are described in the compensation policy for the Chairman and Chief Executive Officer for the year ended December 31, 2018[1].

Benefits in kind

In accordance with the 2020 Compensation Policy for the Chairman and Chief Executive Officer (see paragraph "Benefits in kind" of this section, page 159), Jacques Aschenbroich benefited, in the year ended December 31, 2020, from coverage under the unemployment insurance fund for company managers, the collective and mandatory health, death and disability plan, life insurance covering death, disability or the consequences of any accidents during business travel, and a company car, representing a total amount of 22,610 euros. This compensation component represented 1% of the total compensation paid to Jacques Aschenbroich in 2020.

Other compensation components – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, directors' compensation, benefits of any kind under agreements with the Company or any Group company or options or any other long-term compensation component

In accordance with the 2020 Compensation Policy for the Chairman and Chief Executive Officer (see paragraph "Other compensation components – No multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, directors' compensation, benefits of any kind under agreements with the Company or any Group company or options or any other long-term component of compensation" of this section, page 159), Jacques Aschenbroich did not receive any multi-annual variable compensation, compensation or benefits on appointment, exceptional compensation, termination benefits, directors' compensation or benefits of any kind under agreements with the Company or any Group company during the 2020 financial year. Nor did he receive any stock purchase or subscription options or any other form of long-term compensation except for performance shares.

As regards termination benefits, Jacques Aschenbroich was entitled to termination benefits as Chief Executive Officer before his appointment as Chairman of the Board of Directors, which he waived when the roles of Chairman of the Board of Directors and Chief Executive Officer were combined on February 18, 2016. His decision was formally noted by the Board of Directors the same day.

(1) *See Valeo's 2018 Registration Document, page 156.*

Compensation ratios and annual changes in compensation, Valeo's performance and five-year ratios

In accordance with Article 22-10-9, I 6° and 7° (former Article L.225-37-3, I, 6° and 7°) of the French Commercial Code, the following table shows the ratios between the compensation of the executive corporate officers and (i) the average compensation of employees other than the corporate officers on a full-time equivalent basis and (ii) the median compensation of employees other than the corporate officers on a full-time equivalent basis. It also shows the annual change in the compensation of the corporate executive officers, the Company's performance, the average compensation of employees other than the corporate officers on a full-time equivalent basis, as well the ratios referred to above over the last five fiscal years.

For the executive corporate officers, the ratios shown below have been calculated based on the fixed and variable short-term compensation paid and the performance shares allotted (IFRS valuation) from 2016 to 2020[(1)].

The scope includes all of the Group's French companies.

	2016[(1)]	2017	2018	2019	2020
Compensation of the Chairman and Chief Executive Officer *Year-on-year change*	4,920,233[(2)]	5,352,676 *8.79%*	4,904,128 *-8.38%*	3,430,142[(6)] *30.06%*	3,229,673[(7)] *-5.84%*
Compensation of the Chairman of the Board of Directors[(3)] *Year-on-year change*	50,000 *-83.33%*	-	-	-	-
Compensation of the Chief Executive Officer[(4)] *Year-on-year change*	-	-	-	-	-
Average compensation of employees *Year-on-year change*	50,290 *2.09%*	52,099 *3.60%*	52,622 *1.01%*	52,532 *-0.17%*	47,015[(8)] *-10.50%*
Median compensation of employees *Year-on-year change*	37,524 *0.72%*	38,586 *2.83%*	39,094 *1.32%*	39,744 *1.66%*	35,232[(8)] *-11.35%*
RATIO TO AVERAGE COMPENSATION					
Chief Executive Officer (Jacques Aschenbroich) *Year-on-year change*	N/A	N/A	N/A	N/A	N/A
Chairman of the Board of Directors (Pascal Colombani) *Year-on-year change*	0.99 -83.74%	N/A	N/A	N/A	N/A
Chairman and Chief Executive Officer (Jacques Aschenbroich) *Year-on-year change*	97.84	102.74 *5.01%*	93.20 *-9.29%*	65.30 *29.94%*	68.69 *5.19%*
RATIO TO MEDIAN COMPENSATION					
Chief Executive Officer (Jacques Aschenbroich) *Year-on-year change*	N/A	N/A	N/A	N/A	N/A
Chairman of the Board of Directors (Pascal Colombani) *Year-on-year change*	1.33 -83.48%	N/A	N/A	N/A	N/A
Chairman and Chief Executive Officer (Jacques Aschenbroich) *Year-on-year change*	131.12	138.72 *5.80%*	125.45 *-9.57%*	86.31 *-31.20%*	91.67 *6.21%*
Group performance[(5)] *Year-on-year change*	8 percentage points	5 percentage points	1.5 percentage points	6 percentage points	3 percentage points

(1) The roles of Chairman of the Board of Directors and Chief Executive Officer have been combined since February 18, 2016.
(2) This compensation corresponds to the sum of the compensation received by Jacques Aschenbroich as Chief Executive Officer and as Chairman and Chief Executive Officer for the entire year.
(3) From March 20, 2009 to February 18, 2016, the roles of Chairman of the Board of Directors and Chief Executive Officer were split. During that period, Pascal Colombani was Chairman of the Board of Directors and Jacques Aschenbroich was Chief Executive Officer.
(4) From March 20, 2009 to February 18, 2016, the roles of Chairman of the Board of Directors and Chief Executive Officer were split. During that period, Pascal Colombani was Chairman of the Board of Directors and Jacques Aschenbroich was Chief Executive Officer.
(5) The Group's performance is measured by comparing OE sales growth on a like-for-like basis and at constant exchange rates with global automotive production growth.
(6) This amount takes into account the one-sixth reduction of the shares allotted under the 2019 plan for the portion represented by the internal performance criteria (80%).
(7) This amount includes Jacques Aschenbroich's donation of 25% of his fixed compensation for the duration of the Covid-19-related shutdown to support solidarity actions relating to Covid-19, the application of the pro rata rule to shares allotted in the period during which he held the combined roles of Chairman of the Board of Directors and Chief Executive Officer, and the one-sixth reduction of the shares allotted under the 2020 plan (pro rated) for the portion represented by the internal performance criteria (80%).
(8) In 2020, the fall in the average and median compensation of employees was due to cost variabilization measures taken to deal with the Covid-19 crisis (short-time working, unpaid leave, salary freeze for senior executives).

(1) As regards the 2020 allotment, the maximum number of performance shares taken into consideration has been adjusted pro rata to the period during which the Chairman and Chief Executive Officer will hold the combined roles of Chairman of the Board of Directors and Chief Executive Officer.

Explanations for the changes in the ratios for the Chairman and Chief Executive Officer's compensation are given below:

- 2016: Jacques Aschenbroich took up office on February 18, 2016. His fixed compensation comprises one month and 17 days of salary as Chief Executive Officer and 10 months and 12 days of fixed compensation as Chairman and Chief Executive Officer, whereas short-term variable compensation paid and performance shares allotted were in respect of his office as Chairman and Chief Executive Officer;
- 2017: first full year of compensation as Chairman and Chief Executive Officer;
- the Chairman and Chief Executive Officer's compensation reflects the variable compensation due in the previous year and paid during the reference year;
- in 2020, the fall in the average and median compensation of employees was due to cost variabilization measures taken to deal with the Covid-19 crisis (short-time working, unpaid leave, salary freeze for senior executives).

The ratios presented were calculated based on performance shares allotted and valued on an IFRS basis, in accordance with French Ordinance No. 2019-1234 of November 27, 2019.

It should also be noted that, due to the challenging performance criteria, none of the performance shares allotted to Jacques Aschenbroich under the 2016, 2017 and 2018 performance share plans definitively vested. The table below shows the ratios calculated based on the fixed and variable short-term compensation paid in the stated years and the performance shares that vested in the same periods.

	2016(1)	2017(2)	2018(3)	2019(4)	2020(5)
RATIO TO AVERAGE COMPENSATION					
Chief Executive Officer (Jacques Aschenbroich) *Year-on-year change*					
Chairman of the Board of Directors (Pascal Colombani) *Year-on-year change*	0.99 *-83.74%*				
Chairman and Chief Executive Officer (Jacques Aschenbroich) *Year-on-year change*	110.36	86.85 *-21.30%*	75.57 *-12.99%*	30.76 *-59.30%*	46.31 *50.55%*
RATIO TO MEDIAN COMPENSATION					
Chief Executive Officer (Jacques Aschenbroich) *Year-on-year change*					
Chairman of the Board of Directors (Pascal Colombani) *Year-on-year change*	1.33 *-83.48%*				
Chairman and Chief Executive Officer (Jacques Aschenbroich) *Year-on-year change*	147.91	117.26 *-20.72%*	101.72 *-13.25%*	40.65 *-60.04%*	61.80 *52.03%*

(1) The roles of Chairman of the Board of Directors and Chief Executive Officer have been combined since February 18, 2016. Furthermore, 76,902 performance shares allotted to Jacques Aschenbroich under the 2013 plan vested in 2016 (value of the share on the vesting date).
(2) 31,515 performance shares allotted to Jacques Aschenbroich under the 2014 plan vested in 2017 (value of the share on the vesting date).
(3) 30,696 performance shares allotted to Jacques Aschenbroich under the 2015 plan vested in 2018 (value of the share on the vesting date).
(4) None of the performance shares allotted to Jacques Aschenbroich under the 2016 plan vested in 2019.
(5) None of the performance shares allotted to Jacques Aschenbroich under the 2017 plan vested in 2020.

Historical information

Annual variable compensation

Summary of annual variable compensation paid to Jacques Aschenbroich over the last five years

(% of fixed compensation)	2016		2017		2018		2019		2020	
	Achieved	Capped	Achieved	Capped	Achieved	Capped	Achieved	Capped	Achieved	Capped
Quantifiable criteria	115%	115%	80.4%	115%	0%	115%	57.5%	115%	46%	115%
Qualitative criteria	50%	55%	47.5%	55%	53%	55%	47.5%	55%	53%	55%
VARIABLE COMPENSATION	**165%**	**170%**	**127.9%**	**170%**	**53%**	**170%**	**105%**	**170%**	**99%**	**170%**

Long-term compensation

The history of stock purchase options and performance shares allotted, including to Jacques Aschenbroich, is summarized in the tables presented in paragraph "Compensation paid to the Chairman and Chief Executive Officer over the last two years" of this section, on pages 187 to 192.

The Code of Conduct states that the Chairman and Chief Executive Officer must not use hedging transactions to reduce his risk. No hedging instruments have been used with respect to his stock purchase options, the shares obtained on exercising his stock purchase options, or his performance shares. There are also restrictions on trading in the Company's shares (including selling free shares and exercising stock purchase options) during black-out periods (see section 3.2.2 of this chapter, paragraph "Directors' rights and duties", pages 133 to 134).

At the end of the holding period set by the Board of Directors, the Chairman and Chief Executive Officer must also hold a significant number of vested performance shares in the form of registered shares until the end of his term of office. This holding obligation corresponds to 50% of the vested performance shares[1].

No stock purchase options have been allocated since March 27, 2012. As regards the stock purchase options allocated to Jacques Aschenbroich in prior years, he must respect a minimum holding period and the shares that he obtains on exercising his stock purchase options must be held for a minimum of two years following their allotment. After selling the number of shares necessary for financing the exercise of the stock purchase options and the payment of any tax, social security contributions and transaction costs, he must keep at least 50% of the shares obtained on exercising his options in registered form until the end of his term of office.

Since joining the Group as Chief Executive Officer on March 20, 2009, Jacques Aschenbroich has not sold any shares obtained by exercising stock purchase options, nor sold any vested performance shares.

Compensation paid to the Chairman and Chief Executive Officer over the last two years

The following tables show the compensation paid and awarded and the performance shares allotted to Jacques Aschenbroich over the last two years.

Summary of compensation paid and stock purchase options and performance shares allotted to Jacques Aschenbroich (AMF Table No. 1)

(in €)	2019	2020[1]
Compensation due for the year	2,199,335	2,211,610
Value of multi-annual variable compensation granted during the year	-	-
Value of stock purchase options allotted during the year	-	-
Value of performance shares allotted during the year[2]	2,093,542	1,821,300
TOTAL	**4,292,877**	**4,032,910**

(1) The total compensation and benefits package paid or awarded to the Chairman and Chief Executive Officer under the 2020 Compensation Policy for the Chairman and Chief Executive Officer will be submitted to the vote of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2020 (ex post vote). Payment of the variable compensation is contingent on its approval by the shareholders.

(2) All performance shares allotted to the Chairman and Chief Executive Officer are subject to a presence condition, the achievement of performance criteria, and a holding obligation. The performance criteria linked to the performance shares allotted to the Chairman and Chief Executive Officer in 2019 and 2020 are described in paragraphs "Long-term compensation – Allotment of performance shares" of this section, pages 182 and 183, and in paragraphs "Long-term compensation – Allotment of performance shares" of section 3.3.2 of Valeo's 2019 Universal Registration Document, page 167.

(1) Since joining the Group as Chief Executive Officer on March 20, 2009, Jacques Aschenbroich has not sold any shares obtained by exercising stock purchase or subscription options allotted to him, nor sold any vested performance shares.

Summary of compensation paid to Jacques Aschenbroich (AMF Table No. 2)

	2019		2020	
(in €)	Amount owed	Amount paid	Amount owed	Amount paid
Fixed compensation	1,060,753	1,060,753	1,100,000	1,100,000
Annual variable compensation	1,113,791	530,000	1,089,000(1)	1,113,791(2)
Multi-annual variable compensation	-		-	-
Exceptional compensation	-		-	-
Directors' compensation	-		-	-
Benefits in kind(3)	24,791	24,791	22,610	22,610
TOTAL	**2,199,335**	**1,615,544**	**2,211,610**	**2,236,401**

(1) The total compensation and benefits package paid or awarded to the Chairman and Chief Executive Officer under the 2020 Compensation Policy for the Chairman and Chief Executive Officer will be submitted to the vote of the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2020 (ex post vote). Payment of the variable compensation is contingent on its approval by the shareholders.
(2) Amount of variable compensation for the previous year.
(3) Company car, annual contribution to the unemployment insurance fund for company managers and annual contribution to the health, death and disability insurance plans.

Stock purchase options allotted to Jacques Aschenbroich during the year by Valeo or any Group company (AMF Table No. 4)

Plan no. and date	Type of option (purchase)	Value of options according to the method used for consolidated financial statements	Number of options allotted during the year	Exercise price	Exercise period	Performance criteria
None	-	-	-	-	-	-

Stock purchase options exercised by Jacques Aschenbroich during the year (AMF Table No. 5)

Plan no. and date	Number of options exercised during the year	Exercise price
None	-	-

Performance shares allotted to Jacques Aschenbroich during the year by Valeo or any Group company (AMF Table No. 6)

Plan no. and date	Number of shares allotted during the year	Value of shares according to the method used for consolidated financial statements	Vesting date	Shares available as at	Performance criteria
03/24/2020	130,000	1,821,300(1)	03/24/2023	03/24/2025(2)	(3)

(1) Due to the extreme volatility of the automobile market and the Covid-19 pandemic, which affected Valeo's share price, in accordance with the approach retained exceptionally in 2019 in similar market circumstances, and to take into account the significant fall in the share price at the start of 2020, the number of performance shares allotted to the Chairman and Chief Executive Officer (IFRS valuation) was calculated with a discount of 39% as compared to the maximum permitted under the compensation policy (270% of annual fixed compensation). This discount corresponds to the ratio between the share price for the last 20 days and the share price over the last 18 months prior to the allotment of the performance shares. Based on the share price on the date of the Board of Directors' meeting (average of 20 days, IFRS valuation), this corresponds to 130,000 shares, valued under IFRS at 1,821,300 euros, i.e., 61% as compared to the maximum permitted under the compensation policy.
(2) Obligation to hold at least 50% of the vested shares as registered shares until the end of his term of office. Since joining the Group as Chief Executive Officer on March 20, 2009, Jacques Aschenbroich has not sold any shares obtained by exercising stock purchase or subscription options allotted to him, nor sold any vested performance shares.
(3) All performance shares allotted to the Chairman and Chief Executive Officer are subject to a presence condition, the achievement of performance criteria, and a holding obligation (see above). The performance criteria linked to the performance shares allotted to the Chairman and Chief Executive Officer during 2020 are described in paragraph "Long-term compensation – Allotment of performance shares" of this section, pages 182 to 183.

Performance share allotments that became available for trading for Jacques Aschenbroich during the year (AMF Table No. 7)

Plan no. and date	Number of shares that became available for trading during the year	Vesting requirements
03/22/2017	0	-

History of allotments of stock purchase options including to Jacques Aschenbroich – Information concerning stock purchase options (at December 31, 2020) (AMF Table No. 8)

The table below shows a history of stock purchase option allotments, including those to Jacques Aschenbroich(1): for information purposes, it is specified that the authorizations granted to the Company, which were implemented under the conditions described in the table below, exclusively concerned the allotment of stock purchase options (and excluded stock subscription options).

	2010 plan	2011 plan	2012 plan	-	-
Date of Shareholders' Meeting	06/03/2010	06/08/2011	06/08/2011	06/04/2012	06/04/2012
Date of Board of Directors' meeting	06/24/2010	06/08/2011	03/27/2012	03/27/2013(4)	03/27/2014(5)
Total number of shares that can be purchased	3,000,000	878,520	1,101,480	-	-
Number of options conditionally allotted to Jacques Aschenbroich(2)	300,000	90,900	105,900		
Performance criteria – rate of achievement	100%	60%	100%		
Total number of shares that can be purchased by Jacques Aschenbroich	300,000	54,540	105,900		
Start of exercise period	06/24/2012	06/08/2014	03/27/2015	-	-
Expiration date	06/23/2018	06/07/2019	03/26/2020	-	-
Purchase price(3)	€8.02	€14.13	€13.59	-	-
Total number of shares purchased	2,477,789	484,800	967,230	-	-
Of which total number of shares purchased by Jacques Aschenbroich	*300,000*	*54,540*	*105,900*		
Number of stock purchase options canceled or forfeited (cumulative)	522,211	393,720	134,250	-	-
Stock purchase options remaining at year-end	0	0	0	-	-

(1) The figures in the table have been adjusted for the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 (nineteenth resolution) and implemented by the Board of Directors on the same date. To protect the interests of stock purchase option holders, at its meeting on May 26, 2016, the Board of Directors decided to adjust the exercise price of the unexercised options, by dividing the exercise price by three and multiplying the number of options by three.

(2) All stock purchase options allotted to the Chairman and Chief Executive Officer are contingent on the achievement of performance criteria (average operating margin rate, ROCE rate and ROA rate over the reference period).

(3) Equal to the average share price over the 20 trading days preceding the Board of Directors' meeting allotting the options, which is 80% higher than the average purchase price of shares held by Valeo under Articles L.225-208 and L.225-209 of the French Commercial Code, as adjusted.

(4) At its meeting on March 27, 2013, the Board decided not to allot any stock purchase options.

(5) At its meeting on March 27, 2014, the Board decided not to allot any stock purchase options. For information purposes, it being specified that the tenth resolution of the Shareholders' Meeting of June 4, 2012 was not renewed and was declared null and void on August 5, 2014.

History of allotments of free shares including to Jacques Aschenbroich – information concerning free shares allotted (at December 31, 2020) (AMF Table No. 9)

The table below shows a history of free share allotments, including those to Jacques Aschenbroich[1]:

	2010 plan	2011 plan	2012 plan	2013 plan
DATE OF SHAREHOLDERS' MEETING	**06/03/2010**	**06/08/2011**	**06/08/2011**	**06/04/2012**
Date of Board of Directors' meeting	06/24/2010	06/08/2011	03/27/2012	03/27/2013
Total number of free shares allotted	1,200,000	980,580	639,420	1,421,442
Number of shares conditionally allotted to Jacques Aschenbroich[2]	150,000	46,800	34,200	76,902
Performance criteria - rate of achievement:				
• Chairman and Chief Executive Officer	100%	60%	100%	100%
• Other	100%	60%	100%	100%
VESTING DATE OF SHARES:				
• Chairman and Chief Executive Officer, Operations Committee	France: 06/24/2012 Other countries: 06/24/2014	France: 06/08/2014 Other countries: 06/08/2016	France: 03/27/2015 Other countries: 03/27/2017	France: 03/27/2016 Other countries: 03/27/2018
• Liaison Committee and main direct reports of the Liaison Committee members	France: 06/24/2012 Other countries: 06/24/2014	France: 06/08/2014 Other countries: 06/08/2016	France: 03/27/2015 Other countries: 03/27/2017	France: 03/27/2016 Other countries: 03/27/2018
• High-potential managers	-	-	-	-
• All employees	France: 06/24/2012 Italy/Spain: 06/24/2012 Other countries: 06/24/2014	France: 06/08/2014 Italy/Spain: 06/08/2014 Other countries: 06/08/2016	France: 03/27/2015	France/Spain/Italy: 03/27/2016 Other countries: 03/27/2018
• Employee share ownership plans	-	-	-	-
SHARES AVAILABLE AS AT				
• Chairman and Chief Executive Officer, Operations Committee	06/24/2014	06/08/2016	03/27/2017	03/27/2018
• Liaison Committee and main direct reports of the Liaison Committee members	06/24/2014	06/08/2016	03/27/2017	03/27/2018
• High-potential managers	-	-	-	-
• All employees	France: 06/24/2014 Italy/Spain: 06/24/2015	France: 06/08/2016 Italy/Spain: 06/08/2017	France: 03/27/2017	France/Other countries: 03/27/2018 Spain/Italy: 03/27/2019
• Employee share ownership plans	-	-	-	-
Total number of shares vested	992,304	628,584	560,883	1,210,350
Of which total number of shares vested for Jacques Aschenbroich	*150,000*	*28,080*	*34,200*	*76,902*
Total number of shares canceled or forfeited (cumulative)	207,696	351,996	78,537	211,092
Free shares allotted remaining at year-end	0	0	0	0

(1) The figures in the table have been adjusted for the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 (nineteenth resolution) and implemented by the Board of Directors on the same date. To protect the interests of the beneficiaries of free shares during the vesting period, at its meeting on May 26, 2016, the Board of Directors decided to multiply the number of free shares (including performance shares) allotted but not yet vested by three.

(2) All performance shares allotted to Jacques Aschenbroich are contingent on the achievement of performance criteria. The performance criteria linked to the performance shares allotted to the Chairman and Chief Executive Officer in 2019 and 2020 are described in paragraphs "Long-term compensation – Allotment of performance shares" of this section, pages 182 and 183, and in paragraphs "Long-term compensation – Allotment of performance shares" of section 3.3.2 of Valeo's 2019 Universal Registration Document, page 167.

(3) Given the demanding target rate for the performance criteria, the rate of achievement was nil. Failure to achieve these criteria was due to the challenging conditions in the Group's operating environment in 2018 caused by disruptions in the automotive industry during the year, such as the introduction of the WLTP, a slowdown in the Chinese market, a rise in raw materials prices and, more generally, the turbulence in the financial markets.

(4) Given the demanding target rate for the performance criteria, the rate of achievement was nil. Failure to meet the criteria was due to the challenging conditions in the Group's operating environment in 2018 caused by disruptions in the automotive industry during the year, such as the introduction of WLTP, the market downturn in China and the rise in raw material prices.

2014 plan	2015 plan	2016 plan	2017 plan	2018 plan	2019 plan	2020 plan
06/04/2012	**05/21/2014**	**05/26/2016**	**05/26/2016**	**05/26/2016**	**05/23/2019**	**05/23/2019**
03/27/2014	03/26/2015	05/26/2016	03/22/2017	03/22/2018	05/23/2019	03/24/2020
970,440	957,027	1,267,022	1,012,043	1,234,623	1,699,281	2,342,306
31,515	30,696	70,974	51,030	55,026	87,122	130,000
100%	100%	0%[3]	0%[4]	0%[5]		
100%	100%	0%[3]	100%			
France: 03/27/2017 Other countries: 03/27/2019	France: 03/26/2018 Other countries: 03/26/2020	France: 05/26/2019 Other countries: 05/26/2021	France: 03/22/2020[6] 03/22/2021[7] Other countries: 03/22/2021[7]	France: 03/22/2021[6] 03/22/2022[8] Other countries: 03/22/2022[8]	France/ Other countries: 05/23/2022	France/ Other countries: 03/24/2023
France: 03/27/2017 Other countries: 03/27/2019	France: 03/26/2018 Other countries: 03/26/2020	France: 05/26/2019 Other countries: 05/26/2021	France: 03/22/2021[7] Other countries: 03/22/2021[7]	France: 03/22/2022[8] Other countries: 03/22/2022[8]	France/ Other countries: 05/23/2022	France/ Other countries: 03/24/2023
-	France: 03/26/2018 Other countries: 03/26/2020	France: 05/26/2019 Other countries: 05/26/2021	France: 03/22/2020 Other countries: 03/22/2022	France: 03/22/2021 Other countries: 03/22/2023	France/ Other countries: 05/23/2022	France/ Other countries: 03/24/2023
France/Spain/Italy: 03/27/2017 Other countries: 03/27/2019	France/Spain/Italy: 03/26/2018 Other countries: 03/26/2020	France: 05/26/2019 Other countries: 05/26/2021	France: 03/22/2020 Other countries: 03/22/2022	France: 03/22/2021 Other countries: 03/22/2023	France/ Other countries: 05/23/2022	France/ Other countries: 03/24/2023
-	-	Spain/Italy: 11/15/2019 Belgium: 11/15/2021 Other countries: 06/30/2021	Spain/Italy: 07/27/2020 Belgium/Ireland: 07/27/2022 Other countries: 06/30/2022	Italy/Spain: 06/30/2021 Other countries: 06/30/2023	Italy/Spain: 06/27/2022 Other countries: 06/30/2024	Italy/Spain: 11/16/2023 Belgium: 11/16/2025 Other countries: 06/30/2025
03/27/2019	03/27/2020	05/26/2021	03/22/2022[6] [9]	03/22/2023[6] [9]	05/23/2024[6] [9]	03/24/2025[6] [9]
03/27/2019	03/27/2020	05/26/2021	[9]	[9]	[9]	[9]
-	03/27/2020	05/26/2021	03/22/2022	03/22/2023	[9]	[9]
France/Other countries: 03/27/2019 Spain/Italy: 03/27/2020	France/Other countries: 03/27/2020 Spain/Italy: 03/27/2021	France/Other countries: 05/26/2021	France/Other countries: 03/22/2022	France/Other countries: 03/22/2023	[9]	[9]
-	-	Italy/Spain: 11/15/2022 Belgium: 11/15/2021 Other countries: 06/30/2021	Italy/Spain: 07/27/2023 Belgium/Ireland: 07/27/2022 Other countries: 06/30/2022	Italy/Spain: 06/30/2024 Other countries: 06/30/2023	Italy/Spain: 06/27/2025 Other countries: 06/30/2024	Italy/Spain: 11/16/2026 Belgium: 11/16/2025 Other countries: 06/30/2025
722,364	734,013	83,902	73,513	4,895	3,580	0
31,515	*30,696*	*0*	*0*	*0*		
248,076	223,014	630,540	165,706	101,059	66,657	34,385
0	0	201,959	533,353	856,939	1,537,296	2,070,976

(5) Given the demanding target rate for the performance criteria, the rate of achievement was nil. Failure to meet the criteria was due to the challenging conditions in the Group's operating environment in 2018 caused by disruptions in the automotive industry during the year, such as the introduction of WLTP, the market downturn in China and the rise in raw material prices, and in 2020 caused by the Covid-19 crisis.

(6) Chairman and Chief Executive Officer.

(7) For members of the Operations Committee as well as members of the Liaison Committee and the main direct reports of the Liaison Committee members only, removal of 2018 and deferral of the performance measurement period by one year (i.e., 2017, 2019 and 2020 instead of 2017, 2018 and 2019). The vesting period is four years instead of three. No holding period.

(8) For members of the Operations Committee as well as members of the Liaison Committee and the main direct reports of the Liaison Committee members only, removal of 2018 and deferral of the performance measurement period by one year (i.e., 2019, 2020 and 2021 instead of 2018, 2019 and 2020). The vesting period is four years instead of three. No holding period.

(9) No holding period.

Employment contract, supplementary pension plans and benefits (AMF Table No. 11)

	Employment contract	Supplementary pension plans	Compensation or benefits owed or likely to be owed on termination or change of position	Compensation relating to a non-compete clause
	No	Yes	No[(1)]	No[(2)]
Jacques Aschenbroich Chairman and Chief Executive Officer since February 18, 2016 First appointed as a director: 03/20/2009 First appointed as Chief Executive Officer: 03/20/2009 Start of term of office (director): 05/26/2015 Date of most recent reappointment: 05/23/2019 End of terms of office (director and Chairman of the Board of Directors): Shareholders' Meeting called to approve the 2022 financial statements Separation of roles as of January 2022: end of term of office as Chief Executive Officer		The pension plans to which Jacques Aschenbroich is entitled are described in paragraph "Defined benefit pension plan" of this section, pages 183 to 184[(3)]. At December 31, 2019, Jacques Aschenbroich's accrued benefits under the Closed Plan represented 19.53% of his reference income[(4)] and 15.53% of his reference variable compensation[(5)]. At December 31, 2020, these benefits represent a yearly pension allowance of 357,068 euros (insofar as social security contributions at a rate of 32% are payable on annuities paid). His accrued benefits under the New Plan will represent 0.99% of his total compensation as Chairman and Chief Executive Officer (fixed and variable compensation), i.e., a yearly amount of 21,917 euros.		For a description of this benefit, see paragraph "Non-compete payment" of this section, page 184.

(1) Following the appointment of Jacques Aschenbroich as Chairman of the Board of Directors by decision of the Board of Directors on February 18, 2016, Jacques Aschenbroich thus becoming Chairman and Chief Executive Officer of Valeo following the Board of Directors' decision, on the same day, to combine the roles of Chairman of the Board of Directors and Chief Executive Officer, Jacques Aschenbroich notified the Board of Directors of his decision to waive, as from his appointment on February 18, 2016, his right to termination benefits. This decision was duly noted by the Board of Directors.

(2) Given the recommendations of the AFEP-MEDEF Code on non-compete agreements, Jacques Aschenbroich announced his decision to waive his right to non-compete compensation. In order to comply with the AFEP-MEDEF Code, the Board of Directors formally noted this decision at its meeting on February 21, 2019 and consequently decided to amend the non-compete agreement accordingly.

(3) In accordance with French Ordinance No. 2019-697 of July 3, 2019, the so-called "Article 39" defined benefit pension plan, which no longer welcomes new members since July 1, 2017, no longer allows for the acquisition of new rights as from January 1, 2020 (the "Closed Plan"). Thus, in accordance with the new legal provisions, a new commitment has been made in favor of Jacques Aschenbroich. This new plan, effective as of January 1, 2020, in accordance with Article L.137-11-2 of the French Social Security Code, includes the same ceilings and performance conditions as the Closed Plan.

(4) Jacques Aschenbroich's reference income, which is the average of the last 36 months of compensation and excludes the variable component and exceptional compensation, amounted to 1,053,584 euros at December 31, 2020.

(5) Jacques Aschenbroich's reference variable compensation, which is the average variable compensation received in the last 36 months, amounted to 974,264 euros at December 31, 2020.

Directors' compensation in respect of the year ended December 31, 2020

The amount of compensation paid to each director in 2020 is outlined in the table below.

The directors donated 25% of their 2020 compensation for the duration of the shutdown to support Covid-19-related solidarity initiatives.

Compensation paid to Board members amounted to 960,921.18 euros in 2020, compared with 949,072.75 euros in 2019. The compensation was distributed as follows:

Summary of directors' compensation provided for in Articles L.22-10-14 and L.225-45 of the French Commercial Code and other compensation received by the corporate officers (AMF Table No. 3)

	Compensation				Other compensation (fixed, variable or exceptional compensation, benefits in kind)	
(in €)	2019	Fixed portion 2020	Variable portion 2020	Ratio between the fixed and variable portions	2019	2020
EXECUTIVE CORPORATE OFFICERS						
Jacques Aschenbroich	-	-			2,199,335	2,211,610
NON-EXECUTIVE CORPORATE OFFICERS						
Julie Avrane-Chopard[1]	-	19,230.77	30,000	• fixed portion: 39% • variable portion: 61%		
Bruno Bézard	61,000	25,000	42,000	• fixed portion: 37% • variable portion: 63%	-	-
Pascal Colombani[2]	42,875.69	-	-	-		
Éric Chauvirey	70,000	25,000	42,000	• fixed portion: 37% • variable portion: 63%	-	-
Caroline Maury Devine	64,000	25,000	42,000	• fixed portion: 37% • variable portion: 63%	-	-
Michel de Fabiani[3]	42,875.69	-	-	-		
Mari-Noëlle Jégo-Laveissière	64,000	25,000	42,000	• fixed portion: 37% • variable portion: 63%	-	-
Noëlle Lenoir[4]	38,325.95	-	-	-	-	-
Stéphanie Frachet[5]	30,500	25,000	60,000	• fixed portion: 29% • variable portion: 71%		
Gilles Michel[6]	74,163.04	83,000	42,000	• fixed portion: 66% • variable portion: 34%	-	-
Thierry Moulonguet	94,000	40,000	51,000	• fixed portion: 44% • variable portion: 56%	-	-
Georges Pauget[7]	130,945.64	5,769.23	9,000	• fixed portion: 39% • variable portion: 61%	-	-
Olivier Piou[8]	42,193.37	25,000	51,000	• fixed portion: 33% • variable portion: 67%		
Patrick Sayer[9]	36,193.37	27,119.56	51,000	• fixed portion: 35% • variable portion: 65%		
Ulrike Steinhorst	85,000	34,880.43	51,000	• fixed portion: 41% • variable portion: 59%	-	-
Grzegorz Szelag[10]	-	2,921.19	-	• fixed portion: 100% • variable portion: 0%		
Véronique Weill	73,000	25,000	60,000	• fixed portion: 29% • variable portion: 71%	-	-
TOTAL	**949,072.75**	**387,921.18**	**573,000.00**			

(1) Co-optation of Fonds Stratégique de Participations by the Board of Directors on March 24, 2020.
(2) Pascal Colombani's term of office ended at the Shareholders' Meeting of May 23, 2019.
(3) Michel de Fabiani's term of office ended at the Shareholders' Meeting of May 23, 2019.
(4) Resigned with effect from June 14, 2019.
(5) Co-optation of Bpifrance Participations by the Board of Directors on June 21, 2019.
(6) Appointed by the Shareholders' Meeting of May 23, 2018. Gilles Michel replaced Georges Pauget as Lead Director on October 24, 2019.
(7) Resigned with effect from March 24, 2020.
(8) Appointed by the Shareholders' Meeting of May 23, 2019.
(9) Appointed by the Shareholders' Meeting of May 23, 2019.
(10) Appointed by the European Works Council on November 19, 2020.

3.3.3 Overall compensation of other Group executive managers

The other executive managers are members of the Operations Committee, which at December 31, 2020 was made up of 13 members and the Chairman and Chief Executive Officer. The total gross amount paid directly and indirectly to the members of the Operations Committee (excluding the Chairman and Chief Executive Officer) came to 11,599,782 euros in 2020 (compared with 10,142,824 euros in 2019), of which a fixed portion of 6,102,327 euros, a variable portion of 5,403,314 euros, and benefits in kind of 94,141 euros.

At its meeting on March 24, 2020, the Board of Directors, acting on the recommendation of the Compensation Committee, decided to allot free shares or performance shares to employees and corporate officers under the conditions provided for in the applicable legal provisions and pursuant to the nineteenth resolution of the Shareholders' Meeting of May 23, 2019, including:

- 416,421 performance shares to the Operations Committee members (excluding Jacques Aschenbroich);
- 190,885 performance shares to the Liaison Committee members (other than the Operations Committee members);
- 793,620 performance shares to the main direct reports of the Liaison Committee members;
- 811,380 free shares (maximum), not subject to performance criteria, including (i) 640,000 free shares allotted to all the Group's employees in France and in countries not participating in the Shares4U employee share ownership plan and the international contribution as part of the Shares4U employee share ownership plan, under the terms and conditions of allotment set out in the various plan regulations, and (ii) 171,380 free shares to high-potential managers.

The main characteristics of the performance shares allotted to the members of the Operations Committee and the Liaison Committee, as well as the main direct reports of the Liaison Committee members, are as follows:

- the performance shares allotted to Operations Committee members (excluding Jacques Aschenbroich) are subject to the same performance criteria, target returns and performance assessment criteria as the performance shares allotted to the Chief Executive Officer by the Board of Directors on the same date (see section 3.3.1 of this chapter, "Compensation of the Chairman and Chief Executive Officer", pages 154 to 159);
- the performance shares allotted to the Liaison Committee members (other than the Operations Committee members) and the main direct reports of the Liaison Committee members are contingent on the achievement of the two performance criteria: operating margin rate and ROA rate. The target returns and performance assessment criteria are the same as those applicable to the performance shares allotted to the Chairman and Chief Executive Officer on the same date (see section 3.3.1 of this chapter, paragraph "Compensation policy for the Chairman and Chief Executive Officer", pages 154 to 159), subject to the percentage of shares obtained based on the performance criterion or criteria achieved (100% if the criterion is achieved for all three years covered by the plan, 50% if the criterion is achieved for two of the three years, 20% if the criterion is achieved for one of the three years and 0% if the criterion is not achieved in any of the three years);
- the performance shares will vest after a three-year vesting period; there is no minimum holding period for the shares obtained;
- all performance shares will be allotted provided, in particular, that (i) the beneficiary's employment contract or corporate office is still valid, and (ii) the vesting date does not fall during the notice period following the beneficiary's resignation, dismissal or contract termination, unless provided otherwise (such as in the case of death, total and permanent disability, retirement, early retirement, the sale of the beneficiary's entity, or the Board of Directors' discretionary decision). Furthermore, the Board of Directors reserves the right to maintain the entitlement to the performance shares in specific cases determined by it;
- in accordance with the Group's Code of Conduct, the members of the Operations Committee and the Liaison Committee are not permitted to engage in hedging transactions over Valeo securities (including performance and/or free shares).

The free shares or performance shares allotted to employees and corporate officers (including Jacques Aschenbroich) during 2020 had a limited dilutive impact and represented 0.97% of the Company's share capital at December 31, 2020. All the shares to which the stock purchase options give access and the free shares or performance shares allotted to employees and corporate officers (including Jacques Aschenbroich) since 2010, represented respectively 2.06% and 5.68% of the Company's share capital at December 31, 2020.

At its meeting on October 20, 2009, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to implement a supplementary pension plan to replace the existing plans for Group senior executives in office at the date of the plan, including Jacques Aschenbroich. Entitlements under the old plan were frozen at December 31, 2009. At its meetings on February 21, 2012 and January 23, 2014, the Board of Directors, acting on the recommendation of the Appointments, Compensation & Governance Committee, decided to adjust the supplementary pension plan offered to the Group's senior executives.

The main characteristics of the supplementary pension plan are as follows:

- cap due to the nature of the plan: additional pension of 1% of the reference salary per year of service, starting on the employment date with the Group for the new beneficiaries of the plan and starting on January 1, 2010 for the beneficiaries of the previous plans whose entitlements were frozen at December 31, 2009, up to a maximum of 20%;
- cap on the basis for determining entitlements: total pension entitlements, all plans combined, are capped at 55% of the reference salary;
- the reference salary is the end-of-career salary, which is the average of the last 36 months of basic fixed compensation plus, for periods subsequent to February 1, 2014, variable compensation – itself equal to the average variable compensation received over the last 36 months – received for working full time within the Group;

- payment of benefits to the surviving beneficiary in the event of the death of an active contributor if the event occurs after the legal voluntary retirement age.

In order to be eligible for the supplementary pension plan, Valeo, or one of its subsidiaries, must be the beneficiary's last employer before settlement of the pension entitlements, but the beneficiary does not need to be present in the Group at the time of the settlement of the entitlements at the statutory retirement age under the general social security regime.

Further to the Board of Directors' decision on July 20, 2017, this pension plan, which came into effect on January 1, 2010, no longer welcomes new members since July 1, 2017. A new "Article 83" defined contribution supplementary pension plan was introduced on January 1, 2019 and is open to all employees in France whose compensation is more than four times the social security ceiling, with the exception of Jacques Aschenbroich, who continues to benefit from the defined benefit pension plan. In accordance with French Ordinance No. 2019-697 of July 3, 2019, the defined benefit pension plan, which no longer welcomes new members since July 1, 2017, no longer allows for the acquisition of new rights as from January 1, 2020. Since January 1, 2020, the Chairman and Chief Executive Officer and other beneficiaries of the previous defined benefit pension plan have been covered by a new defined benefit plan governed by Article L.137-11-2 of the French Social Security Code.

3.3.4 Information about stock purchase options and performance shares

3

The stock purchase option and performance share allotment policy for the Chairman and Chief Executive Officer and other executive managers is described, respectively, in section 3.3.1 of this chapter, paragraph "Compensation policy for the Chairman and Chief Executive Officer", pages 154 to 159, and section 3.3.3 of this chapter, "Overall compensation of other Group executive managers", pages 194 to 195.

Stock options and free shares are also detailed in Chapter 6, section 6.6.2 "Other securities giving access to the share capital – Stock purchase option and free share plans", pages 444 to 446.

Stock purchase options allotted and exercised during the year

Stock purchase options allotted to the ten employees receiving the greatest number of options and options exercised by the ten employees exercising the greatest number of options, excluding corporate officers	Number of options allotted/exercised	Weighted average strike price	Expiration date	Date of Board of Directors' meeting
Options allotted during the year by Valeo and/or other Group companies to the ten employees of the issuer or other Group companies receiving the greatest number of options	-	-	-	-
Options held on Valeo and/or other Group companies, and exercised during the year by the ten employees of the issuer or other Group companies with the greatest number of options exercised	58,950	13.59	03/26/2020	03/27/2012

Performance shares allotted during the year

Performance shares allotted to the ten employees receiving the greatest number of performance shares, excluding corporate officers	Number of performance shares allotted	Date of Board of Directors' meeting
Performance shares allotted by Valeo to the ten employees of Valeo or related entities, as defined in Article L.225-197-2 of the French Commercial Code, who received the greatest number of such shares[1]	381,778	03/24/2020

(1) Valued at 14.69 euros under IFRS.

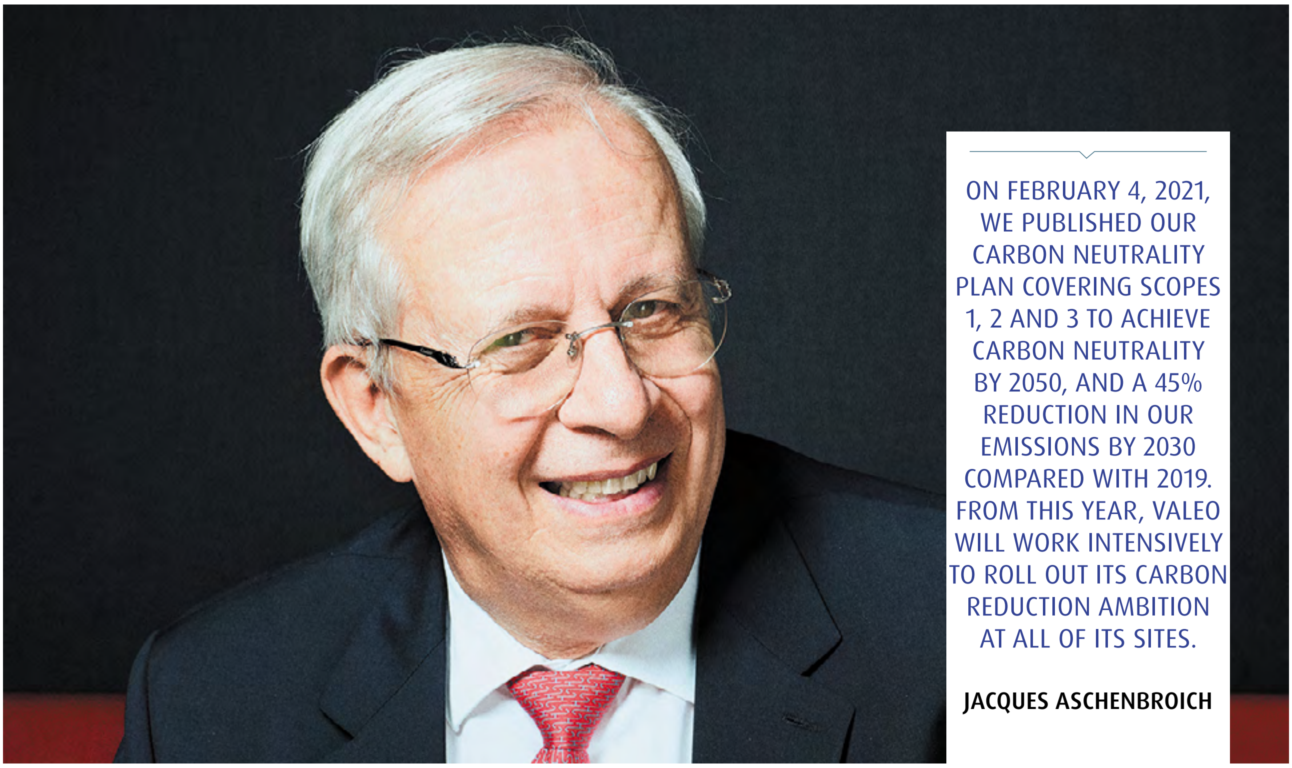
Pensions and other post-employment benefits and related provisions

At December 31, 2020, the total amount of provisions set aside by Valeo or its subsidiaries for the payment of pensions or other post-employment benefits to members of the Board of Directors and other executive managers of the Group came to 17 million euros, as opposed to 11 million euros at December 31, 2019.

At December 31, 2020, the total amount of provisions set aside and the total amounts paid by Valeo or its subsidiaries for these benefits to former Board members or other executive managers of the Group came to, respectively, 2 million euros (versus 3 million euros at December 31, 2019) and 265,092 euros (versus 273,281 euros at December 31, 2019).

4 Sustainable Development

INTERVIEW WITH JACQUES ASCHENBROICH



ON FEBRUARY 4, 2021, WE PUBLISHED OUR CARBON NEUTRALITY PLAN COVERING SCOPES 1, 2 AND 3 TO ACHIEVE CARBON NEUTRALITY BY 2050, AND A 45% REDUCTION IN OUR EMISSIONS BY 2030 COMPARED WITH 2019. FROM THIS YEAR, VALEO WILL WORK INTENSIVELY TO ROLL OUT ITS CARBON REDUCTION AMBITION AT ALL OF ITS SITES.

JACQUES ASCHENBROICH

Jacques Aschenbroich
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

After more than 11 years at the helm, what do you make of Valeo's sustainable development efforts?

J.A. A commitment to sustainable development is embedded in Valeo's DNA.

Over the past 11 years, we have structured our product portfolio and strategic positioning to meet the major challenges of mobility – safer, low-carbon mobility. We anticipated the major transformations in our sector as early as 2009, realizing that reducing emissions would be a driver of growth. We went on to develop a comprehensive range of low- and high-voltage electrification technology for electrified vehicles, and the thermal management solutions that go with it. The recent surge in electrification backs up our strategic positioning, which has won the approval of our customers. In 2020, innovations accounted for 56% of order intake (including Valeo Siemens eAutomotive), and products that directly or indirectly contribute to cleaner and safer mobility accounted for 94% of original equipment sales.

As we have adapted our business model to these transformations in sustainable mobility, we have structured our sustainable development action step by step around transparency, non-financial risk management and the implementation of our employee, environmental and corporate citizenship policies.

This constant work, which is our driving force, has made Valeo one of the best automotive suppliers in terms of non-financial performance. In 2020, Valeo received the highest rating among its automotive supplier peers from non-financial rating agencies MSCI (AAA) and Sustainalytics, as well as from SAM and ISS-oekom (excluding tire manufacturers). The Group also maintained its leadership position in the Dow Jones Sustainability (DJSI) World index for the fifth year in a row.

Valeo once again ranked as the leading player in the automotive industry for 2020 in the Corporate Knights annual global ranking of the 100 most sustainable corporations, published in conjunction with the World Economic Forum in January 2021.

This work is in keeping with our adherence to the ten principles of the United Nations Global Compact since 2005. Our support for this initiative remains whole, and we have now also formalized our contribution to the United Nations Sustainable Development Goals.

How is the Group's sustainable development policy structured?

J.A. At Valeo, sustainable development is built on four key axes: innovation, environmental eco-efficiency, employees and commitment to corporate citizenship. It pervades all the areas where the Group interacts with stakeholders, both internally and outside the Group.

When I took over at Valeo, I wanted to give the Group a function and a department dedicated to sustainable development. Its role within the Group is to define the sustainable development policy and coordinate its implementation. Outside the Group, it is tasked with liaising with external stakeholders, be they our customers, our shareholders or analysts monitoring our performance in this area, all of which are becoming increasingly discerning. Other Group departments, including Research and Development, Risk Insurance, Health, Safety and Environment, Ethics and Compliance, Human Resources and Purchasing, Quality and Industrial also contribute directly to sustainable development in their respective fields, and have developed their own tools for taking action and assessing performance.

Since 2017, the Governance, Appointments & Corporate Social Responsibility Committee of the Valeo Board of Directors has carried out an annual assessment of the year's sustainable development policies and outcomes, based on a performance review with the operational directors leading the relevant initiatives. In addition, since 2020 a director, Ulrike Steinhorst, has been responsible for monitoring CSR issues within the committee.

Our sustainable development policy also reflects our desire to assess and satisfy the demands of our employees, customers, suppliers and shareholders, as well as national and international regulators and supervisory bodies.

What were the highlights of 2020?

J.A. For 2020, I set three priorities: health and safety at work, gender diversity and reduction of our carbon footprint. The Covid-19 crisis emphasized the importance of these three pillars.

2020 was characterized by tireless work to ensure the health and safety of our employees, and significant efforts to develop an appropriate and quantifiable commitment to carbon neutrality by 2050, which we unveiled publicly on February 4, 2021.

In managing the Covid-19 health crisis, the Group's first priority was to ensure the health and safety of its employees in the workplace in order to maintain production as much as possible. With this in mind, highly stringent protocols were adopted, ahead of the nationwide protocols and partial lockdown measures implemented in many of the countries where the Group operates. From the earliest phases of the pandemic, we implemented strict, regularly audited measures, including requiring employees to wear a mask in all areas and under all circumstances at all our plants (anticipating local obligations by several months in some countries), enabling employees for whom it was an option to work from home, adapting workstations to comply with social distancing protocols (for positions requiring physical presence) and rotating teams.

These measures enabled all of Valeo's 187 sites to resume operations in 2020, and none have had to close again since then.

In addition, Valeo took part in many solidarity initiatives, such as donating masks. It also provided support for medical efforts, most importantly by contributing to the creation of a consortium of industrial groups in France alongside PSA and Schneider Electric, which enabled Air Liquide to produce 10,000 ventilators in three months. Valeo contributed its expertise in electronics, supplied critical components and facilitated the swift launch of new production lines. The consortium was able to deliver the 10,000 ventilators in France and several other European countries on schedule.

Our work in 2020 to reduce our carbon footprint involved building a Carbon Neutrality Plan for 2050 across Scopes 1, 2 and 3[(1)], published on February 4, 2021, with the interim target of a 45% reduction by 2030 compared with 2019. The plan covers our entire value chain, including emissions from our suppliers, our own operating activities and the end use of our products[(2)]. Valeo's 2030 commitment should be validated by the Science-Based Targets initiative (SBTi) in the first half of 2021. We plan to report on our progress toward our CO_2 emissions objectives annually. To embed this commitment in the day-to-day and operational reality of our activities, I wanted these objectives to be integrated into the variable compensation of the Group's 1,500 key managers.

We have revised our annualized targets for reducing our greenhouse gas emissions to include the emissions from the end use of our products, so as to be aligned with our commitment for 2030. In 2020, Valeo reduced its emissions by 9 $MtCO_2eq$. compared with 2019, i.e., a decrease of nearly 20%. These important outcomes should be seen in the light of the year we have just been through, marked by the contraction of our industrial activity and the automotive market in the first half of 2020.

What are the challenges for the coming years?

J.A. 2021 will be a year of unrelenting vigilance with regard to changes in the health situation and adaptation of our protocols to ensure the safety of all our employees.

Starting this year, Valeo is committed to carrying out considerable work to roll out its carbon reduction target at all of its sites worldwide, both in terms of production and its product portfolio (Scopes 1, 2 and 3, upstream and downstream). To meet customer and regulatory requirements, Valeo will continue to work with its suppliers on the CO_2 emissions reductions to be delivered each year by helping them undertake their own reduction programs in line with the Group's aims (Scope 3 upstream).

Moreover, Valeo is keen to play its part in fostering the commitment of its ecosystem in favor of sustainable development, and can act as a structuring partner in its host countries in that regard, by adding to local Research and Development efforts, by forging partnerships with local players and through open innovation.

The Covid-19 crisis backs up Valeo's strategic choices, both through a tremendous acceleration in electrification and the emergence of new forms of mobility tied to smart cities. This will reinforce transitions to a diverse range of mobility for people and goods, moving towards greater safety, digitalization and connectivity.

March 31, 2021

(1) See sustainable development glossary, page 295.
(2) See section 4.1.3 "Valeo's Carbon Neutrality Plan", page 206.

4.1 VALEO AND SUSTAINABLE DEVELOPMENT: GOVERNANCE, CHALLENGES AND POLICIES

Valeo publishes its non-financial information statement in its Universal Registration Document, and also presents the key points relating to its commitment to the circular economy (see boxed text "Valeo's commitment to the circular economy", page 262), in accordance with the applicable European and French frameworks[1]. For the transparency and clarity of the non-financial information published annually, Valeo has opted to keep an overview of its sustainable development policy in its 2020 Universal Registration Document.

Valeo also reports on the progress of its duty of care plan (see section 4.4 of this chapter, pages 253 to 256), in accordance with French legal requirements[2].

4.1.1 Sustainable development governance

Sustainable development organization

Sustainable development policy spans all of the Group's functions and networks and is designed to dovetail with Valeo's business objectives and policies.

The Sustainable Development and External Affairs Department lays down policies and plays the role of pilot and coordinator for the Group's various departments. It ensures the appropriate level of interface between the Group and external stakeholders in order to satisfy their growing requirements. The Human Resources, Health, Safety and Environment (HSE), Ethics and Compliance, Risk and Insurance and Research and Development departments and the Operational departments (Purchasing, Quality and Industrial) all contribute to Valeo's sustainable development policy.

To support the management of risks related to sustainable development challenges (known as non-financial risks), the Sustainable Development Department performs dedicated mapping and reviews it annually, in conjunction with the Risk Management Department (see section 4.1.2 "Sustainable development challenges and non-financial risks", page 201).

Since 2020, the Sustainable Development Department has also been in charge of the governance structure established for the launch, implementation and monitoring of Valeo's Carbon Neutrality Plan for 2050. This steering committee brings together all the aforementioned departments and networks under the supervision of the Chairman and Chief Executive Officer and the Associate Chief Executive Officer. Its aim is to set annual objectives for the various contributing networks and to oversee the implementation of the Carbon Neutrality Plan.

A committee of the Board of Directors in charge of corporate social responsibility

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

- reviewing the main thrusts of the Company and Group's corporate social responsibility policy;
- identifying corporate social responsibility objectives and challenges;
- verifying the achievement of previously defined objectives;
- overseeing the gradual and increasing implementation of the corporate social responsibility policy, and assessing the Group's contribution to sustainable development;
- in conjunction with the Audit & Risks Committee, gaining an understanding of the risks and issues involved in corporate social responsibility, and obtaining information about the resources the Group can call on to pursue its strategy in this area.

The Governance, Appointments & Corporate Social Responsibility Committee also examined the Group's CSR and safety policy, as well as the non-discrimination and diversity policy. In this context, Ulrike Steinhorst was appointed to take charge of CSR matters on October 27, 2020.

The committee holds discussions with the Group Vice-President, Sustainable Development and External Affairs and the Group Senior Vice-President, Human Resources.

(1) Government order No. 2017-1180 of July 19, 2017 on the disclosure of non-financial information by certain large corporations and groups of corporations.
(2) Law No. 2017-399 of March 27, 2017 on the duty of care of parent companies and ordering companies.

These discussions are an opportunity to:

- validate the main lines of action regarding:
  - product life cycle management and consideration of eco-responsible products obtained thanks to an eco-efficient industrial footprint,
  - health and safety at work, development of human capital, labor relations and corporate social responsibility, development of a healthy work environment, ethics, diversity and respect for individual and collective rights;
- review achievements during the year relating to:
  - selection and monitoring of non-financial risks,
  - the Group's response to customer demands concerning sustainable development,
  - the deployment of sustainable development principles in the purchasing policy,
  - prevention initiatives in the fight against fraud and corruption, and the establishment and roll out of the Whistleblowing System,
  - integration and solidarity initiatives with the communities of the cities and regions where Valeo operates,
  - Valeo's sustainable development practices and performance assessments by non-financial analysis agencies;
- assess the short- and medium-term priority actions on all of the issues reviewed.

For 2020, due to the particular health situation, these discussions were deferred until 2021 and replaced by a session dedicated to Valeo's Carbon Neutrality Plan at the Board of Directors' strategy seminar on November 11, 2020.

The corporate social responsibility and sustainable development objectives and performance indicators are summarized in the performance charts provided in section 4.2 "Non-financial performance objectives and indicators", page 219.

4.1.2 Sustainable development challenges and non-financial risks

In 2016, Valeo formalized a materiality analysis for the first time, allowing it to identify its main sustainable development challenges and to strengthen its action with its stakeholders (see section 4.5.1 "A commitment to sustainable development based on strong relationships with stakeholders", pages 256 to 258).

Additionally, in compliance with the French and European legal framework, Valeo mapped out its non-financial risks in 2018. This mapping is subject to an annual review and now serves to support the management of sustainable development policies. It allows priority actions to be targeted.

Materiality matrix plotting the Group's sustainable development challenges

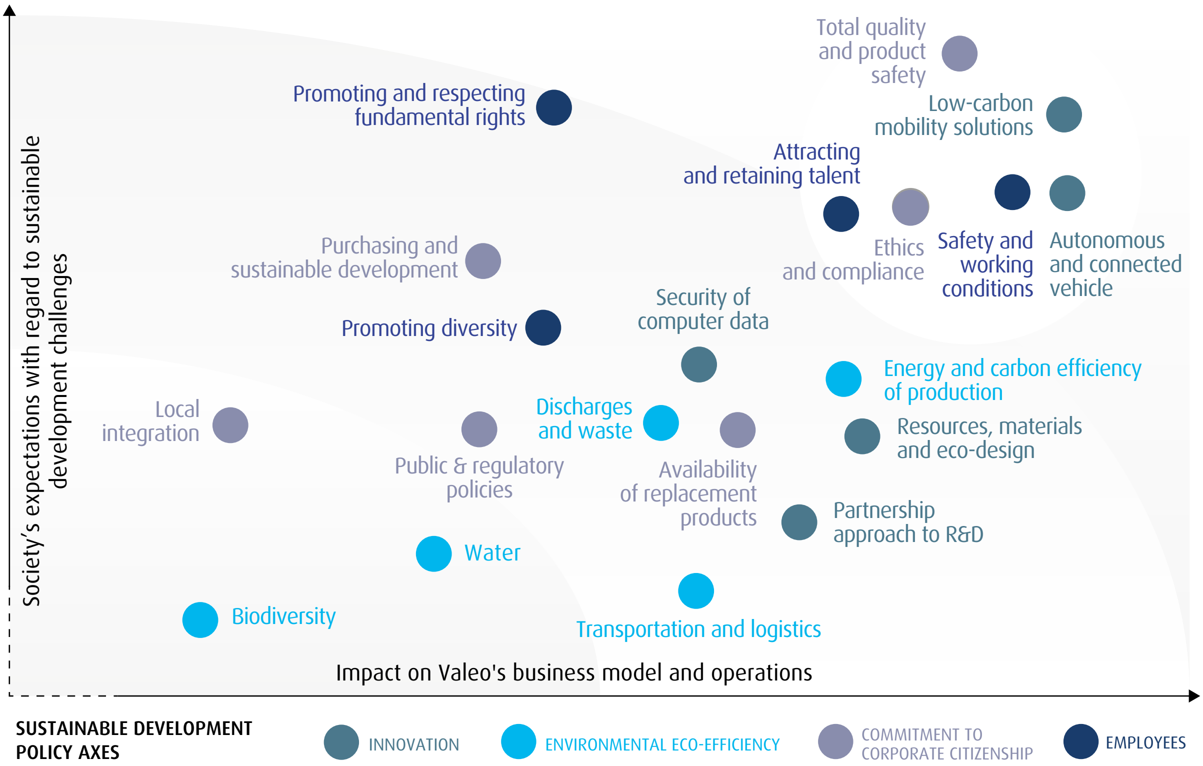
The materiality analysis serves to compare Valeo's internal ambitions in respect of sustainable development with its stakeholders' expectations. The analysis is based on:

- a series of interviews with Valeo's various departments (Industrial, Purchasing, Health, Safety and Environment (HSE), Research and Development, Human Resources, Sales and Business Development) and country management teams;
- a documentary review (non-financial questionnaires, survey results, etc.);
- specific requests from the Group's stakeholders in respect of sustainable development (automakers, civil society, specialist press, non-financial analysts, etc.) and interviews with them.

The materiality matrix is built on the following four axes: **innovation, environmental eco-efficiency, employees and commitment to corporate citizenship.** A total of 20 challenges have been identified (see below).

The matrix was first rolled out in 2016. Subsequently, three challenges were updated in 2017 ("Promoting and respecting fundamental rights", "Attracting and retaining talent" and "Promoting diversity"). The challenges in the matrix remained unchanged in 2020.

Materiality matrix plotting the Group's sustainable development challenges



The matrix serves to compare, for the challenges identified, the expectations of stakeholders and their impact on the Group's activity, in order to:

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

Non-financial risks

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

For 2020, Valeo has identified the following seven main risks (classified in accordance with Valeo's four sustainable development axes).

Sustainable development axes	Risks	
Innovation	Risk of non-compliance with environmental product regulations	Pages 229 to 235
Environmental eco-efficiency	Risk associated with accidental pollution of water and/or soil	Pages 235 to 238
Employees	Health and safety risk	Pages 238 to 241
	Risk related to attracting talent	Pages 241 to 243
	Risk related to developing and retaining talent	Pages 244 to 247
Commitment to corporate citizenship	Risk of individual corruption	Pages 248 to 249
	Risk related to suppliers' sustainable development practices	Pages 249 to 253

Management of these risks is described in section 4.3.3 "Valeo's non-financial risks", pages 228 to 253.

Recognition of Valeo's commitment to sustainable development

Valeo has for several years seen its non-financial performance acknowledged by the main rating agencies in this area, reflecting the successful cross-functional deployment of sustainable development efforts and related communications that respect the principles of transparency, discipline and relevance.

Organization	Rating
Carbon Disclosure Project (CDP)	**A** (highest score possible on the CDP rating scale)
MSCI ESG Rating	**AAA,** Industry leader, ranked no. 1 among automotive suppliers
ISS-oekom	**B-, prime,** Industry leader, ranked no. 1 among automotive suppliers, excluding tire manufacturers(1)
S&P Global Corporate Sustainability Assessment (CSA)	**76/100**, ranked no. 1 among automotive suppliers, excluding tire manufacturers
Sustainalytics	**Negligible risk**, ranked no. 1 among automotive suppliers
Corporate Knights	Ranked no. 1 in the automotive sector (automotive suppliers and automakers)

(1) Status conferred by the rating agency in 2019.

In 2020, Valeo was the highest rated automotive supplier by the non-financial rating agencies MSCI (AAA), CDP (A), Sustainalytics ("Negligible risk") and the S&P Global Corporate Sustainability Assessment (76/100).

Rating agency MSCI awarded Valeo the highest score possible (AAA) under its evaluation system. This positions Valeo at the very top of the ranking in the group of automotive equipment manufacturers. The score reflects an excellent assessment of the transparency of information and clear positioning in terms of work to control the risks identified in the sector.

The CDP (Carbon Disclosure Project) platform awarded Valeo an A in 2020, the highest possible score. This reflects the transparency and relevance of its action plans to reduce CO_2 emissions. Only 273 companies reached this level in 2020, out of more than 9,500 companies evaluated by the CDP.

S&P Global Corporate Sustainability Assessment (CSA) (formerly SAM CSA) assessed Valeo's sustainable development initiatives (governance, risks, R&D, environment, labor issues, and corporate citizenship, etc.). With a rating of 76/100 in 2020, Valeo ranked first among automotive suppliers excluding tire manufacturers **for the fifth consecutive year**. As a result, Valeo was included in the DJSI (Dow Jones Sustainability Index) World for the fifth consecutive year. Its continued presence in this index and its results in recent years testify to the relevance of the cross-functional approach to sustainable development at Valeo.

In 2020, Valeo obtained the best ESG risk management assessment ("negligible risk") among automotive suppliers from rating agency **Sustainalytics**. This outcome validates the risk management policies and tools implemented by Valeo for several years.

Valeo was once again **the leading automotive company in the Corporate Knights "Global 100" 2021 sustainability ranking of the world's largest public companies** published in conjunction with the World Economic Forum, which was held virtually this year, replicating the performance achieved in 2019 (published in Davos in January 2020).

In addition to these ratings assigned by rating agencies, Valeo featured in several non-financial indices, in particular:

- Dow Jones Sustainability Index (DJSI) World index;
- Ethibel Sustainability Index (ESI) Excellence Europe;
- Euronext Vigeo Europe 120;
- Euronext Vigeo Eurozone 120;
- FTSE4Good Index Series;
- STOXX® Global ESG Leaders.

Valeo and the United Nations Sustainable Development Goals

The Group's sustainable development initiatives are in line with the United Nations Sustainable Development Goals (SDGs), which include eradicating poverty, promoting development and protecting the planet.

Depending on the countries in which Valeo operates, the Group undertakes to contribute to the following SDGs and targets:

SDG 4 "QUALITY EDUCATION"

- Target 4.3 "By 2030, ensure equal access for all women and men to affordable quality technical, vocational or tertiary education, including university"
  - Valeo pays particular attention to training its teams at all levels of the organization (see section 4.3.3 "Risk related to attracting talent", page 241).
  - Key outcome: in 2020, 82,195 employees took part in at least one training course during the year, representing 83.1% of the registered headcount.
- Target 4.4 "By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship"
  - Valeo places great importance on continuous education and access to quality technical training for all, allowing it to support the professional ambitions of each Valeo employee (see section 4.3.3 "Risk related to attracting talent", page 241).
  - Key outcome: in 2020, more than 318,698 hours of technical and scientific training were provided at Valeo.

SDG 5 "GENDER EQUALITY"

- Target 5.1 "End all forms of discrimination against women and girls everywhere"
  - Valeo has implemented an extensive program to promote gender diversity, dating back to 2011. Each year, Valeo's sites implement awareness-raising and support initiatives for women at work, notably by encouraging the use of adapted work schedules and workstations (see section 4.5.4 "Respecting and promoting diversity", page 275).
  - Key outcome: the 2020 gender equality index was 82.6/100[1].
- Target 5.5 "Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life"
  - Valeo has implemented an extensive program to promote gender diversity, dating back to 2011, with the aim of promoting the place of women among Managers and Professionals, as well as among operational and management positions; Valeo has set itself the goal of having 32% women on the management committees by 2030 (see section 4.5.4 "Respecting and promoting diversity", page 275).
  - Key outcome: in 2020, the proportion of women on the management committees was 19.5%.

SDG 8 "DECENT WORK AND ECONOMIC GROWTH"

- Target 8.7 "Take immediate and effective measures to eradicate forced labor, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labor, including recruitment and use of child soldiers, and by 2025 end child labor in all its forms"
  - Valeo has a comprehensive program to promote respect for fundamental rights, protect against forced labor, and prohibit child labor, based notably on the Valeo Code of Ethics, which prohibits such practices and behaviors. Valeo requires all its suppliers to adhere to the Valeo Business Partner Code of Conduct, which includes provisions for the elimination of forced labor (see section 4.5.4 "Promoting and respecting fundamental rights", page 280).
  - Key outcome: in 2020, 75% of the registered headcount operated under a collective agreement (see section 4.5.4 "Promoting and respecting fundamental rights", page 280).

(1) *This index is based on the evaluation of five criteria: the pay gap between men and women; the gap in the distribution of individual pay rises between men and women; the gap in the distribution of promotions; the percentage of female employees who received a pay rise after returning from maternity leave; and the percentage of women in the ten highest paid positions. It only covers Managers and Professionals.*

SDG 9 "INDUSTRY, INNOVATION AND INFRASTRUCTURE"

- Target 9.5 "Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of Research and Development workers per 1 million people and public and private research and development spending"
  - Valeo is a major industrial and technological player in the automotive and mobility sectors. Thanks to its global footprint, the Group is continuing its development efforts in the area of production, technology and training in various countries (see section 4.5.2 "A comprehensive and partnership-based approach to Research, Development and Innovation (R&D&I)", page 259).
  - Key outcome: in 2020, Valeo filed more than 1,174 patents and invested 10.1% of its sales in Research and Development.

SDG 11 "SUSTAINABLE CITIES AND COMMUNITIES"

- Target 11.2 "By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons"
  - Valeo aims to develop solutions for cleaner, safer and smarter mobility (see Integrated Report, page 33 and section 1.3 "Operational organization", page 52).
  - Key outcome: in 2020, 60% of Valeo's sales contributed directly or indirectly to reducing CO_2 emissions, and 46% to safer mobility (12% of sales contributed to both reduction of CO_2 emissions and to safer mobility).

SDG 12 "RESPONSIBLE CONSUMPTION AND PRODUCTION"

- Target 12.2 "By 2030, achieve sustainable management and efficient use of natural resources"
  - Valeo has implemented an eco-design approach for its products and reduced its production-related consumption of water and energy (see section 4.5.3 "Environmental commitments", page 262). This approach is aimed at reducing the consumption of raw materials (metal, plastic, etc.) and replacing materials impacting the carbon footprint of the end-product (vehicle) with greener substitutes (see section 4.3.3 "Risk of non-compliance with environmental product regulations", page 229).
  - Key outcome: in 2020, Valeo reduced its water consumption (in absolute terms) by 11% compared with 2019. Moreover, Valeo ceased consuming fluorinated solvents in 2020.
- Target 12.5 "By 2030, substantially reduce waste generation through prevention, reduction, recycling, and reuse"
  - As part of a structured environmental plan, Valeo aims to reduce its landfilled and non-recycled waste generation (see section 4.3.3 "Risk associated with accidental pollution of water and/or soil", page 235).
  - Key outcome: in 2020, the production of waste generated by the Group decreased by 47 kt in absolute terms compared with 2019, in particular due to the decline in activity.

SDG 13 "CLIMATE ACTION"

- Target 13.1 "Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries"
  - Valeo is committed to carbon neutrality by 2050 and aims to achieve 45% of this objective by 2030 (see section 4.1.3 "Valeo's Carbon Neutrality Plan for 2050", page 206). The Group also aims to have 40% of its sites certified for energy management (ISO 50001) by 2025 (see section 4.5.3 "Evaluation and certification processes", page 262).
  - Key outcome: in 2020, Valeo reduced its GHG emissions (Scopes 1 and 2)[(1)] by 27% compared with 2019 and by 25% compared with 2015. Valeo met its annual objective of reducing CO_2 emissions from the end use of its products (Scope 3 downstream), which amounted to 30.8 $MtCO_2eq.$ in 2020, compared with 39 Mt in 2019. Valeo has certified 20% of its sites to ISO 50001.

(1) See sustainable development glossary, page 295.

4.1.3 Valeo's Carbon Neutrality Plan for 2050

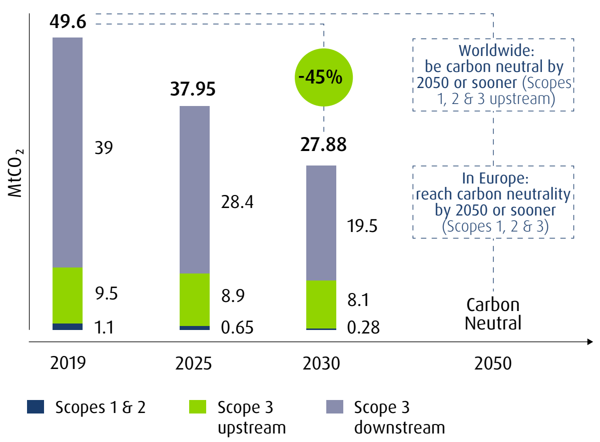
Valeo, a signatory of the "Business Ambition for 1.5°C" campaign, has committed to achieving carbon neutrality by 2050

On February 4, 2021, Valeo, with the aim of reaffirming its strategic positioning in terms of products that contribute to the reduction of CO_2 emissions, presented a Carbon Neutrality Plan for 2050 covering its entire value chain – including its suppliers, its own operating activities and the end use of its products (direct and indirect emissions, i.e., Scope 1, 2 and 3 emissions) – with the goal of reducing its emissions in absolute terms by 45% in 2030 compared with 2019.

Valeo is committed to:

- being carbon neutral by 2050 in all of its operating activities and across its supply chain worldwide (Scopes 1 & 2 and Scope 3 upstream), and achieving 100% carbon neutrality in Europe (Scopes 1, 2 and 3, including the end use of its products);
- completing a plan by 2030 to reduce the emissions related to its operating activities (Scopes 1 and 2) by 75%, and those related to its supply chain and the end use of its products (Scope 3) by 15% compared with 2019. Taking into account the CO_2 emissions avoided thanks to its technologies that contribute to cleaner mobility, the Group will achieve a 50% net reduction in emissions related to the use of its products, enabling it to reduce its emissions in absolute terms by 45% compared with 2019.

Carbon neutrality by 2050



The objectives set are in line with the reduction needed to cap global warming at 1.5°C[(1)], the highest level of ambition of the Science Based Targets initiative (SBTi), in keeping with the Paris climate agreement (COP 21). Within that framework, Valeo is a signatory of the "Business Ambition for 1.5°C" campaign that brings together companies committed to achieving carbon neutrality.

Keen to incorporate the impact of the benefits generated by Valeo's electrification solutions on CO_2 emissions reduction (Scope 3 downstream – see section 4.3.3 "CO_2 emissions related to the use of Valeo products (Scope 3)", page 230), the Group chose to develop an objective that takes this reality into account. Due to the complexity of inter-sectoral harmonization, the methodology developed by the Science Based Targets initiative (SBTi) does not currently allow for emissions avoided by the products sold by companies to be taken into account. However, this does not call into question their positive contribution. Accordingly, the CO_2 emissions reduction commitment submitted by Valeo to the SBTi does not include the carbon benefits of the use of its technologies (Scope 3 downstream). In the interests of transparency, Valeo plans to publish its progress with regard to its Carbon Neutrality Plan each year, specifying the results obtained in terms of reducing emissions in accordance with both the SBTi approach and the methodology developed by Valeo (including the benefits linked to the use of its products).

The plan consists of reducing Valeo's carbon footprint across its entire value chain from 49.6 million metric tons in 2019 to 27.9 million metric tons in 2030, representing a reduction of 21.7 million metric tons of CO_2 or 45%:

- emissions related to its operating activities will be reduced from 1.1 million to 0.3 million metric tons of CO_2 (Scopes 1 and 2);
- emissions related to its supply chain will decrease from 9.5 million to 8.1 million metric tons of CO_2 (Scope 3 upstream);
- emissions related to the end use of the technologies sold by the Group (Scope 3 downstream) will fall from 39 to 19.5 million tons of CO_2, taking into account emissions avoided thanks to the electrification and CO_2 emissions reduction technologies developed by Valeo.

(1) Valeo's published commitment to the SBTi is a plan to reduce by 2030 the emissions related to its operating activities (Scopes 1 and 2) by 75%, and those related to its supply chain and the end use of its products (Scope 3) by 15% compared with 2019. These objectives are based on a 1.5°C scenario for Scopes 1 & 2, and a 2°C scenario for Scope 3. Under the SBTi guidelines, the reference scenario considered is for Scopes 1 and 2.

Action plans to support CO_2 emissions reduction across all emission scopes

By 2030, Valeo will have invested more than 400 million euros in reducing emissions related to its operating activities (Scopes 1 and 2). These investments will be used to upgrade the Group's sites to enable the current 100 most carbon-intensive facilities to obtain ISO 50001 (energy management) certification and become high-energy efficiency sites by 2030. Upgrades will include the development of eco-friendly buildings, the widespread use of LED lighting and the integration of heat recovery systems.

The proportion of renewable energy in the Group's energy consumption will increase from 5.5% in 2019 to 80% by 2030, with a threshold of 50% by 2025. A number of sites are already piloting renewable energy alternatives, including three Group sites in Chennai (India), where 90% of consumption is wind-powered, and sites in Sanand (India) and Bad Rodach (Germany), which use their own solar energy facilities to produce 30% and 20% of the energy they consume, respectively.

Valeo has also set the same CO_2 emissions objectives for its suppliers. The use of materials with low carbon intensity will be increased, and monitoring of CO_2 emissions will be included in design specifications by suppliers.

To reduce CO_2 emissions related to the end use of products, Valeo will continue to expand its range of technologies that contribute to low-carbon mobility, in particular solutions for vehicle electrification, a field in which the Group is currently world leader. The Group will also continue its efforts to use lighter materials and alternative technologies to reduce product weight.

Lastly, Valeo has calculated the benefit for the planet from its electrification technologies for the very first time. By 2030, they will help to avoid 19.5 million metric tons of CO_2 emissions annually (see section 4.3.3 "Risk of non-compliance with environmental product regulations", page 229).

To monitor the plan, Valeo has set annualized CO_2 emissions reduction objectives (for each department concerned), backed by action plans for the internal networks contributing to them (Industrial, HSE, Purchasing, Transport and Logistics, R&D, Marketing and Sales). The achievement of these objectives will be presented to the General Management at quarterly reviews, and from 2021 will be one of the criteria for the variable compensation of more than 1,500 senior executives.

Data on the plan's progress will be reported each year in the Universal Registration Document and in Valeo's responses to the Carbon Disclosure Project (CDP) non-financial questionnaire. Starting with 2020, CO_2 emissions data on all the items covered by the Carbon Neutrality Plan have been included in the annual review of non-financial data carried out by the independent third-party (ITP), which is itself independent of the Statutory Auditors, in accordance with the French law on the disclosure of non-financial information by corporations[1] see section 4.8 "Independent third party's report on the consolidated non-financial information statement", page 296).

(1) Decree No. 2017-1265 of August 9, 2017 issued for the application of government order No. 2017-1180 of July 19, 2017 on the disclosure of non-financial information by certain large corporations and groups of corporations.

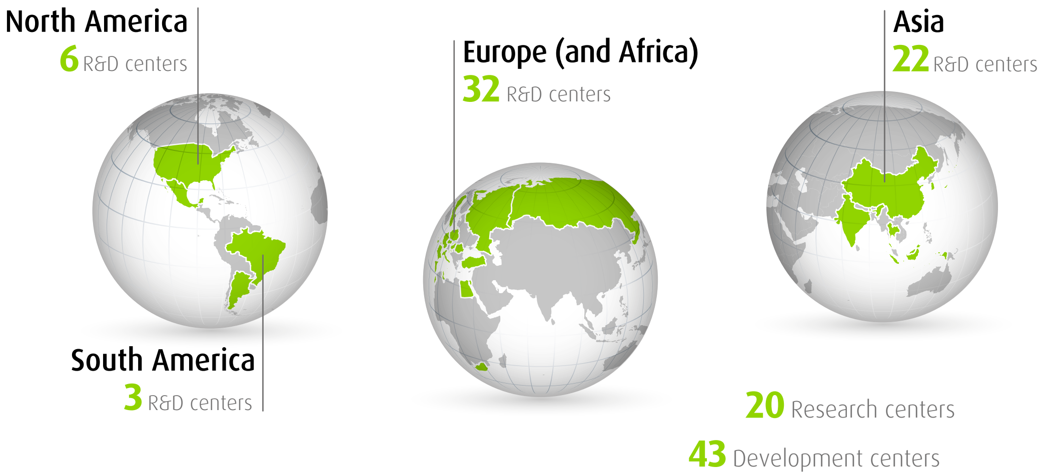
4.1.4 Sustainable development policies

At Valeo, sustainable development is built on four key axes – innovation, environmental eco-efficiency, employees and commitment to corporate citizenship – plus a range of associated policies.

Research and Development policy for safer, low-carbon mobility

A global Research and Development organization based on a platform structure and a global network of expertise and skills

GLOBAL RESEARCH AND DEVELOPMENT MAPPING IN 2020



Valeo's R&D is functionally and operationally structured around 20 research centers (fundamental research and advanced engineering) and 43 development centers (customer project launch teams). This organization is supported by the Group's significant gross Research and Development expenditure of 1,660 million euros in 2020, representing 10.1% of its sales.

Among its research centers, Valeo founded an artificial intelligence center in Paris in 2017, combining academic research and industrial development. It has also run a Technical Center for Mobility in San Mateo, California since 2016.

In 2020, Valeo's Research and Development teams managed a combined total of 2,911 projects, compared with 3,270 in 2019, a direct result of the global health crisis and the slowdown in activity on certain projects.

In addition to this functional organization, Valeo has structured its product organization into 12 key technological platforms. They allow products to be developed very quickly using a range of technological building blocks, including hardware and software. The resulting solutions are manufactured on a very large scale, which helps to reduce their cost, but with the flexibility necessary to adapt them to the wide range of needs of vehicle manufacturers. The result is that a single product, like a 48V motor for instance, can take several forms for multiple uses. The aim is to be able to serve several customers with the same platform, based on a high level of standardization – up to 85% for certain technologies.

The 12 new "platforms" break down as follows:

- five relating to vehicle electrification (48V machines, 48/12V converters, battery cooling systems, cabin thermal management, heat pumps);
- three from the Valeo Siemens eAutomotive joint venture for high-voltage (over 60V) electrical products (machine, inverter and chargers);
- four in the field of driving assistance (front cameras, driver monitoring systems, new generation Valeo SCALA® laser scanners and smart modules known as "PODs" combining sensors with their cooling and cleaning systems).

These technological platforms provide Valeo with a competitive edge by imposing high barriers to entry, and will allow the Group to sharply increase its average content per vehicle and deepen its resilience in a rapidly changing environment.

Lastly, at the global level, Valeo relies on a large network of researchers, engineers and technicians working in Research and Development, representing 18,480 people worldwide at the end of 2020, a significant proportion of whom are located in France (3,830).

Its global reach also builds on its own network of Experts, which has three levels: Expert, Senior Expert and Master Expert. It has a total of 1,373 Experts (products and production processes), an increase of 64% compared with the 835 registered when the network was created in 2014. It issues them with "research warrants" for periods of three years. They are tasked with defining best practices that will be incorporated into design standards and explaining them to newcomers. They are a driving force within the team, and are expected to spread their expertise throughout the network (see section 4.3.3 of this chapter, "Valeo's non-financial risks", paragraph "Risk related to developing and retaining talent", pages 244 to 247).

Solutions for safer, low-carbon mobility

Both the automotive world and mobility more broadly are undergoing a paradigm shift (see Integrated Report, “Environment in (r)evolution”, page 20).

Taking advantage of its technological positioning, Valeo aims to use its 12 platforms to meet the great demands placed on automotive mobility by positioning its products in line with the two major challenges of mobility in today’s world:

- CO_2 emissions reduction, where Valeo relies on its large portfolio of products and solutions for electrification, enabling it to cover all types of vehicles;
- road safety and accident reduction, a notion often referred to as "zero vision", where Valeo draws on its unique expertise in ADAS (advanced driver-assistance systems) and autonomous systems to increase the autonomy of the vehicle while providing safety to the driver and third-party road users.

Valeo also positions itself as an actor in the transformation of many uses of mobility, in particular urban mobility:

- in new mobility, with the emergence of various forms of micro-mobility (electric scooters, electric bikes, three-wheelers, etc.) in cities. This is one of Valeo’s key strategic focuses to accelerate its expansion in the small urban electric vehicle segment in emerging markets and in the electric bikes segment. The Valeo Smart e-Bike System is the first solution in the world to integrate both an electric motor and an adaptive automatic transmission in the pedal assembly. With this new electric assistance system, the bike adapts to the cyclist, and not the other way around. The gears change automatically and the algorithms instantly adapt to the amount of electric assistance the cyclist needs;
- in public transportation, where Valeo offers multiple solutions in the field of air conditioning systems for buses and coaches. Valeo’s innovations provide practical, efficient solutions, regardless of the weather, the size of the vehicle, its powertrain type, or the nature (whether urban, peri-urban or long-haul) and duration of its journey. Valeo has developed emission-free heating and air conditioning solutions, as well as roof air conditioning systems (especially electric), using a heat pump, for hybrid and electric buses;
- in last-mile delivery, with the joint development of electric and autonomous delivery vehicles (droids) in partnership with Meituan Dianping, China’s leading e-commerce service platform. The vehicle is powered by an all-electric 48V system, and can find its way all by itself thanks to its Valeo perception systems. It is perfectly suited to zero emission urban areas.

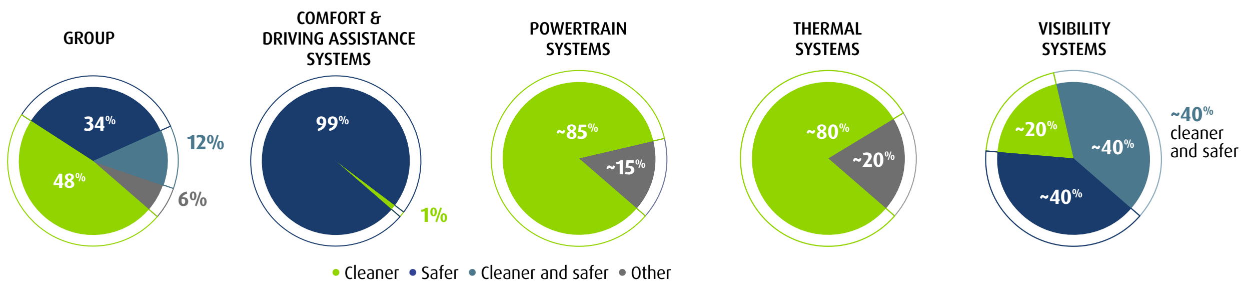
4

Value creation focused on CO_2 emissions reduction and safer mobility

Valeo has long specialized in designing systems that help reduce CO_2 emissions. In 2020, products that directly or indirectly contribute to reducing CO_2 emissions accordingly accounted for more than 60% of Valeo’s original equipment sales. Products contributing to safer mobility accounted for 46% of sales (see below for details by Business Group).

Greener and safer mobility is central to Valeo’s strategy

As a % of original equipment sales.



It is generally estimated that:

- one in three vehicles worldwide is fitted with a Valeo product that helps to reduce CO_2 emissions;
- nearly four in every ten new vehicles produced worldwide in 2022 will be fitted with mild hybrid electrical systems (up to 48V);
- two out of three vehicles equipped with high-voltage electrical systems launched by European automakers between 2019 and 2022 will be equipped with Valeo solutions;
- one in four vehicles produced worldwide is fitted with a Valeo ADAS.

More details on the contribution of Valeo’s products to the threefold revolution can be found in Chapter 1 (section 1.3.1 “Comfort & Driving Assistance Systems”, pages 53 to 56; section 1.3.2 “Powertrain Systems”, pages 57 to 59; section 1.3.3 “Thermal Systems”, pages 60 to 64; section 1.3.4 “Visibility Systems”, pages 65 to 68).

Environmental policy

For nearly 30 years, Valeo has demonstrated its commitment to limiting the impact of its activities on the environment. The Group sets out its commitments in its Environmental Charter, drawn up by the Health, Safety and Environment (HSE) Department. These commitments also appear, as follows, in the Valeo Sustainable Development Charter:

- ensure the compliance of its activities with applicable laws and international agreements;
- deploy the ISO 14001 environmental management system at all sites;
- improve the environmental performance of its processes;
- eliminate the use of substances that are hazardous to the environment or health;
- improve energy performance in line with ISO 50001;
- optimize the transportation of people and goods in order to reduce greenhouse gas emissions;
- limit the use of natural resources and promote the use of renewable resources and energy;
- increase purchases of low-carbon electricity.

Industrial mapping of Valeo sites

In 2020, Valeo saw the number of its production sites change, with groupings at the Changchun (China) and Jingzhou (China) sites and the opening of a new site in San Luis Potosi (Mexico) in the Thermal Systems Business Group, the opening of the Atsugi-Shi site (Japan), the closure of the Saitama site (Japan) in the Visibility Systems Business Group, and the opening of a second site in Rakovnik (Czech Republic) in the Comfort and Driving Assistance Systems Business Group. In 2020, Valeo had 187 production sites, including 151 industrial sites included in the reporting of Valeo Group indicators (see section 4.6.1 “Sustainable development reporting methodology”, page 287).

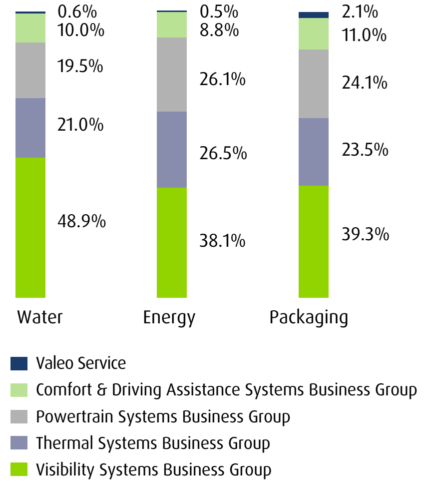
The mapping of the Group’s 151 industrial sites has been updated in the table below.

	Number of sites	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Valeo Service
Manufacturing	151	20	39	41	43	8
Assembly/installation	132	20	34	36	39	3
Processing	95	12	32	25	25	1
Injection molding	69	12	9	16	32	0
Heat treatment (ovens, furnaces)	95	14	28	21	32	0
Painting/varnishing	63	11	12	8	32	0
Welding	79	10	26	23	20	0
Use of vanishing oils (VOC-emitting*)	29	2	5	19	3	0
Degreasing (surface cleaning)	64	6	18	18	22	0
Surface treatment (altering the surface properties of a part)	47	4	9	12	22	0

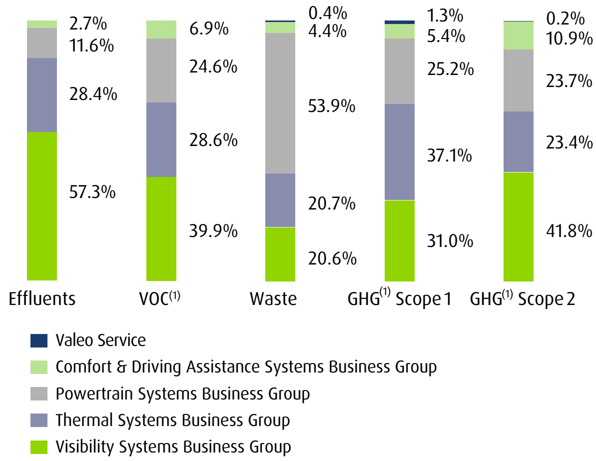
* *See sustainable development glossary, page 295.*

The Group's main consumption items and emissions by type of activity

Breakdown of resource consumption



Breakdown of emissions, discharges and waste



(1) *See sustainable development glossary, page 295.*

The charts above show that the Visibility Systems Business Group remains the largest consumer of resources (water, energy, packaging) and also the most liable to generate effluents and CO_2 emissions (Scope 2). They also show that the Powertrain Systems Business Group is the biggest producer of waste by weight.

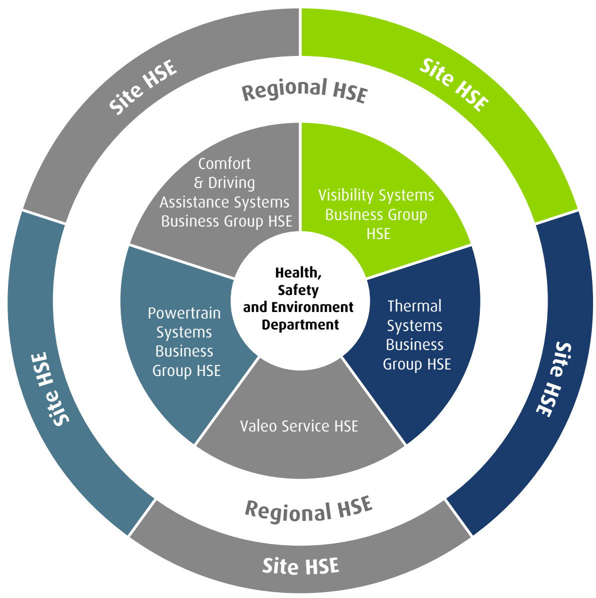
Under the impetus of the Sustainable Development Department and the Health, Safety and Environment (HSE) Department, the Group has drawn up a **new five-year plan for the period to 2025**, covering greenhouse gas (GHG)(1) emissions and resource consumption indicators. This plan is a step towards achieving carbon neutrality by 2050 (CAP50) (see section 4.2, paragraph "Valeo's sustainable development plan for 2025", page 221). Each of the Group's Business Groups will be autonomous as regards the human and material resources devoted to the work needed to achieve the new objectives set out in the five-year plan. The Group will hold quarterly steering committee meetings with all the Business Groups to monitor the initiatives taken as part of the carbon reduction plan.

Organization of the Health, Safety and Environment (HSE) network

The Health, Safety and Environment (HSE) Department develops policies for the health and safety of people. Its policies also cover environmental aspects as well as the security and safety of buildings and facilities, drawing on standards and tools to carry out its work. The rollout of these standards and tools is in turn based on **an organization broken down by Business Groups, regions and sites**: around 400 people are therefore responsible for meeting the commitments of the Group's environmental policy and achieving its goals, and are involved in the daily management of the Group's HSE challenges.

The Health, Safety and Environment (HSE) Department reports to the Industrial Department and works closely with the Human Resources Department.

The **HSE managers of the Business Groups** and Valeo Service aim to promote standards and best practices between the sites of their respective Business Group and to promote the implementation of operational directives and investment requests in order to reduce the environmental footprint.



(1) *See sustainable development glossary, page 295.*

Since 2018, the network's organization has been strengthened by the appointment of **HSE managers** in several **regions**. They each supervise a maximum of 15 sites to allow them to effectively relay messages, providing regular expertise and operational assistance to help provide better control of Group standards and tools.

At the beginning of 2020, in the midst of the Covid-19 health crisis, Valeo set up a **Health Committee** in each country, with the participation of an **HSE coordinator** to ensure the rollout and monitoring of the Reinforced Health Protocol at the country level, and to prepare our sites as much as possible for the onset and then management of the pandemic. The HSE network will endeavor to perpetuate this role of coordination as part of the Group's safety and environmental initiatives.

Lastly, **the Site HSE manager** is tasked with implementing Group standards in respect of workplace health and safety, environmental aspects, and the security and safety of buildings and facilities. HSE managers lead and coordinate existing management systems and train staff on compliance with internal and external requirements.

Demanding risk-control standards

The **Risk Management Manual contains** all of Valeo's standards (known as operational directives) with respect to the environment, workplace health and safety, and the safety and security of facilities.

The Risk Management Manual includes a specific chapter on **crisis prevention and emergency response plans.** Several years ago, Valeo established the Valeo Emergency and Recovery Management (VERM) system to assist in the design and implementation of emergency response, crisis management and business recovery plans. The tool establishes mandatory drills for on-site events such as fire, explosions, virus contamination and accidental pollution, leaving each site scope to identify other relevant scenarios such as earthquakes or floods.

Each site is then required to implement procedures, response sheets or lists of contacts to use in the event of a crisis, for each phase from triggering the alert to business recovery, including intervention and securing people and the site.

In 2020, it proved particularly useful in preparing all of our sites for the management of Covid-19 infections.

Environmental expenditure and investment

Operating expenses relating to the environment amounted to 17.4 million euros in 2020. They include the cost of waste treatment, analysis of effluents, operation of internal treatment plants and environmental studies. In addition to these expenses, 1.3 million euros was spent to clean up active sites.

In 2020, Valeo invested 6.0 million euros in environmental protection at its active sites. This includes the cost of installing air treatment systems, fitting retention tanks for better management of hazardous materials and creating waste storage areas.

Employee policy

This year, the Group's employee policy was characterized by the management of the pandemic. The Human Resources Department endeavored to meet the Group's two priorities, namely protecting the health of all employees and ensuring business continuity. It worked in two stages, with short-term and longer-term actions.

As soon as the crisis emerged in China, the Group established a strict and demanding health protocol. It enabled all sites to operate as normal, while ensuring maximum protection for all employees. The protocol was audited, mandatory, and applicable systematically and consistently at all Valeo sites worldwide, whether in plants, R&D centers or head offices.

At the height of the crisis, variabilization resulted in the termination of temporary contracts (fixed-term and temporary staff) and the introduction of short-time working measures at all sites. In countries where this was possible, Valeo obtained government aid to support short-time working.

From a longer-term perspective, each country conducted competitiveness agreement negotiations in order to preserve the competitiveness of the Group's activities locally, as well as employment. In France, Valeo signed a majority competitiveness and collective performance agreement with the CFE-CGC and FO trade unions. The Group has made a solid commitment to keep all sites open and to refrain from any mandatory redundancies in France over the next two years. The cost-saving measures agreed included a wage freeze, harmonization of retirement conditions and measures to optimize working hours.

The Human Resources Department's priorities are shown in the materiality matrix (see section 4.1.2 of this chapter "Sustainable development challenges and non-financial risks", pages 201 to 205). They form the foundations of the Group's actions in respect of:

- safety and working conditions;
- attracting and retaining talent;
- promoting diversity;
- respecting and promoting fundamental rights.

Based on these four priorities, the Group has identified **three main risks:**

- health and safety (see section 4.3.3 "Valeo's non-financial risks", paragraph "Health and safety risk", pages 238 to 241);
- attracting talent (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk related to attracting talent", pages 241 to 243);
- developing and retaining talent (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk related to developing and retaining talent", pages 244 to 247);

and **three forms of commitment**:

- quality of life at work (see section 4.5.4 "Employee-related commitments", paragraph "Quality of life at work", page 274);
- promoting diversity (see section 4.5.4 "Employee-related commitments", paragraph "Respecting and promoting diversity", page 275);
- respecting and promoting fundamental rights (see section 4.5.4 "Employee-related commitments", paragraph "Promoting and respecting fundamental rights", page 280).

Change in Valeo's headcount

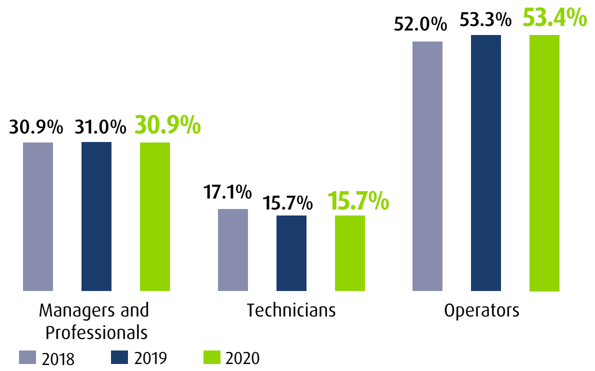
Change in the total headcount over three years

Headcount at December 31	2018	2019	2020	Change (2020/2019)
Managers and Professionals	31,683	32,013	30,562	-4.5%
Technicians(1)	17,542	16,203	15,488	-4.4%
Operators	53,211	55,202	52,818	-4.3%
Registered headcount(2)	**102,436**	**103,418**	**98,868**	**-4.4%**
Interim staff	11,164	11,282	11,432	1.3%
TOTAL HEADCOUNT	**113,600**	**114,700**	**110,300**	**-3.8%**
• of which:				
• Permanent staff	84,200	86,000	84,638	-1.6%
• Non-permanent staff (fixed-term and interim)	29,400	28,700	25,698	-10.5%
Average headcount(3)	**114,125**	**114,525**	**108,425**	**-5.3%**

(1) Employees on internships, Volontariat International en Entreprise (VIE) programs and combined work-study arrangements (apprenticeship or professional training contracts) are counted as technicians.
(2) The registered headcount corresponds to permanent and fixed-term employees.
(3) The average headcount is the sum of the Group's total headcount in each quarter divided by 4.

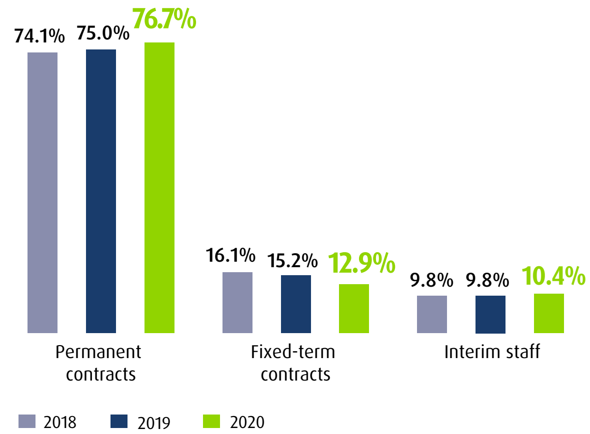
At December 31, 2020, Valeo had 110,300 employees, 3.8% fewer than in 2019.

Breakdown of registered headcount by socio-professional category



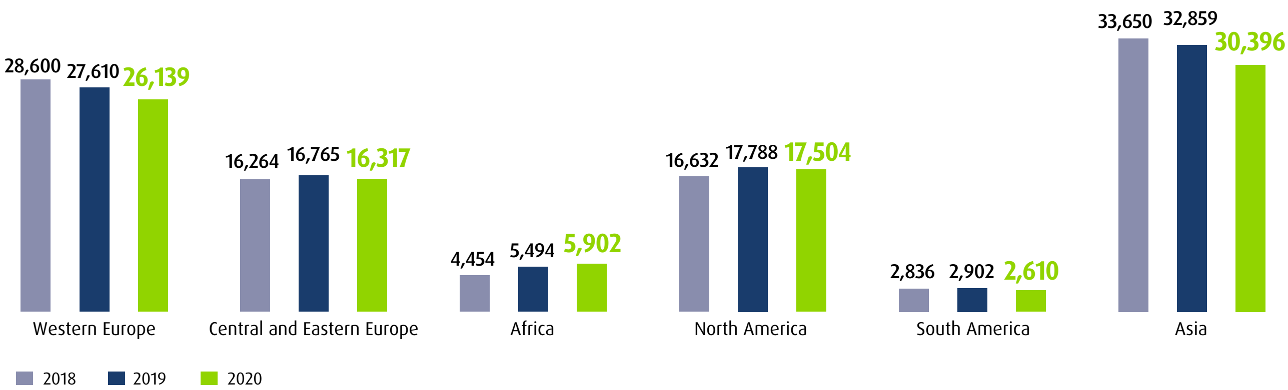
One of the major challenges for Valeo in 2020 was the variabilization of the workforce in the wake of the global pandemic and its economic consequences. While the Group's total headcount actually fell by 3.8% in 2020, the respective share of Managers and Professionals, technicians and operators in the registered headcount was stable. This illustrates the Group's strategy of avoiding mandatory redundancies.

Breakdown of registered headcount by contract type



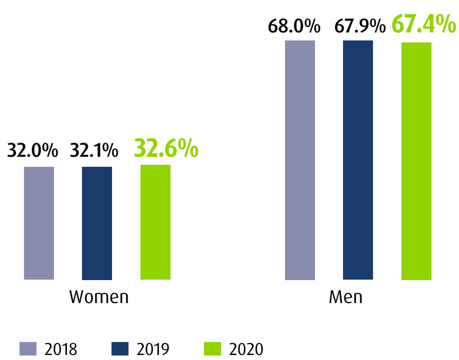
The automotive market is cyclical, and considerable flexibility is required to constantly adapt production capacity to fluctuating demand from customers around the world. That is why Valeo employed interim staff (fixed-term and interim contracts) representing 23.3% of its total workforce in December 2020. The rate was halved at the height of the crisis. The 2.3-point decline in fixed-term contracts is the direct consequence of cost variabilization measures. In a period of uncertain activity, the use of temporary contracts was preferable to the use of fixed-term contracts, which are less flexible. The proportion of permanent contracts in the total headcount increased by 1.7 points between 2019 and 2020. The increase is a direct result of the Group's decision not to carry out a large-scale redundancy plan, in particular thanks to the measures negotiated in competitiveness agreements at country level, including short-time working measures. The decline in voluntary turnover in this unstable economic environment also had a positive impact on permanent contracts.

Breakdown of registered headcount by geographic area



In the context of the global pandemic, all geographic areas, with the exception of Africa, saw a decline in headcount. It was most significant in South America (10%) and Asia (7%) due to the poor economic situation in these areas. Africa experienced slower growth in its headcount, with an increase of 23% between 2018 and 2019 compared to 7% between 2019 and 2020. Morocco (Visibility Systems Business Group) and Egypt both continued to grow.

Breakdown of registered headcount by gender



The proportion of women within the Group continues to increase, with a 0.5-point increase between 2019 and 2020. Despite the difficult economic climate, Valeo continues to set ambitious objectives in order to make progress in terms of diversity in the recruitment phase (see section 4.5.4 "Employee-related commitments", paragraph "Respecting and promoting diversity", page 275).

Strategy and organization

Human resources are central to Valeo's strategy, to support its positioning as a technological leader and its profitable growth.

Attracting and developing talent in an empowering environment based on strong values is a means of rising to the various current and future challenges.

In addition, the Human Resources Department defines and implements Corporate Social Responsibility and diversity objectives within a framework of quality social dialogue that strikes the best balance between financial requirements and employee satisfaction.

The Human Resources strategy is based on a comprehensive approach, taking into account specific cultural, economic and market conditions.

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

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

This "three pillars" model is being developed at each level of the organization: in the Group Human Resources Department, in each Business Group, in each country and in certain Product Families and Product Lines.

A second phase in the transformation of the Human Resources organization has been launched to establish "Valeo Employee Services", which centralizes and optimizes all personnel administration tasks for a single country, in particular those relating to the management of employment contracts and training. The transformation also involves the digitalization of human resources processes.

Social policy

Valeo's social policy is structured around two key challenges:

- sustainable development requirements with regard to suppliers;
- a commitment to ecosystems and local populations.

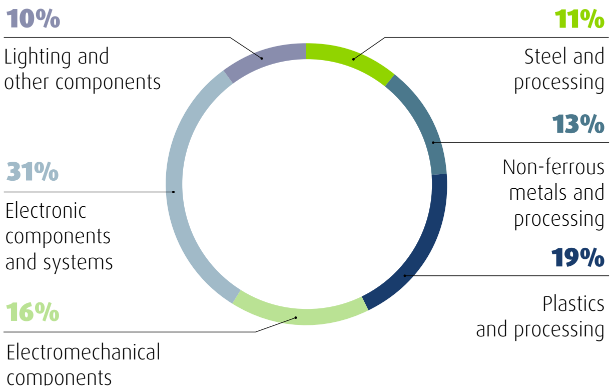
Sustainability requirements for Valeo's suppliers

The Valeo Group's main suppliers and purchases

KEY FIGURES IN 2020

- 1,137 suppliers account for 95% of the amount of direct purchases (manufacturing purchases);
- 540 suppliers are French;
- 50 suppliers account for 26% of the amount of indirect purchases (maintenance, subcontracting, travel, supplies, etc.).

Breakdown of purchases by commodity in 2020



The Group's purchases can be divided into six main components or systems, referred to as commodities: steel and processing, non-ferrous metals and processing, plastics and processing, electromechanical components, electronic components and systems, lighting components and other segments. Strategic decisions relating to these categories are centralized at Group level, where they are each managed by a designated Commodity Manager.

Directives for sustainability in the purchasing policy

Valeo's purchasing policy is built on three directives:

- quality and service, which aims to ensure optimal products, process and service quality;
- competitiveness, one of the key constraints in the automotive sector;
- innovation and advanced technology to support Valeo's strategic choices.

These three directives provide the framework for the goal of achieving sustainability in the purchasing policy, which involves:

- facilitating an understanding of the risks of a breakdown in the supply chain by taking into account a wider range of risk factors, known as sustainability factors (integrating the governance, social, environmental and fundamental rights dimensions, etc.);
- boosting suppliers' competitiveness by guiding them towards continuous improvement practices in terms of optimizing logistics and environmental costs, reducing energy costs, etc.;
- putting down deep roots in local ecosystems, applying a purchasing location policy at a regional level.

As part of Valeo's Carbon Neutrality Plan, the competitiveness of suppliers is being strengthened by paying greater attention to their ability to manage their overall carbon impact (sourcing, transformation, transport, end-of-life) and to set CO_2 emissions reduction targets for their own operations and those of their suppliers.

The first two aspects of the goal of promoting sustainability among Valeo's suppliers are discussed in section 4.3.3 of this chapter, "Valeo's non-financial risks", paragraph "Risk related to suppliers' sustainable development practices", pages 249 to 253. The purchasing location policy is discussed below.

Signing the Charter of Intercompany Relations

Following the initiative of the French Ministry of Economy and Finance aimed at improving relations between large order-givers and their suppliers (micro-enterprises and SMEs), Valeo signed the Charter of Intercompany Relations on January 10, 2012, now known as the Responsible Supplier Relationships Charter.

The aim is to build balanced long-term relationships between large corporations and their suppliers, with the parties acknowledging and respecting each other's rights and obligations.

The charter requires that each signatory appoint a supplier representative to act as an internal mediator to facilitate the settlement of any disputes with suppliers and to help develop healthy long-term relationships. The internal mediator was appointed on March 13, 2012.

Key initiatives in 2020

As in previous years, Valeo continued its in-depth assessment of its suppliers' work in the field of sustainable development, based on its annual self-assessment questionnaire on sustainable development choices, with a representative sample of suppliers covering 80% of the Group's production purchases in 2020.

2020 was also dedicated to the preparation of the Carbon Neutrality Plan and tools for aligning suppliers with Valeo's objective, particularly through supplier evaluations and audits. These tools were rolled out at the end of 2020.

A commitment to local ecosystems and their population

Valeo sites, actors in their regions

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

Valeo has a policy of encouraging its sites to take responsibility and to support local initiatives around the world. To achieve this, Valeo has set the following two guidelines for each site:

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

For two years, Valeo has encouraged the Group's sites to establish academic partnerships at all levels. In 2020, 77% of sites established partnerships with local universities and engineering schools, and nearly 50% with primary and secondary schools.

Promote the commitment of Valeo's sites worldwide

Each site organizes local plant initiatives that reflect locally identified needs and are consistent with their capacities. With the assistance of the Human Resources Departments and Research and Development managers, the site managers decide on actions that can be carried out to help the local population and employees. The Group offers avenues for thought, backed by examples of best practice circulated internally and evaluated through questionnaires.

At the end of each year, Valeo takes stock of the actions undertaken at its sites. The most effective and useful initiatives are showcased via internal and external communication channels to encourage other sites to support the same sort of actions. For example, articles from the ValeOnline Newscenter, emailed to Group employees, discuss some of the outstanding site initiatives. Valeo also highlights local plant engagement in publications, such as the Management Report, by explaining and developing the purpose and results of their initiatives. For the fourth year running, all sites organized at least one corporate citizenship initiative. These various initiatives seek to improve working conditions for Valeo employees while also having a positive impact on the region's local development.

Compliance Programs

Due to the Group's global footprint and its growing number of employees, the Ethics and Compliance Department continued in 2020 its work to extend and strengthen its various programs to fight corruption and anti-competitive practices, and to promote compliance with economic sanctions and export controls, and the protection of personal data (**the Compliance Programs**).

The Group's Compliance Programs are designed to prevent a number of risks associated with inappropriate behavior. They are run by General Management and the Ethics and Compliance Office, endorsed by all management teams, and relayed worldwide by Compliance Champions, Data Protection Champions and Data Protection Officers.

Designed in line with the highest international standards, including France's Sapin II law, the Foreign Corrupt Practices Act (FCPA) and the General Data Protection Regulation (GDPR), the Compliance Programs break down into different principles, policies, instructions, recommendations, tools and training modules.

They are based on a Code of Ethics and risk mapping, and a set of internal rules that:

- concretely and operationally reflect Valeo's determination to comply with regulations and prevent identified risks;
- describe prohibited practices and lay down conditions and prerequisites governing certain business relationships and cooperative arrangements;
- establish procedures for implementing and monitoring the effectiveness of the Compliance Programs; and
- help to prevent and detect risks, and implement corrective action plans as appropriate.

The Compliance Programs come with a range of awareness and training campaigns aimed at newcomers, as well as Managers and Professionals, along with those people identified as the most exposed.

Training courses, whether generic or targeted in light of a particular need or activity, are subject to rigorous and systematic monitoring by Group's Human Resources Department and the Ethics and Compliance Office, with mandatory catch-up sessions. Awareness-raising involves recurring and regular communication campaigns.

The Compliance Programs are rolled out globally by the Ethics and Compliance Office, with the support of Compliance Champions, Data Protection Champions and Data Protection Officers, who are experienced executives known and acknowledged by their peers and their teams. Drawing on their detailed knowledge of the specificities of their network, country, Business Group or Activity, they help relay the entire program to their teams, and guide employees on these challenges, thereby contributing actively to its implementation at all levels of the organization.

This systematic and rigorous approach applies to the risks that Valeo, as an international group, is liable to encounter in the course of its operations.

In 2020, particular attention was paid to international economic sanctions, the fight against corruption, and the protection of personal data once again.

International economic sanctions were carefully monitored, and the relevant compliance programs were adjusted as necessary. Updates were rolled out with the support of the Operations Committee and the Compliance Champions as part of a regular communication and awareness campaign.

The possibility of developing business relationships with potential partners (customers, suppliers, etc.) located in or having links with countries targeted by international sanctions programs must be specifically authorized by a dedicated committee after a detailed analysis of the transactions has taken place.

The **Anti-Corruption Program** has been developed further in light of the recommendations of the French Anti-Corruption Agency. As such, the mapping of corruption risks broken down by country, function, and Business Group or Activity is regularly updated to take into account the risks identified in the Group's various operations, and by means of the whistleblowing mechanism and the various controls carried out by Internal Audit and Internal Control.

Furthermore, as fair trade practices, mutual respect and integrity between partners, customers, suppliers and other stakeholders are the foundations of long-term, successful and mutually-beneficial relationships, the rules are reflected in the Valeo Business Partner Code of Conduct. A free training program is also available to Valeo business partners. The Group is rigorous in its selection of third parties liable to represent it, with a view to forming honest and lasting partnerships, and meeting its obligations as regards both the fight against corruption and respect for international economic sanctions.

In 2020, the whistleblowing line set up in 2013 was replaced by a more user-friendly **Whistleblowing System**, accessible via a dedicated and secure platform, available free of charge 24/7, which allows employees and stakeholders to issue detailed, confidential and documented alerts by completing a predefined questionnaire in the language of their choice. The system is supplied by Valeo through a European service provider operating in Europe.

The new System is accessible on PC, smartphone or tablet, via a link or a QR code. It has been rolled out on a large scale across all Group sites and on valeo.com.

The **protection of personal data** has become a global issue and is subject to specific regulations in virtually all of the countries in which Valeo does business. The Data Protection Program, initially developed in accordance with the General Data Protection Regulation (GDPR), has accordingly been redesigned to meet international standards. It is now based on the Valeo Data Protection Principles (VDPPs), applicable worldwide, and specific principles that take local regulations into account.

The program was rolled out through a global communication and awareness campaign in 2020. In addition, in the current health situation, Valeo's Covid-19 protocol has been equipped with a very strict personal data protection system.

4.1.5 Risks and opportunities related to climate change (TCFD)

Valeo presents the following summary of its governance, analysis, risk management and indicator monitoring activities related to the fight against climate change, and is compliant with the recommendations issued by the Task Force on Climate-related Financial Disclosures (TCFD).

CLIMATE CHANGE: VALEO'S RESILIENT BUSINESS MODEL AND RISK MANAGEMENT SYSTEM

In the face of climate change, its consequences on human and economic activity, and high levels of local pollution, councils and national governments are tightening their environmental regulations. These factors, as well as the quickening pace of social and technological change, have prompted profound technological renewal and change in business models across the automotive sector.

In response to this transformation and as an industrial and technological player in the electric mobility market, Valeo has established a business model and risk management system that are consistent with the long-term objectives of progressive carbon neutrality for the mobility and transportation sector. Its business model and risk management are also in line with international methodology guidelines for addressing climate change risks[(1)], in particular the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)[(2)]. The use of this framework for the publication of financial and non-financial information is expected to increase in the coming years, in line with changes in the TCFD recommendations[(3)].

1. Governance: an integral part of its governance, General Management and the Board of Directors are responsible for the Group's strategic positioning and risk management. Risk strategy and assessment is reviewed by the Governance, Appointments & Corporate Social Responsibility Committee and the Board of Directors. From this year, Valeo will take into account CO_2 emissions reduction and sustainable development criteria when determining the variable compensation of more than 1,500 senior executives (see Chapter 3, "Corporate Governance", page 101).

2. Strategy: anticipating these transformations in the automotive sector, Valeo has built a strategy in step with the gradual electrification of mobility, which incorporates transition risks and opportunities. Valeo has also adapted its production facilities to meet the requirements of reducing its carbon footprint and in response to the consequences of climate change (physical risks):

- Valeo's strategic decision to contribute to the transition to sustainable mobility has resulted in the progressive creation of a comprehensive technological portfolio of electrification solutions for all types of vehicles – from small urban vehicles to trucks, buses and other large vehicles. This choice, validated by automaker customers, is consistent with environmental regulations for vehicles worldwide (see section 4.3.3 "Risk of non-compliance with environmental product regulations", pages 229 to 235). In 2020, products that directly or indirectly contribute to reducing CO_2 emissions accounted for 60% of Valeo's original equipment sales;
- the potential consequences of climate change are taken into account in the management of risks relating to industrial operations and processes (see section 2.1.1 "Risks related to changes in the technological environment", page 83).

  Valeo's strategic choices and the diversity of its technological offer make its business model resilient to the varying pace of transition to low-carbon mobility. Valeo estimates that the automotive and new mobility markets will represent an addressable market of more than 130 billion euros in 2030 (see Integrated Report, "An environment in (r)evolution", page 20).

3. The management of risks: linked to the consequences of climate change, risk management is based on an analysis of financial, operational strategic and non-financial risks, which are reviewed and reassessed regularly. The internal risk management actions and tools are described annually (see Chapter 2, "Risks and Risk Management", page 81; Chapter 4, "Non-financial Information Statement", page 226), and reviewed and validated by the Risk Committee and the appropriate committee of the Board of Directors.

4. Objectives and indicators: the risk management, business model resilience (mainly the proportion of sales derived from products contributing to the reduction of CO_2 emissions) and CO_2 emissions indicators are presented annually (see section 4.2, "Non-financial performance objectives and indicators", page 219). In 2020, Valeo presented a Carbon Neutrality Plan for 2050, covering its entire value chain (including its suppliers, operational activities and products). Annual objectives and monitoring of their achievement were established in 2020, with indicators to be published each year from 2021 (see section 4.1.3 "Valeo's Carbon Neutrality Plan for 2050", page 206).

The methodological tools for modeling CO_2 emissions linked to the use of products have been reviewed as part of Valeo's Carbon Neutrality Plan. The methodology is presented in section 4.3.3 "CO_2 emissions related to the use of Valeo products (Scope 3)", page 230.

(1) In particular, the CDP questionnaire on climate change, assessing the transparency and sustainable development performance of enterprises, organizations and other bodies, which has developed one of the leading methodologies for monitoring risks and opportunities related to climate change.

(2) The TCFD is an international working group bringing together experts from major business sectors, banks and rating agencies, which has proposed a methodological framework for reporting risks and opportunities related to climate change. It was established at the initiative of the Financial Stability Board. Established as a forum in 1999 at the initiative of the G7, the Financial Stability Board (FSB) was institutionalized by the G20 heads of state and government at the 2009 London Summit. Its main purpose is to strengthen the international coordination of financial regulatory reform. To that end, the FSB monitors the implementation of reforms, notably through mutual assessments, by promoting cooperation between authorities and assessing financial sector vulnerabilities, including vulnerabilities to climate change.

(3) The TCFD regularly updates and extends the use of its initial guidelines (https://www.fsb-tcfd.org/wp-content/uploads/2019/06/2019-TCFD-Status-Report-FINAL-053119.pdf).

4.2 NON-FINANCIAL PERFORMANCE OBJECTIVES AND INDICATORS

Objectives and measurement of the Group's overall sustainable development performance (2015-2020)

Building on the commitments described above, Valeo's sustainable development policy is built on four key priorities, the achievements of which are described in this chapter:

- innovation;
- environmental eco-efficiency of solutions and products;
- employees;
- commitment to corporate citizenship.

These objectives are backed by tools for measuring performance in terms of labor-related, environmental and social responsibility, as well as compliance with competition law and the fight against corporate corruption.

Measuring progress involves identifying a major challenge for each theme, and evaluating the achievement of the associated targets through one or more key performance indicators. The following performance chart sets out the Group's main objectives and key performance indicators.

The objectives, which reflect the Group's priorities, have been formalized in a collaborative approach in partnership with the departments concerned and in line with the results of the materiality analysis.

Performance chart showing the key objectives and performance indicators of the Group's sustainable development policy

AXES	CHALLENGES	KEY INDICATORS	2015 RESULTS	2016 RESULTS	2017 RESULTS	2018 RESULTS	2019 RESULTS	2020 RESULTS	TARGETS (2020)	REFERENCE SECTIONS
INNOVATION	Low-carbon mobility solutions/ Autonomous and connected vehicle	• Share of innovative products in order intake *(% of order intake)*	37%	50%	50%	53%	47%(1)	56%(1)	>40%	1.5.6 Page 79
		• Share of products contributing to the reduction of CO_2 emissions *(as a % of sales)*	N/A	50%	50%	50%	57%	60%	N/A	4.1.4 Page 209
ENVIRONMENTAL ECO-EFFICIENCY	Energy and carbon efficiency of production	• Energy consumption as a proportion of sales *(MWh/€m)* and change vs. 2015 *(%)*	143	137 -4%	134 -6%	140 -2%	142 -1%	163 +14%	132 -8%	4.5.3 Page 269
		• Direct (Scope 1) and indirect (Scope 2) emissions as a proportion of sales *(tCO_2/€m)* and change vs. 2015 *(%)*	56.3	56.6 +1%	55.6 -1%	59.2 +5%	57.6 +2%	42, 1(2) -25%	51.8 -8%	4.5.3 Page 270
		• ISO 50001 energy management certification *(% of sites)*	8%	12%	13%	17%	18%	20%	20%	4.5.3 Page 263
	Discharges and waste	• Production of hazardous and non-hazardous waste as a proportion of sales *(t/€m)* and change vs. 2015 *(%)*	16.4	17 +4%	16.6 +1%	16.2 -1%	16.4 –%	17.4 +6%	15.6 -5%	4.3.3 Page 238
	Water	• Water consumption as a proportion of sales *(cu.m/€m)* and change vs. 2015 *(%)*	198	184 -7%	175 -12%	210 +6%	197 -1%	213 +8%	186 -6%	4.5.3 Page 265
EMPLOYEES	Safety and working conditions	• FR1: frequency rate of occupational accidents with lost time (accidents with lost time/ million hours worked)	2.4	2.3	2	2.1	1.9	1.4	<2	4.3.3 Page 240
	Attracting and retaining talent	• Voluntary turnover of Managers and Professionals *(% of M&P workforce)*	6.7%	7.0%	7.3%	8.5%	8.0%	6.2%	≤7%	4.3.3 Page 247
	Promoting and respecting fundamental rights	• Share of employees who acknowledged receipt of the Code of Ethics and were trained on its content *(% of the registered headcount)*	N/A	95%	95%	99%	99.8%	99.0%	100.0%	4.3.3 Page 248
	Promoting diversity	• Share of women in new hires during the year *(% of hires during the year)*	32.4%	31.2%	32.0%	33.0%	34.9%	39.0%	35.0%(3)	4.5.4 Page 276
COMMITMENT TO CORPORATE CITIZENSHIP	Purchasing and sustainable development	• Share of production purchases for which the suppliers' sustainable development practices were assessed during the year *(% of total purchases)*	60%	63%	67%	77%	80%	80%	80%	4.3.3 Page 250
	Local integration	• Organization of initiatives and events by the Valeo sites with educational and vocational training institutions *(% of sites)*	N/A	N/A	48%	61%	68%	70%	80%	4.5.5 Page 283

(1) From 2019, the calculation takes into account Valeo Siemens eAutomotive.

(2) From 2020, to improve the accuracy of its Scope 2 emissions data, Valeo published them using the so-called "market-based" method, defined by the GHG Protocol (see sustainable development glossary, page 295).

(3) In 2018, Valeo achieved its 2020 objective, set in 2017, of ≥33%. The Group has accordingly decided to raise its "Promoting diversity" target with a more ambitious goal for 2020.

With respect to "environmental eco-efficiency", the Group reduced its direct CO_2 emissions by 25% compared with 2015, exceeding its initial 8% reduction objective, and achieved its objective of having 20% of sites ISO 50001 certified. The Group was not able to meet the objectives set for the other key indicators set out in the above table. While some indicators fell in absolute terms, their value as a proportion of sales did not follow the same trend due to the difficulty in variabilizing them, despite the slowdown in activity in 2020 (e.g., energy consumption is hard to reduce, and therefore remained stable).

While some indicators fell in absolute terms, their value as a proportion of sales did not follow the same trend due to the difficulty in variabilizing them, despite the slowdown in activity in 2020 (e.g., energy consumption is hard to reduce, and therefore remained stable).

Regarding "Employees", the Group met its objectives with respect to safety at work and attracting and retaining talent, and exceeded its objective in relation to promoting diversity.

For 2025, the Group has set itself ever more ambitious objectives, as set out in the table below.

2025 sustainable development plan

Following a review of the actions and outcomes of the 2016-2020 five-year plan, Valeo has set new sustainable development objectives for 2025, in line with its innovation, environmental eco-efficiency and commitment to labor and corporate citizenship axes. As 2020 was not a year of normal business for the Group, Valeo has chosen to use 2019 as the reference year for its new 2021-2025 five-year plan, rather than 2020.

The 2025 environmental objectives are aligned with the CO_2 emissions reduction trajectories for 2030 and 2050, in line with Valeo's Carbon Neutrality Plan announced on February 4, 2021 and described in 4.1.3 "Valeo's Carbon Neutrality Plan for 2050". As part of its Carbon Neutrality Plan and its intermediate target for 2030, Valeo discloses its annual emissions readings in absolute terms (in line with the target set in the SBTi commitment for 2030). Under the previous plan, the indicators were broken down by intensity (tCO_2/€m); for reasons of transparency and readability of information, these indicators have continued to be monitored.

AXES	CHALLENGES	KEY INDICATORS	2019 RESULTS(1)	2020 RESULTS	2021 OBJECTIVES	2025 OBJECTIVES	REFERENCE SECTIONS
INNOVATION	Carbon Neutrality Plan and Low-Carbon Mobility Solutions	• CO_2 emissions reduction across all operating activities, suppliers and the end use of its products (Scopes 1, 2 and 3) *(in $MtCO_2$)*	49.6	39.7	48.1	45.1	4.3.3 page 230 4.5.3 pages 268 to 272
		• Share of products contributing to the reduction of CO_2 emissions *(as a % of sales)*	57%	60%	>50%	>50%	4.1.4 page 209
ENVIRONMENTAL ECO-EFFICIENCY	Energy and carbon efficiency of production	• Energy consumption as a proportion of sales *(MWh/€m)* and change vs. 2019 (%)	142	163 +15%	140 -1%	134 -6%	4.5.3 page 269
		• Direct (Scope 1) and indirect (Scope 2) emissions as a proportion of sales *(tCO_2/€m)* and change vs. 2019 *(%)*	57.6	42.1(2) -27%	50 -13%	42 -31%	4.5.3 page 270
		• ISO 50001 energy management certification *(% of sites)*	18%	20%	23%	40%	4.5.3 page 263
	Discharges and waste	• Production of hazardous and non-hazardous waste as a proportion of sales *(t/€m)* and change vs. 2019 *(%)*	16.4	17.4 6%	16.0 -2%	15.0 -9%	4.3.3 page 238
	Water	• Water consumption as a proportion of sales *(cu.m/€m)* and change vs. 2019 *(%)*	197	213 8%	193 -2%	185 -6%	4.5.3 page 265
EMPLOYEES	Health and safety	• Accident frequency rate 1 (FR1): number of accidents with lost time per million hours worked	1.9	1.4	<1.9	<1.7	4.3.3 page 240
	Promoting diversity	• Gender equality index	82.0	82.6	85	90	4.5.4 page 276
	Skills	• Number of hours of technical training *(in thousands of hours)*	230	232	250	300	4.3.3 page 244
	Quality of life at work	• Rate of compliance with the "Building a well-being environment" roadmap(3)	61%	65%	70%	75%	4.5.4 page 275
COMMITMENT TO CORPORATE CITIZENSHIP	Purchasing and sustainable development	• Share of production purchases for which the suppliers' sustainable development practices were assessed during the year *(% of total purchases)*	80%	80%	81%	82%	4.3.3 page 250
	Local integration	• Organization of initiatives and events by the Valeo sites with educational and vocational training institutions *(% of sites)*	68%	70%	77%	85%	4.5.5 page 282
	Local communities	• Share of sites participating in the "One Plant, One Initiative" program	50%	55%	66%	100%	N/A

(1) 2019 is the reference year under the new 2020-2025 plan.
(2) From 2020, to improve the accuracy of its Scope 2 emissions data, Valeo published them using the so-called "market-based" method, defined by the GHG Protocol (see sustainable development glossary, page 295).
(3) To monitor progress on this roadmap, action plans are defined and audited by Valeo's internal auditors each year.

Non-financial performance indicators

Technological indicators

	Section	Unit	2018	2019	2020
KEY RESEARCH AND DEVELOPMENT INDICATORS					
Gross Research and Development expenditure *(as a % of sales)*	4.1.4		10.6%	10.5%	10.1%
Net Research and Development expenditure *(as a % of sales)*	4.1.4		8.2%	8.0%	10.3%
Research and Development headcount	4.1.4		19,800	19,900	18,480
Number of customer projects managed	4.1.4		3,000	3,270	2,911
Number of collaborative projects funded	4.5.2		>50	>50	>50
Number of patents filed	4.5.2		2,144	1,698	1,174
Proportion of innovative products(2) in the order intake	1.5.6		53%	47%	56%
RESOURCE AND ECO-DESIGN INDICATORS(3)					
Sales (reference)		*€k*	17,661	18,749	14,991
Consumption of heavy metals	4.3.3	*t*	9.8	11.5	3.8
Consumption of heavy metals/sales	4.3.3	*kg/€m*	0.6	0.6	0.3
Consumption of chlorinated solvents	4.5.3	*t*	114.0	1.04	0.0
Consumption of chlorinated solvents/sales	4.5.3	*kg/€m*	6.0	0.05	0.0
Consumption of CMR substances(4)	4.3.3	*t*	130.0	140.6	118.0
Consumption of CMR substances(4)/sales	4.3.3	*kg/€m*	7.4	7.5	7.9
Consumption of recycled plastics	4.5.3	*kt*	12.3	9.0	3.5

(1) Excluding the Top Column Module (TCM) business.
(2) Products and technologies in series production for less than three years, excluding Valeo Siemens eAutomotive, FTE automotive and Valeo-Kapec.
(3) Sales calculated for the period from October 1 of the prior year to September 30 of the year under review, as specified in the methodological note on pages 287 to 288.
(4) See sustainable development glossary, page 295.

Environmental indicators

	Section	Unit	2018	2019	2020
INDUSTRIAL MAPPING OF VALEO SITES(1)					
Total sales across all sites in reporting scope(2)	4.1.4	*€m*	17,661	18,749	14,991
Number of sites in reporting scope	4.1.4	-	140	153	151
GENERAL POLICY ON ENVIRONMENTAL ISSUES					
Number of sites able to obtain ISO 14001 and OHSAS 18001/ ISO 45001 certification	4.5.3	-	140	153	151
ISO 14001-certified sites	4.5.3	*%*	92	87	100
OHSAS 18001/ISO 45001-certified sites	4.5.3	*%*	91	85	92
ISO 50001-certified sites	4.5.3	*%*	17	18	20
Functional expenditure allocated to environment	4.1.4	*€k*	21,022	22,756	17,438
Cleanup costs, sites in operation	4.1.4	*€k*	1,717	1,434	1,310
Amount of investments for the protection of the environment (excluding cleanup costs)	4.1.4	*€k*	5,843	6,469	5,986
Number of fines and compensation awards	4.2	*0*	1	1	7
Amount of fines and compensation awards	4.2	*€k*	63	44	24(3)
Total provisions allocated to environmental risks	4.2	*€m*	15	14	13(4)
Number of environmental complaints	4.2	-	12	4	11

(1) Data may vary slightly depending on the rate of site response on specific indicators (see section 4.6.1 "Sustainable development reporting methodology", pages 287 to 289).
(2) Sales calculated for the period from October 1 of the prior year to September 30 of the year under review, as specified in the methodological note on pages 287 to 289.
(3) Fine for prolonged storage of hazardous waste on site.
(4) Total environmental provisions at December 31, 2020.

	Section	Unit	2018	2019	2020
ACCIDENTAL POLLUTION OF WATER AND/OR SOIL					
Volume of industrial effluents treated	4.3.3	*kcu.m*	916	869	636
Heavy metal content in these effluents	4.3.3	*kg*	53	56	26
Number of significant spills	4.3.3	-	0	1	2
Total waste generated	4.3.3	*kt*	275.8	306.1	258.8
• of which hazardous waste	4.3.3	*%*	9	10	10
• of which non-hazardous waste	4.3.3	*%*	91	90	90
Total waste generated/sales	4.3.3	*t/€m*	16.2	16.4	17.4
Waste recovery rate	4.3.3	*%*	91	89	90
Total waste exported	4.3.3	*t*	2,464	2,207	1,434
Ratio of total waste exported/total waste generated	4.3.3	*%*	0.9	0.7	0.6
WATER MANAGEMENT					
Total water consumption	4.5.3	*kcu.m*	3,711	3,698	3,275
Total water consumption/sales	4.5.3	*cu.m/€m*	210	197	213
Water outages and restrictions	4.5.3	-	1	3	1
ATMOSPHERIC EMISSIONS AND DISCHARGES					
Atmospheric lead emissions	4.5.3	*kg*	36	224	77
Atmospheric lead emissions/sales	4.5.3	*g/€m*	2.04	11.94	5
Atmospheric TCE emissions	4.5.3	*t*	1.8	0.7	0
Atmospheric TCE emissions/sales	4.5.3	*kg/€m*	0	0.03	0
Quantity of ozone-depleting substances used	4.5.3	*kg*	27,793	18,092	14,627
Emissions of ozone-depleting substances	4.5.3	*kg CFC-11*	469	136	295
Atmospheric VOC emissions(5)	4.5.3	*t*	2,174	1,905	1,973
Atmospheric VOC emissions(5)/sales	4.5.3	*kg/€m*	123	103	132
Atmospheric NO_x emissions	4.5.3	*t*	139	146	139
Atmospheric NO_x emissions/sales	4.5.3	*kg/€m*	7.9	7.81	9.29
REDUCING ENERGY CONSUMPTION AND GREENHOUSE GAS EMISSIONS					
Total energy consumption	4.5.3	*GWh*	2,476	2,657	2,455
• Proportion of electricity	4.5.3	*%*	76.6	76.8	76.3
• Proportion of natural gas	4.5.3	*%*	20.3	21.2	21.3
• Proportion of fuel oil	4.5.3	*%*	1.8	1.1	1.4
• Proportion of other energy sources	4.5.3	*%*	1.4	0.9	1.0
Total energy consumption/sales	4.5.3	*MWh/€m*	140	142	163
Direct energy consumption/sales	4.5.3	*MWh/€m*	32	32	37
Indirect energy consumption/sales	4.5.3	*MWh/€m*	108	110	126
Energy efficiency: expected gain	4.5.3	*MWh*	27,031	23,833	11,891
Direct greenhouse gas (GHG) emissions(5)	4.5.3	*ktCO_2eq.*	175.3	186.9	170.6
Indirect GHG emissions(5)(6)	4.5.3	*ktCO_2eq.*	870.5	954.5(6)	888.9(6)
Indirect GHG emissions with guarantee of origin(5)(7)	4.5.3	*ktCO_2eq.*	870.5	892.2(7)	460.1(7)
Other relevant indirect GHG emissions(5)	4.5.3	*ktCO_2eq.*	9,329	9,696	8,521
PACKAGING					
Packaging materials consumption		*kt*	100.6	94.2	81.5
• Proportion of plastic packaging	4.5.3	*%*	12.5	14.3	16.0
• Proportion of cardboard packaging	4.5.3	*%*	56	54.1	54.8
• Proportion of wood packaging	4.5.3	*%*	29.6	30	27.3
• Proportion of other types of packaging		*%*	1.9	1.7	1.9
Packaging materials consumption/sales		*t/€m*	5.7	5.1	5.4

(5) See sustainable development glossary, page 295.
(6) Data on indirect greenhouse gas emissions: this calculation does not take into account purchases of low-carbon energy with guarantee of origin.
(7) Data on indirect greenhouse gas emissions: this calculation includes the adjustment of the energy mix for purchases of decarbonized energy with guarantee of origin (use of residual emission factors), using the so-called "market-based" method, defined by the GHG Protocol (see sustainable development glossary, page 295).

Employee-related indicators

	Section	2018	2019	2020
CHANGE IN VALEO'S HEADCOUNT				
Managers and Professionals	4.1.4	31,683	32,013	30,562
Technicians[(1)]	4.1.4	17,542	16,203	15,488
Operators	4.1.4	53,211	55,202	52,818
Registered headcount[(2)]	**4.1.4**	**102,436**	**103,418**	**98,868**
Interim staff		11,164	11,282	11,432
Total headcount	**4.1.4**	**113,600**	**114,700**	**110,300**
Permanent staff		84,200	86,000	84,638
Non-permanent staff		29,400	28,700	25,698
Average headcount[(3)]	**4.1.4**	**114,125**	**114,525**	**108,425**
Breakdown of registered headcount by socio-professional category *(%)*	**4.1.4**			
• Managers and Professionals		30.9%	31.0%	30.9%
• Technicians[(1)]		17.1%	15.7%	15.7%
• Operators		52.0%	53.3%	53.4%
Breakdown of registered headcount by contract type *(%)*	**4.1.4**			
• Permanent contracts		74.1%	74.9%	76.7%
• Fixed-term contracts		16.1%	15.2%	12.9%
• Interim staff		9.8%	9.9%	10.4%
Breakdown of registered headcount by geographic area	**4.1.4**			
• Western Europe		28,600	27,610	26,139
• Central and Eastern Europe		16,264	16,765	16,317
• Africa		4,454	5,494	5,902
• North America		16,632	17,788	17,504
• South America		2,836	2,902	2,610
• Asia		33,650	32,859	30,396
Breakdown of registered headcount by gender *(%)*	**4.1.4**			
• Women		32.0%	32.1%	32.6%
• Men		68.0%	67.9%	67.4%
HEALTH AND SAFETY				
Number of lost-time occupational accidents per million hours worked, Group (FR1)	4.3.3	2.1	1.9	1.4
Number of occupational accidents, with or without lost time, per million hours worked, Group (FR2)	4.3.3	12.1	8.3	3.4
Number of days lost owing to an occupational accident per thousand hours worked, Group (SR1)	4.3.3	0.06	0.07	0.04
Number of category 1 accidents	4.3.3	5	4	3
Absenteeism rate	4.3.3	2.36%	2.50%	2.86%
ATTRACTING TALENT				
Breakdown of new hires by contract type *(%)*	**4.3.3**			
• Permanent contracts		49.2%	51.4%	40.1%
• Fixed-term contracts		50.8%	48.6%	59.9%
Breakdown of new hires by geographic area[(4)] *(%)*	**4.3.3**			
• Western Europe		27.1%	19.1%	22.3%
• Central and Eastern Europe		11.8%	12.5%	14.1%
• Africa		4.5%	10.0%	6.2%

(1) *Employees on internships,* Volontariat International en Entreprise (VIE) *programs and combined work-study arrangements (apprenticeship or professional training contracts) are counted as technicians.*
(2) *The registered headcount corresponds to permanent and fixed-term employees.*
(3) *The average headcount is the sum of the Group's total headcount in each quarter divided by 4.*
(4) *Hires resulting from external growth operations are not included in this calculation.*

	Section	2018	2019	2020
• North America		27.4%	36.4%	34.4%
• South America		2.0%	2.1%	2.1%
• Asia		27.2%	19.9%	20.9%
Change in the number of LinkedIn followers		504,497	631,000	783,000
DEVELOPING AND RETAINING TALENT				
Percentage of employees trained	4.3.3	98.5%	95.1%	83.1%
Number of training hours provided	4.3.3	2,403,014	2,424,533	1,772,368
Average hours of training per employee	4.3.3	24.6	23.4	17.9
Percentage of training hours devoted to safety	4.3.3	15%	15%	17%
Percentage of employee shareholders at Valeo	4.3.3	45%	50%	50%
Breakdown of departures by cause	**4.3.3**			
• Resignations		9,190	9,412	7,091
• Expiration of fixed-term contracts		10,550	10,452	10,152
• Dismissals and contract terminations		4,191	5,126	5,362
• Retirement, early retirement and death		692	589	798
• Layoffs		697	535	1,716
Turnover of Managers and Professionals		8.5%	8.0%	6.2%
RESPECTING AND PROMOTING DIVERSITY				
Percentage of women among new hires *(%)*	**4.5.4**			
• Managers and Professionals		26.0%	26.0%	26.0%
• Technicians		32.8%	32.8%	29.0%
• Operators		36.2%	38.1%	42.0%
Percentage of women among new hires		33.0%	34.9%	39.0%
Breakdown of women by socio-professional category *(%)*	**4.5.4**			
• Managers and Professionals		22.7%	23.1%	23.1%
• Technicians		24.5%	24.6%	23.8%
• Operators		38.5%	40.2%	40.0%
Proportion of employees with disabilities worldwide (direct employment)		2.3%	2.1%	1.8%
Breakdown of sites run by local directors *(%)*	**4.5.4**			
• Western Europe		77%	78%	78%
• Central and Eastern Europe		76%	75%	81%
• Africa		75%	67%	89%
• North America		71%	64%	76%
• South America		67%	80%	80%
• Asia		83%	82%	94%
Breakdown of registered headcount by age group *(%)*	**4.5.4**			
• <20 years		1.1%	1.1%	1.0%
• 20-29 years		29.2%	27.6%	25.6%
• 30-39 years		34.0%	34.3%	34.5%
• 40-49 years		21.5%	22.2%	23.4%
• 50-59 years		12.1%	12.6%	13.3%
• >60 years		2.0%	2.2%	2.2%
Number of interns		1,651	1,793	1,192
Number of apprentices		1,223	1,017	1,117
Number of VIE *(Volontariat international en entreprise)* applicants		108	76	47

(1) Employees on internships, Volontariat International en Entreprise *(VIE) programs and combined work-study arrangements (apprenticeship or professional training contracts) are counted as technicians.*
(2) The registered headcount corresponds to permanent and fixed-term employees.
(3) The average headcount is the sum of the Group's total headcount in each quarter divided by 4.
(4) Hires resulting from external growth operations are not included in this calculation.

Social indicators

Indicators	Section	2018	2019	2020
Percentage of sites that organized open days		26%	32%	–%
Share of sites partnering with local elementary/secondary schools	4.5.5	61%	58%	45%
Share of sites partnering with local universities/engineering schools in 2020	4.5.5	82%	79%	77%
Share of production purchases for which the suppliers' sustainable development practices were assessed during the year *(% of total purchases)*	4.5.5	77%	80%	80%

4.3 NON-FINANCIAL INFORMATION STATEMENT

4.3.1 Analysis of non-financial risks

Valeo has analyzed its non-financial risks, in compliance with the French legal framework, to improve the transparency of its non-financial reporting. The Group was keen to blend the methodologies developed internally to evaluate its operations and its supply chain with new duty-of-care and measurement tools developed by non-financial stakeholders. These include mechanisms resulting from sector-based initiatives for the evaluation of the supply chain (for conflict minerals for instance).

Valeo's analysis of non-financial risks, performed for the first time in 2018, resulted from the joint work of the Risk Management and Sustainable Development and External Affairs departments. The work followed the methodological approach and included the following key steps:

- **step 1:** by comparing the Group's risk map (the details of which are presented in Chapter 2, section 2.1 "Risk factors", pages 82 to 100) with the materiality matrix (the details of which are presented in section 4.1.2, "Sustainable development challenges and non-financial risks", pages 201 to 202), Valeo sought to identify and analyze the potential risks associated with the challenges set out in the matrix. The analysis took into account changes in the French legal framework and the risks associated with corruption[1], serious violations of human rights and fundamental freedoms, personal health and safety, and the environment[2] (see section 4.4 "The duty of care plan", pages 253 to 256).
  - it was considered that the materiality matrix had already been performed for challenges in the matrix covered by the Group's risk mapping, which correspond to risk factors,
  - the challenges not covered by the risk mapping were analyzed in detail, based largely on in-depth interviews with the various contributors to their management, as well as on sector comparisons. The results gave rise to the formalization of non-financial risks, their evaluation in accordance with the Group's risk assessment scale (i.e., that used for the risk factors presented in Chapter 2) and the establishment of specific mapping of non-financial risks;
- **step 2:** the mapping of the non-financial risks and its associated analysis for 2018 were presented to the Risks Committee in early 2019, which approved the findings;
- **step 3:** the risk factors resulting from this non-financial risk mapping were published in the Registration Document for 2018 (at the end of March 2019).

The process was reiterated for this 2020 Universal Registration Document. The risk analysis and associated mapping were presented to the Risks Committee, which validated the assessments of the non-financial risks identified for 2020.

(1) Law No. 2016-1691 of December 9, 2016 on transparency, anti-corruption and economic modernization.

(2) Law No. 2017-399 of March 27, 2017 on the duty of care of parent companies and ordering companies.

Through this process, Valeo identified the following seven main non-financial risks (classified in accordance with Valeo's four sustainable development axes):

Sustainable development axes	Risks	
Innovation	Risk of non-compliance with environmental product regulations	Pages 229 to 235
Environmental eco-efficiency	Risk associated with accidental pollution of water and/or soil	Pages 235 to 238
Employees	Health and safety risk	Pages 238 to 241
	Risk related to attracting talent	Pages 241 to 243
	Risk related to developing and retaining talent	Pages 244 to 247
Commitment to corporate citizenship	Risk of individual corruption	Pages 248 to 249
	Risk related to suppliers' sustainable development practices	Pages 249 to 253

Of the non-financial risks identified, Valeo considers that the "risk of non-compliance with environmental product regulations" best reflects the Group's exposure to the effects of climate change on its product portfolio[1]. The characterization of the risks weighing on its industrial activity as regards the effects of climate change bear chiefly on the unavailability of production facilities following weather events or major natural disasters.

The means of controlling these risks are presented in the following section (section 4.3.3 "Valeo's non-financial risks", pages 228 to 252).

These risks were analyzed and dealt with in a low-carbon scenario approach, in connection with the new legal provisions on the disclosure of financial risks related to the effects of climate change[2].

Further clarification on the reporting of risks and opportunities related to climate change is provided in section 4.1.5 "Risks and opportunities related to climate change (TCFD)", page 218. It was designed based on the guidelines of the Task Force on Climate-related Financial Disclosures (TCFD).

The risks listed above and described in this chapter are the material items declared following risk mapping. In view of the Group's industrial and automotive activity, Valeo does not address the following issues, which it considers immaterial:

- the fight against food waste;
- the fight against food insecurity;
- respect for animal welfare;
- responsible, fair and sustainable food[2].

Measures taken by Valeo to combat tax evasion are described in Chapter 1, section 1.2.3 "Valeo's tax policy" (page 51).

Although this information is not part of the framework of the non-financial information statement[3], certain employee, environmental and social data have been kept in this chapter to ensure the continuity and transparency of information. They are presented, for each sustainable development priority, in the sections entitled "Valeo's commitments" (section 4.5.2 "Technological commitments", section 4.5.3 "Environmental commitments", section 4.5.4 "Employee-related commitments", section 4.5.5 "Social commitments").

4.3.2 Business model

Valeo's business model is presented in the Integrated Report (see section "Valeo's value creation model", pages 46 to 47).

(1) *Energy transition law for green growth, application guide of Article 173-VI.*

(2) *Article L.225-100-1 of the French Commercial Code.*

(3) *This information is not part of the non-financial information statement and should not be taken as such, even though some items are mentioned in decree No. 2017-1265 of August 9, 2017 issued for the application of Government order No. 2017-1180 of July 19, 2017 on the disclosure of non-financial information by certain large corporations and groups of corporations and are described in Article R.225-105 of the French Commercial Code.*

4.3.3 Valeo's non-financial risks

Summary table of non-financial risks

	Risks	Description	Due diligence policies and procedures	Key performance indicators	Pages
Innovation	Risk of non-compliance with environmental product regulations	Risk related to compliance with and anticipation of national and regional (European) regulations on the reduction of polluting emissions	• Valeo's Carbon Neutrality Plan • Innovation for the reduction of CO_2 emissions by products during their use phase • A product eco-design strategy aimed at reducing their carbon impact during the design and production phase	• 60% of sales derived from products contributing to the reduction of CO_2 emissions	229-235
Environmental eco-efficiency	Risk associated with accidental pollution of water and/or soil	Risk related to the use of polluting substances that can generate hazardous waste, or the discharge of liquid effluents that may be polluted	• Implementation of several operational environmental directives setting out rules for all sites in order to limit risks	• 98% of sites free of accidental spills[(1)] • Non-hazardous waste/sales: 90% • 90% of waste recovered or recycled of which 6.4% incinerated with heat recovery	235-238
Employees	Health and safety risk	Risk related to the occurrence of an accident	• Rollout of policies and directives on a range of topics (building and facility safety, employee health and safety, data security and the environment) • Quick Response Quality Control methodology • Safety First training program • Rollout of the five golden safety rules (protective equipment, lock-out tag-out operations, working at height, vigilance at work)	• Frequency rate of occupational accidents FR1: 1.4 • Frequency rate of occupational accidents FR2: 3.4 • Number of days lost owing to an occupational accident, or severity rate (SR1): 0.04	238-241
	Risk related to attracting talent	Risk related to difficulties in attracting the talent needed to achieve its goals in a competitive environment undergoing profound transformation	• Implementation of Talent Acquisition Centers (TAC) • Global IT recruitment management solution • A strong employer brand	• 20,332 recruitments • 783,000 LinkedIn followers: • 77% of Valeo's plants maintaining relations with higher education institutions	241-243
	Risk related to developing and retaining talent	Risk related to difficulties in retaining talent, adapting and taking on new skills	• Training and skills development • Compensation and benefits • Development of networks of experts and specialists	• Number of departures: 7,091 • Voluntary turnover of Managers and Professionals: 6.2%	244-247
Commitment to corporate citizenship	Risk of individual corruption	Risk related to the impact of possible corrupt practices on the Group's reputation, operations, financial situation and profitability	• Anti-corruption program rolled out worldwide, subject to internal controls and multiple audits • Additional training, procedures for declaring conflicts of interest clarified, communication campaign illustrated with practical cases	• Code of Ethics issued to 99% of newcomers • Training module on the risks of corruption, fraud and anti-competitive practices taken by 99.98% of people concerned	248-249
	Risk related to suppliers' sustainable development practices	Risk related to non-compliance with sustainable development requirements by suppliers	• Assessment of suppliers' sustainable development practices • Compliance with Valeo's Business Partner Code of Conduct • Anticipatory measures to ensure legal compliance in France	• Share of production purchases for which suppliers' sustainable development practices were assessed: 80%	249-253

(1) A spill is considered accidental when the quantity spilled is greater than 1 cu.m.

Risk of non-compliance with environmental product regulations

Description of the risk

In light of changing and increasingly stringent laws worldwide on the reduction of polluting emissions from vehicles and the introduction of electromobility in Europe and other parts of the world (in Europe, emissions capped at 95g of CO_2/km in 2021 and 59g of CO_2/km in 2030), or even approximately 40g of CO_2/km taking into account the first available analyses relating to the sector-based strategies of the "Green Deal" presented by the European Commission in December 2019), and given market trends in favor of the penetration of hybrid and electric vehicles, Valeo has identified a non-financial risk of non-compliance by these products with environmental regulations.

This risk is relevant to the entire automotive sector and is defined as compliance with and anticipation of national and regional (European) regulations as regards:

- caps on CO_2 emissions and gaseous pollutants from vehicles[1];
- compliance with the regulatory framework for eco-design[2][3] and the use of hazardous and regulated substances in the product composition and manufacturing process[3].

This risk also includes growing demand for more in-depth product life cycle assessments, for which methodologies and tools are currently being developed within the sector, particularly in line with the European legal framework currently under construction in this area[4].

Risk management policy

Since 2009, the design, development and production of products contributing to the reduction of CO_2 emissions have been constants in the Group's strategy. In this context, the risk of non-compliance with environmental product regulations is monitored by the Research and Development and Strategy Departments.

Valeo's policy has two focuses:

- innovation for the reduction of CO_2 emissions of products during their use phase, with contributions from the following three Valeo activities:
  - products contributing to the hybridization and electrification of powertrains, especially those dedicated to medium-power (48V) hybridization,
  - high-power (over 60V) electrification for electric vehicles and plug-in hybrids, offering a significant reduction in CO_2 emissions and the option of driving in low-emissions mode, especially in urban areas,
  - thermal solutions for both engine and cabin, now integrating all battery thermal management solutions for electric vehicles,
  - exterior and interior lighting solutions (vehicle projectors, etc.) with reduced energy consumption and mass to help limit the vehicle's carbon impact. In wiper systems, Valeo also develops systems that consume less energy;
- roll out of a product eco-design strategy geared towards reducing their carbon impact well beyond the simple use phase, with the following priorities:
  - life cycle assessments of Valeo products,
  - limiting the consumption of raw materials and chemicals,
  - using recyclable and recycled materials,
  - eliminating hazardous materials in anticipation of the applicable legal and regulatory framework.

The management of this risk has been reinforced by the adoption of Valeo's Carbon Neutrality Plan and its application within the R&D network from the end of 2020. This involves understanding Valeo's overall risk related to CO_2 and setting actionable objectives for each network, with medium-term targets.

Measures taken to reduce the risk

Reducing CO_2 emissions

The key products contributing to the hybridization and electrification of powertrains are presented in Chapter 1, section 1.3.2 "Powertrain Systems", pages 57 to 59. Similarly, the latest innovations in thermal systems and lighting and wiper systems are presented in Chapter 1, section 1.3.4, "Visibility Systems", pages 65 to 68, and section 1.3.3 "Thermal Systems", pages 60 to 64.

As part of Valeo's Carbon Neutrality Plan, management of the risk of non-compliance with environmental product regulations has been reinforced by the implementation of a tool to calculate the CO_2 impact of Valeo products during their use phase (see box below, "CO_2 emissions related to the use of Valeo products (Scope 3)", page 230). This work has benefited from a range of advice and draws on accepted standards. It will enable the progress of the Carbon Neutrality Plan to be monitored each year.

4

(1) *Regulation (EC) No. 715/2007 of the European Parliament and of the Council of June 20, 2007 on type approval of motor vehicles with respect to emissions from light passenger and commercial vehicles (Euro 5 and Euro 6) and on access to vehicle repair and maintenance information; Regulation (EU) 2019/631 of the European Parliament and of the Council of April 17, 2019 setting CO_2 emission performance standards for new passenger cars and for new light commercial vehicles, and repealing Regulations (EC) No. 443/2009 and (EU) No. 510/2011 (recast).*

(2) *Directive 2009/125/EC of the European Parliament and of the Council of October 21, 2009 establishing a framework for the setting of eco-design requirements for energy-related products.*

(3) *Directive No. 2000/53/EC of September 18, 2000 on end-of-life vehicles.*

(4) *https://ec.europa.eu/clima/policies/transport/vehicles_en#tab-0-1.*

The Group's main areas of action to reduce CO_2 emissions leverage various factors:

- a product portfolio in line with the progressive electrification of new vehicles sold;
- progressive decarbonation of the energy consumed (greater integration of renewable energies);
- reduced vehicle mass;
- gradual improvement in the performance of Valeo's technological solutions.

Valeo also conducts approval and certification tests for each product, based on automotive sector standards.

CO_2 EMISSIONS RELATED TO THE USE OF VALEO PRODUCTS (SCOPE 3)

Absence of sector-specific methodology for equipment manufacturers

In accordance with the recommendations on identifying and reporting the volumes of indirect CO_2 emissions related to Valeo's operations[(1)], the Group undertook extensive work in 2017 to lay down a methodology for calculating emissions relating to the use of its products, in the absence of existing methodology in the industry:

- in view of the wide range of uses[(2)] offered by Valeo products, which vary depending on the choices made by automakers on which Valeo only has a certain amount of information, this work drew on the modeling of its products' carbon impacts and was based on the parameters set out below;
- the work benefited from scientific and technical advice from EMISIA SA[(3)], a branch of the Applied Thermodynamics Laboratory of the University of Thessaloniki (Greece) and an expert in modeling transportation-related CO_2 impacts recognized by the European Commission.

Valeo's approach was to evaluate the level of emissions of products representative of the diversity of its product portfolio throughout their use phase, which most often corresponds to the lifespan of a vehicle, factoring in the following parameters:

- the products' weight and power consumption characteristics;
- the technical characteristics of the vehicles fitted with Valeo products through a segment-specific approach, taking into account the vehicles' specific uses (rolling, product life);
- the penetration of Valeo technologies in the market and within the specific segments reviewed;
- the characteristics of the global market; and
- Valeo's annual sales of the technologies taken into account for this calculation.

This work was continued and further established in 2020 as part of the development of Valeo's Carbon Neutrality Plan, as CO_2 emissions relating to the use of Valeo products represent the most significant source of so-called Scope 3[(4)] emissions. This work involved the following actions in 2020:

- review of the accounting of products' nominal carbon impact;
- review of the relevant emissions calculation cycle, with all emissions from Valeo products being calculated in accordance with the Worldwide Harmonized Light Vehicles Test Procedure (WLTP) so as to reflect real-life conditions of use as closely as possible;
- integration of the carbon impact of the energy (fossil fuel or electric) consumed by the various types of vehicles in which Valeo products are installed, allowing well-to-wheel[(5)] emissions to be calculated on a regional basis;
- integration of all Valeo product families so as to cover the Group's entire annual sales.

This methodological review received scientific and technical support from EMISIA SA in 2020.

It resulted in a revision of emissions for 2019 to 39 $MtCO_2$eq. Under the new methodology, emissions for 2020 totaled 30.8 $MtCO_2$eq., a reduction of 21% compared with 2019. This significant decline is attributable primarily to the impact on Valeo's sales of the general slowdown in the automotive sector in the wake of the Covid-19 crisis, but also the acceleration of electrification in 2020, with launches of new vehicles in Europe.

As part of the Carbon Neutrality Plan for 2030, Valeo has set the objective of reducing emissions linked to the use of its products by 15% in absolute terms compared with 2019. This objective was constructed on the basis of individual vehicle penetration scenarios and new forms of mobility by global region, integrating projections from several sources and taking into account the Valeo Group's growth outlook. It is consistent with the reference framework set by the SBTi and follows its cross-sector methodological recommendations for calculating Scope 3 emissions.

(1) Article 173 of Law No. 2015-992 of August 17, 2015 relating to the energy transition for green growth.
(2) The absence of a relevant calculation methodology for an automotive supplier is confirmed by the work of the SBTi: the methodology developed for car manufacturers indicates that a calculation methodology for equipment manufacturers is yet to be developed (see "Transport Science-Based Target setting Guidance", section 3.4, page 19).
(3) EMISIA is notably in charge of managing the European TRACCS database, resulting from a European project financed by the Directorate-General for Climate Action of the European Commission, DG-CLIMA (TRACCS, for "Transport data collection supporting the quantitative analysis of measures relating to transport and climate change").
(4) To be endorsed by the SBTi, a CO_2 emissions reduction target must include at least 60% of so-called Scope 3 emissions (see SBTi Criteria and Recommendations, Version 4.1, April 2020).
(5) The data on the carbon impact of the energy consumed by the vehicles under consideration come from the fifth updated edition of the work of the JEC published in September 2020, the result of a consortium of joint work between the European Commission's JRC, the European Council for Automotive R&D (EUCAR) and the European Energy Industry Association (Concawe).

With a view to measuring the carbon impact of products resulting from its investments in electrification, Valeo has assessed a net value of CO_2 emissions for Scope 3 related to the use of its products (net Scope 3 downstream). This value corresponds to the absolute value of emissions related to the use of its products (gross Scope 3 downstream, calculated on the basis of electricity consumption and the weight of products sold by Valeo during year Y) less the emissions savings generated by the use of its products (difference between the average CO_2 emissions of products sold by Valeo within the annual production of vehicles for the reference year 2019 and that of year Y). As part of the 2050 Carbon Neutrality Plan, this methodology for integrating the CO_2 savings resulting from Valeo's products should enable the Group to nearly halve its overall emissions between 2019 and 2030.

Product eco-design

Areas of action and key figures for 2020

The eco-design approach has been rolled out at every level of the Group's Research and Development activities. It aims to:

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

The approach is an integral part of Valeo's Carbon Neutrality Plan, for which the Group has implemented a dedicated calculation tool to assess the carbon impact of materials, products and other inputs at Valeo, and to make longer-term projections. It takes into account Valeo's consumption of raw materials (own or indirect), the geography of origin and carbon emission factors specific to each family of materials. Starting in 2021, this tool will be linked to the Product Life Management (PLM) and other regulatory bases (IMDS, REACH, etc.), and will be an integral part of the development stages in a product's life cycle.

Product eco-design and life cycle assessments

Valeo's eco-design approach is based on internal standards, which guide the project teams in their life cycle analyses in the upstream research phase. They are included in internal documents, in particular the EcoDesign Standard(1) and eco-design guidelines by Product Line. These documents enable engineers to assess the major environmental impacts of products at all stages of their life cycle during project development:

- type, origin, number and quantity of raw materials;
- production and packaging;
- transportation and distribution;
- use and maintenance;
- disassembly, recycling, reuse, recovery and disposal.

They make it possible to incorporate sustainable development constraints during the use of the product.

LIFE CYCLE ASSESSMENTS AT VALEO

In the automotive industry, the automaker or order-giver is responsible for performing the Life Cycle Assessment (LCA). Consolidated data on components and modules are available through the LCAs performed by automakers. Based on the information listed and monitored in its EcoDesign Checklist database, the Group estimates that it has now identified and made available nearly 80% of the data required for a product LCA. This information is used to create and develop products with less impact on the environment.

Compilation and use of the information is managed in the Product Life Cycle Management (PLM) system, which lists the components of products and systems used in their design, and requires compliance with clearly defined standards. Any departure from the standards (in particular when using non-documented materials) must be justified. By systematically referring to the standards, Valeo demonstrates its determination to embed eco-design (including CO_2 impact analysis) as far upstream as possible in the product development phase.

For example, a Life Cycle Assessment (LCA) has been carried out on LED fog lights. The aim was to assess their environmental impacts throughout their life cycle: production phase (LEDs and electronic controls), use phase (fuel consumption, CO_2 emissions) and end-of-life or recycling/ reuse phase. The Group has gained considerable experience in performing this analysis.

The extent of Valeo's portfolio precludes performing LCAs on the entire product range.

(1) *Directive 2009/125/EC of the European Parliament and of the Council of October 21, 2009 establishing a framework for the setting of eco-design requirements for energy-related products.*

To ensure the directive's circulation and implementation, Valeo has published an EcoDesign Checklist designed to monitor the application of the criteria in new projects. This easy-to-use tool ensures that eco-design criteria are observed from the upstream phase. This means that products are consistently engineered from the outset with an eye to sustainable development criteria.

Project teams refer to this checklist in their qualitative and quantitative analysis in respect of electricity consumption, hazardous materials use and component weight to reduce the number of components and the volume of materials that do not benefit the environment or the consumer.

It also responds to changes in the European End-of-Life Vehicle (ELV) Directive[(1)], which since January 1, 2015 has required automakers to achieve a minimum rate of reuse and recycling of 85% by weight of the ELV, or 95% when disposing by incineration. As a result, automakers have established increasingly higher standards with their suppliers to gradually raise the recycling rate of their products. The R&D and Projects teams work closely with automakers to anticipate and design products and systems that take into account recyclability and the best circuits in the industrial value chain.

As well as working closely with automakers, Valeo has for many years been committed to identifying second life solutions for some of the Group's key products (see section 4.5.2 "A commitment to R&D for the aftermarket and renovation market", page 261).

EXAMPLES OF RECYCLABILITY OF TWO VALEO PRODUCTS

The new generation Valeo i-StARS starter-alternator has a recyclability rate of 98.2% and a recovery rate of 99.5%[(2)] (based on an internal evaluation).

The Valeo e-supercharger has a recyclability rate of 94.8% and a recovery rate of 97.6%[(3)] (based on an internal evaluation).

Compliance of products with environmental standards

Complementing the internal EcoDesign Checklist tool, the eco-design approach is backed by a requirement for product quality and reliability right from their design phase, which is broken down within the RAISE methodology. It stands for:

- Robustness;
- Accountability;
- Innovation;
- Standards;
- Expertise.

RAISE aims to ensure the robustness of Valeo's products and processes. Dedicated teams (one per Product Group) have been assigned to RAISE on a full-time basis, with the following explicit objectives:

- set standards that are easy to identify, understand, learn, implement and verify. This is essential for ensuring that they are properly applied in a group like Valeo, whose employees speak a variety of languages and come from multiple cultural backgrounds;
- communicate on the standards and circulate them within the Group. Knowledge-sharing involves ensuring that standards are available in a single, global database (the PLM or Product Life Cycle Management database), and providing training provided at the Valeo Technical Institutes;
- verify that standards are implemented. To this end, the RAISE teams regularly visit sites and review project design. They do this to ensure that standards are applied correctly and to obtain any feedback that can be used to improve them.

More than 8,000 product and process standards are in place and maintained in the various Product Groups. They are applied day-to-day in designing new products and manufacturing processes.

Special training programs (core RAISE training courses on design reviews, risk analysis and reliability) are continuously provided for Research and Development and Industrialization teams to extend their reach even further.

(1) See sustainable development glossary, page 295.
(1) The recovery rate is defined as the sum of recycling and energy recovery rates.
(3) Regulation (EC) No. 1907/2006 of the European Parliament and of the Council of December 18, 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), establishing a European Chemicals Agency, amending Directive 1999/45/EC and repealing Council Regulation (EEC) No. 793/93 and Commission Regulation (EC) No. 1488/94 as well as Council Directive No. 76/769/EEC and Commission Directives 91/155/EEC, 93/67/EEC, 93/105/EC and 2000/21/EC.

Reduction and elimination of hazardous chemical substances

The Group also gives priority to eliminating hazardous substances in its products.

The European regulation commonly known as REACH[1] has established a single system for the Registration, Evaluation, Authorization and restriction of Chemicals. REACH is aimed at increasing knowledge of the properties of chemical substances manufactured or marketed in the European Union so as to contain the risks related to them and, where necessary, restrict or ban their use.

It covers nearly 30,000 substances out of the 100,000 currently on the European market. Of them, 1,500 are deemed particularly hazardous. Their use is controlled by the European authorities. As such, at the end of December 2020, 209 SVHCs (Substances of Very High Concern) had been identified by the competent European authorities and their use has been progressively subject to authorization. Among other substances, they include solvents, primarily used during procedures involving plasticizers to soften polymers, flame retardants used in electrical and electronic products to provide effective protection against the propagation of fire, and certain surface treatments. Moreover, due to the increasing integration of electronic components requiring the use of nanomaterials in its products, Valeo is closely following work by the European Commission in this area, especially via the REACH regulation, in order to anticipate possible substitutions of nanomaterials, or modifications to their supply processes and their use in manufacturing.

For REACH purposes, Valeo is generally considered to be a downstream user of chemicals. This means that it must list the substances used in manufacturing its products and those required to operate its industrial facilities to ensure the safety of its supply chain and its operations.

Valeo has introduced a special structure to comply with REACH regulations

It works under the REACH manager and a team including a representative in each division. They set the list of hazardous substances and decide on whether to eliminate them from Valeo's products and processes. REACH representatives are in place within each entity affected by REACH regulations and at every Valeo plant. This has created a network of REACH managers covering each Group site and Technical Services Center. The Research and Development, Purchasing and Customer Quality Departments are required to have a full understanding of Valeo's products, and are responsible for communicating with external parties (suppliers, customers and competent authorities), in particular via the International Material Data System (IMDS).

The Group issues a set of standardized documents from local REACH network correspondents to enhance the spread of Research and Development standards in this field and to support prevention and response work regarding the substances used.

These documents include a reference database created by Valeo of banned or restricted substances in the automotive industry. The database was updated again in 2020. It summarizes the regulations applicable in the different countries where Valeo operates, and the requirements of its automaker customers concerning the substances used in the composition of parts, and in manufacturing and repair processes.

Valeo has long conducted in-depth research into the potential presence of SVHCs in its products, and has begun to replace them with substances with less environmental impact. It has set the ambitious target of eliminating from its products any substance requiring authorization in any of its markets and will work with its suppliers to systematically find alternatives to using SVHCs. In particular, a plan to replace products containing certain phthalates, including DEHP[2] and certain nonylphenols, including nonoxinol, widely used as a plasticizer, was continued.

Valeo is working on gradually replacing these substances in response to consumer concerns about their presence in vehicles.

Valeo actively participates in the work of professional associations in Europe and internationally. The Group follows the recommendations of the Automotive Industry Guide issued by the French Federation of Automotive Suppliers (*Fédération des industries des équipements pour véhicules* – FIEV). It took part in the REACH task force within the European Association of Automotive Suppliers (known under the French acronym CLEPA). Valeo is also active in the dedicated working group of the Automotive Industry Platform *(Plateforme de la filière automobile)*, which aims to identify materials and substances that have a negative impact on the environment.

The purpose of this work is to anticipate regulatory change and to modify choices in respect of materials and/or substances upstream.

Valeo has asked suppliers from which the Group purchases between 1 and 100 metric tons of substances to comply with the latest REACH disclosure requirements (in line with the methodology advocated by ACEA and CLEPA[3]). The audits carried out by Valeo showed that the Group was compliant with all mandatory requirements.

Materials consumption

Seeking to provide solutions both to reduce product mass and seize new opportunities for product development, Valeo is implementing solutions for a progressive substitution of the use of metal by lighter materials, such as resins, or even carbon fiber (for limited use in the automotive industry due to cost and large scale production constraints). This approach is further supported by the phasing-in of recycled plastics.

4

(1) See sustainable development glossary, page 295.

(2) Diethylhexyl phthalate or di-2-ethylhexyl.

(3) Joint ACEA-CLEPA position paper of June 28, 2016: REACH registration – 2018 Deadline.

Results and performance

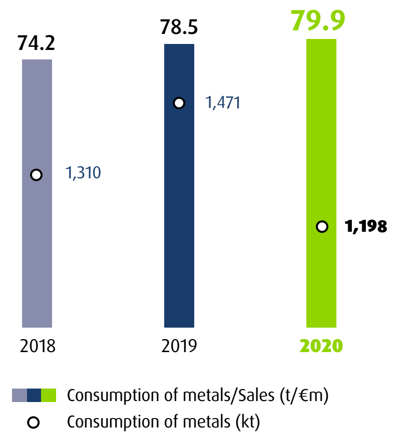
Sales derived from products contributing to the reduction of CO_2 emissions

In 2020, products that directly or indirectly contribute to reducing CO_2 emissions accounted for 60% of Valeo's original equipment sales.

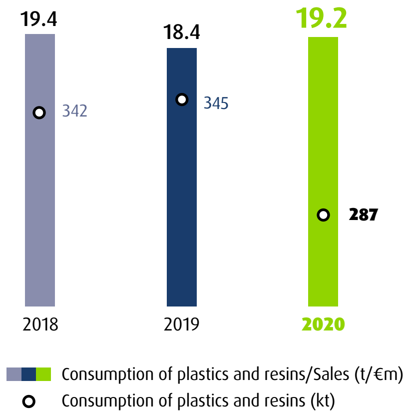
In 2020, Valeo reduced the CO_2 emissions from the use of its products by 21%, from 39 million metric tons (Mt) CO_2eq. in 2019 to 30.8 metric tons (Mt) CO_2eq. This result is the consequence not only of the widespread slowdown in activity due to the global health crisis linked to Covid-19, but also of the acceleration of electrification in 2020, with new vehicle launches in Europe. The reduction in Valeo's carbon impact is described in section 4.1.3 "Valeo's carbon neutrality plan for 2050", page 206.

Consumption of raw materials

CONSUMPTION OF METALS



RESIN CONSUMPTION



In 2020, metal consumption totaled 1,198 kt, down 19% compared with 2019; as a proportion of sales, it was up nearly 2%. This stemmed from the shift in the type of products towards those using more metal, particularly in the Powertrain Systems Business Group, but also from the impact of the drop in sales compared with 2019. This trend does not call into question Valeo's eco-design approach, which is based on the gradual replacement of metal with lighter materials, such as plastics and resins.

In 2020, the consumption of plastics and resins totaled 287 kt, down 17% compared with 2019. It was up 4% as a proportion of sales over the previous year, because the use of these materials has a positive impact on the reduction of component and vehicle mass.

Consumption of heavy metals

In the automotive industry, consumption of heavy metals stems solely from the presence of lead in welding materials used for certain specific activities. Determined to phase out the use of lead in the development of its products, Valeo is working to optimize its industrial welding process in order to reduce the consumption of materials used for this purpose. Its medium-term objective, depending on change in industrial processes and their acceptance within the industry, is to completely replace the lead used in welding with tin.

Over recent years, Valeo has gradually replaced lead with tin in the soldering processes used in the Group's various activities (Powertrain Systems and Comfort & Driving Assistance Systems Business Groups).

The Group significantly reduced its lead consumption from 9 metric tons in 2019 to 3.8 metric tons in 2020. The sites of the Visibility Systems Business Group and the Thermal Systems Business Group no longer consume lead. In 2020, 47% of lead consumption was attributable to the Comfort & Driving Assistance Systems Business Group, and 53% (2 metric tons) of consumption was linked to the Ebern site (Propulsion Systems Business Group, Germany), consolidated by the Group in 2019 (following the acquisition of FTE). In accordance with its undertakings, the Ebern site stopped its lead-consuming product line in March 2020.

Consumption of chemicals

The use of trichloroethylene (TCE) was cut from 1 metric ton to 0 kg in 2020, eliminating it completely.

Consumption of carcinogenic, mutagenic and reprotoxic (CMR) substances[1] fell by 16% in absolute terms in 2020, from 140t in 2019 to 118t in 2020.

At the end of the first quarter of 2021, the Propulsion Systems Business Group's San Luis Potosi site will replace its entire forklift fleet with electric models to reduce its consumption of CMR-emitting LPG (liquefied petroleum gas).

Use of recycled input materials

To reduce its environmental footprint, Valeo pays particular attention to the use of recycled materials. Purchases of recycled plastics totaled 3,500 metric tons in 2020. The significant drop in consumption (9,000 metric tons consumed in 2019) is related to the slowdown in activity following the Covid-19 crisis.

COMMITMENT ON RECYCLED PLASTICS

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

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

2020 was not conducive to the development of new initiatives.

Among the actions identified by the government and the automotive industry, Valeo will contribute over the coming years to:

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

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

Risk associated with accidental pollution of water and/or soil

Description of the risk

Some of Valeo's activities use polluting substances that can generate hazardous waste, or discharge liquid effluents that may be polluted, such as firewater, oily water or water containing hydrocarbons.

The risk for the Group stems from failure to control the use of these substances, the polluting nature of the resulting discharges and effluents, and the management of its hazardous waste. The various steps must therefore be perfectly controlled throughout the production and post-production cycle in order to avoid any pollution of the natural environment, in the water or in the soil. Moreover, each site must ensure, through regulatory monitoring, the constant compliance of the procedures and substances used with local environmental regulations.

The main causes to be averted are:

- the absence of waste management;
- aging equipment;
- the absence of treatment stations on site or externally;
- poorly managed waste treatment channels;
- the tightening of regulations in force.

The risk may also be aggravated by late detection of discharges into the environment due to a lack of:

- periodic checks of the discharge management process;
- intervention and control policy in respect of environmental accidents.

Risk management policy

To prevent the risk of pollution across all sites, the Group has adopted several operational environmental directives setting rules for all sites, on the following issues:

- liquid effluents;
- intervention means and consequence limitations;
- the management of underground tanks;
- waste management;
- soil and groundwater management.

These directives are an integral part of the Risk Management Manual (see section 4.1.4 "Sustainable development policies", paragraph "Environmental policy", pages 210 to 212), and are drafted and updated by the HSE Department. The correct application of these requirements is ensured by the network (see section 4.1.4 "Sustainable development policies", paragraph "Organization of the Health, Safety and Environment (HSE) network", page 211) and external audits (see section 4.5.3 "Environmental commitments",

(1) *See sustainable development glossary, page 295.*
(2) *100% recycled plastics objective: commitments for a sustainable plastics value chain.*

paragraph “External audits worldwide” page 263). These directives are presented to the Governance, Appointments & Corporate Social Responsibility Committee along with all environmental policy tools.

Although Valeo’s industrial wastewater does not contain large amounts of pollutants, the liquid effluents directive includes the following requirements:

- effluents whose composition exceeds the regulatory thresholds must go through treatment plants located directly on Valeo sites so as to limit their impact on the receiving environment;
- as far as possible, effluent networks should be connected to the public network;
- sites’ rain-fed networks must receive only rainwater;
- the direct discharge of industrial effluents into groundwater is strictly prohibited;
- firewater must be separated and analyzed prior to proper disposal.

As an indication, the total volume of industrial effluents discharged by the Group’s sites was 635 thousand cu.m in 2020, compared with 839 thousand cu.m in 2019. The quantity of heavy metals discharged by Valeo’s internal water treatment plants was reduced from 96 kg in 2019 to 25 kg in 2020.

The main challenges in respect of waste (hazardous or non-hazardous) are first to optimize the manufacturing process in order to limit its production, second to recycle everything that can be reused in the manufacturing process, and lastly to have access to treatment channels. Whatever the nature of the waste, landfilling or incineration of waste on a Valeo site is strictly prohibited.

Measures taken to reduce the risk

As part of their environmental management system, and in accordance with Group directives, the sites implement **prevention methods**:

- **prior to the purchase** or lease of land or buildings, an assessment of the risk of legacy soil and groundwater pollution is performed. On sites where groundwater is sensitive and vulnerable, groundwater quality is monitored regularly;
- the **loading/unloading of tankers** can cause numerous accidents with serious consequences for the environment. To prevent spillage during these operations, Valeo sites are required to draft a specific transfer procedure appropriate to the nature and risks of the products in question, notably including a vehicle circulation plan, a list of people approved for unloading, the method for verifying the nature of the product and its compatibility with the recipient container and instructions in case of spillage;
- the **storage of hazardous products** can be another source of accidental spillage. The Group has laid down rules for designing and building retention systems and tanks, specifying minimum volumes, what materials to use to ensure the sealing of tanks and retention systems based on the nature of products stored and how to structure warning systems in case of overflow;
- to go further in **chemical risk** management, the Group embarked on a new process of external audits dedicated to chemical product management and waste treatment in 2020. Each year, a representative sample of sites from all of the Group’s Business Groups will be audited in accordance with directives and changes in local regulations;
- **underground tanks** have been banned within the Group since the early 1990s, with the aim of eliminating the risk of significant pollution of soil and groundwater associated with such facilities;
- **internal landfills** are prohibited on all sites, regardless of their location;
- for cases of **accidental spillage**, the directive entitled "Intervention means and consequence limitation" focuses on the human and material resources to be put in place on sites to prevent, detect and limit the consequences of emergencies liable to have a direct impact on human health or the environment;
- in keeping with its commitment to protect our **water capital**, and to prevent a major incident causing groundwater or river pollution despite the implementation of protection systems to prevent backflow, Valeo has decided to cease all residual direct water withdrawal activities by 2025;
- when a **business is sold or shut down**, the Group commissions an audit, generally accompanied by an examination of the soil and groundwater, to determine whether any pollution occurred during its operational phase. If pollution is discovered, the necessary measures are taken (monitoring or decontamination for instance);
- if a site is **closed permanently**, all waste, raw materials, products and equipment are removed, and site maintenance continues until it is sold.

If, in the course of its operations, the site is responsible for soil or groundwater pollution, it performs the studies, research, work and monitoring necessary to manage the pollution so that it does not pose a risk to the health of its employees, local residents or, more generally, the environment.

For waste management, each site is responsible for:

- **minimizing** the generation of waste by reducing the weight of packaging, substituting raw materials or changing its procedures or processes;
- **collecting** and storing waste in conditions that minimize risks to the health and safety of people and the environment:
  - waste storage areas are controlled and monitored,
  - waste containers are labeled with the type of waste and characteristics of the hazard (e.g., flammability),
  - a "waste production and disposal register" is kept to ensure systematic monitoring of waste;
- **prioritizing** the use of waste for recycling, or else for recovery;
- **ensuring** that elimination channels comply with local regulations and guarantee safe waste treatment.

Whatever the channel:

- waste must be **transported** in optimal safety conditions by selected service providers;
- each shipment must be accompanied by a waste tracking slip summarizing the characteristic of the waste shipped, the company in charge of the transportation and the company in charge of disposal and treatment;
- the site must ensure that the waste is **disposed of** safely and in accordance with local regulations. To this end, the site must be able to obtain the following documents when selecting a disposal company:
  - to operate a waste treatment/disposal facility,
  - authorization to treat/eliminate specific waste,
  - certificate (e.g., inspection report) issued by the administrative authorities stating that the company's operations comply with all applicable local regulations,
  - insurance certificate,
  - for hazardous waste, financial guarantees showing the company's ability to close the site following its operation in such a way that it no longer represents a risk for people and the environment.

For waste hazardous to humans or the environment, the site must obtain a description of disposal procedures from the disposal company. In case of doubt about waste treatment, the disposal company will be audited.

In the absence of a reliable waste disposal and treatment channels in the country in question, Valeo exports its waste. The environmental indicators reporting tool tracks the amount of waste sent to these channels.

WASTE AND RECYCLING INITIATIVES

In 2020, the Group continued its work to improve the reliability of the data provided by the sites on waste, both on the quantity generated and the traceability of waste until the final stage of treatment. Based on:

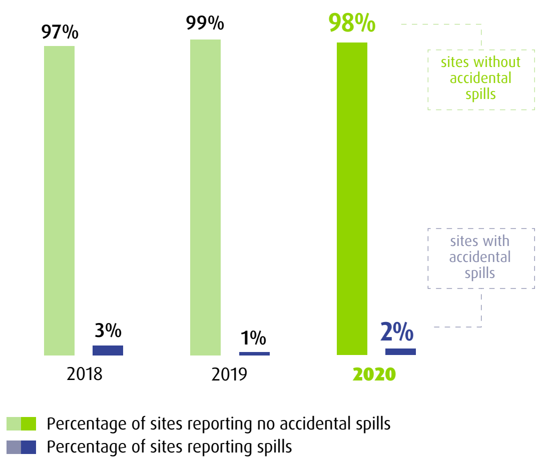
- an annual third-party audit schedule, linked to compliance with internal guidelines and local regulations in each region;
- an investigation launched within each Business Group so that each site can list the waste treatment companies and subcontractors with which it works, the terms and conditions of the contracts signed and the insurance conditions, to identify possible red flags;
- a process of physical audits of companies to gain a clearer picture of their waste disposal processes and guarantee the traceability of the waste entrusted by Valeo to their treatment process.

In 2020, the Group's sites renewed the following initiatives:

- improving waste sorting:
  - by awareness-raising campaigns on the sorting of domestic waste,
  - by a reduction of paper used in offices, and the reuse and recycling of residual paper, particularly during Sustainable Development week in June;
- internal reduction and reuse of scraps;
- elimination of the use of plastic cups by the provision of individual bottles;
- reuse of cardboard for internal packaging;
- generalization of sorting in canteens.

Results and performance

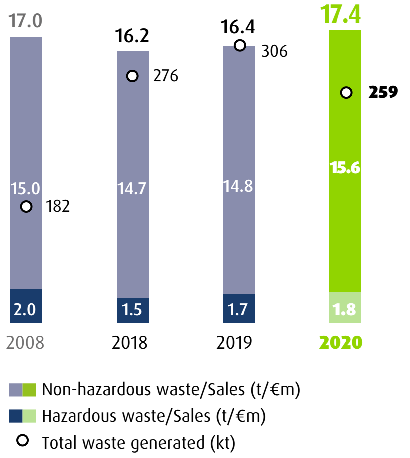
Accidental spills



All spills are reported and recorded by the sites in the Valeo reporting tool. An event is considered significant when the quantity spilled is greater than 1 cu.m. In 2020, one minor accidental spill was reported by the Veszprem site (Comfort & Driving Assistance Systems Business Group, Hungary), consisting of the spill of a small quantity of emulsion on the ground, and one major accidental spill was reported by the Itatiba site (Thermal Systems Business Group, Brazil). The water used to extinguish a fire was contaminated with oil. This mixture accidentally ended up in the storm water system, and subsequently on the surface of the river. This incident, which was reported to the authorities, was quickly brought under control in order to avoid any environmental impact.

To improve the monitoring of events liable to have an environmental impact, the Group rolled out an internal tool in 2019, allowing sites to issue alerts in real time when a spill occurs. Known as "Environmental Red Alert", the new tool makes it possible to inform the highest level of the Group's organization of the seriousness of the incident, and to monitor and validate the resources devoted to limiting the consequences of the incident.

TOTAL WASTE GENERATED



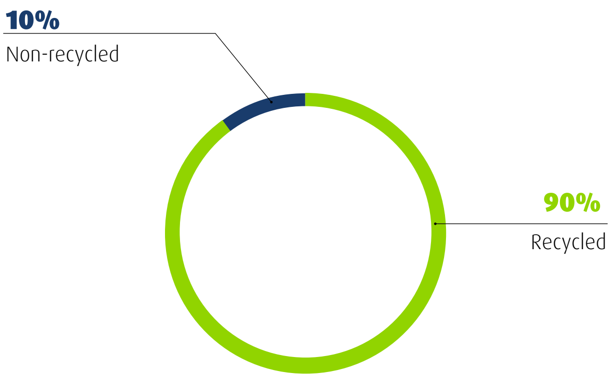
In 2020, the total amount of waste as a proportion of sales increased by 6% compared with 2019. The Group's waste generation in absolute terms decreased by 47 kt compared with 2019 due to the decline in activity.

The Group will remain vigilant in order to contain the quantity of its waste during phases of growth. By 2025, in line with its plan to obtain ISO 50001 certification, the Group plans to reduce its landfilled waste, increase the proportion of waste through energy recovery, and intensify efforts to extract synergies between the Purchasing, Industrial and Research and Development Departments, with the following aims:

- continue reducing raw material consumption;
- shorten development time in the launch phase for new projects (products and processes);
- establish monthly monitoring of the main producers of waste.

The Powertrain Systems Business Group alone accounts for more than 54% of the Group's total waste volume, due to the increase in the number of sites in the Business Group, but also to its press cutting, tray machining and friction lining activities. These manufacturing processes generate considerable raw material waste.

RECOVERY OF WASTE IN 2020



Valeo is working to optimize its waste recovery: On average, 90% of the Group's waste is recovered or recycled, of which 6.4% is incinerated with heat recovery. In 2020, 20 sites even managed to recycle or reuse 100% of their waste.

The main waste generated by the Group's facilities (presented below in decreasing order of weight) is reused as follows:

- metal waste, almost all of which is sold for recycling;
- wood, which is recycled or used to generate heat;
- plastic, which is sold for recycling.

The breakdown between non-hazardous waste and hazardous waste has been stable since 2014. Non-hazardous waste represents nearly 90% of the waste generated by Valeo's activities. The Group promotes recycling and recovery opportunities.

Health and safety risk

Description of the risk

Guaranteeing a safe work environment is the first way to improve the quality of working life of employees and to ensure their involvement in the Group's activities. To ensure the safety of its employees, Valeo monitors all accidents, including "near misses"(1). The Group has defined a typology of human risks comprising five categories:

- category 1: severe accident (death, amputation, major trauma, disability);
- category 2: significant material damage (which could have caused serious injury) and major "near misses";
- category 3: accident with lost time, regardless of the severity (including occupational illnesses);
- category 4: accident without lost time, but which resulted in medical treatment off site (hospital or doctor);
- category 5: accident without lost time, but which resulted in medical treatment on site or did not require medical treatment.

The safety of every person working on a site is essential, which is why the accidents of service providers are also monitored, as are employee accidents. Valeo's demanding policy involves and empowers all of its employees through regular training and communication.

Risk management policy

To ensure that accident risks are kept under control, precise objectives per production area and per service are laid down, and policies are implemented to create a safe working environment conducive to the well-being of all.

(1) *A "near miss" is an event that could have caused bodily injury.*

To ensure an accident-free work environment for its employees, the Group has set itself the goal of maintaining the frequency rate (FR1)[1] of lost-time accidents at less than two by 2021. To achieve this objective, Valeo, through its Risk Management Manual, rolls out policies and directives on a range of topics (building and facility safety, employee health and safety, data security and the environment).

In 2020, Valeo continued its external audit plan to verify the proper application of its directives in terms of risk management. The Group is also pursuing its objective of obtaining OHSAS 18001 or ISO 45001 certification for all sites. At the end of 2020, 92% of the Group's sites were certified.

Ongoing improvement in on-site risk management is governed by the Quick Response to Quality Control (QRQC) methodology.

All employees are trained in this approach as soon as they arrive at Valeo, in particular through the mandatory training modules: "Plan, Do, Check, Act", "Safety induction" and "Safety first". The "Safety First" training program, created in 2015, aims to influence the behavior of employees at work, from operator to manager. At the end of 2020, 72,346 employees had been trained, down from 73,616 at the end of 2019, representing 72% of the target population in both years.

To strengthen its emphasis on preventing major accidents, the Group has adopted five golden safety rules on certain topics: protective equipment; energy lock-out tag-out operations; working at heights; vigilance at work; and traffic.

In terms of governance, and to guarantee an accident-free environment, a **Group Safety Committee** has been set up. It is chaired by the Associate Chief Executive Officer, assisted by the Industrial Director, the Health, Safety and Environment Director and the Senior Vice-President, Human Resources.

The commitment of all employees is essential, which is why safety is an integral part of their objectives, particularly those of the Chairman and Chief Executive Officer. Jacques Aschenbroich's compensation is partially indexed to the number of accidents resulting in lost time and the reduction in the number of category 1 and 2 accidents.

In the context of the Covid-19 pandemic, Valeo has made the health and safety of its employees a priority through the strict application of health measures to avoid risk of contamination.

A reinforced safety protocol designed to guarantee the utmost protection for Group employees has been adopted, with the same stringency applied across all plants, R&D centers and other Group facilities worldwide. This avoided the emergence of outbreaks on Valeo sites.

The protocol was discussed with employee representatives at national level or at local level at the Group's various sites. This approach resulted in greater employee buy-in. A majority Group agreement was concluded with the French trade unions on April 16, 2020 to reconcile employee protection and business continuity. It also enabled our operations to resume under *optimum* safety conditions. General Management monitored the health situation on a monthly basis with its senior executives and during extraordinary meetings of the European and Group Works Councils.

Measures taken to reduce the risk

For the maintenance of machines that are a potential source of severe accidents, the Group has developed a directive, standard work instructions, a machine certification process and specific training on the lock-out tag-out process in order to strengthen the understanding of risks and its standards.

The aim is to ensure that the machines' power supplies are shut off and locked, and the power dissipated before any maintenance operation so that no power sources, including residual energy, can cause an accident. Locking also prevents third parties from restoring power to a machine inadvertently during these operations. The standards include a list of steps to follow in a specific order to safely shut off the machine.

(1) *Calculation of FR1: number of lost-time accidents x 1,000,000/number of hours worked during the year. This indicator takes into account category 1 and 3 accidents. Occupational diseases are included in this indicator as category 3 accidents. Occupational diseases will therefore not be addressed outside this indicator. All Valeo employees, whatever their contract (temporary worker, service provider, trainee, VIE), are factored into the calculation of the number of accidents.*

To achieve greater professionalism among our maintenance technicians, particularly for lock-out tag-out operations, they must follow a specific training process. The process integrates the prevention of electrical risks and risks related to incorrect lock-out tag-out procedures.

They also complete machine-specific lock-out tag-out drills. Technicians are only certified and authorized for lock-out tag-out operations after demonstrating compliance with the Group's standards during drills.

To roll out the certification process of lock-out tag-out operations, maintenance technicians, method managers and HSE managers follow two lock-out tag-out e-learning modules. In 2020, 1,013 employees took these two modules, covering different degrees of progress; 628 employees have validated both modules.

By the end of 2020, more than 3,000 technicians had received lock-out tag-out certification.

To keep teams at the highest level of lock-out tag-out standards, a training course developed and organized with input from a third-party expert has been prepared for maintenance technicians, and maintenance, methods and HSE managers. Since 2018, 564 people have completed this training.

A machine safety training course developed and delivered by a third-party expert was also rolled out in 2020 to train industrial, maintenance and HSE network personnel. Its purpose is to enable trained employees to validate new equipment in accordance with internal guidelines and applicable regulations.

Despite the periods of lockdown and other measures related to Covid-19, this training was attended by 103 employees.

ENHANCING SITE SECURITY: THE SCHOOL OF DOJO

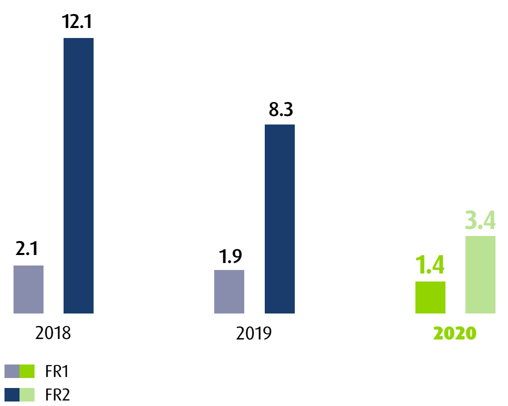
In 2020, in addition to its Safety First training, Valeo continued the rollout of its safety training rooms, known as Safety Dojo. Safety Dojo is a Group standard designed to support and develop the knowledge and skills of every employee in the field of safety and ergonomics. It uses lighthearted exercises to teach people how to identify dangers, dangerous situations and the associated risks, and to know how to apply the prevention and protection measures implemented at Valeo sites. Safety Dojo is aimed not only at newcomers, but also at all Valeo employees and suppliers, to reinforce their knowledge of safety rules and as such prevent any form of accident.

In 2020, the rollout of Safety Dojo courses continued, with the opening of 14 new rooms. The Group now has 139 rooms, compared with 125 in 2019.

Results and performance

Three of the 20 key performance indicators reviewed periodically at all levels of the organization (Group, Business Group/Activity, countries, sites) relate to safety:

Frequency rate (FR1[(1)] and FR2[(2)]) of occupational accidents



- For the second consecutive year, the frequency rate 1 (FR1) was below 2. While the prevention, awareness and training policies implemented by the sites over the years have enabled the Group to reach its 2020 objective a year in advance, Valeo nevertheless remains vigilant. The performance must not be taken for granted, and there is always room for progress.

  In 2020, the global pandemic situation resulted in an exceptional improvement in the indicator, which fell from 1.9 in 2019 to 1.4 in 2020. The closure of plants for several months and widespread working from home resulted in a sharp drop in the number of accidents. FR1 varies between countries due to local laws and practices.
- Frequency rate 2 (FR2) also fell from 8.3 to 3.4 between 2019 and 2020. Mirroring FR1, the sharp decline mainly reflected the slowdown in economic activity, but was also the result of the prevention, awareness and training policy carried out at sites. Since 2018, Valeo has chosen to include all category 5 accidents (in other words "near-accidents") in its FR2, regardless of their severity.

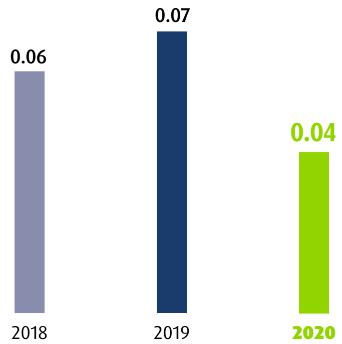
(1) Calculation of FR1: number of lost-time accidents x 1,000,000/number of hours worked during the year. This indicator takes into account category 1 and 3 accidents. Occupational diseases are included in this indicator as category 3 accidents. Occupational diseases are not addressed outside this indicator. All Valeo employees, whatever their contract (temporary worker, service provider, trainee, VIE), are factored into the calculation of the number of accidents.

(2) Calculation of FR2: number of occupational accidents, with or without lost time x 1,000,000/number of hours worked during the year. This indicator was removed from the employee-related audit scope in 2019.

The accidents covered by these indicators include all Valeo employees, regardless of their type of contract (permanent, fixed-term, apprenticeship, internship, VIE, interim and services). With regard to service providers, while the number of occupational accidents is reported, their hours worked are excluded from the calculation. Consequently, the calculation method accentuates the frequency and severity rates.

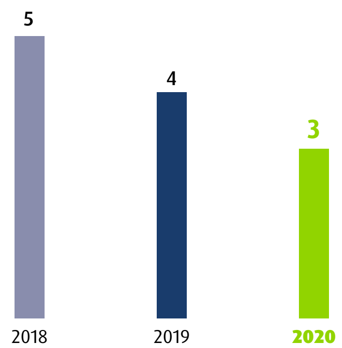
This choice stems from Valeo's decision to record the occupational accidents of all Valeo employees and service providers. The Group's improvement targets for accidents apply to everyone, regardless of contract type.

Severity rate (SR1(1)) of occupational accidents



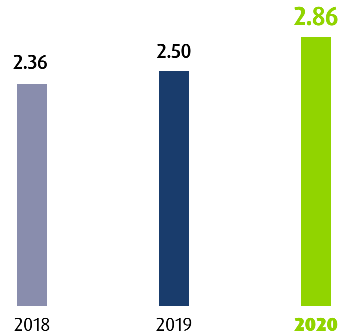
While the severity rate deteriorated from 0.06 to 0.07 in 2019, it improved significantly in 2020, with a reading of 0.04. This is a consequence of the pandemic. The slowdown in activity resulted in a decline in the number of accidents with lost time and their severity.

Number of category 1 accidents(2)



The number of category 1 accidents continued to fall in 2020. The year's three accidents involved three Valeo employees. The challenge for Valeo is to ensure compliance with its safety standards, not only by its employees but also by its service providers.

Absenteeism rate (3)



The acceleration of the increase in the absenteeism rate in 2020, from 2.50% to 2.86% (an increase of 0.4 points) is linked to the global pandemic, with the consequences for employees of the various periods of lockdown on the organization of their personal lives. The rate had never before reached such a high level.

Risk related to attracting talent

Description of the risk

Attracting the best talent is a key challenge for Valeo in achieving its goals in a competitive environment that is undergoing profound transformation. The Group's success hinges on attracting skilled employees internationally in fast-growing markets and emerging countries, and in fields of advanced technology, such as CO_2 emissions reduction and intuitive driving technologies.

Valeo bolsters its appeal by conveying an image and employer promise that are consistent with its corporate values and culture. Valeo regularly communicates on employment and career opportunities through various communication channels, including social networks. Having skilled teams ensures that Valeo can meet the expectations of its customers around the world, and add value in terms of innovation, total quality and competitive solutions and services.

Risk management policy

As part of the "One HR" comprehensive transformation project (see Chapter 1, section 1.5.7 "Human Resources Department", page 80), a recruitment organization in the form of Talent Acquisition Centers (TAC) has been in place since 2018 to generate recruitment synergies at national and regional level. The TACs bring together all teams dedicated to scouting and attracting "Manager and Professional" talent in a given country or region. In 2020, Valeo had 23 TACs worldwide.

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

(2) Category 1 accidents: severe accidents (accidents resulting in amputation, disability, major trauma or the death of an employee).

(3) Calculation of the absenteeism rate: actual hours of absence expressed as a proportion of total possible working hours. Hours of absence taken into account are absences due to a workplace accident, illness, suspension of work, strikes, absences authorized other than statutory holidays, unauthorized absences. Possible working hours are equal to the number of days worked in the month x the daily working hours (excluding overtime) month end registered headcount.*

To support the implementation of this new organization, Valeo has developed a comprehensive IT solution to manage recruitment. The main objective is to increase the efficiency of the recruitment process, reduce its cost and duration, improve quality and follow-up, and give better visibility to job opportunities available.

During the first half of 2020, the hiring policy was adapted to the economic slowdown, with a reduction in temporary contracts, while the upturn in activity in the second half of the year prompted an increase in hiring, mainly of production staff. Against this backdrop, the Group increased its use of internal mobility, and continued to make progress in reducing recruitment time (less than 75 days for external recruitment, less than 45 days for internal mobility). In 2021, the strength of the recruitment teams will more than ever be synonymous with their sense of anticipation and their flexibility.

Measures taken to reduce the risk

Valeo's recruitment policy is based on a strong employer brand, which enhances the Group's visibility and its appeal for the talents of tomorrow. Managing relationships with schools and forging strong and special partnerships is a priority for the Group. In 2020, 77% of Valeo's plants maintained relations with higher education institutions (universities, engineering schools, business schools, etc.).

Although several apprenticeship-related events were canceled in the first half of 2020 (apprenticeship fairs, workshops), the Group continues to welcome young people as part of their studies. They accounted for 5% of the registered headcount in France at December 31, 2020. This ambition is global, but is especially evident in France.

A team of recruitment experts has worked on implementing tools to anticipate needs. The TAC teams from different countries have created "Hiring4me", an e-learning module for managers, giving them the tools to create exemplary recruitment, free of any discrimination in hiring.

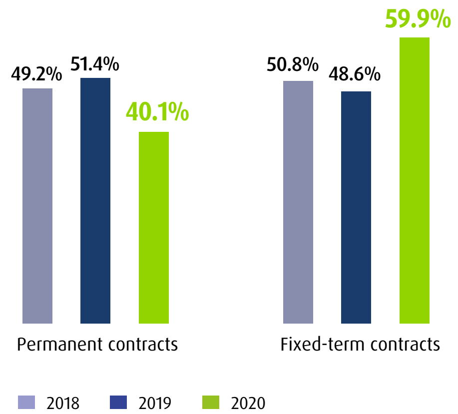
#REFERAFRIEND, OR CO-OPTING AT VALEO

In 2020, thanks to the "#REFERAFRIEND" program, 9% of Managers and Professionals were co-opted. Valeo actually launched its co-optation program in 2019. Capitalizing on employee engagement, it allows Valeo job offers to be shared and applicants to be recommended. Experience shows that co-opting employees only put forward the people most capable of ensuring the responsibility attached to the vacant position. Co-opters receive a financial incentive.

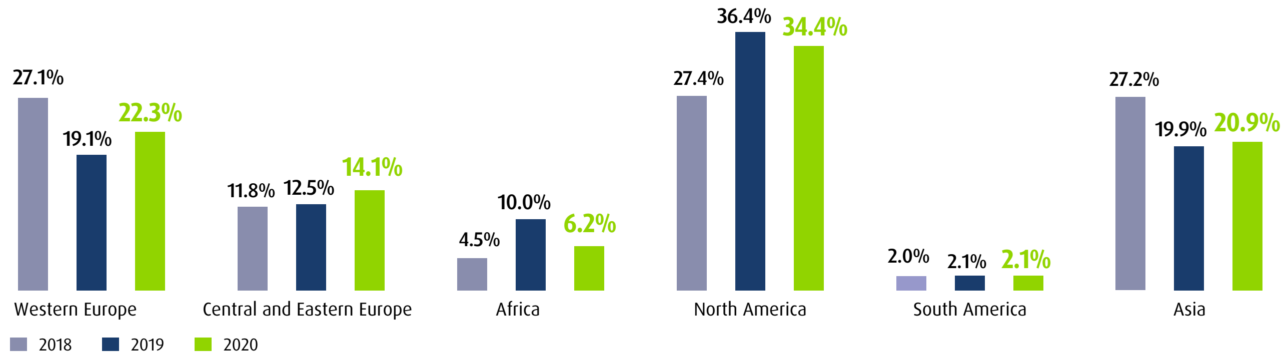
Wishing to facilitate quick and successful integration, Valeo also offers an onboarding program called "Discovery" for Managers and Professionals. Harmonizing the onboarding process ensures that newcomers receive quality information, reinforces the role of the manager, ensures that more local information is provided, and provides an even friendlier atmosphere thanks to a "buddy" support program. As such, each newcomer's onboarding program is now broken down into five steps: the welcome by a "buddy", an individually tailored program, presented from day one, that sets out the various stages of the employee's induction, an online course containing information about the Group (organization, products, values and culture), participation in a welcome session organized by the site and regular meetings with the manager during the first six months.

Results and performance

Breakdown of new hires by contract type



Breakdown of new hires by geographic area



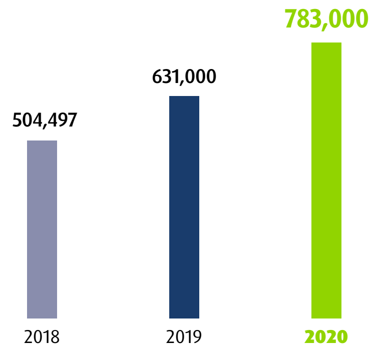
In 2020, Valeo hired 20,332 employees, 8,161 of whom on permanent contracts and 12,171 on fixed-term contracts, compared with 15,067 and 14,223 in 2019, respectively. Against the backdrop of the pandemic and the ensuing decline in activity, recruitment for permanent contracts fell by 46% between 2019 and 2020, while recruitment for fixed-term contracts was down 14%. Over 80% of 2020 hires were non-management employees.

Geographically, the share of new hires was down significantly in Africa (by 3.7 percentage points) and North America (by 2 percentage points). It increased in Western Europe (by 3.2 percentage points), Central and Eastern Europe (by 1.6 percentage points) and Asia (by 1 percentage point). The level of progress matched the economic recovery and the health situation in the countries of the area. In South America, the recruitment rate was stable at 2.1%.

Valeo continues to develop its presence on social networks, posting on LinkedIn, Facebook and Twitter, as well as on YouTube, Xing and WeChat in order to develop its employer brand and remain visible on the market.

In 2020, the number of LinkedIn followers grew to 783,000, a 24% increase on 2019. Valeo achieved its 2020 target of more than 600,000 followers a year ahead of schedule. Greater numbers of employees are playing the role of ambassador in this area, with their number reaching nearly 1,220 in 2020.

Change in the number of LinkedIn followers



Risk related to developing and retaining talent

Description of the risk

The Group relies on its employees to support its growth and maintain relationships with its customers worldwide.

To this end, Valeo is committed to recognizing and valuing talent, while retaining talented employees thanks to ambitious compensation, professional development, training and internal mobility policies. The objective of these policies is to empower each employee in their career and in the development of their skills to ensure their operational excellence.

Risk management policy

Developing and retaining talent is one of the Group's most critical challenges, with Human Resources departments in all entities boasting specific skills. At Group level, as well as at the country and site levels, the managers responsible for talent development, training, compensation and benefits work together to develop ambitious policies that meet employee demands and match the Group's strategy. Together they focused on four essential levers:

- training;
- skills development;
- compensation and benefits;
- development of the network of experts.

The objectives of Valeo's Human Resources Department for 2025 are as follows:

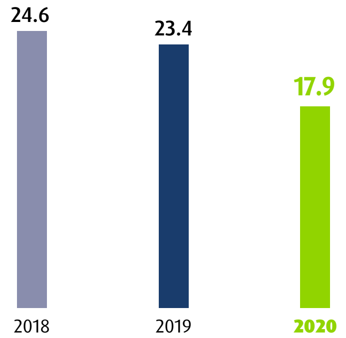
- stabilize the voluntary departure rate among Managers and Professionals at 7%;
- reach an employee shareholding rate of 65%;
- give 100% of employees training in at least one module each year.

Measures taken to reduce the risk

Training

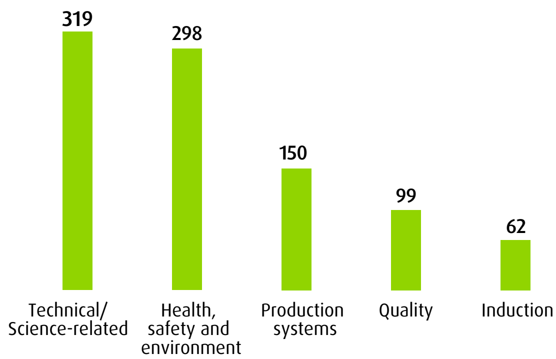
As employee training is a tool for developing and retaining talent, Valeo continued its internal training efforts in 2020. In 2020, 82,195 employees took at least one training course during the year, or 83.1% of the total headcount.

AVERAGE HOURS OF TRAINING PER EMPLOYEE – REGISTERED HEADCOUNT



Each employee received an average of 17.9 hours of training during the year. The knowledge and mastery of tools and working methods by all of its employees is essential for Valeo. While the average number of training hours per employee fell by 24% between 2019 and 2020, Valeo ensured that all Group employees were trained in the safety protocol for the resumption of on-site work, either through e-learning or with an HSE trainer for operators. The sharp decline is the result of a combination of measures: the introduction of short-time working had an impact on the availability of employees; and the increase in working from home and the constraints linked to the security protocol caused the postponement or even cancellation of training courses.

BREAKDOWN OF HOURS OF TRAINING OF THE FIVE MOST POPULAR TRAINING COURSES IN 2020 (IN THOUSANDS OF HOURS)

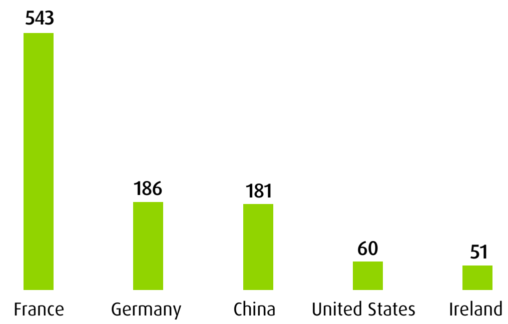


To reinforce the expertise of its employees, Valeo has set up in-house technical training. The Group offers continuous training for its technicians and engineers to encourage innovation at all levels. In 2020, 318,698 hours of "technical and scientific" training were provided despite the Covid-19 crisis.

As safety and ergonomics are essential levers of commitment and motivation among our employees, the Group has developed specific training modules to foster awareness of these issues. As soon as they are inducted and throughout their career, employees receive face-to-face and online training specifically dedicated to the identification, control and management of risks (e-learning modules detailing the HSE – Health, Safety and Environment directives). A total of 298,191 training hours were dedicated to safety in 2020, compared to 366,247 in 2019. Despite the 19% drop in the number of hours of HSE training due to plant closures, 100% of employees received training before returning to the site following the first period of lockdown, either through e-learning or with an internal HSE trainer for operators.

Courses are run mainly through the Group's powerful network of Experts. They are designed to provide advanced training on Valeo products, technologies and manufacturing processes. Experts play a vital role in the transmission of knowledge and skills at all levels of the organization. Each year, the Group identifies and appoints Experts to provide support for prospective new products and the development of industrial processes. In 2020, Valeo had 1,373 Experts of 37 different nationalities in 24 countries worldwide, breaking down as 1,004 product experts and 369 process experts. Between 2019 and 2020, the number of Experts increased by 9%.

Top five countries with the most experts in 2020



With approximately 40% of Valeo Experts, France is home to the largest number of experts in the Group, a total of 543; five countries (France, Germany, China, the United States and Ireland) together account for 75% of Experts. Moreover, strong growth was notably recorded in the number of Experts between 2019 and 2020 in Poland (up 46%), China (up 44%), Egypt (up 41%) and Thailand (up 40%).

Talent development

Individual development plans and career interviews are in place to help employees succeed in the next stages of their career:

- the Group has set up a competency dictionary by network and function, describing each skill and the level expected for each function. Each year, employees meet with their manager to assess their cross-functional (general), managerial and professional competences, and to draw up an action plan to reduce the skills gap;
- the Group has also defined career paths for all positions existing within its organization. These paths can be accessed by all employees via a mobile application, and are also available to external applicants. The goal is to empower each employee in his or her own career development.

A succession and development plan is drawn up each year to identify the next stages in the career path of all Managers and Professionals. It is implemented by each Group entity via a committee responsible for selecting internal candidates for vacant positions. Moreover, during their mid-year or year-end appraisal, all Managers and Professionals are made aware of succession plans and the possible next steps in their career paths identified by management and Human Resources teams, taking into account their aspirations.

To ensure a match between identified career paths and vacant positions, a meeting designed to review talent and competences, known as the "People Review", is arranged by sites and networks at each level of the organization. This meeting thus promotes geographic and functional mobility. This very active internal mobility policy allows the Group's employees to develop throughout their career by working in different functions in other networks or sites.

Furthermore, each year, Valeo offers international career opportunities in the form of assignments of less than one year or expatriation to ensure the transfer of competences to new locations, the strengthening of certain essential skills to support the growth of Valeo's activities internationally, and the individual development of the employees concerned.

This dynamic policy and these tools allow Valeo to create a pool of internal talent to fill vacant positions. As a result, a total of 13% of Managers and Professionals benefited from career development opportunities in 2020 (against 24% in 2019 and 14% in 2018). The average length of service of Valeo Managers and Professionals in each position is three years.

In addition to the specific actions taken among Managers and Professionals, the Group strives to promote career development among non-managers, both operators and technicians, and supervisors. In 2019, a specialists' path accessible to non-managers (mainly in the Research and Development, Industrial and Quality networks) was developed in France in the same spirit as the Expert approach. 31 specialists were appointed in 2020, 35% of whom are non-managers.

Overall compensation and benefits

Valeo also conducts regular competitiveness analyses of salaries in the major markets where Valeo competes for jobs (mainly automotive and hi-tech), to ensure the appropriateness of pay scales in the countries where the Group operates.

Compensation policies are developed based on a broad range of reliable sources including market practices from specialist compensation consulting firms, as well as central bank and government agency forecasts.

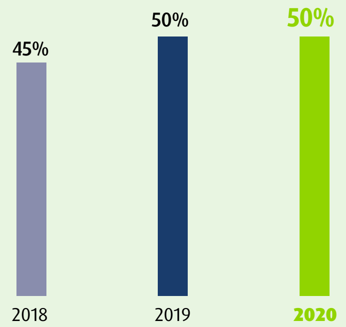
Each year, the country Human Resources Directors propose wage increases and benefits based on inflation, projected average increases in the market by category, the unemployment rate and sales. The Group validates and sets budget directives in each country, depending on their specific situation. This approach enables the Group to offer appropriate packages for each employee in all countries.

In 2020, Valeo redefined its Job Grading System, aligned with external market practices and ensuring internal recruitment and development based on objective criteria. Variable compensation programs for managers have been adapted within this framework.

2020 EMPLOYEE SHARE OWNERSHIP INITIATIVES

In 2016, Valeo introduced a share subscription offering reserved for employees, known as "Shares4U". A fifth employee shareholding campaign took place in 2020. Through such offers, Valeo's management team sought to acknowledge the personal involvement of employees and give them a greater share in the rewards of the Group's performance. In 2020, around 90,000 Group employees were eligible in 21 of the countries where Valeo operates. At the end of the subscription period, which began on September 21 and ended on October 9, 2020, 680,660 new shares were subscribed at a price of 21.61 euros each. Employees received a discount of 20% to the reference share price. At December 31, 2020, around 50% of employees were Valeo shareholders thanks to the share ownership policy implemented in 2010 and the recent Shares4U offerings (see Chapter 6, section 6.4.5 "Employee share ownership", page 434).

Percentage of employee shareholders at Valeo



Payroll costs and personnel expenses

(in millions of euros)	2018	2019	2020	Change (2020/2019)
Payroll costs excluding social security contributions and interim staff (A)	2,935	3,102	2,735	-12%
Social security contributions (B)	675	690	599	-13%
Pension costs under defined benefit plans (C)	57	41	13	-68%
Pension expenses under defined contribution plans (D)	112	118	110	-7%
Total payroll costs (excluding interim staff) (E)	3,779	3,951	3,457	-13%
Contribution rate ((B+D)/A)	26.81%	26.05%	25.92%	-0.13 pts

(in millions of euros)	2018	2019	2020	Change (2020/2019)
Total personnel costs (including interim staff)	4,240	4,385	3,775	-13.9%
As a % of sales	22.1%	22.5%	23.0%	+0.5 pts

Breakdown of payroll by geographic area in 2020

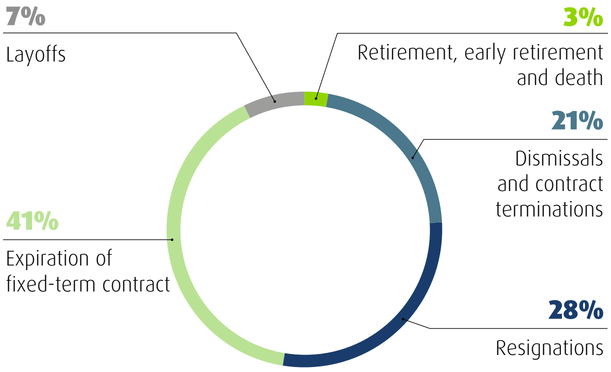
(in millions of euros)	France	Europe (excl. France)	Outside Europe
Payroll costs excluding social security contributions and interim staff (F)	635	968	1,132
Social security contributions (G)	233	212	154
Total payroll costs (excluding pension costs) (H)	868	1,180	1,286
Contribution rate (G/F)	36.7%	21.9%	13.6%

The payroll fell by 13% in 2020 compared with 2019 due to the reduction in the Group's headcount over the period and cost variabilization implemented during the year in response to the Covid-19 crisis.

As a result of the decrease in the payroll, social security contributions also fell by more than 13% in 2020 compared with 2019. Pension costs fell by 23% between 2019 and 2020, with defined contribution plans accounting for nearly 90% of these expenses. The ratio of social security contributions eased slightly to 25.92%. It is important to note that those paid in France represented around 39% of total social security contributions paid across the Group as a whole.

Results and performance

Breakdown of turnover by cause in 2020

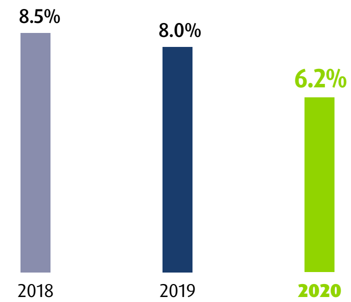


In 2020, 25,119 employees left the Group, compared with 26,114 in 2019. The termination of fixed-term contracts was the biggest cause of departures (41%), followed by resignations, and dismissals and agreed terminations (28% and 21% respectively).

Operators accounted for 67% of resignations, among which 35% were employees on fixed-term contracts. The departure rate for direct labor is increasing, notably due to the tight local job markets of several sites, especially in North America.

Faced with this risk, Valeo is implementing country action plans adapted to local issues in respect of hiring and retaining operators, especially in areas in full employment. They include recruiting a workforce near the plants, favoring permanent contracts over temporary contracts while preserving a certain flexibility, revising the hourly organization of the teams and ensuring the integration of new employees. The Group's pay, training and career development policy is key to attracting and retaining blue-collar staff.

Voluntary turnover of Managers and Professionals (1)



In 2020, the turnover rate for Managers and Professionals in the Group was 6.2%, a significant decline of 1.8 points compared with 2019. More than 80% of the countries saw their turnover rate for Managers and Professionals narrow, to 7 points in Romania and 5 points in Hungary, Poland and Thailand. The leading cause of resignation, in addition to personal reasons, are compensation and the organization of work and responsibilities:

- younger age groups (people under 30) have the highest turnover rates: 8.8%;
- turnover was lowest in Germany (3.8%), Turkey (4.3%), Japan (5.2%) and France (5.4%);
- turnover was highest in Malaysia, Romania, Hungary, Morocco and the United States, where specific measures (compensation, career development, promotion of diversity, etc.) have been taken to bring the rate down significantly;
- in 2020, Eastern Europe (7.8%), North America (7.4%) and South America (7.4%) accounted for the largest number of resignations in the Group.

Promoting internal mobility and skills development

To ensure the retention of talents, Valeo informs each Manager and Professional, in preparation for their mid-year or year-end appraisal, that they have the possibility of expressing their career development wishes ahead of the meeting. Their wishes were then reviewed and discussed by line management and the Human Resources network, with a view to giving precise feedback on career prospects during the year-end appraisal.

The turnover rate, i.e., the number of resignations as a percentage of the average headcount(2), improved from 8.2% in 2019 to 6.5% in 2020. The economic context is the main cause of this 1.7 point drop. Valeo monitors the voluntary turnover rate of Professionals and that of the direct workforce on a monthly basis to ensure its operational excellence and the retention of its talents.

4

(1) The calculation of the voluntary departure rate of Managers and Professionals takes into account resignations during the year.
(2) The average headcount is the sum of the Group's total headcount in each quarter divided by 4.

Risk of individual corruption

Description of the risk

The fight against corruption is intensifying and becoming more widespread. Most countries now have extremely stringent regulations sanctioning corruption and the absence of a compliance mechanism or program.

In view of its operations in countries with endemic corruption and the attendant various risks of civil sanctions, and the impact of potential corrupt practices on its reputation, operations, financial position and profitability, Valeo is active in the fight against corruption.

Risk management policy

Valeo's anti-bribery program, which reflects its commitments and values, is designed to enable the Group to preserve its integrity and avoid risks relating to individual corruption.

The program, which is backed by the governing body and management teams, sets out prohibited practices and defines the conditions and prerequisites applicable to certain business relationships or cooperation arrangements. Its main components are:

- Valeo's Code of Ethics;
- corruption risk mapping;
- the commitment of the governing body;
- the policy governing gifts, invitations and donations;
- the conflict of interest management policy;
- the business partner assessment policy;
- the selection policy for agents and intermediaries;
- a multilingual, secure and confidential whistleblowing line accessible to employees and third parties; and
- a policy of generic and specific training.

It is complemented by a set of instructions and decision-making tools designed to prevent corrupt behavior and practices.

Its implementation and effectiveness are subject to internal controls and multiple audits.

It is regularly updated in a spirit of continuous improvement, awareness-raising, training and prevention.

The program is rolled out globally by the Ethics and Compliance Office, with the support of Compliance Champions, who are experienced executives known and acknowledged by their peers and their teams. Drawing on their detailed knowledge of the specificities of their network, country, Business Group or Activity, the Compliance Champions help relay the entire program to their teams, and guide employees on these challenges, thereby contributing actively to its implementation at all levels of the organization.

Following corruption risk mapping that is updated each year:

- targeted internal audits were conducted;
- additional training was provided;
- procedures for declaring conflicts of interest were clarified; and
- a communication campaign based on new practical cases was rolled out in 2020.

Measures taken to reduce the risk

As part of the program presented above, Valeo:

- has a Code of Ethics formally prohibiting all forms of corruption;
- maintains global corruption risk mapping that allows it to adjust its policies and areas of attention as needed. In 2020, this mapping was broken down into regional maps;
- has a comprehensive anti-corruption program including policies, decision-making support tools and manuals for its staff and directors;
- also has a management program for risks represented by certain third parties, consisting of:
  - the business partner assessment and selection policy,
  - the Business Partner Code of Conduct,
  - specific mandatory training for some of their employees;
- provides annual theoretical and practical training illustrated by numerous examples and practical cases to all Valeo Managers and Professionals, as well as any employees exposed to risks of corruption in the course of their duties;
- requires induction training in Business Ethics and Compliance for newcomers, particularly following acquisitions;
- regularly reaffirms its commitment to fighting corruption in its internal communications;
- benefits from an active prevention system:
  - an alert system open to all Valeo employees and stakeholders (two liaison officers, an outsourced whistleblowing line, an investigation team, etc.),
  - an Alerts Committee that processes alerts and determines the necessary action plans and/or sanctions,
  - regular internal controls,
  - targeted internal audits.

Results and performance

Circulation of the Code of Ethics

In 2020, 99% of new employees signed a declaration acknowledging receipt of a copy of the Code of Ethics. This initiative is aimed at ensuring that all employees joining the Group are informed and have fully grasped their rights (social rights, human rights, etc.) and the rules that apply to them (anti-corruption, etc.).

The Code comes with a mandatory training module, the results of which are presented below.

Anti-corruption training

To ensure an understanding of internal and external anti-corruption policies, tools and behaviors, Valeo has developed compulsory e-learning modules for newcomers (people hired during the year) and Valeo's other Managers and Professionals.

In 2020, 98% of new employees took and validated the Anti-Bribery Compliance Induction Program module.

To ensure that all of the Group's Managers, Professionals, and people exposed to the risk of corruption, fraud and anti-competitive practices are properly trained to deal with those issues, Valeo has created dedicated mandatory online training programs. Compliance with training obligations in 2020 was subject to strict monitoring by the Group's Human Resources Department and the Ethics and Compliance Office, with mandatory catch-up sessions. In 2020, 99.98% of the people concerned took and passed it.

Risk related to suppliers' sustainable development practices

Description of the risk

Broad change in supplier chains, the emergence of new forms of indirect subcontracting and the desire to control risks of disruption in the supply chain by taking into account a wider range of risk factors have prompted Valeo to formalize over recent years a demanding policy in terms of sustainable development with regard to its suppliers.

In light of this reality, Valeo has begun implementing a policy to monitor its suppliers in the following key areas: governance, human rights, the environment, health and safety and supplier relations. The Group has drawn up questionnaires on these key areas, which have become control points for Valeo.

Following the launch of Valeo's Carbon Neutrality Plan in 2020, Valeo's suppliers' understanding of environmental risk has been strengthened.

Risk management policy

Structure of the purchasing function at Valeo, and supplier relations

As a tier-one automotive supplier[1], Valeo is at the heart of the automotive industry supply chain. While it is an order-giver to tier-two and lower-tier suppliers, the Group is a supplier of technologies and systems to automakers.

Its activity is compliant with standards and laws in force, while also meeting Valeo's sustainable development, ethics and compliance requirements. In dealing with its suppliers, the Group places priority on:

- quality;
- industrial location;
- competitiveness.

Management of the supplier panel

The Group's Purchasing Department has two major priorities:

- commodity (product family)/segment, in charge of the commodity purchasing strategies specific to these products;
- project and mass production, focusing on day-to-day operations (initiation of projects using cost-effective parts, implementation of technical manufacturing efficiencies, diversification of suppliers, etc.).

Purchasing departments in each of the Group's regions (Europe, Middle East, Africa, China, India, Japan, ASEAN[2], North America and South America) interact continuously with the commodity/segment teams to ensure that efficient, meaningful purchasing strategies are applied.

Sustainable development requirements and consolidation of suppliers in the Valeo panel

Selection and award meetings chaired by the global segment buyers are held to screen all proposals from suppliers based on a number of objective and rigorous award criteria.

The criteria for selecting suppliers and awarding bids/contracts include:

- economic factors;
- financial risks;
- logistics;
- corporate governance;
- environmental factors;
- social factors (respect for fundamental rights, environmental protection, employee health and safety, and quality).

Over 90% of the mandatory items in the supplier qualification questionnaire relate to non-economic criteria. For instance, sustainable development **criteria are given a weighting of close to 20% in the supplier's final score**, and any failure to meet these criteria automatically disqualifies suppliers from being included in Valeo's supplier base. In 2020, these requirements were reinforced by the inclusion of criteria relating to suppliers' carbon performance and the establishment of objectives for reducing their carbon trajectory over ten years, in line with Valeo's objectives.

(1) The tier corresponds to the automotive supplier's position relative to the automakers. Thus a tier-one supplier delivers directly to the automaker and a tier-two supplier delivers to the tier-one automotive supplier.

(2) ASEAN: Association of Southeast Asian Nations.

Before any supply agreement is awarded, suppliers must undergo the following qualification process:

- each supplier is required to complete a detailed questionnaire to enable Valeo to identify potential risks and to determine the overall level of risk. Based on these evaluations, Valeo checks the main requirements, highlights potential weaknesses and decides whether it needs to examine certain issues further during a visit to the supplier's plant. If so, an audit team composed of Group buyers, quality specialists and engineers is selected and sent to the site to verify the information given by the supplier. Following the site visit, the team decides whether or not the supplier can be included on the supplier panel, possibly following the implementation of an improvement plan jointly agreed with the supplier;
- after the meeting of the selection committee and the award of the contract, the supplier is officially listed, and the specific requirements for the deliverable components are set out in Valeo's specifications. A Supplier Quality Engineer from the project team monitors the development and industrialization of components and guides the supplier through final component qualification. If necessary, Valeo's laboratories perform interim design reviews, run tests and take any special measures required. In any event, Valeo always performs an on-site audit.

To be included in the supplier panel, suppliers must meet Valeo's ethics, integrity and sustainable development requirements. In 2015, these obligations were combined in the Business Partner Code of Conduct. This document incorporates all the fundamental principles of the UN Global Compact, the Valeo Code of Ethics and a set of fundamental rights including the freedom of association, the elimination of forced labor, the fight against corruption and workplace health and safety. Any supplier that fails to respect these rules of conduct is liable to receive sanctions, ranging from temporary suspension from new Valeo projects to definitive exclusion from the supplier base. No sanctions of this type were imposed in 2020.

Valeo's supplier base breaks down into several categories based on the supplier's performance level in a given product family. In the event of critical performance or non-compliance with Valeo requirements, a supplier can be placed on "probation" for a maximum of one year and be required to implement an action plan. If the probation period is not successful, the supplier may be excluded from the supplier base.

New suppliers are also placed on probation for at least two years. During this period, the number of projects assigned remains under strict supervision to protect the supplier against the risk of becoming overly dependent on Valeo.

With this system, Valeo aims to better control its supply chain while building trusting relationships with its suppliers through cooperation on remedial action or improvement programs that are aimed at preventing or limiting operating risks.

Measures taken to reduce the risk

Assessment of suppliers' sustainable development practices

As part of the Group's policy of reinforcing the support offered to its suppliers along the entire supply chain, the Sustainable Development and External Affairs, Purchasing and Quality Departments have launched a survey on sustainable development choices across a representative sample of suppliers accounting for 80% of the Group's production purchases.

Valeo reinforced this assessment of practices in 2016, by scheduling a global audit campaign among suppliers identified through the sustainable development questionnaire. Audits have been performed in Europe, Asia (China, Japan, India, Thailand) and North America (United States, Mexico), giving suppliers a new dimension of support in their sustainable development approach. The variety of the suppliers audited (by commodity, segment, company size, etc.) enabled Valeo to grasp the diversity of sustainable development practices, and to provide assistance and corrective actions in the event of failings or inadequacy in respect of the Group's sustainable development standards.

This methodology has been endorsed by Valeo's customers and acknowledged by non-financial rating agencies. The stabilization of audit processes allowed specific sectors, such as electronics, to be targeted in 2016-2017, followed by certain regions, such as India (see box below), in 2019.

2020 was to be dedicated to expanding the audit program in India, with the monitoring of action plans implemented by audited suppliers, and initiating a similar program in other ASEAN countries. However, the Covid-19 crisis slowed this process due to the inability of audit teams to travel to inspect supplier sites. The standard for assessing suppliers' risks and sustainable development practices was nevertheless revised to specify the levels of requirements in certain areas, particularly in terms of managing environmental risks, carbon emissions and energy consumption.

Anticipatory measures to ensure legal compliance in France

To anticipate changes in the French legal framework[1], and on the basis of feedback from its suppliers on certain evaluation criteria, the Valeo Business Partner Code of Conduct specifies the Group's requirements in terms of fundamental rights (minimum working age, prohibition of forced labor, respect for freedom of association, etc.), workplace health and safety and respect for the environment. In addition to the commitment made by Valeo's suppliers to comply with the Valeo Code of Conduct, the Group has included a section related to human rights in the sustainable development questionnaire it sends each year to a representative sample of its suppliers.

(1) Law No. 2017-399 of March 27, 2017 on the duty of care of parent companies and ordering companies.

Assessment of critical suppliers' sustainable development practices

Keen to conduct targeted and specific audit campaigns with purchasing segments or areas identified as critical or at risk, Valeo set the ball rolling with an audit campaign for electronics suppliers in 2016. Between 2016 and 2018, suppliers representing nearly 30% of purchases of electronic components and systems were audited (semiconductor industry, manufacturers of electronic parts, embedded systems, etc.). In 2019, a second specific campaign was focused on suppliers in India and the Southeast Asian countries.

The 2019 Indian campaign had three key stages:

- selection of suppliers based on specific criteria (segment, quality, etc.) and a universe of local risks in India (human rights, working conditions, etc.);
- training program in sustainable development and Valeo's requirements in this area, over the first half of the year;
- two-phase supplier assessment campaign: a self-assessment questionnaire on sustainable development, followed a few weeks later by a dedicated on-site audit.

Valeo selected 25 suppliers of various sizes and segments (including assembly, foundry and forging), who were trained up to Valeo's requirements. Nearly half of them were also audited. The exercise was accompanied by methodology for verifying data and face-to-face audits on a broad range of aspects including the environment, health and safety, site energy consumption, human rights, ethics in business relationships, workers' employment conditions, diversity, understanding of Valeo's technological roadmaps as a customer to be satisfied.

The audit results showed:

- an absence of alarming situations or risks in respect of human rights, health and safety, or environmental damage;
- but a need for follow-up actions to bring suppliers to the highest levels of qualification under the Valeo sustainable development standards.

The plan was to follow up the corrective actions recommended in 2019 by means of an audit campaign in 2020. The corrective measures relate essentially to better energy optimization, better consideration of the environment and an increasingly demanding approach to lower-tier suppliers.

Travel restrictions and the slowdown of business (and complete shutdowns) slowed down the audit process in 2020. For 2021, the assessment and audit process has been reviewed, taking into account the availability of digital tools and the mobilization of local teams, in order to resume a process of physical audits of supplier sites.

Results and performance

Results of assessments of suppliers' sustainable development practices in 2020

An annual self-assessment of sustainable development choices made by a representative sample of suppliers whose sales with Valeo covered 80% of the Group's production purchases was conducted in 2020. The response rate was 20% in 2020, up by 1 percentage point compared with 2019.

This assessment highlighted the fact that in addition to the Group's requirements, more than 91% of the respondent suppliers have their own CSR policy based on a charter, a code of conduct, best practices and a set of guidelines. A total of 51% of such policies are also communicated publicly. With a view to validating their commitments, close to 51% of the Valeo suppliers that responded to the survey have initiated voluntary certification and labeling programs for environmental policies covering at least 50% of their sites.

For 74% of the survey respondents, commitment to sustainable development and CSR also involves communicating their own sustainable development and CSR standards and requirements to their pool of suppliers. More than one-third of the suppliers surveyed assess their own suppliers' compliance with these requirements through evaluations on the same sustainable development issues and the duty of care, as part of supplier selection processes or through self-assessment or audits.

With this type of questionnaire, Valeo hopes to transmit its CSR experience to its suppliers by communicating quality and responsibility requirements, which are important aspects in risk management, and to set an example to encourage its suppliers to apply the same principles throughout the supply chain.

Conflict minerals

In 2013, Valeo's Purchasing Department aligned its sourcing processes with the American Dodd-Frank Wall Street Reform and Consumer Protection Act of July 21, 2010 on conflict minerals (title XV) in a joint effort to end the financing of violent conflict in the Democratic Republic of the Congo (DRC) and neighboring countries, which is financed in part by mining and the mineral trade. Valeo requires all its suppliers to comply with the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act.

A specific initiative introduced in conjunction with the Research and Development Department allows the Group to better identify potential sources of conflict minerals. Thus, in 2020, 75% of the suppliers identified using this initiative provided the Group with a certified report on conflict minerals using the Conflict Mineral Reporting Template (CMRT) developed by the Conflict-Free Sourcing Initiative (CFSI).

Since then, the comprehensive CFSI initiative has been expanded to form the Responsible Minerals Initiative (RMI). The actors in the value chain are integrated into the prevention and audit actions of this initiative, notably through the pooling of due diligence procedures and the results of audits. Valeo is contributing to this initiative through a company specialized in monitoring and evaluating practices in terms of conflict minerals.

To help suppliers apply the Group's ethics and compliance principles, the Purchasing Department and Ethics and Compliance Office have provided manuals on Valeo's website to raise awareness about both the substantial legal risks of anti-competitive practices and corruption and about Valeo's compliance policies and requirements.

By monitoring discussions in this area in Europe, Valeo evaluates its internal processes with a view to anticipating and adapting the Group's tools to the future European framework.

Diversity programs applied to North American suppliers

Minority diversity programs in North America (United States and Canada) have added the Women's Business Enterprises (WBE), Minority Business Enterprises (MBE) and Veteran Business Enterprises (VBE) to the evaluation criteria for US and Canadian suppliers. Criteria for the integration of women, minority and veteran business enterprises apply to supplier qualification, selection and award processes held during meetings reviewing entities located in North America.

In 2020, the Valeo North America legal entity placed orders totaling more than 105 million dollars with suppliers classified as integrating women (WBE), minorities (MBE) and veterans (VBE), down compared with 2019 owing simply to the drop in volumes resulting from the crisis, but nevertheless above the projected budget of 95 million dollars. This amount represents nearly 53% of the long-term objective in terms of the Valeo Group's supplier diversity strategy for the United States.

The commitment also received the General Motors Silver Impact Award in 2019 and earned Valeo a nomination for the Michigan Minority Supplier Development Council (MMSDC) "MMSDC Advocate of the Year" award.

PURCHASING LOCATION BASED ON CONSUMPTION AREA

The Group generally favors a location strategy compatible with the demands of economic competitiveness, and one that contributes to local economic integration. This strategy applies across all of the regions in which Valeo operates.

It allows the Group to:

- reduce transportation-related CO_2 emissions;
- support local employment by developing skills;
- meet the expectations of local stakeholders (customers, local and national governments) that increasingly encourage local integration.

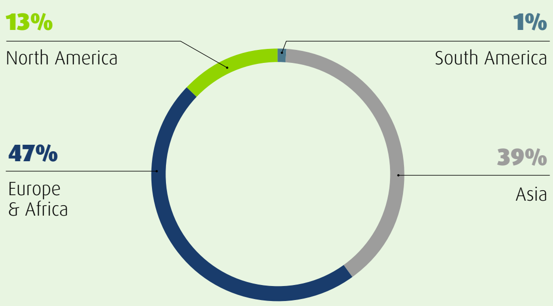
Furthermore, the policy of reducing the risks related to currency fluctuations has also led Valeo to favor local suppliers that comply with its supplier selection criteria.

The supply chain is based on the following principles:

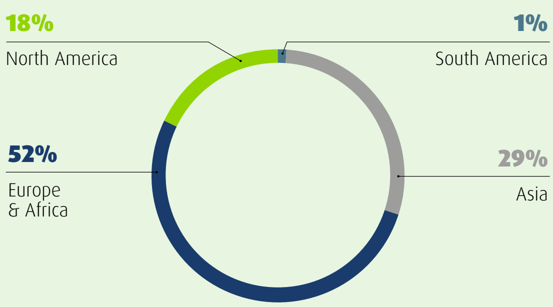
- symmetry between the areas of origin and consumption of purchases, reflecting the broad reach of Valeo's supply chain, in the Group's industrial footprint;
- balance between the main purchasing families, reflecting the breadth of Valeo's product portfolio.

The geographical breakdown of purchases by area of consumption and area of origin is accordingly virtually symmetrical:

Breakdown of direct purchases by geographic area of origin in 2020

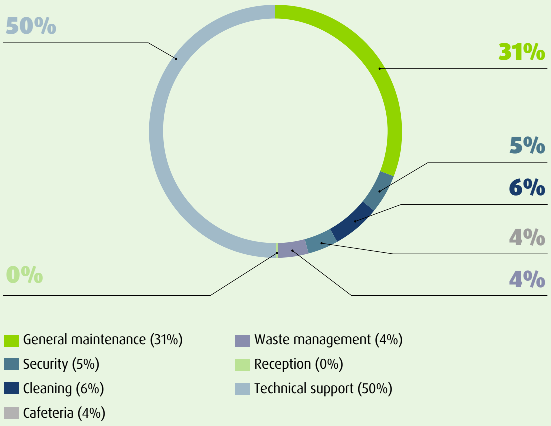


Breakdown of direct purchases by geographic area of consumption in 2020



Due to its long-established presence in the region, Europe is Valeo's primary geographic area in terms of consumption (52%) and purchasing (47%). As a direct result of the Group's growth strategy in emerging countries, Asia ranks second, in terms of both consumption (29%) and number of suppliers (39%).

TOTAL SUBCONTRACTING EXPENDITURE BY CATEGORY IN 2020



Valeo engages subcontractors to perform specific services at its many sites. As a result, the Group ensures that its subsidiaries comply with the provisions of national labor law and ILO conventions in their dealings with subcontractors, requiring them to sign and accept the provisions of the Valeo Business Partner Code of Conduct, and in particular the articles concerning employees' fundamental rights.

Subcontracting represented 405 million euros in purchases in 2020. Technical support services are significant, and account for 50% of this expenditure due to the IT services provided by outside companies (hardware, networks, services, computer applications). General maintenance costs represent 31% due to the industrial nature of Valeo's activities.

The use of subcontracting is also an important tool for the purchasing location in line with the geography of the Group's operations.

4.4 THE DUTY OF CARE PLAN

In accordance with the provisions of the law on the duty of care of ordering companies[1], Valeo drew up a duty of care plan in 2017, covering the subsidiaries, subcontractors and suppliers with which the Group has business relations.

The duty of care plan is the fruit of joint work by the various departments concerned (Strategy and External Affairs Department, Internal Audit and Control Department, Legal Department, Ethics and Compliance Office, Purchasing Department, Health, Safety and Environment Department and Human Resources Department), coordinated by the Sustainable Development and External Affairs Department.

In compliance with the French legal framework, Valeo's 2020 reporting sets out the measures in its duty of care plan[2]:

- the Group's risk mapping and non-financial risk analysis conducted in 2020 (see above), which include the provisions of the duty of care law (human rights and fundamental freedoms, personal health and safety and environmental breaches);
- the procedure for evaluating the situation of subsidiaries, subcontractors and suppliers;
- measures to mitigate risks or prevent serious breaches;
- whistleblowing and reporting mechanisms concerning the existence or occurrence of risks;
- mechanisms for monitoring the measures implemented and assessing their effectiveness.

The follow-up report on the measures implemented and the assessment of their effectiveness are presented below, with references to the corresponding sections of Chapter 4 giving access to a more detailed presentation.

(1) Law No. 2017-399 of March 27, 2017 on the duty of care of parent companies and ordering companies.
(2) Pursuant to the provisions of Article 1 of the aforementioned law.

Identification and definition of risks

Particular attention was paid to the duty of care during interviews and various information reviews conducted as part of Valeo's extensive work to map non-financial risks following the transposition of the 2014 European Directive[1] on the disclosure of non-financial information. Gathering information served to improve the identification and definition of risks, classified based on their criticality and their possible existence prior to the introduction of the duty of care law, in the risk map.

On the basis of this analysis, Valeo provides a condensed review of its provisions relating to:

- fundamental rights and freedoms: harassment and discrimination, child labor, forced labor (see section 4.5.4 "Employee-related commitments", paragraph "Respecting and promoting fundamental rights", pages 280 to 281);
- health and safety: (see section 4.3.3 "Valeo's non-financial risks", paragraph "Health and safety risk", pages 238 to 241);
- serious environmental breaches: (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk associated with accidental pollution of water and/or soil", pages 235 to 238).

Regular assessment of the situation of subsidiaries and suppliers

For Valeo sites, the practice of identifying risks specific to the duty of care confirmed the existence of risk factors that the Group had already identified and brought under control. This work confirmed earlier findings obtained from existing tools or assessment criteria used by the Group's subsidiaries:

- regarding fundamental freedoms, the fight against harassment and discrimination, child labor and forced labor: these issues are part of the protocols for the various sites' internal audit campaigns (see section 4.5.4 "Employee-related commitments", paragraph "Promoting and respecting fundamental rights", pages 280 to 281);
- in the field of workplace health and safety, particularly as regards compliance with minimum conditions governing the safety of individuals and facilities, the exposure of Valeo's sites to these risks is measured through annual 5 Axes audits;
- regarding serious environmental breaches, particularly the risk of air, soil and water pollution, and the management of hazardous waste, the sites' environmental risk management tools ensure the regular reporting of information to the Group (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk associated with accidental pollution of water and/or soil", pages 235 to 238, and section 4.5.3 "Environmental commitments", paragraph "Atmospheric emissions and discharges", pages 266 to 268).

The situation of the Group's activities is assessed regularly by measuring the extent to which the various roadmaps have been rolled out, in particular the 5 Axes roadmaps and regular internal audits. The result of the monitoring indicators is published annually in the Universal Registration Document, and the indicators are subject to an annual audit (see section 4.8 "Independent third party's report on the consolidated non-financial information statement", page 296).

For its suppliers, the Group has applied criteria bearing on risks relating to fundamental rights, workplace health and safety and environmental breaches since the creation of its sustainable development performance assessment tools in 2012. These tools provide a regular assessment of suppliers' practices, initiatives and policies regarding duty-of-care challenges, covering a growing proportion of Valeo's supplier panel (in 2020, it covered suppliers representing 80% of the amount of direct production purchases). Supplier practices and the tools for measuring and monitoring them are described in this chapter of the Universal Registration Document (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk related to suppliers' sustainable development practices", pages 249 to 253).

(1) Directive 2014/95/EU of the European Parliament and of the Council of October 22, 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

Initiatives to prevent serious breaches and mitigate risks

In addition to assessments and audits of the Group's sites and its tier-one suppliers (see above), Valeo has implemented support and prevention tools addressing serious breaches:

- for fundamental rights, prevention tools have been rolled out. They include training in the Code of Ethics, and risk mitigation measures, notably through the existence of a whistleblowing system (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk of individual corruption", pages 248 to 249);
- for workplace health and safety, new prevention tools are launched every year, along the lines of the Safety First campaign. As a complementary measure, in the event of serious breaches, appropriate action methodologies are rolled out at all of the Group's sites, in particular rapid risk management solutions, such as QRQC Safety, a rapid internal analysis approach to identify and limit the causes of a health and safety risk (see section 4.3.3 "Valeo's non-financial risks", paragraph "Health and safety risk", pages 238 to 241);
- for environmental risks, the Group has in particular an environmental management system with prevention and mitigation tools. To strengthen the monitoring of incidents that may have an environmental impact, the Group has been rolling out an internal tool ("Environmental Red Alert") since 2019, allowing sites to issue real-time alerts when a spill occurs and thereby inform the highest level of the Group's organization of the seriousness of the incident, monitor it and validate the resources used to minimize the impacts of the event (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk associated with accidental pollution of water and/or soil", pages 235 to 241).

Similarly, support has been provided to help the Group's suppliers control risks relating to fundamental rights, workplace health and safety and the environment (and more generally sustainable development), with their cooperation. This work was based on the exposure of their segment to certain risks and/or their respective sustainable development performance, measured through specific evaluations and audits.

In accordance with the policies in place within the Group, non-compliance with a standard set by Valeo triggers an on-site audit to confirm the situation before the implementation of appropriate action plans (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk of non-compliance with sustainable development requirements by Valeo's suppliers", pages 249 to 253).

Campaigns to raise awareness about risk prevention and mitigation are conducted each year, providing a reminder of Valeo's policies and requirements in this area. Dedicated Purchasing and Health, Safety and Environment (HSE) teams are regularly mobilized to help suppliers improve their performance. At the supplier conventions held twice a year by country grouping, the Vice-President, Sustainable Development sets out the Group's requirements, and shares sustainable development recommendations and best practices with the suppliers in attendance. For 2019, an awareness-raising initiative was specifically organized for Valeo suppliers in India (see section 4.3.3 of this chapter, "Valeo's non-financial risks", paragraph "Risk related to suppliers' sustainable development practices", pages 249 to 253).

A whistleblowing system

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

- suspected or proven acts of bribery or influence peddling, anti-competitive practices, export control and economic sanctions, and data protection regulations, such as:
  - a crime or offense,
  - a serious and manifest violation of an international commitment duly ratified or approved by France, of a unilateral act of an international organization taken on the basis of such an undertaking, or of legal or regulatory provisions,
  - a threat or serious harm to the public interest;
- proven or suspected violations of the Valeo Code of Ethics, the Valeo Business Partner Code of Conduct or any Valeo Compliance Program;
- risks or serious violations of human rights and fundamental freedoms, personal health and safety and the environment.

The Valeo whistleblowing mechanism offers three options:

- the whistleblowing line, a dedicated and secure platform, available free of charge 24/7, which allows users to issue detailed, confidential and documented alerts by completing a pre-selected questionnaire in the language of their choice. The system is supplied by Valeo through a European service provider operating in Europe and is accessible via: https://valeo.whistleblowernetwork.net/frontpage;
- liaison officers are appointed by the Group to receive, study and deal with the alerts reaching them, either directly or via the whistleblowing system or a manager. The two liaison officers, who can be contacted by phone (+33 1 40 55 20 20) or by mail (43 rue Bayen, 75017 Paris) are:
  - the Group Chief Ethics and Compliance Officer,
  - the Group's Internal Audit and Control Vice-President;
- employees can submit an alert with their direct or indirect supervisor and stakeholders with their usual contact within the company.

Alerts are processed by a dedicated and well-trained team with the overriding concern of keeping the name of the whistleblower and the people concerned confidential, together with the key points of the investigation.

A specific policy sets out the procedure applicable to the formulation and communication of alerts on the system for Valeo employees and third parties.

The processing of alerts received in this way is supervised by the Group Chief Ethics and Compliance Officer in liaison with the Internal Audit and Control Department's Fraud Unit. The Alerts Committee, chaired by the Chief Ethics and Compliance Officer, decides on the follow-up to be given and the sanctions to be applied as appropriate.

No retaliation of any kind whatsoever will be tolerated against a whistleblower acting in good faith.

The whistleblowing system was presented to Valeo's European Works Council in March 2018, as well as to all other works councils concerned, in accordance with the applicable industrial relations law.

Mechanisms for monitoring the measures implemented and assessing their effectiveness

The mechanisms used to monitor implemented measures and assess their effectiveness are used as regards the Group's own activities and those of its suppliers.

For Valeo's own activities, the Group has implemented monitoring actions:

- for fundamental rights, internal tools for monitoring the rollout of prevention action plans and regular monitoring tools (rolled out with the V5000 internal tools) are used across all Group sites;
- for health and safety, deployment tools, regular monitoring of alerts and alert mechanisms (VRI) have been rolled out across all Group sites;
- for environmental issues, similar tools have been rolled out and are monitored as part of the regular evaluation of Valeo sites via the so-called V5000 evaluation tool.

Likewise, for Group suppliers, Valeo's expectations in terms of sustainable development and the monitoring of their action plans implemented are monitored annually through a system blending self-assessments of suppliers' practices and targeted audits, depending on the country, specific aspects and needs involved (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk related to suppliers' sustainable development practices", pages 249 to 253).

4.5 VALEO'S SUSTAINABLE DEVELOPMENT COMMITMENTS

4.5.1 A commitment to sustainable development based on strong relationships with stakeholders

A multi-stakeholder approach

Relationships between Valeo and its stakeholders span the entire product life cycle, from design (research centers, universities and engineers) to production (suppliers and employees) and sales (automakers and distribution networks).

Valeo offers a comprehensive picture of its sustainable development policy based on an analysis of its relationships with stakeholders. The analysis states the type of stakeholder, the objectives and the form of dialog. The table below underscores the Group's responsible approach, taking into account changes in the automotive industry, stakeholders' demands and the Group's determination to meet the highest international standards in sustainable development.

Types of dialog with stakeholders

	Stakeholders	Objective of dialog	Sample responses and types of dialog undertaken
Customers	• Automakers • Distributors	• Design, develop, manufacture and market innovative products and systems for sustainable mobility	• Technology steering committees • Customer meetings • Market trend studies
Employees	• Valeo employees • Professional organizations • Administrative and governmental authorities • Employer representative bodies • Employee representative bodies and labor unions • Social security organizations	• Ensure ongoing dialog with employees • Ensure ongoing dialog with the leaders of various labor unions and professional organizations	• Annual survey of employee commitment • Diversity program • Well-Being at Work program • Collective bargaining • Dialog with labor unions and employers' associations
Research and Development partners	• Research partners and subcontractors • Start-ups and accelerators • Venture capital firms • Laboratories • Universities • Independent public bodies • Certification and control bodies	• Establish cooperative and industry-oriented Research and Development • Organize transfers and exchanges of competences, techniques and know-how	• Scientific events (conferences and congresses) • Collaborative research • Partnerships with universities and competitiveness clusters • Organization of technology days • Participation in technological platforms
Partners and suppliers	• Lessors/tenants • Suppliers • Innovative SMEs	• Cooperate and co-construct in compliance with competition law and fundamental rights	• Supplier integration • Selection committees • Calls for tender • Working groups
Institutions	• Public authorities (governments) • European Commission • International organizations (UN, ITF, IFC, OECD, etc.)	• Conduct economic, industrial and labor dialog in compliance with national, European and international laws and regulations	• Communication on Progress of the UN Global Compact (once annually) • Dialog with national authorities • Dialog with the European Commission
Regions	• Local authorities • Local government • Associations • Civil society	• Ensure positive development interaction between the Group and its local ecosystem	• Dialog with employment agencies • Dialog with local authorities • Dialog with local stakeholders (associations, NGOs, etc.)
Financial community, individual and non-financial shareholders	• Shareholders/institutional investors • Individual shareholders • Banks • Insurers • Statutory Auditors (and Independent Third Party)	• Adopt a dialog-based approach building on the relevance, rigor and transparency of information relating to the Group's results	• Meetings with investors and analysts (including SRI[(1)]) • Financial results presentations • Shareholders' Meeting • Discussions with shareholders (dedicated line and email address) • Website and digital resources (webzine, flash e-newsletter, shareholders' letters, etc.)

(1) SRI: Socially responsible investment.

Dialog with industry stakeholders

Within the Automotive Industry Platform (*Plateforme de la filière automobile* – PFA), Valeo supported entering into dialog with stakeholders, drawing on a panel of various French and European public bodies and international organizations, representatives of local authorities, private automotive companies, infrastructure managers and urban planning agencies, as well as representatives from civil society and environmental NGOs.

The first two editions took place in 2015 and 2016. The approach has given the French automotive industry (represented in particular by Valeo, Renault, PSA, Michelin, Plastic Omnium and Delphi France) a forum for open discussion about the full range of issues currently being examined in the field of automotive mobility (carbon impact of and pollution from the automotive industry, new forms of mobility, role of the automotive industry in the regions, its social impact, relationship between contractors and suppliers, etc.). Since then, this dialog has been maintained and enriched in various stages, including the introduction of new themes such as reducing planned obsolescence.

Valeo represented automotive suppliers (excluding tire manufacturers) on a number of themes. Another development was the opening of new discussion forums, such as participation in the 2017, 2018 and 2019 editions of the Movin'On event (formerly Challenge Bibendum), organized by Michelin in Montreal, and at the annual European research conference organized by the European Commission (TRA 2019) in Vienna. The Covid-19 crisis made it impossible to repeat the process in 2020, so now the aim is to hold a new edition in 2021 as part of the review of the Strategic Sector Agreement (*Contrat stratégique de Filière* – CSF) for the French automotive sector.

Valeo, a global player in the automotive industry

As a responsible player within the French automotive industry, Valeo contributes to the Automotive Future Fund (*Fonds Avenir Automobile* – FAA), formerly the Tier 2 Automotive Suppliers' Modernization Fund *(Fonds de Modernisation des Équipementiers Automobiles Rang 2)*.

Along with other major industry suppliers, the Group supports tier-two suppliers and those further down in the chain, helping them strengthen their activities among customers.

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

- in France, Valeo took part in creating the Automotive Industry Platform (*Plateforme de la Filière Automobile* – PFA), which works to improve customer-supplier relationships and in turn to better align research and production. It continues to play an active part;
- in Germany, Valeo participates in working groups of the *Verband der Automobilindustrie* (VDA), the German automotive industry body;
- in Europe, Valeo is involved in collaborative, precompetitive research through the European Road Transport Research Advisory Council (ERTRAC), the European Commission's technology platform for research on road transportation (see section 4.1.4 "Sustainable development policies", paragraph "Research and development policy", pages 208 to 209);
- Valeo is also a member of the French-Chinese automotive industry working group coordinated by the two countries' respective ministry of industry;
- in the United States, Valeo works with research teams from the National Highway Traffic Safety Administration (NHTSA);
- Valeo seeks to maintain relationships with major cities as a provider of solutions for smarter, low-carbon mobility facilitating the emergence of smart cities.

Participation in these national and European organizations takes place in strict compliance with the competition law applicable in each of the organization's countries of action.

4.5.2 Technological commitments

A comprehensive and partnership-based approach to Research, Development and Innovation (R&D&I)

The research, development and innovation policy serves to make the Group's strategic choices a reality. It draws on the various drivers presented below, which are necessary for the diversity of tools that contribute to a partnership-based and open R&D&I policy matching Valeo's technological ambitions.

Strategic industrial partnerships

Valeo has been involved in a research partnership on driving assistance and autonomous vehicles with **Safran** since 2013. It is ongoing, and the joint research programs focus on the interfaces between people, the machine and its environment and automation.

This industrial-scale research approach has also been reinforced in recent years by Valeo's various acquisitions, including **Peiker** in 2016 in the field of telematics and connectivity, **Spheros** in 2016, a leader in thermal systems for buses, **FTE automotive** in 2017, a leader in the production of actuators, and **Valeo-Kapec** in 2017, a world leader in torque converters for automatic and continuously variable transmissions.

In vehicle electrification, Valeo is developing e-motors, range extenders, onboard chargers, inverters and DC/DC converters for all types of hybrid, plug-in hybrid and all-electric vehicles. The **Valeo Siemens eAutomotive** joint venture develops high-voltage (over 60V) electric powertrain systems.

The open innovation strategy(1) and links with start-ups

Valeo is adapting its way of innovating to keep abreast of market megatrends and tailor products to its customers' needs. To do so, the Group is applying an open innovation policy based chiefly on:

- an internal organization of innovation based on dedicated cross-cutting structures (Car Lab) blending expertise and new ways of imagining innovation (design thinking, Agile method, Blue Ocean Strategy, etc.);
- ambitions for artificial intelligence, marked in 2017 by the creation of Valeo.ai, the first global center dedicated to artificial intelligence and deep learning in automotive applications. Its close ties with a large scientific and academic community, i.e., through its strategic partnerships with recognized players such as Inria (French National Institute for Research in Computer Science and Control), Télécom ParisTech, Mines ParisTech and CEA (the French Alternative Energies and Atomic Energy Commission), allowed Paris-based Valeo.ai to become a key industry player and contribute to the ongoing transformation of transportation and mobility models;
- a proactive strategy with regard to start-ups, through various channels (simple cooperation, investment, acquisition or creation). This strategy is supported by Valeo's presence in the leading global innovation ecosystems (mainly France, Germany, Silicon Valley, Israel and China), interests in venture capital funds, and internal tools for identifying and analyzing new high-potential start-ups. Valeo reviews more than a thousand start-ups each year.

Valeo, an actor in the governance of institutional collaborative research organizations

European Road Transport Research Advisory Council (ERTRAC)

ERTRAC, the official technological platform of the European Commission, dedicated to collaborative research in the automotive industry, is responsible for directing and coordinating land transportation research policy (excluding railroads) with EU bodies. Valeo is its Co-Chair alongside German automaker BMW.

With its industry-led governance, ERTRAC's main goal is to guide actors in land transportation to sustainable, environmentally friendly and connected solutions building on research roadmaps endorsed by all stakeholders. This requires interaction between industrial players, providers of technological solutions and representatives of society or institutions.

ERTRAC is built around public and private bodies (national governments and city associations working for mobility, the environment and consumers), the relevant European Commission directorates, industry (automakers, suppliers), and public and private research bodies. The diversity and quality of the partners involved are what drive the value of the expertise provided by ERTRAC, particularly through the regular publication of medium-term technology roadmaps on various topics relating to automotive mobility. In 2020, the ERTRAC platform continued to prepare advice and guidance for the European Commission for the definition of new partnerships under the Horizon Europe Framework Programme dedicated to mobility. Valeo contributed actively to the following partnerships: 2ZERO, which addresses low-carbon mobility issues; CCAM, the European program dedicated to research on connected and autonomous mobility; and BEPA, the battery ecosystem research initiative. All of these programs will start in 2021 and run until 2027.

4

(1) See sustainable development glossary, page 295.

Artemis-IA

Valeo has joined Artemis-IA, an association dedicated to collaborative research into onboard and intelligent systems, bringing together industry players in these areas from a wide range of disciplines (aerospace, railways, space, defense, automotive, food, health and pharmaceuticals, microelectronics, etc.). Valeo was keen to take part in the governance of Artemis-IA as the Group wishes to promote collaborative European research projects in the fields of electronics and embedded systems. Electrification, driving range, connectivity and digital advances relating to mobility are the common core of research represented by cyber-physical and embedded components and systems.

Artemis-IA is one of three associations (alongside EPoSS and AENEAS) taking part in the governance of the ECSEL JU (Electronic Components and Systems for European Leadership Joint Undertaking), bringing together the European Commission and member states and industrial players along the entire electronics value chain.

The Group is considered by the Commission's services as a co-manager of these programs dedicated to collaborative research.

Competitiveness clusters

Valeo is involved in the governance of cooperative structures of which the Group is an active member, such as Mov'eo in France, which covers all the Group's strategic areas.

In France, Valeo is also a member of SystemX, an Institute for Technological Research (IRT), and a founding member of the Institute for Energy Transition. Since 2014, the two institutions have launched several projects involving Valeo, in the fields of vehicle electrification (reducing CO_2 emissions) and automated driving.

Valeo helped formulate proposals covering research issues related to low-carbon, connected and progressively autonomous transportation.

Collaborative projects

Valeo participates in collaborative research programs in the automotive industry in the various countries and regions where it operates. 2019 took Valeo into the final phases of the eighth European framework program (H2020). The Group plans to continue participating and constructing European projects within this framework.

In 2020, as part of the Automotive Support Plan (May 2020), Valeo received government support for its R&D activities for the development of 48V electric motors. This support strengthens Valeo's industrial and research resolve to position itself as a European and world leader in this technology and to support the transformation of sites related to this activity in France. The project will receive financial support for the 2021 to 2024 period.

Academic partnerships

Valeo takes part in multi-sector initiatives, making its expertise available to various partnerships and bodies. These partnerships help create and promote standards of quality and environmental performance that are both demanding and stimulating for the industry.

Diversified academic partnerships

Valeo attaches growing importance to collaborative research. The different systems that make up a vehicle today are expanding into new scientific and technological domains, and new fields must be taken into consideration.

Collaborative research involves academic and scientific cooperation, primarily in the form of:

- supervision and funding of doctoral theses;
- bilateral projects;
- government-funded, multi-partner, collaborative projects;
- university chairs.

Many of these scientific alliances (with universities, engineering schools or research bodies) are in Europe (primarily in France and Germany) and the United States. They are also emerging in other regions where Valeo has set up new local Research and Development centers (most recently in India, China and Egypt).

Funding of doctoral theses

The Group is funding more than 50 doctoral theses in areas such as new materials and technologies, new calculation and simulation tools and methods, new system architectures and component optimization.

Support for and creation of academic chairs

Partnerships formed through academic chairs aim to promote research and innovation activities with high value creation potential. For Valeo, they offer the opportunity to deepen research and innovation activity close to academic centers, offering them subjects and areas of thinking focused on strategic areas for the industry.

Valeo has partnered with universities and public research bodies to create the following research and teaching units:

- an international research chair on automated driving, called "Automated Driving – Drive for You", bringing together teams from the Center for Robotics at Mines ParisTech (France), Shanghai Jiao Tong University (China), the University of Berkeley (California) and Ecole Polytechnique Fédérale de Lausanne (Switzerland), in partnership with PSA Peugeot Citroën and Safran. With a budget of 3.7 million euros funded by manufacturers, the chair aims to advance knowledge on automated vehicles, to develop embedded intelligence devices and to put automated vehicles on the road on three continents (Asia, North America and Europe). This chair ended in 2019, having created the necessary synergies between the main participants;

- an industrial teaching and research chair on embedded lighting systems (ELS), known as the ELS Chair, which brings together the following schools and partners including ESTACA (Graduate School of Aeronautical and Automotive Technology), Institut d'Optique Graduate School, Strate School of Design, Renault, PSA Peugeot Citroën and Automotive Lighting Rear Lamps. This chair aims to develop expertise and skills in the field of indoor and outdoor lighting applied to transportation;
- an academic chair under the name "IoT" (Internet of Things), launched in 2016 by the ESCP Europe business school in partnership with Valeo and Schneider Electric. Its aim is to (i) develop a better understanding of the business and managerial challenges associated with changes in digital technology and the development of connected objects, and (ii) develop high-level teaching and research in line with business expectations. Through a partnership between ESCP Europe and a Chinese university, the chair's activities (teaching, projects, forums, etc.) will span both Europe and China. Having presence in two regions provides the opportunity for multicultural comparisons of expectations, usages and conceptions of connected objects;
- two chairs, one on big data and the other on connected vehicles and cybersecurity, have been established by Valeo and other technology partners with the Télécom ParisTech engineering school. The second of these chairs focuses on cybersecurity challenges in terms of the operational safety of vehicles, data protection and flows, and user identification technologies in vehicles. It also aims to address the legal and social aspects of the management of personal data and to ensure their security.

Significant intellectual property activity

Innovation is central to Research and Development activities; it results in major orders and a growing patent portfolio. In 2020, the Group had 34,710 patents, of which 1,174 were filed for new inventions during the year.

A commitment to R&D for the aftermarket and remanufacturing market

As a player in the aftermarket through Valeo Service, and with its strong presence in emerging countries, the Group's positioning is based on its determination to market products at the best price, across its entire multiproduct, multi-region and multichannel strategy, without compromising the environment.

The specific features of these products position Valeo as a key player in mobility access in markets characterized by a high proportion of second-hand vehicles, predominantly emerging regions (parts of Southeast Asia, Africa, etc.). More generally, the aftermarket in these regions is creating economic opportunities for various automotive-related businesses.

The existence of replacement products has a substantial impact on the safety of vehicle users, since they offer an economically viable alternative to repaired, rebuilt or reworked parts, often in traditional or semi-industrial settings, which are often not subject to any form of harmonized or standardized quality control. The remanufacturing market is currently dominated by European players.

VALEO, A PARTICIPANT IN THE REMANUFACTURING MARKET

Through its remanufacturing activity, Valeo puts its original equipment parts design and manufacturing expertise at the service of the remanufacturing market, for which the Group has developed a high-quality, environmentally friendly range of products. Valeo only offers remanufactured products, as opposed to reused, repaired, rebuilt, refurbished, reworked or reconditioned products, and uses quality processes and standards to ensure the quality of the products offered for sale[(1)].

Valeo offers two ranges of parts – one new and one remanufactured. Remanufactured systems mainly include alternators and starters as well as clutches and air conditioning compressors. Valeo has set up an efficient system called e-CORPS to collect used parts. The system permits the immediate identification of product references (type of part, origin, size, production year, etc.). Once parts have been retrieved, Valeo disassembles, inspects and cleans them, and subjects them to electrical and electronic tests. Valeo then initiates a remanufacturing process, which most importantly involves eliminating any traces of hazardous substances to guarantee personal protection. With more than 40 testing points for rotating machines on test benches, Valeo meets the standards of the original equipment market, and tests all remanufactured products before packaging them for sale on the aftermarket.

This industrial expertise has enabled Valeo to offer a full range of remanufactured parts, and thereby to champion environmental protection in the remanufacturing market.

(1) The definition of remanufactured products is common to the entire industry (ACEA, APRA, CLEPA, FIRM, VDA): "A remanufactured part fulfills a function which is at least equivalent compared to the original part. It is restored from an existing part (core), using standardized industrial processes in line with specific technical specifications. A remanufactured part is given the same warranty as a new part, and it clearly identifies the part as a remanufactured part and the remanufacturer."

4.5.3 Environmental commitments

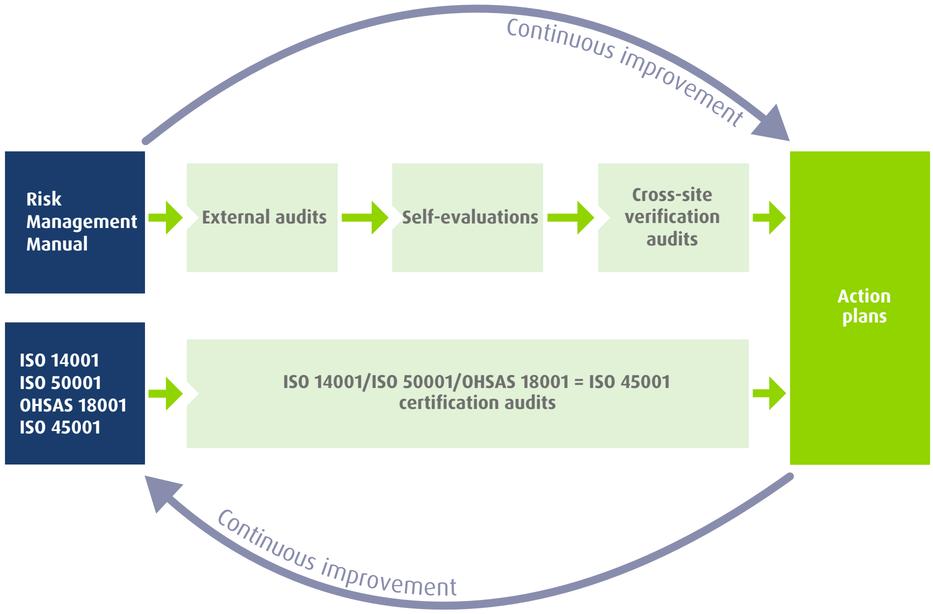
VALEO'S COMMITMENT TO THE CIRCULAR ECONOMY

The Group has made a commitment to the circular economy in the following two areas:

- prevention and management of waste:
  - recycling of waste related to the production process (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk associated with accidental pollution of water and/or soil", pages 235 to 238),
  - reuse of packaging materials (see paragraph "Packaging" in this section, page 274),
  - recovery of products, such as the Valeo starter-alternator remanufacturing program (see section 4.3.3 "Valeo's non-financial risks", paragraph "Examples of recyclability of two Valeo products", page 232);
- sustainable use of resources, with policies and action plans covering:
  - water consumption and supply (see paragraph "Water management" in this section, pages 264 to 266),
  - consumption of raw materials and more efficient use thereof (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk of non-compliance with environmental product regulations", pages 229 to 235),
  - energy consumption and increased energy efficiency and the use of renewable energies (see paragraph "Reducing energy consumption and greenhouse gas emissions" in this section, pages 268 to 273).

Evaluation and certification processes

Valeo has implemented a comprehensive global audit program, including external compliance and certification audits, as well as self-evaluations and cross-site verification audits performed by site HSE managers.

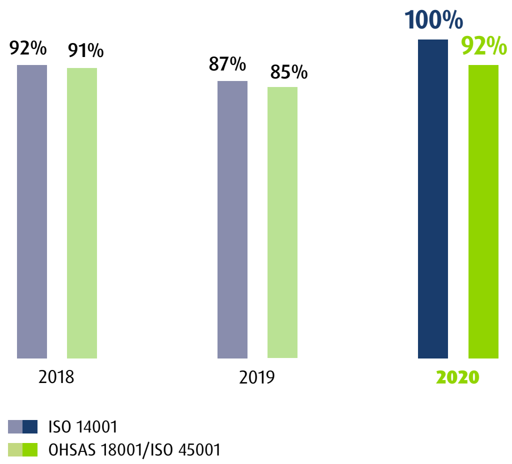


ISO 14001, ISO 50001 and OHSAS 18001 certification audits

For the past 20 years, the Group has been committed to certifying its Health, Safety and Environment management systems in order to reduce its environmental impact and improve health and safety conditions for its employees. The current practice is to obtain certification for individual sites. It is nevertheless possible to obtain a single certification for several sites when they are interdependent.

ISO 45001, published in 2018, is intended to replace the OHSAS 18001, which expires in March 2021. That leaves the sites a three-year transition period to switch to ISO 45001. ISO 45001 is the first international standard to provide a framework for Occupational Health and Safety (OHS) management. The new standard will also allow companies that have already earned ISO 9001 or ISO 14001 certification to benefit from the new management system standard structure.

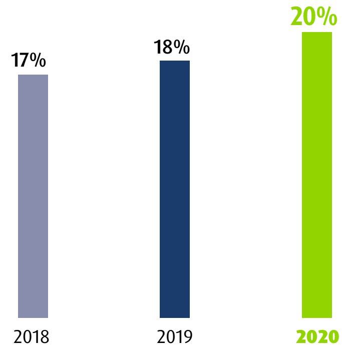
Percentage of plants certified ISO 14001 and OHSAS 18001/ISO 45001



The Group aims to quickly bring newly acquired or created sites into its environmental approach and certification process. All new sites are required to obtain certification from the third year of their inclusion in the Group's scope.

In 2020, 20 new sites obtained ISO 14001 certification, and a further ten obtained ISO 45001.

Percentage of plants certified ISO 50001



ISO 50001, released in 2011, requires significant commitment from sites, which undertake to establish organizational and technical resources to reduce their energy consumption in a sustainable manner.

In 2020, 30 sites, representing 20% of the Group's reporting scope, obtained ISO 50001 certification for energy management, in line with the target.

Valeo has set a new ambitious target for 2025, namely to achieve ISO 50001 certification for 40% of the sites within the Group's reporting scope.

External audits worldwide

At the initiative of the HSE Department, the Group's sites are regularly audited by external consultants to ensure compliance with and proper implementation of the Risk Management Manual. With the same frequency, the Group also determines themes to be systematically audited in each campaign in order to measure their implementation and reinforce their control.

Each site, audited every three years on average, is assigned a score based on objective criteria.

Environmental audits give rise to a detailed report on the basis of the findings and a three-level recommendation grading:

- priority level 1 is a major breach of directives liable to have a major impact on the environment or the activity (shutdown);
- priority level 2 is a breach liable to cause environmental pollution;
- priority level 3 is minor non-compliance with Group guidelines or incorrect frequency in the running of prevention activities.

The action plans of all sites are reported to the HSE Department and monitored by the Business Group HSE managers via a system known as HSE Action Plan. This database provides a fast and reliable way of consolidating audit results, and makes it possible to monitor progress on the associated action plans. The indicators are updated each month and reported to the Business Group HSE managers during monthly meetings. A more detailed half-yearly review is also conducted with the Business Group HSE managers.

With steering from the HSE network and the participation of the Purchasing and Insurance networks, all industrial projects (construction of new plants, extensions, etc.) are reviewed every two months to determine the resources needed in view of environmental, safety and security concerns.

The Group has a dedicated committee to reduce the risks associated with equipment for moving goods (stackers, forklifts, pallet trucks, etc.).

Self-diagnostic tool

The sites can carry out a self-assessment of their compliance with the Group's directives using the Roadmap Manager self-diagnostic tool. Since 2018, the Group has sought to verify the match between the results of external audits and those of self-assessments. Using sampling techniques, the auditors examine the accuracy of the site's self-assessment. The first results show that self-assessments are nearly 90% compliant.

Stronger communication

The Group uses various channels for internal communications and employee training on HSE issues, including:

- a new HSE Portal launched in 2019 to circulate a wide variety of thematic articles, share best practices and offer more dynamic content;
- the release of "Safety Flashes" when an incident needs to be communicated to all sites, with the main checkpoints;
- an abundant library on Covid-19 including the sharing of protocols, videos, photos, audit schedules, quizzes and flyers on the prevention of contracting the virus;
- online training via e-learning to provide a summary of the main requirements of each environmental directive. The modules include a quiz to check the participants' understanding;
- information for site employees on environmental procedures and respect for the environment, particularly as part of the onboarding of new arrivals;
- awareness-raising for all site staff on measures aimed at controlling environmental risks and impacts through ISO 14001, ISO 50001 and OHSAS 18001/ISO 45001 management systems;
- information for employees through newsletters and dedicated displays, and at operational team briefings;
- dedicated events such as "Sustainable Development Week", featuring local initiatives;
- HSE tools developed and made available by the Group;
- training and support materials inherent to these tools;
- the implementation of digitalized OJT (On Job Training) grids in all of the Group's languages.

In 2020, the HSE network provided 90,880 hours of environmental training across all sites, compared with 84,430 hours in 2019.

Water management

Challenges

Because of the importance of this resource, the Group aims to limit and control its water consumption, and to ensure the supply of good quality water for its staff. Valeo may be subject to outages or restricted access to water at one of its sites, which may be related to:

- a municipal/regional restriction decision in the event of a drought;
- a shortage of water sources supplying the site or poor water quality (wells, groundwater);
- a restriction imposed by local authorities in the event of overconsumption;
- the lack of a water recovery system;
- the absence of a recycling loop or closed-loop water circuit.

However, the occurrence of events of this type is low because the Group's policy requires that most sites rely on public mains water.

Approach

Prior to the purchase or lease of land or buildings, the Group requires that an environmental risk assessment be carried out in order to determine, among other things, the level of water stress of the future location. Valeo has set itself the goal of reducing its total water consumption as a proportion of sales by 6% between 2016 and 2020.

To control and minimize their consumption as much as possible, the sites leverage appropriate human and material resources:

- each water supply source is equipped with systems for determining the volume of water consumed and its uses (domestic, industrial and fire);
- the use of water for cooling in open circuits is prohibited, with the exception of heat pumps for heating or air conditioning;
- the site maintains a plan of its water supply and distribution networks, which must identify the network's isolation systems, backflow preventers and meters, and distinguish between:
  - domestic use (if separate from drinking water),
  - industrial use,
  - use for firefighting,
  - drinking water.

For drinking water, the site must, where possible, be supplied externally (public mains network preferably), and water networks must be protected from the risk of contamination by other networks.

The site also monitors its water consumption at least on a **quarterly basis**. This monitoring serves to:

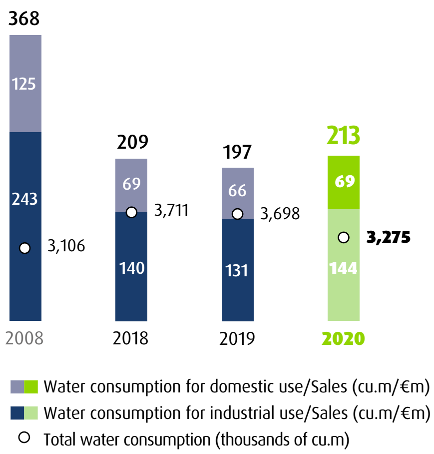
- identify the respective needs in regard to each of the main uses of water;
- identify any variation in water consumption and take swift action in the event of leaks in the network;
- draw up a water consumption reduction plan to achieve or better the objectives set for each site by the Group;
- restrict the use of drinking water to domestic purposes and promote the use of non-drinking water wherever possible (e.g., toilets, watering, cleaning, extra water for closed water cooling circuits and fire extinguishing).

To minimize their water consumption, sites are urged to take action on the following key points:

- optimize washing operations;
- set up recycling systems such as recovering discharge water from cooling towers and using it to wash floors and equipment;
- take into account the optimization of water management and possible water savings when purchasing equipment;
- collect rainwater.

Performance

Water consumption

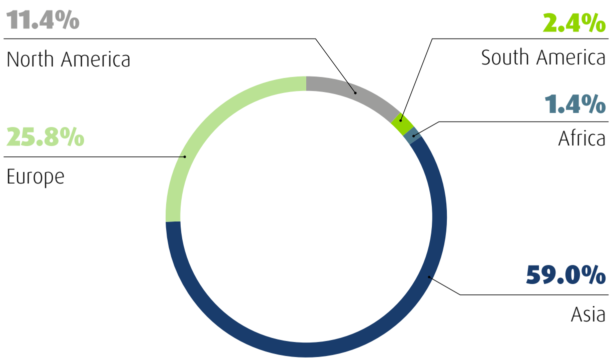


In 2020, water consumption increased in relative terms (cu.m per million euros of sales) compared with 2019. This trend can be attributed to two factors: a sudden drop in activity stopping the consumption of the cooling towers from being variable, and the significant increase in consumption resulting from greater disinfection and cleaning measures being put into place as part of the fight against Covid-19.

Between 2018 and 2020, Valeo reduced its consumption by 12% in absolute terms. The Group will strive to maintain this trend in the coming years by prohibiting direct groundwater sources and replacing them with closed-circuit solutions, particularly at the Visibility Systems Business Group sites, which account for 48% of total consumption due to their surface treatment activities.

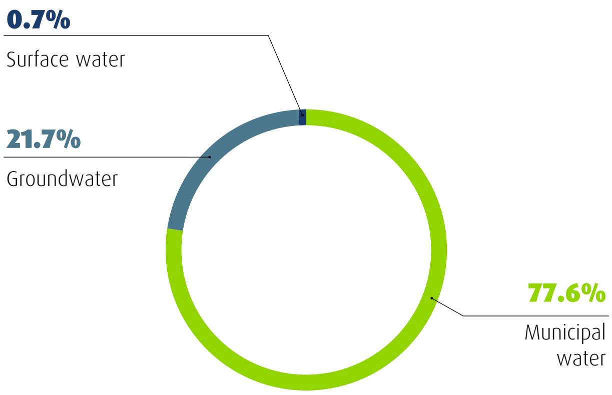
Since 2008, total water consumption has declined by 42% in relative terms.

Geographic breakdown of total water consumption in 2020



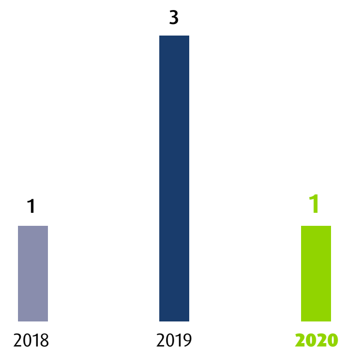
Sites in Europe and Asia account for almost 85% of total water consumption. The geographical breakdown of consumption changed little compared with 2019. Consumption at Asian sites increased from 58.6% to 59.0%. By contrast, the consumption of European sites fell from 26.3% to 25.8%.

Sources of water in 2020



To measure the overall impact of its activities on water resources, Valeo measures its consumption, distinguishing between the various sources (municipal water, groundwater, surface water) and uses (industrial water, domestic water) of water on its sites. The breakdown of the various sources of water was stable compared with 2019. The percentage of water supplied by municipal water networks represents 77.6% of the breakdown.

Number of water outages and restrictions



In 2020, only the Laval site (Thermal Systems Business Group, France) suffered water supply outages stemming from the public water network following a drought order, which had no impact on production.

In 2017, with a view to ensuring that the Group's future operations do not face water restrictions or outages, Valeo added a chapter on the availability of water in the area surrounding the prospective site to the audit questionnaire that must be completed before new industrial projects are undertaken. Environmental Red Alert, a new internal tool, also allows sites to report this type of event (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk associated with accidental pollution of water and/or soil", pages 235 to 238).

ACTIONS UNDERTAKEN TO REDUCE WATER CONSUMPTION IN 2020

In 2020, 11 sites reported having carried out one or more initiatives to reduce their water consumption. Sites may adopt technical measures such as:

- reducing domestic water flow rates;
- implementing wastewater recycling circuits;
- installing a cooling water reuse system;
- introducing closed circuits in new projects;
- installing new equipment such as a new reflector cleaning machine;
- installing systems to collect and reuse rainwater or industrial water after treatment.

The sites in Presov (Powertrain Systems Business Group, Slovakia), Itatiba (Thermal Systems Business Group, Brazil) and Athis de l'Orne (Thermal Systems Business Group, France) carried out technical initiatives of this nature in 2020.

Other sites have taken action to improve network maintenance (leak detection, pipe replacement, etc.) and to raise awareness among users so that they can reduce their consumption.

Atmospheric emissions and discharges

Challenges

Valeo's activities are liable to generate the discharge of substances into the air that could impact the environment. Such discharges must be tightly controlled to avoid pollution. The Group is committed to controlling the atmospheric emissions of its polluting products, which can result in air pollution with environmental or health impacts for several reasons:

- lack of control over discharges of this nature;
- poor performance by equipment;
- lack of regular inspection or emission measurements;
- absence of filters (mechanical or coal) on equipment;
- absence of burners upstream of the stacks.

The criticality of this type of event is limited, because each site is required to establish and implement a monitoring plan for its regulated emissions and to maintain an inventory of its atmospheric emissions. Valeo is in compliance with the current regulatory requirements, and monitors any prospective changes.

Approach

Each site must establish a system to ensure compliance with regulatory requirements on atmospheric emissions. This system requires each site to draw up an inventory of its emissions aimed at:

- listing the sources of atmospheric emissions, taking all of the site's processes and activities into consideration;
- listing facilities for the treatment of these emissions;
- describing emissions based on their origin (emissions from combustion plants or production processes);
- quantifying emissions in order to determine whether operating permits need to be obtained in accordance with applicable regulations.

Each Valeo site assesses, particularly whenever any production processes are changed, potential ways of reducing atmospheric emissions of pollutants at source, focusing primarily on processes that do not require the installation of treatment facilities.

Wherever possible, the Group provides standardized tools to be used by all Valeo sites to ensure that these indicators are calculated in a consistent manner.

Valeo monitors atmospheric emissions of volatile organic compounds (VOCs)[1], nitrogen oxides (NO_x), lead (Pb) and trichlorethylene (TCE) resulting from its activities. Emissions of sulfur oxides (SO_x) are not monitored as equipment mainly uses natural gas, which does not emit sulfur oxides during combustion.

(1) See sustainable development glossary, page 295.

Prohibited or regulated substances

Valeo sites are required to identify any banned or locally regulated substances used in the construction of its buildings and production equipment, or in the composition of its products. All such prohibited or controlled substances are listed in a Banned, Regulated and Declared Substances (BRDS) database established by the Group.

The Group prohibits the use of the following substances in its products and processes:

- asbestos;
- PCBs (polychlorinated biphenyls);
- refrigerants such as halons, HCFCs (hydrochlorofluorocarbons), CFCs (chlorofluorocarbons), hydrofluorocarbons;
- RCFs (refractory ceramic fibers);
- unencapsulated radioactive substances.

For several years, Valeo has also sought to take a proactive approach to reducing emissions of ozone-depleting substances. Its commitments on the subject are set out in a dedicated directive in the Risk Management Manual. As mentioned above, CFCs and halons are prohibited substances at Valeo. For HCFCs, the Group's objective is to stay ahead of the elimination deadlines set under the Montreal Protocol. To comply with this directive, the sites have taken action to service equipment containing refrigerants.

Hazardous substances

Valeo prevents the risk of hazardous substances being released by a specific policy and directive aimed at eliminating the use of substances posing a threat to the environment and health.

Because of the hazard they represent and their longstanding use in industrial processes on its sites, the Group is also working to reduce the consumption of heavy metals (lead, mercury, chromium VI, cadmium), chlorinated solvents and substances classified under European regulations as carcinogenic, mutagenic and reprotoxic (CMR)[1]. Some of these substances were still present in manufacturing processes in 2020, but Valeo is working with its stakeholders to find alternatives.

Volatile organic compounds

Valeo pays particular attention to monitoring atmospheric emissions related to its activity in respect of volatile organic compounds (VOC)[1], and is applying a process designed to reduce its use of VOCs via the implementation of substitute aqueous solutions (shift from paint containing an oil-based solvent to water-based paint), improving the efficiency of the processes implemented (robotization of a paint line, etc.), limiting and capturing emissions by geographically isolating operations.

Performance

Lead

In 2020, atmospheric lead emissions were again reduced by 65% compared with 2019, from 224 kg to 77 kg. This reduction is attributable mainly to the work carried out by the Perai-Penang site (Malaysia, Comfort & Driving Assistance Business Group), which reduced its emissions from 120 kg in 2019 to 30 kg in 2020. The site was included in the Valeo Group environmental indicator reporting scope in 2018, following the acquisition of Precico. It initially had a negative impact on Valeo's lead consumption, which was at a steady fall in the years preceding the site's consolidation.

VOC[1]

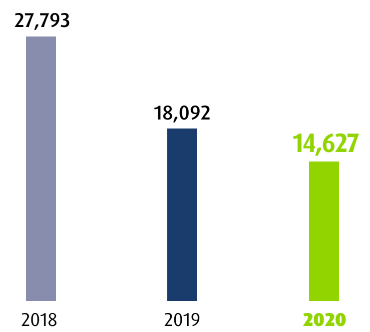
Quantity of ozone-depleting substances used

In the interests of transparency, the Group again performed an overall estimate of CFC and HCFC emissions in 2020. The chart below shows the quantity of ozone-depleting substances (in kg), which are used only in closed-loop equipment at Valeo sites (refrigerants or fire extinguishing gas).

The quantity of ozone-depleting substances saw a steady decline of 47%, from 27,793 kg in 2018 to 14,627 kg in 2020. The Group is gradually replacing these substances with other less harmful products.

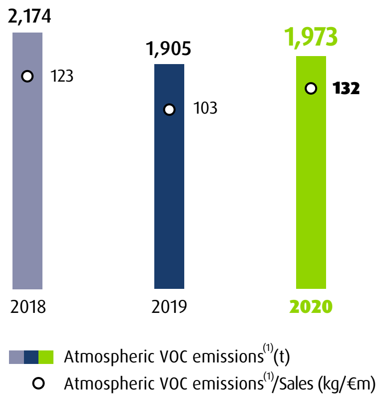
In 2020, the Gyeongju site (Powertrain Systems Business Group, South Korea) stopped using Halon (R13B1) as a fire extinguishing agent, and the Bad Rodach site (Thermal Systems Business Group, Germany) reduced its use of HCFC (R134a) as a refrigerant in its test loops by replacing it with tetrafluoropropene, HFO-1234yf.

Quantity of ozone-depleting substances *(kg)* **present in equipment at Valeo sites**



(1) See sustainable development glossary, page 295.

Atmospheric emissions of volatile organic compounds



In 2020, Valeo recorded an increase following the inclusion in the reporting scope of new VOC emitters[(1)], namely the San Luis Potosi 5 site (Thermal Systems Business Group, Mexico) and the Tangiers site (Visibility Systems Business Group, Morocco) due to growth in activity since 2019. The increase in atmospheric emissions as a proportion of sales is attributable to a significant decline in activity in Europe in 2020, where regulations on atmospheric emissions are more demanding than in North America. Valeo's 2021-2025 environmental plan includes the change of filtration systems at three sites in Mexico to bring them into line with the highest level of requirements currently in place in Europe.

The Visibility Systems Business Group remains the biggest emitter of atmospheric VOC emissions[(1)], accounting for almost 40% of the Group's total emissions.

Achievements during the year

In 2020, Valeo adopted a new formula for calculating VOC emissions[(1)] in the Visibility Systems Business Group in order to refine its calculations; the Group also shared its best practices in biomass filtration systems.

A number of sites have taken action to reduce their atmospheric emissions. As such:

- The sites in Chang Chun (Thermal Systems Business Group, China) and Wuxi (Powertrain Systems Business Group, China) installed activated carbon filtration systems for the recovery of VOCs.
- The Wuhan site has installed a system for the recovery and treatment of residual gases from molding machines.

Reducing energy consumption and greenhouse gas emissions

Challenges

Valeo sites use the following three types of energy for industrial and domestic purposes:

- direct energy in the form of primary energy sources (fuel oil, natural gas);
- indirect energy in the form of electricity, steam and compressed air;
- direct renewable (solar) energy generated on site, which currently provides only a very small amount of energy.

The Group could be exposed to excessive energy consumption by plants, potentially resulting in a shortfall in competitiveness and an increase in greenhouse gas emissions, which could stem from:

- energy-intensive manufacturing processes;
- changes in regulations governing reductions in greenhouse gas emissions;
- obsolete equipment.

While energy consumption is not a material risk for Valeo, the Group is committed to reducing greenhouse gas emissions in order to move towards carbon neutrality by 2050. In 2020, Valeo was very much dependent on the energy mix available in each host country, as the energy consumed by its sites is produced locally. With that in mind, Valeo has opted to purchase low-carbon power, particularly in China, the United States, India, Poland and the Czech Republic, and to launch self-generation programs from solar energy.

Approach

Valeo has drafted a five-year plan to improve environmental performance in relation to energy management. This includes ISO 50001 certification objectives, which the Group relies on for its approach and the management of its initiatives.

The Group assists its sites in launching nationwide initiatives such as the LEDs plan (replacement of existing lighting with very low-consumption LEDs).

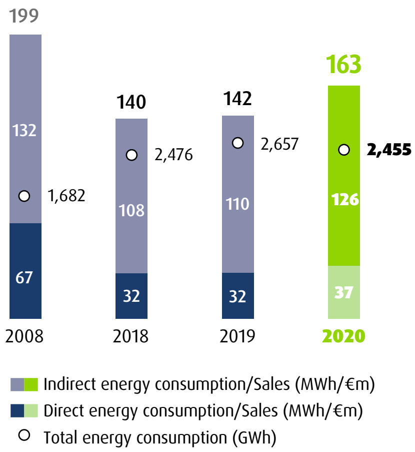
Since 2018, Valeo has partnered with an expert third party to conduct energy performance audits and highlight opportunities to reduce consumption.

The Group monitors the sites' energy consumption on a quarterly basis through the Valeo Environmental Indicators internal tool.

(1) *See sustainable development glossary, page 295.*

Performance

Energy consumption

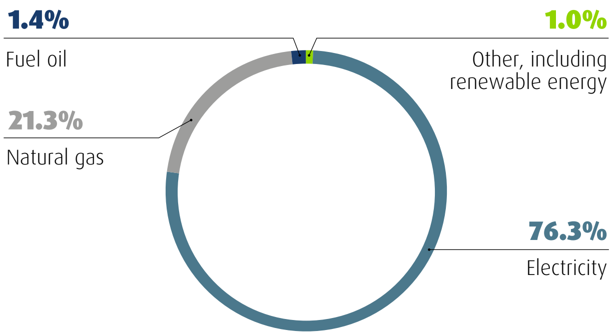


The target of 20% of sites with ISO 50001 certification for energy management was achieved at the end of 2020 (see "Evaluation and certification processes" in this section 4.5.3 "Environmental commitments", page 262).

Between 2019 and 2020, energy consumption decreased in absolute terms by 8%. Total energy consumption as a proportion of sales increased by 15%. Despite significant decline in activity and sales, due to the lockdown measures in the first half of 2020, linked to the Covid-19 health crisis, not all the Group's sites were able to reduce their gas consumption over the year for heating during the winter, and the rates of electricity consumption for lighting, compressed air production, and the operation of certain machines were reduced in line with the significant drop in customer demand. Since 2008, total energy consumption relative to sales has fallen by 18%.

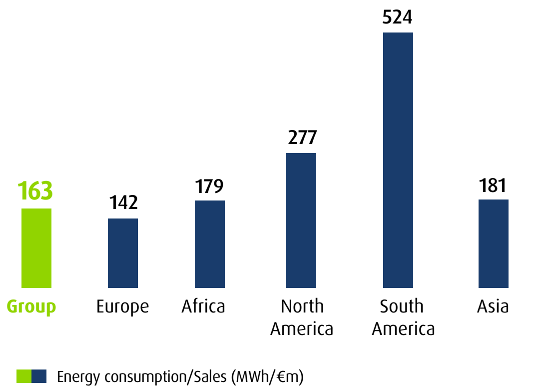
The Group did not reduce its direct energy consumption (gas, fuel oil, renewable energy produced on site) as a proportion of sales between 2015 and 2020. In 2020, it amounted to 37 MWh per million euros in sales. However, it has decreased by almost 50% since 2008.

Breakdown of energy sources in 2020



The proportion of electricity remained stable at around three-quarters of the Group's consumption. The proportion of gas was also stable between 2019 and 2020, at 21.2% and 21.3% respectively.

Regional breakdown of energy consumption as a proportion of sales in 2020



Energy consumption as a proportion of sales is markedly higher at the Group's South American sites than in Africa, Europe, North America and Asia. With the exception of Europe and Africa, the ratio of energy consumption to sales remains above the performance target set for 2020, mainly due to the overall increase in electricity consumption in 2020.

Reducing our carbon impact

GHG emissions (Scope 1, Scope 2 and Scope 3)[1]

Since 2009, Valeo has made progress in the analysis of its carbon footprint by evaluating the direct and indirect greenhouse gas (GHG) emissions resulting from its activities. In 2020, the following operations-related emissions sources (excluding product use) were included in the review:

- direct GHG emissions: combustion emissions from stationary sources on sites, emissions from fuel combustion by Group vehicles, direct emissions from non-energy processes such as the incineration of VOCs[1], and direct fugitive emissions relating to refrigerant leaks (included in Scope 1 of the international framework);
- indirect GHG emissions associated with energy consumption, related to the consumption of electricity, steam, compressed air and other sources (included in Scope 2 of the international framework);
- other indirect GHG emissions related to purchases of products used in industrial processes, and the transportation of goods and people (included in Scope 3 of the international framework).

Direct and indirect CO_2 emissions decreased in absolute terms by 29% in 2020 compared with 2019, and by 6.1% as a proportion of sales.

Scope 1

The consumption of gas and fuel oil for heating was maintained during periods of reduced activity due to the health crisis. As a result, direct GHG emissions linked to the consumption of these two energy sources increased by 15% as a proportion of sales between 2019 and 2020. However, they were down 5.3% in absolute terms.

Direct GHG emissions *($ktCO_2eq.$)* – Emissions sources	2017	2018	2019	2020
Emissions generated by fuel oil and gas combustion at sites *($ktCO_2eq.$)*	132.8	134.9	143.3	135.8
Direct emissions from non-energy processes *($ktCO_2eq.$)*	7.4	6.7	6.6	5.6
Emissions caused by Valeo's vehicle fleet *($ktCO_2eq.$)*	10.4	19.4*	23.5	16.2
Fugitive emissions (refrigerant leakage) *($ktCO_2eq.$)*	16.3	14.3	13.5	13.0
TOTAL DIRECT EMISSIONS *($ktCO_2eq.$)*	**166.9**	**175.3**	**186.9**	**170.6**
TOTAL DIRECT EMISSIONS/SALES *($tCO_2eq./€M$)*	**9.9**	**9.9**	**9.9**	**11.4**

* *Since 2018, the data have been calculated using the emission factor of Valeo vehicles (0.547 kg $CO_2eq./km/person$), unlike in previous years where the coefficient applied was that of personal vehicles (0.253 $kgCO_2eq./km/person$).*

Scope 2

Indirect GHG emissions decreased by 48% in absolute terms between 2019 and 2020.

Indirect GHG emissions as a proportion of sales decreased by 36% between 2019 and 2020.

Indirect emissions related to electricity consumption[1] and other energy such as steam, compressed air, etc.	2017	2018	2019[2]	2020[2]
TOTAL INDIRECT EMISSIONS *($ktCO_2eq.$)*	**763.9**	**870.5**	**892.0**	**460.1**
TOTAL INDIRECT EMISSIONS/SALES *($tCO_2eq./€M$)*	**45.6**	**49.3**	**47.6**	**30.7**

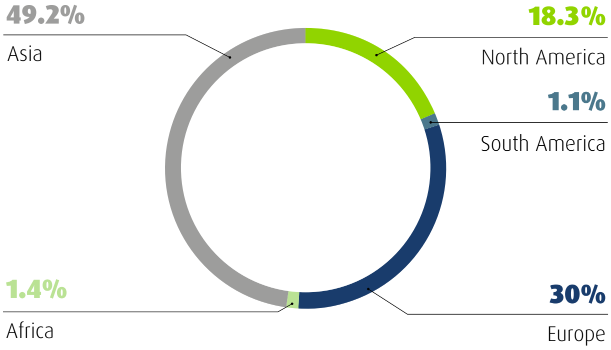
(1) The calculation takes into account the primary energy sources used to generate electricity in each country.
(2) The calculation also takes into account purchases of low-carbon energy with guarantee of origin in 2019 and 2020.

In 2020, the Group managed to reduce all of its direct and indirect greenhouse gas emissions to 42.1 $tCO_2eq./€m$ as a proportion of sales (11.4 $tCO_2eq./€m$ and 30.7 $tCO_2eq./€m$, respectively) through purchases of electricity with guaranteed low-carbon origin. This corresponds to a decrease of 29.4% compared with 2009 (59.6 $tCO_2eq./€m$).

From 2020, to improve the accuracy of its Scope 2 emissions data, Valeo has published them using the so-called "market-based" method, defined by the GHG Protocol[1].

(1) See sustainable development glossary, page 295.

Geographic breakdown of direct and indirect greenhouse gas emissions (Scopes 1 and 2) associated with the Group's energy consumption in 2020



The chart above shows the geographic breakdown of direct emissions related to gas and fuel oil combustion by sites and indirect emissions related to electricity consumption.

Without taking into account guarantees of origin on electricity purchases, sites in Asia emit nearly 49% of the Group's total GHG emissions[1], as power plants in Asia that normally supply energy are predominantly coal-fired. Valeo has therefore decided to offset its growth in Asia by purchasing low-carbon electricity with guarantee of origin so as to reduce its indirect emissions of greenhouse gas in absolute terms.

Scope 3

For transparency, Valeo estimated all other indirect emissions sources (Scope 3) linked to its activity in 2019. The following other indirect GHG emissions (Scope 3) related to Valeo's operations are considered material:

- emissions linked to purchases of materials used in industrial processes (steel, aluminum, copper, zinc, plastics, electronic components, chemicals and packaging);
- emissions related to the use of the Group's products (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk of non-compliance with environmental product regulations" and "CO_2 emissions related to the use of Valeo products (Scope 3)", page 230).

Other indirect GHG emissions (Scope 3) regarded as not material are:

- emissions related to waste management in the relevant channels;
- emissions from Valeo's assets used by third parties (e.g., loans of molds to suppliers);
- emissions from energy production (e.g., extraction of gas or fuel oil);
- emissions from the installation of our products in vehicles by automakers;
- emissions related to the processing of end-of-life products;
- emissions from downstream product transportation. Transportation of this nature is mainly handled by Valeo customers.

Although they are not considered material, Valeo has chosen to publish the following emissions data related to its activity:

- emissions related to the upstream transportation of goods and raw materials;
- emissions from employee travel (commuting and business trips).

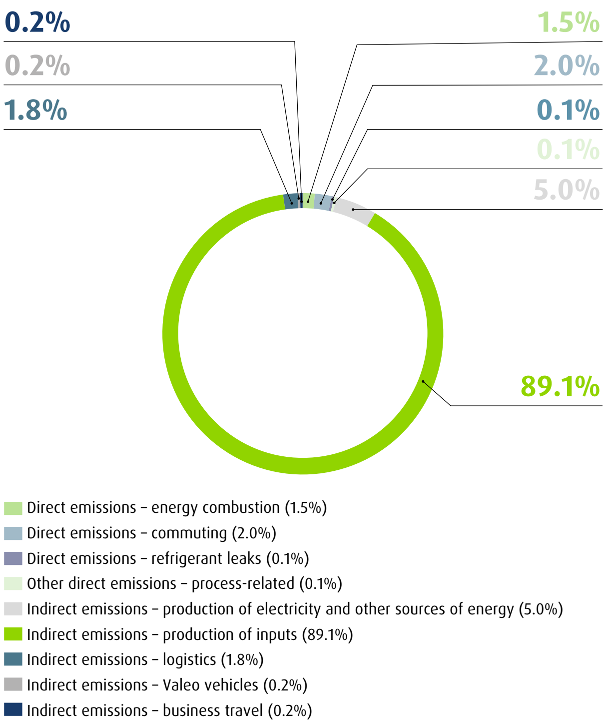
Other relevant indirect GHG emissions *($ktCO_2eq.$)* **– Emissions positions**	2017	2018	2019	2020
Emissions generated by the production of the main materials used in industrial processes, of which:	**7,770**	**8,764**	**9,179**	**8,157**
Materials (metals)	4,817	5,722	5,807	4,918
Materials (other)	2,953	3,042	3,372	3,239
Emissions generated by upstream logistics:	**296**	**343**	**281**	**169**
Road/rail/maritime transportation	164	222	236	124
Air/express transportation	132	121	45	45
Emissions generated by employee travel of which:	**195**	**222**	**236**	**195**
Commuting	153	182	209	181
Business trips	42	40	27	14
TOTAL OTHER INDIRECT EMISSIONS *($ktCO_2eq.$)*	**8,261**	**9,329**	**9,696**	**8,521**
TOTAL OTHER INDIRECT EMISSIONS/SALES *($tCO_2eq./€M$)*	**493**	**528**	**517**	**568**

In 2020, total other indirect emissions (Scope 3) amounted to 8,521 metric tons of CO_2, down 12% in absolute terms between 2019 and 2020. Other indirect emissions increased by 10% as a proportion of sales between 2019 and 2020. Note that product-related emissions (installation in the end vehicle, use, end of life) are described in section 4.3.3 "Valeo's non-financial risks", paragraph "Risk of non-compliance with environmental product regulations", pages 229 to 235.

The following chart shows that materials used in industrial processes account for the majority of the Group's overall carbon footprint (89%, of which nearly two-thirds from metal production), whereas direct emissions represent just under 4% of the overall footprint.

(1) *See sustainable development glossary, page 295.*

Breakdown of the source of GHG emissions[1] in 2020



Performance

Valeo had also set a reduction target of 8% between 2016 and 2020 on its emissions related to the production of GHGs (Scope 1, Scope 2)[1] compared with the 2015 baseline of 56 $tCO_2eq.$ per million euros of sales. By the end of 2020, the Group had achieved a 25% reduction, with 42.1 $tCO_2eq.$ per million euros of sales.

Achievements during the year

In 2020, Valeo's sites undertook several projects to foster the use of renewable energy. For example, the Chonburi site in Thailand (Thermal Systems Business Group) installed and started using solar panels to generate electricity, and the Chennai sites in India (Powertrain Systems Business Group) are powered by a wind farm.

Other initiatives were taken by the Group's sites. They include:

- replacement of lighting systems using conventional fluorescent or metal-halide lights with more energy-efficient LEDs. Sites generally stagger the replacement of this equipment over several years; the sites in Rakovnik (Thermal Systems Business Group, Czech Republic), Seymour (Visibility Systems Business Group, United States) and Chang Chun (Thermal Systems Business Group, China);
- installation of systems to recover heat from compressors or cooling units for reuse in other plant areas. The sites in Saint Quentin Fallavier (Powertrain Systems Business Group, France) and Jingzhou (Thermal Systems Business Group, China) undertook measures of this nature in 2020;
- optimization of compressed air systems by such means as the reduction of the use of pressure in air networks, implementing an organizational procedure for switching on and off compressors supplying the compressed air network and the detection of leaks using an ultrasonic sensor. Examples of sites that took measures bearing on this equipment include Bobigny (Visibility Systems Business Group, France), Yokote (Comfort & Driving Assistance Systems Business Group, Japan) and Tuam (Comfort & Driving Assistance Systems Business Group, Ireland);
- optimization of the operation of water pumps by shutting down the system during production stoppages at the Rayong 2 site (Visibility Systems Business Group, Thailand);
- most sites also set up awareness campaigns on the responsible use of energy, especially during the Sustainable Development Week in June.

Biodiversity

Challenges

The 151 sites in the reporting scope occupy a total area of approximately 905 hectares, of which approximately 13% are left in their natural state. The rest is used for buildings, traffic areas and gardens.

Almost all of the sites occupied by Valeo, i.e., nearly 88% of its operating plants, are located in urban areas or areas zoned for industrial use. In addition, its activities are not liable to significantly alter ecological processes (no extraction or spraying, for instance).

To more accurately understand its potential impacts, the Group conducts an annual biodiversity inventory at plants located in or near (within 10 km of) protected areas. Eleven such sites were identified in 2020: one in North America, three in South America and seven in Europe.

Approach

The precise identification of significant direct impacts on biodiversity is conducted across sites through environmental analysis. This step is crucial in the implementation of an ISO 14001-certified environmental management system.

The "Biodiversity" Directive lays down guidelines to regulate practices in terms of biodiversity conservation during selection, construction, operation and closure of plants.

Achievements during the year

Many sites are active on the issue of biodiversity, particularly during the sustainable development week in June. Examples include:

- the Chonburi site (Thermal Systems Business Group, Thailand) planted trees in the local mangrove swamp with its employees;

(1) See sustainable development glossary, page 295.

- the Itatiba site (Thermal Systems Business Group, Brazil) undertook a new reforestation campaign with its employees in nearby green spaces;
- the Turku site (Thermal Systems Business Group, Finland) organized a clean-up of green spaces adjacent to the site;
- the Isehara site (Visibility Systems Business Group, Japan) organized a cleanup operation with its employees in areas near the site.

Transportation and logistics

Challenges

Valeo's operations require inbound supplies of raw materials and parts, the transfer of parts between sites and outbound deliveries to automaker-customer premises, plants and dealer networks. The main environmental impacts of these logistics flows result from emissions of greenhouse gases attributable to the use of non-renewable fuels.

Approach

In line with its product development strategy aimed at reducing the impact of vehicles on the environment, Valeo pursued its transportation optimization strategy to reduce associated CO_2 emissions in 2020.

Performance

Valeo limits the use of **air freight** as much as possible in its logistics. However, the Group sometimes authorizes this type of transportation, as in the following cases, to:

- avoid any break in the logistic chain in series productions;
- reduce project development time (transportation of samples or prototypes) to meet market demand;
- deliver technological products on a just-in-time basis, given that capacity can be stretched on the markets (permanently or temporarily), or those that have specific characteristics that require them to be fitted quickly to maintain their optimal properties.

In 2020, as in 2019, emissions related to air transportation for the delivery of parts from suppliers amounted to 45,000 metric tons of CO_2. Emissions related to air transportation for the delivery of Valeo products to customers amounted to just under 3,000 metric tons of CO_2.

The Group is continuing its efforts to limit and control the use of this means of transportation, which is the most polluting, in favor of sea freight, the least polluting but the slowest in terms of transit time, and train, an intermediary in terms of transit time and a hundred times less polluting than air.

In **road transportation**, optimization work performed in previous years continued in 2020:

- load consolidation by the use of logistics platforms to collect as many parts as possible from multiple sources, which are then re-routed in fully loaded trucks to each plant;
- development of new solutions for packaging parts for customers, to guarantee the quality of deliveries, and ensure optimum truck fill rates;
- where technically feasible and as permitted by domestic law, use of dual-capacity trailers (double deck in a single trailer or double trailer) to further improve fuel consumption ratios per part delivered and, in turn, CO_2 emissions.

Emissions related to road transportation for the delivery of parts from suppliers amounted to 57,000 metric tons of CO_2. Emissions related to road transportation for the delivery of Valeo products to customers amounted to 11,000 metric tons of CO_2. Overall, these emissions were stable compared with 2019.

For **maritime transportation**, the Group also continued its longstanding approach of pooling shipments between the different plants.

In 2020, emissions related to maritime transportation for the delivery of parts from suppliers amounted to 1,000 metric tons of CO_2. Emissions related to maritime transportation for the delivery of Valeo products to customers amounted to 1,072 metric tons of CO_2.

Lastly, Valeo opted decisively for **rail transportation** in 2020 due to the improvement of China-Europe and North America routes and its more environmentally friendly nature, as well as its 50% reduction in transit times on China-Europe routes. On this route, rail is becoming a viable alternative to air transportation in some areas. Road, maritime and air transportation are increasingly being diverted to rail, giving this mode of transportation the highest rate of growth in the Group.

In 2020, emissions related to rail transportation for the delivery of parts from suppliers amounted to 14,000 metric tons of CO_2. Emissions related to rail transportation for the delivery of Valeo products to customers amounted to 19 metric tons of CO_2.

Achievements during the year

In 2020, several initiatives were taken to reduce CO_2 emissions relating to transportation and logistics:

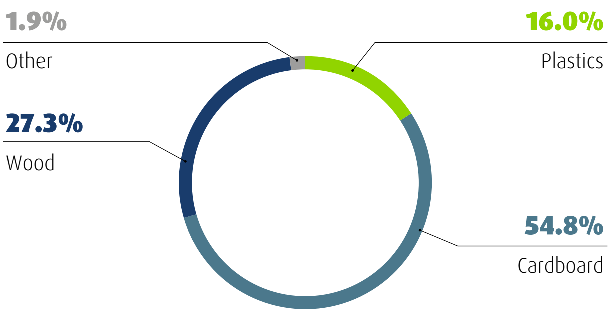
- in-housing of the storage of certain materials necessary for production in order to avoid multiple journeys;
- grouping of orders to limit delivery-related transportation and its environmental impact;
- readjustment of packaging to allow for an increase in the number of goods delivered;
- in general, the volume of transportation managed by Valeo increased, mainly due to Valeo's assumption of responsibility for the transportation of components, previously assumed by suppliers. This process, started in previous years, will continue to be rolled out and reinforced in 2021. This transfer allows Valeo to consolidate more loads in the most distant countries of origin, thereby reducing overall transportation costs and CO_2 emissions.

Packaging

Challenges

Packaging is essential for product handling. It is required for transporting, storing and protecting products and, in the case of aftermarket products, selling them. For these various purposes, Valeo uses many different kinds of packaging materials, mainly cardboard, wood, plastics and metal. Cardboard and wood together account for more than 82% of packaging materials used.

Breakdown of packaging materials consumption in 2020



Approach

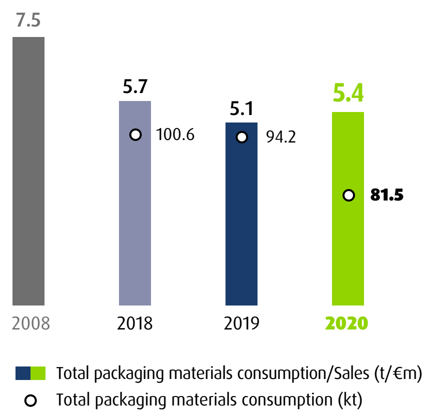
For several years, Valeo has worked to reduce its consumption of packaging materials in two main ways:

- using reusable containers or pallets, made from either cardboard, wood or plastic;
- improving the fill rate of the packages containing the products.

This work is being conducted in partnership with Valeo's suppliers and customers.

Performance

Packaging materials consumption



Total consumption of packaging materials as a proportion of sales increased by around 6% compared with 2019. In 2020, packaging consumption in absolute terms fell by more than 13% compared with 2019.

To reduce its environmental footprint, Valeo pays particular attention to the use of recycled materials. In 2020, 1,198 metric tons of packaging materials were recovered internally and reused. Since 2008, total packaging consumption as a proportion of sales has fallen by 28.0%.

Achievements during the year

In general, Valeo sites are working on replacing disposable packaging with reusable packaging so as to reduce their use of packaging materials.

This policy can be adopted both for customer packaging and packaging for the storage of semi-finished products. The sites in Wuhan (Thermal Systems Business Group, China), Martos (Visibility Systems Business Group, Spain) and Hampton (Valeo Services Business Group, United States) offer examples of initiatives of this nature in 2019. This can also involve the packaging of parts or components delivered by suppliers, which are either reused directly for packaging intended for products, or returned to suppliers so that they can reuse it for their deliveries. Due to the exceptional situation in 2020, no new actions were initiated during the year.

4.5.4 Employee-related commitments

Quality of life at work

Challenges

Quality of life at work is an integral part of Valeo's Human Resources strategy to attract, develop and retain talent. The Group works to continuously improve the quality of life at work for its employees by guaranteeing:

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

Approach

Operational excellence specific to Valeo's culture is based on the "5 Axes" system. Valeo's 5 Axes system is designed to achieve total customer satisfaction, with the goal of becoming a preferred partner. Each of the 5 Axes is subdivided into several work processes, and translated into roadmaps. A roadmap is made up of key objectives and a predefined list of actions to ensure its application as well as a series of questions allowing the manager and auditor to evaluate its proper rollout.

A healthy and pleasant working environment is key to guaranteeing the safety of employees. Valeo therefore wishes to maintain an achievement rate for the "Building a well-being environment" roadmap of more than 75% by 2025.

Aware of the need to formalize its quality of life at work policy, Valeo rolled out a Human Resources procedure entitled "Building a well-being environment" in 2018. The purpose of this procedure is to define the quality of life at work, the means of improving it and the tools needed. It is then implemented at each site by a Quality of Life at Work Committee comprising a multidisciplinary team: a site manager, employee representatives and members of the HR network, Health, Safety and Environment network and the site's medical team. It is tasked with defining the site's Quality of Life at Work policy in accordance with its specific challenges and ensuring communication with employees.

Valeo uses two distinct processes to monitor its Quality of Life at Work policy and evaluate actions implemented locally:

- the "Building a well-being environment" roadmap. Each year, Valeo's internal auditors check that the action plans drawn up as part of the roadmaps are properly implemented. By 2020, Valeo plants had achieved 65% compliance with the roadmap, compared with 61% in 2019;
- annual labor-related CSR reporting.

Performance

In 2020, considerable progress was made in terms of quality of life at work:

- 90% of the population eligible to work from home did so in 2020. This compares with 22% of Managers and Professionals in 2019;
- 98% of plants implemented at least one action to promote quality of life at work;
- 5,950 training/awareness modules on quality of life at work were completed;
- 36% of sites have set up a fund to assist employees experiencing financial hardship.

Achievements during the year

Wishing to adapt to changes in society and to improve quality of life at work for its employees in France, in 2014 Valeo introduced a Teleworking Charter. A Group agreement signed on October 17, 2018, applicable in France, takes note of the shared desire of Management and all representative trade union organizations to promote working from home. It makes working from home more accessible for the well-being of employees, to make work organization more flexible and to reinforce the Group's attractiveness. Management wishes to see the practice develop throughout the Group.

In 2020, against the backdrop of the global pandemic and in the space of just a few weeks, the Group had to roll out home-working for all employees whose position allowed it, i.e., more than 30,000 employees. Following the period of lockdown and working from home, the Human Resources Department undertook a survey of all Managers and Professionals in May, as lockdown restrictions were gradually lifted. The objective was to learn about their experience of this new way of working, which was put in place very quickly, and to allow the Group to start reflecting more broadly on this new organization. The survey, conducted with Choose MyCompany, showed a high rate of overall satisfaction (77.5% of respondents). This result is 10 percentage points above the average of the results obtained by the other companies that responded to the survey. The survey also showed the extent to which Valeo managers are able to trust their team members and provide them with the right level of information. Following the pandemic, working from home will continue to offer a means of balancing professional and personal life without compromising performance.

Respecting and promoting diversity

Challenges

Valeo firmly believes in the importance and relevance of the diversity of its employees at all levels and in all areas of the company. A key element of its culture, Valeo works for diversity on four themes: gender equality, cohesion between generations, cultural diversity and the inclusion of people with disabilities. In a competitive environment and diverse society, encouraging diversity among employees is a means of driving performance, and attracting and retaining talent.

Approach

To ensure greater diversity across the Group, Valeo has set targets for each of the four themes to be achieved by 2025:

- Gender:
  - reach 90 points globally on the gender equality index;
- Disability:
  - increase the number of employees with disabilities to 2.5% of the headcount;
- Cultural:
  - increase the proportion of plants run by a local director, bringing it above 80%,
  - continue to reduce the proportion of expatriates among total Managers and Professionals to less than 0.75%,
  - reduce the share of French expatriates in the total proportion of the Group's workforce to less than 55%;
- Generational:
  - ensure that the proportion of hires of people under 25 years of age is greater than 35%.

To evaluate the measures taken and define the Group's objectives, a Diversity Committee was established in 2012 at the initiative of General Management. Chaired by the Group Senior Vice-President, Human Resources, assisted by the champions of each of the four diversity themes, it has four specialized sub-committees: Gender, Disability, Social and Cultural, and Generational.

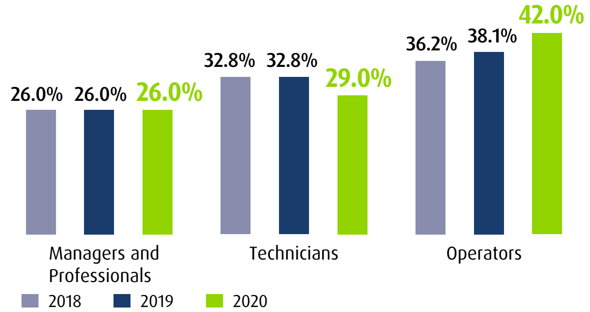
Firmly believing in the importance of diversity in non-financial and financial results, the Group decided in 2018 to incorporate the criterion of diversity into the variable compensation of Jacques Aschenbroich, its Chairman and Chief Executive Officer. The aim of this approach is to send a strong signal to the teams to encourage them to continue their actions in favor of diversity.

The Group's goal is to promote diversity everywhere. To ensure that the definition of diversity, its scope and the practical initiatives stemming from it are known in all plants, a Human Resources "Valuing Diversity" policy applying to all employees has been shared with the entire Human Resources network since 2017 and is accessible to everyone on the intranet.

Performance

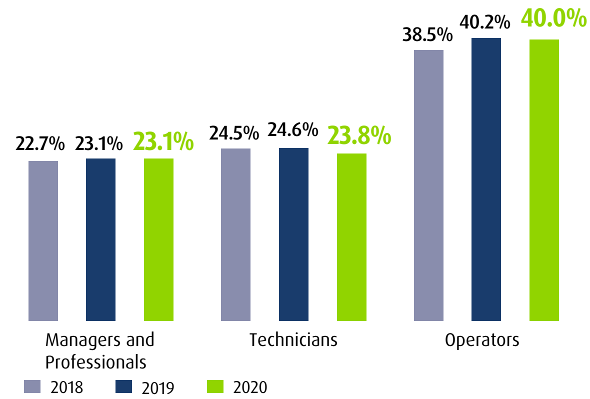
Gender

Percentage of women among new hires



In 2020, women represented 39.0% of new hires, an increase of 5 points from 34.0% in 2019. The Group once again exceeded its 2020 target, initially set at 33% in 2017 and increased to 35% in 2018.

Proportion of women per socio-professional category – registered headcount



The percentage of women in the general population is 32.6%. The percentage of women Managers and Professionals is 23.1%. The percentage of women in R&D is 15.1%. Valeo is committed to promoting and developing female talent. The proportion of women in the executive population[1] increased by 0.3 points, rising from 12.4% to 12.7% between 2019 and 2020.

VALEO COMMITS TO PROFESSIONAL EQUALITY BETWEEN MEN AND WOMEN

A pioneer in this approach, in March 2019 Valeo decided to extend the Gender Equality Index (mandatory in France) to all countries where it operates. Based on five indicators, the index measures the weighted gaps in pay, pay rises and promotions, as well as the percentage of women in the ten highest paid positions.

The Group obtained an average score of 82.6/100, an increase of 0.6 percentage points year on year. The lowest score was 73, and the highest was 92. Thanks to the action plans implemented in each country, Valeo has made progress on most criteria. Among its priorities, Valeo aims to ensure that all women returning from maternity leave are given a pay rise and, in the longer term, to increase the proportion of women among recipients of the highest salaries.

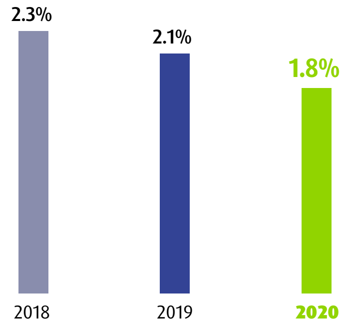
In 2020, Valeo set itself the Group objective of achieving an average score of 90/100 by 2025.

In addition to this index, Valeo has decided to measure the percentage of women on the management committees of its operating entities. The Group has prepared a "Gender Diversity by Design" program with the ambitious goal of having 32% women on management committees by 2030. In 2020, the rate was 19.5%, up from 16% at the end of 2019.

(1) *The executive population corresponds to employees in the two highest of the six grades in the Managers and Professionals category of the Valeo scale.*

Disability

Proportion of employees with disabilities worldwide (direct employment)



The number of disabled workers fell by 17%, from 2,177 in 2019 to 1,805 in 2020. In this period of contraction in the workforce, it was harder to replace disabled employees who retired or took early retirement. By way of example, 70 departures of disabled workers were recorded in France, compared with 7 hirings and 39 new recognitions.

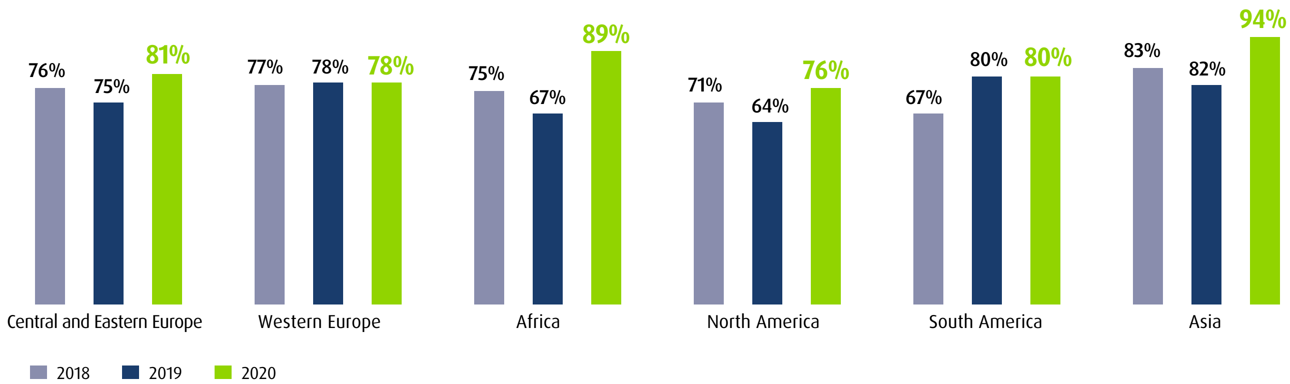
Culture

In 2020, Valeo had 247 expatriates in its ranks, compared with 307 in 2019. The decline is encouraged by the Group, which wants to allow local managers to access key management positions. The countries hosting the largest number of expatriates are the United States (39), Japan (29), China (28), France (28) and Germany (21).

The proportion of expatriates in the total number of Managers and Professionals was down 0.19 points compared with 2019 (0.96% in 2019 vs. 0.77% in 2020). French expatriates accounted for 62% of total Valeo expatriates in 2020. Expatriates working in Research and Development account for 22% of the Group's expatriates.

The Group currently includes employees of 138 different nationalities. The ten most widely represented nationalities within the Group are Chinese, Mexican, French, German, Polish, Indian, Spanish, American, Japanese and Czech.

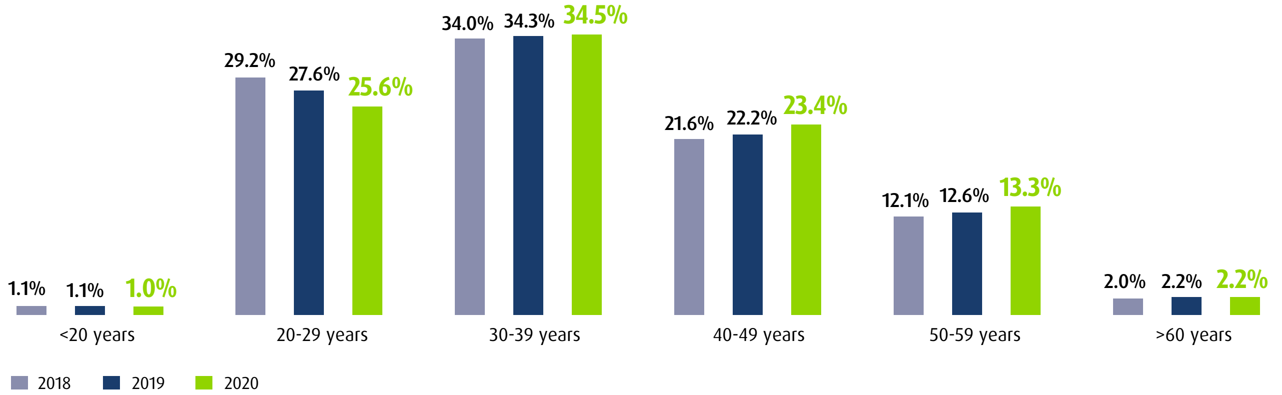
Breakdown of sites run by local directors (2020)



In 2020, Valeo continued to strengthen the ranks of local employees among its directors: 85% of its sites were run by a local director, compared with 78% in 2019. Valeo uses succession plans to ensures the gradual replacement of expatriate site directors by local directors.

Generational

Breakdown of registered headcount by age group



In 2020, Valeo had a total of 15,477 employees aged over 50, and 26,525 aged under 30, representing 15.5% and 26.6% of the registered headcount respectively. In 2019, Valeo had a total of 16,161 employees aged over 50, and 31,584 aged under 30, representing 14.8% and 28.7% of the registered headcount respectively.

- In 2020, Valeo recruited 7,758 employees under the age of 25, representing 38% of new hires.
- The average age of the registered headcount was 37 in December 2020.

Achievements during the year

Gender

Actively in favor of gender equality and the promotion of this facet of diversity, the entire Group achieved the following in 2020:

- 74% of the Group's plants implemented at least one initiative in favor of gender equality: organization of seminars and conferences, organization of photo exhibitions or sports tournaments, etc.;
- particularly attentive to the quality of life at work, 65% of the plants have introduced specific measures for pregnant women: adjustments to workstations or working hours, etc.;
- aware that women are less represented than men in its industry, Valeo continues its partnership with association *Elles Bougent* and had 85 sponsors in 2020;
- as part of an annual internal mobility event, 75 Group sites held a workshop for women on "How to develop my career as a woman at Valeo".

PROMOTING THE PLACE OF WOMEN IN BUSINESS

A series of interviews conducted at the start of 2019 brought out the desire of many female employees to benefit from advice, guidelines and models from which to draw inspiration and learn.

To meet these expectations and encourage peer-to-peer exchanges, Valeo has set up an original program built on three axes:

1) Experience Sharing – woman4women

On several occasions, very experienced women managers from Valeo agreed to share their experience, their career path, their successes, their reservations, the challenges they faced and what helped them succeed. Each presentation was followed by a very open Q&A session.

2) Business Talks – women&business

Two senior executives stood up to present their respective fields of activity, Valeo's challenges and priorities, and the impact of their work on Valeo.

3) Confidential Discussion – woman2woman

Valeo offered women the possibility of receiving personal mentoring through private and informal interviews in order to:

- ask questions about career stages;
- promotions and personal aspirations;
- share their professional experience;
- receive support and advice.

Disability

To develop the approach launched in France in other countries, a new Group approach known as the Disability Management Approach was drafted and implemented in 2018. It is a policy designed to respect the customs of each country in which Valeo operates. To this end, Valeo relies on the United Nations definition (Convention on the Rights of People with Disabilities), plus the concept of the working environment. The Group considers that an employee with a disability is one whose interaction with his/her work environment is undermined by his/her disability or impairment. Valeo is implementing an organization aimed at inclusiveness for this population. From now on, and based on the existing French model, a duo of disability liaison officers is present on each site. Composed of an employee from Human Resources and a volunteer employee, they have an advisory role for employees identified as workers with disabilities, and oversee their needs.

In France, December 31, 2020 marked the end of the current disability agreement and the start of negotiations with the Group's representative trade unions for a fourth agreement. Its application is ensured by the disability mission and by the disability liaison officers on each site. This is how Valeo manages to recruit, integrate and develop talented people with disabilities within the Group.

HANDITECH TROPHY

In 2020, for the fourth year in a row, Valeo took part in the HandiTech Trophy. Loan My, Director of the Valeo start-up and technological incubator, participated in the selection of technological and innovative projects for people with disabilities as a panel member in the Mobility category. MAKERGO, a digital manufacturing laboratory located in a shelter, raised funds to develop a robotic arm to help people eat.

Culture

In 2020, Valeo continued to promote cultural and social diversity as a real performance driver:

- 68% of the plants implemented at least one initiative in favor of cultural diversity: celebration of the World Day for Cultural Diversity, introduction of pairs formed by employees from different countries, circulation of an e-learning module;
- to attract talented young people from diverse backgrounds, Valeo has launched the Insertion Process. Currently piloted in France, it aims to integrate a greater number of young people from priority neighborhoods in urban policy(1), especially for school work experience or work-study programs for college students.

VALEO CAMPINAS IN BRAZIL AWARDED FOR ITS "GENERATION IN TRANSFORMACTION" PROJECT

At the end of 2019, the AEDHA(2) association in Brazil recognized Valeo Campinas for its socially responsible role in developing the youth of tomorrow. The site implemented the "Generation in TransformAction" project to help young apprentices from low-income neighborhoods to enter the Group's workforce. To this end, Valeo employees regularly hold workshops centered on the world of work.

In 2020, two sessions were held despite numerous cancellations due to the pandemic. Four remote workshops are already planned for 2021.

Generational

The Group takes care to create an environment in which four generations can work together as the retirement age increases and members of generation Z arrive on the labor market. This generational diversity is a factor of human enrichment for the Group, but it questions the perception of Valeo's management model by each generation. In 2020, Valeo implemented a number of measures in favor of generational diversity:

- 54% of the plants implemented at least one action in favor of generational diversity, especially to mark generational diversity day: activities, workshops, open days for high schools;
- extension of the policy of selective partnerships with higher education institutions at the international level, to promote diversity within teams. These initiatives in favor of youth employment and the integration of young people in the workplace allowed the Group to welcome 1,117 interns, 1,192 apprentices and trainees, and 47 *Volontariat International en Entreprise* (VIE) program applicants.

(1) *Priority neighborhoods in urban policy are characterized by a significant economic and social development gap with the other parts of the cities in which they are located.*
(2) *Associação Educacional dos Homens de Amanhã.*

Promoting and respecting fundamental rights

Challenges

Valeo believes that employee progress is inseparable from financial performance. As employee trust is essential to its business and development, Valeo has undertaken to respect fundamental rights, and promotes open communication between employers and unions[(1)].

It further believes that the unions are a key extension of management for explaining, discussing and adjusting the Company's action plans. The involvement of all employees through social dialog is a guarantee of success for all the policies undertaken by Valeo.

Approach

- The Group is committed to having the CSR report prepared in accordance with the provisions of the CSR agreement presented and discussed with local unions on all plants.
- To promote and ensure respect for fundamental rights, Valeo's goal is to ensure that all of its employees have received the Code of Ethics and signed the relevant statements, and that they have received training on its content.

Social dialog

In 1999, Valeo concluded an agreement to set up a European Works Council. The agreement was renegotiated and signed unanimously by the unions in 2016. The Works Council provides a forum for exchanging points of view and establishing dialog between management and the 16 employee representatives from each European country in which Valeo has more than 150 employees. A nine-member committee meets quarterly at a European site.

The European Works Council represented 43% of the Group's registered headcount in 2020, or 42,446 employees. Each country sets up specific bodies in line with local laws and regulations.

In 2020, 68% of Valeo plants had formal bodies representing employees and unions. This representation at different levels of the organization has allowed Valeo to develop an active bargaining policy with the unions. Valeo must continue promoting high-quality labor relations that provide a platform for exchanging points of view, fostering mutual understanding and finding well-balanced solutions that are in the interests of all stakeholders. In 2020, 75% of the registered headcount worked in accordance with the working organization and salary condition rules provided for in collective bargaining agreements.

Fundamental rights

Valeo has participated in the UN Global Compact since 2004. The Group also aims to comply with the International Labour Organization (ILO) conventions on fundamental principles and rights at work:

- elimination of discrimination in employment and occupation (Conventions 100 and 111);
- prohibition of child labor (Conventions 138 and 182);
- elimination of forced and compulsory labor (Conventions 29 and 105);
- respect for weekly rest periods (Conventions 14 and 106);
- freedom of association and collective bargaining (Conventions 87 and 98);
- protection of workers' representatives and union members (Convention 135);
- equal rights and opportunities for workers with family responsibilities (Convention 156).

Professional, individual and collective integrity is a key value of the Group. Wishing to ensure that it is embodied by all employees in all their exchanges (internally and externally), Valeo published its Code of Ethics in 2005. It combines the Valeo Values, the 5 Axes and the Valeo Compliance Program. To ensure that all employees understand the commitments made by Valeo in its Code of Ethics, the document is given to all employees, who are required to sign a statement acknowledging receipt and pledging to uphold it. In 2020, 99.2% of new employees signed a declaration acknowledging receipt of a copy of the Code.

To ensure the proper application of its policies on child labor, the Group's Internal Audit Department carries out a specific procedure to assess whether the risks associated with the hiring of employees under the legal working age have been addressed and mitigated by Valeo's rules and overall policies. In 2020, 28 sites were audited. The policy on the prohibition of child labor was respected at all such sites.

Valeo has introduced a number of internal procedures to ensure that the commitments made by the Group are rigorously respected and that its policy on promoting and respecting fundamental rights is properly applied. In 2017, the Group conducted an in-depth review of the contents of six Human Resources procedures and policies on respecting and promoting fundamental rights including:

- prevention of harassment and discrimination;
- fight against child labor;
- fight against forced labor;
- promotion of social dialog.

These procedures apply to all of the Group's employees. Each of them sets out Valeo's approach and commitments, specifies the roles of the various stakeholders and determines the follow-up methods implemented by the Group, which are based on specific, quantifiable and auditable criteria.

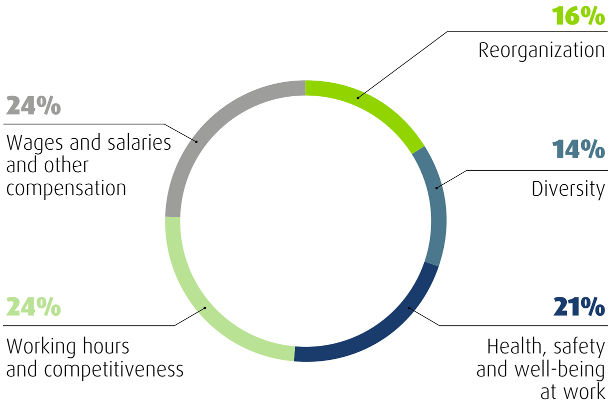
Performance

In 2020, the crisis linked to the pandemic intensified social dialogue. For example, the European Works Council met six times in 2020, whereas it usually meets twice a year. Similarly, the Group Committee met eight times in 2020, compared with the usual two meetings. Several agreements were signed, not only at site level but also at country level, notably for the resumption of activity following lockdown. Safety protocols were drawn up in consultation with the unions (with all employees agreeing to them). In addition, the consequences of the health crisis prompted the negotiation of short-term cost variability agreements and medium- and long-term competitiveness agreements.

(1) This paragraph deals with the promotion and respect of the fundamental rights of Valeo employees. The risk related to sustainable development practices of tier-one suppliers is addressed in "Risk related to suppliers' sustainable development practices" (see section 4.3.3 "Valeo's non-financial risks", paragraph "Risk related to suppliers' sustainable development practices", pages 249 to 253).

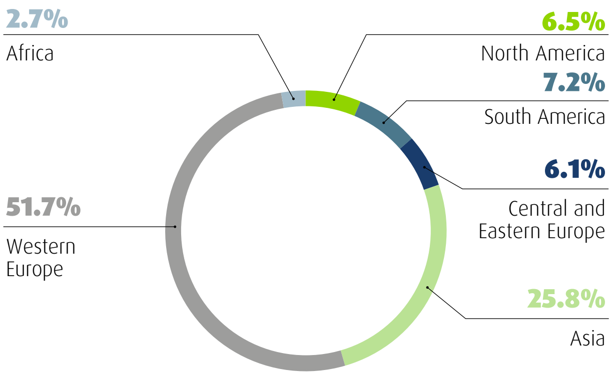
A total of 752 collective bargaining agreements were in force locally and nationally at Valeo's various sites worldwide in 2020. The topics covered by these agreements are as follows:

BREAKDOWN OF AGREEMENTS IN FORCE BY CATEGORY IN 2020



In 2020, the main topics covered were wages and other compensation (24%), working hours and site competitiveness (24%), health, safety and quality of life at work (21%).

BREAKDOWN OF AGREEMENTS SIGNED BY GEOGRAPHIC AREA IN 2020



The vast majority (79%) of agreements were signed in Europe and Asia. The high proportion of agreements signed in Asia demonstrates the Group's determination to promote this type of dialog with labor organizations worldwide.

Achievements during the year

Employee relations

A Corporate Social Responsibility (CSR) agreement was signed on July 10, 2012 and renewed on November 4, 2016 between the Group's Management and labor organizations. The purpose of this global agreement is to ensure that an appropriate labor framework is in place to accompany the Group's international expansion, in line with its principles of responsibility, Code of Ethics and sustainable development policy. The agreement also seeks to promote labor and environmental practices that go beyond legal and regulatory obligations. The procedures and principles defined in the agreement are being phased in by the subsidiaries at the various national and local levels. This agreement is intended to be a determined reflection of the commitment to universal principles for all of the Group's companies, as well as being pragmatic, by respecting cultural, social and economic differences in the implementation of the principles. In 2020, the CSR report provided for in the CSR agreement was presented and discussed at the European Works Council.

Fundamental rights

Ethics is a central value in Valeo's culture and is defined as follows:

- support for the Group's commitment to sustainable development;
- compliance with fair trade practices and irreproachable business conduct;
- respect for individuals.

Respect by employees for these ethical principles is essential for the accomplishment of the Group's objectives. For that reason, each employee's performance is assessed based on his/her respect for Valeo's Values, including ethics, in the end-of-year appraisal.

Moreover, the Code of Ethics was updated in September 2018 in line with the General Data Protection Regulation (GDPR), the Sapin II law[(1)] the duty of care law[(2)] and the extension of the whistleblowing line. The updated code was implemented in early 2019. Inappropriate behavior or breaches of the provisions of the Code of Ethics or Human Resources procedures are grounds for disciplinary action, including dismissal.

The scope of the Valeo whistleblowing line, which has hitherto been used to signal management of non-compliance with internal regulations concerning anti-competitive practices, corruption or fraud, has been extended. It now allows the reporting of any behavior contrary to international laws or agreements, including violations of fundamental rights, environmental breaches or the health or safety of people. Valeo does not tolerate any form of retaliation against people who blow the whistle in good faith, or who take part in investigations, proceedings or hearings. The scope of the whistleblowing line covers all employees and former employees, as well as suppliers.

A specific procedure for the prevention of harassment and discrimination provides for the initiation of an investigation as soon as the facts, proven or not, are reported via the whistleblowing line.

In 2020 Valeo launched a mandatory e-learning program aimed at preventing sexual harassment. The goal is to help employees understand what constitutes sexual harassment in order to detect it, clarify it and take the necessary measures to eliminate it from their work environment. The module consists of definitions, descriptions of cases and behaviors in video format as well as regular quizzes.

(1) Law No. 2016-1691 of December 9, 2016 on transparency, anti-corruption and economic modernization, known as the Sapin II law.
(2) Law No. 2017-399 of March 27, 2017 on the duty of care of parent companies and ordering companies.

4.5.5 Social commitments

Proactive commitment to local communities

Challenges

Consistent with its size and worldwide scope, Valeo takes a firm stance on responsibility and commitment in its relationships with its many and varied stakeholders.

The quality of the initiatives implemented at Valeo's sites is a major factor in Valeo's corporate citizenship endeavor. The table below lists the main initiatives undertaken in 2020.

Main corporate citizenship initiatives at Valeo sites

Commitment	Partners	Focus of the initiatives
Action with local communities	• Local populations • Local government • Local schools (primary/secondary) • Higher education and research organizations	• Support for local economic fabric and development • Partnerships with the world of education and local training • Partnerships with the local research ecosystem
Action with local populations	• Local populations	• Dialog with local stakeholders • Solidarity initiatives through donations to local populations

Approach and achievements during the year

2020, continuity in the Group's special relationship with Japan

In 2014, for the 50th anniversary of the *Maison franco-japonaise* in Tokyo, the EHESS Social Sciences University set up the Advanced French-Japanese Studies Center in Paris, which runs programs inviting Japanese research scientists and specialists from Japan to Paris.

Valeo created and finances the center's "innovative technologies for sustainable transport" chair. The chair's aim is to support exchanges between universities in France and Japan, including visits to France by Japanese academics in the fields of technology companies for an aging society, robotics and human-machine interfaces for connected and automated mobility solutions.

For 2019-2020, the exchange program was awarded to Haruki Sawamura, a doctoral student at the Interdisciplinary Institute for Innovation at the Center for Research in Management (CRG) at École Polytechnique, and a graduate of the School of Engineering of the University of Tokyo and the School of Advanced Science and Engineering of Waseda University. As part of the CEAFJP/Valeo chair, he studied the spread of connectivity technologies such as detection, IT and telecommunications and how these technologies facilitate the move to other automated products and services. His research focuses on the interaction between humans and infrastructure, including information and communication technology (ICT) infrastructure, allowing better access and wider spread of automated products and services within the Company.

For 2020-2021, the exchange program welcomed Kulacha Sirikhan, PhD in Urban Planning from the University of Tokyo, whose research work focuses on the emergence of new mobility technologies and the construction of patterns of sustainable urban mobility in Southeast Asian cities.

The Group's special relationship with Japan is also reflected in the Franco-Japanese business club that Jacques Aschenbroich, Chairman and Chief Executive Officer of Valeo, has co-chaired since 2013, and whose digital session was held in 2020.

Action by sites with local communities

Valeo has a policy of accountability for its sites, and supports local initiatives around the world. For initiatives in the local economy, Valeo sets the following two guidelines for all Group sites:

- form partnerships with the world of education and local training;
- participate in setting up and running local research ecosystems.

Relationships with local educational and training bodies

As a global group with a strong R&D dimension and structured networks (see section 4.5.2 "Technological commitments", paragraph "Valeo, an actor in the governance of institutional collaborative research organizations", pages 259 to 260), Valeo also encourages the Group's sites to join specific local initiatives covering relationships with local educational and training institutions (engineering schools, universities, technical institutes, etc.).

As such, 77% of sites worldwide initiated partnerships and exchanges with higher education structures (universities/engineering schools) in 2020. The diversity of relationships and partnerships with these teaching institutions reflects the wide range of relationships sites have with the surrounding area, depending on the specific local teaching and training environment.

The aim of this approach is to promote the Group's visibility, experience-sharing and collaborative relationships beyond the simple opportunity to develop industry-oriented projects.

VALEO IS COMMITTED TO PROMOTING INDUSTRIAL JOBS AMONG WOMEN

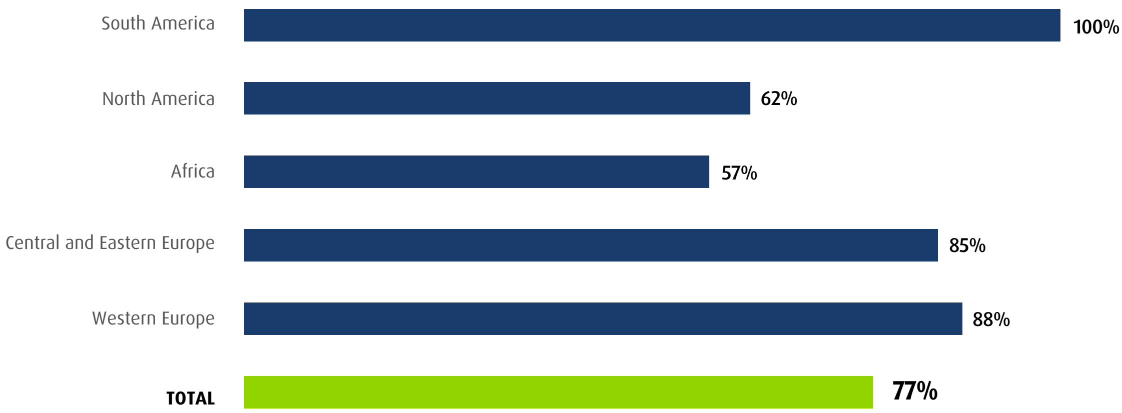
Valeo maintains its well-established link with Elles Bougent, an association whose purpose is to promote gender equality and diversity in companies in the industrial and technological sectors. Several projects have been carried out in collaboration with the association, and other partners, on the promotion of the place of women in the industry.

For example, the La Verrière site (France) supported female senior high school students from two schools for an entire academic year, as well as female students from the ESTACA engineering school, giving them an overview of the various professions that exist in automotive and engineering industries.

A total of four meetings were organized during the 2018-2019 school year: one at the Paris Motor Show in October 2018, where Valeo welcomed the students and a delegation brought by Elles Bougent to its stand to give them a presentation of automotive industry professions. A further three were organized in 2019, including a visit to the La Verrière site, a visit to ESTACA and finally a visit to the Polytechnique incubator to close the project.

Similarly, in 2019 the Ben Arous site (Tunisia), continued its participation in the EcoWin project and its partnership with the *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ), hosting a group of high school girls for a day of meetings on auto industry professions on its site. These initiatives were maintained in 2020, despite the particular health situation, notably through dedicated awareness-raising initiatives.

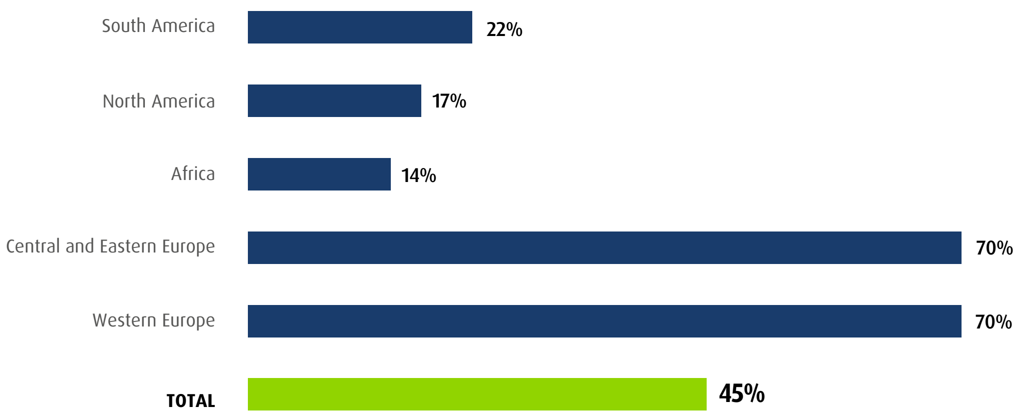
SHARE OF SITES PARTNERING WITH LOCAL UNIVERSITIES/ENGINEERING SCHOOLS IN 2020



Similarly, at the primary school level, the Group first called on sites to build closer relationships with elementary and high schools in 2016, as a means of increasing Valeo's visibility as a local economic actor and potential future employer.

The outcomes three years after the introduction of this objective reflect sites' awareness of the importance of visibility for industrial players at all levels of the education system. Collaborations of this nature can take various forms, predominantly site visits and introductions to industrial professions.

SHARE OF SITES PARTNERING WITH LOCAL ELEMENTARY/SECONDARY SCHOOLS IN 2020



SIGNATURE OF A SPONSORSHIP AGREEMENT TO SUPPORT THE DEVELOPMENT OF THE ESPÉRANCE BANLIEUES SCHOOL IN ANGERS, FRANCE

In December 2019, Valeo signed an agreement to support the development of the Cours Le Gouvernail primary school in Angers, a member of the Espérance Banlieues network, through the sponsorship of one of the school's classes. Espérance Banlieues schools, which are set up in underprivileged neighborhoods, introduce cultural and humanist teaching into the curriculum so that children can find their place in society and grow up with the confidence and desire to succeed. Convinced that perseverance and self-confidence are the drivers of success, and that teaching combined with continuous innovation lead to excellence, Valeo supports the innovative learning methods applied in educating these young people from disadvantaged neighborhoods. In 2020, support will continue for a second year, with the development of ties between the management of the Angers site and the Espérance Banlieues school in Angers.

Relationships with local research ecosystems

Despite a strong industrial footprint in the geography of its sites, Valeo encourages its industrial sites to become more involved in local Research, Development and Innovation (R&D&I) ecosystems. This action serves to support, facilitate and anticipate current and future development needs closer to local markets, particularly in countries with growth potential.

This type of approach is also encouraged by the Group for the knock-on effect it can generate on a local ecosystem in favor of greater cooperation between local skills and expertise, and the gradual emergence of cross-sector synergies.

In 2020, more than one-third of sites in North America (United States, Mexico) were part of a local research ecosystem (local competitiveness clusters, participation in collaborative research projects, etc.). The aim is to increase the numbers in the future.

Valeo employees, actors of CSR initiatives with their regions

As part of the Plant's Initiatives programs, whose themes are left to the initiative of the employees of the sites in view of local issues, we can note the following initiatives shared by certain sites on the themes of:

- road safety;
- respect for biodiversity, with cleaning operations.

In the context of the Covid-19 health crisis, Valeo took solidarity and support initiatives to meet the needs of healthcare systems in some of the Group's host countries (collection of masks, site solidarity initiatives for healthcare personnel, etc.).

In France, Valeo joined forces with a consortium of manufacturers for the fast-tracked production of ventilators to meet the needs of French and European hospitals (see box below).

VALEO AND A CONSORTIUM OF INDUSTRIAL GROUPS RISE TO THE CHALLENGE OF PRODUCING 10,000 VENTILATORS

Air Liquide, Groupe PSA, Schneider Electric and Valeo rose to the challenge of producing 10,000 Air Liquide Medical Systems ventilators in response to the French government request in 50 days between the beginning of April and mid-May 2020. They set up a Task Force composed of about 30 purchasing and industrialization experts in order to define an action plan to increase the production of ventilators. Meeting this industrial challenge also involved the exceptional contribution of 100 partner companies so as to provide the 300 essential components that are necessary for the production of these medical systems.

Valeo provided support to the Air Liquide teams by:

- putting together a team of Valeo buyers in charge of supplier management and the procurement of the components needed to produce ventilators;
- providing technical support with its R&D teams, supplying expertise in plastics, mechanical and electronic technologies;
- making available full-time engineers specialized in wide-scale industrial production;
- gathering around 20 voluntary engineers and technicians to respond to the demand for accelerated production.

Plants' initiatives alongside local populations

Valeo sites involved in dialog with local stakeholders

In 2020, more than 50% of employees at Valeo Group sites worldwide volunteered on operations to help local communities. Their contribution mainly involved time spent on educational activities or as expert speakers at local seminars, schools and universities, as well as at technical training sessions. Initiatives like this are part of local community involvement programs at many Valeo sites.

Open days at Valeo sites

To boost their local operations and their openness to members of local communities, many sites hold annual open days to showcase their activities, unique features and products to local communities. However, no events of this nature were held in 2020 in view of the global health crisis.

Valeo employees, working with the local community

VALEO CHINA, AN ADVOCATE FOR CHILDREN'S ACCESS TO BOOKS

Since 2015, Valeo in China has been running a program entitled "The Valeo Library" under which employees of Valeo sites in China are encouraged to donate books allowing libraries to be opened in schools in disadvantaged areas. After opening its thirtieth library in November 2017, Valeo continued this program in 2018 and 2019, with the total number of libraries standing at 60 at the end of 2020. The program now offers access to books suitable for their age to more than 12,000 children, with more than 45,000 books donated.

With a view to establishing a lasting relationship with their local communities, Valeo sites and their employees are committed to solidarity actions in local regions. In 2020, actions of this nature took place on nearly 50% of sites throughout the Group, mainly around the following themes:

- awareness-raising on critical illnesses and disabilities, such as Alzheimer's disease, breast cancer and visual impairment (including on-site testing), and fundraising events including charity races, flea markets and other initiatives;
- support for public health issues, with blood donations organized in some of the Group's host countries worldwide in 2020, or screening tests for Covid-19;
- charity targeting the poorest populations, primarily in the form of donations of clothing, toys and eyeglasses, as well as food bank initiatives;
- awareness-raising around sustainable development, during the "sustainable development week" held every June in a large number of the Group's sites.

These initiatives are the result of proactive commitment by the sites and their employees. They demonstrate the importance of links with local communities.

In addition to solidarity campaigns initiated by site employees and in-kind donation campaigns (basic necessities for disadvantaged populations, school materials, clothing, etc.), a third of the Group's sites donated money for local solidarity or charity initiatives in 2020.

VALEO'S HISTORIC LINK WITH THE GARCHES FOUNDATION

The Group is a founding member of Institut Garches, which was created in 1988 and became a foundation in May 2005. The organization works to encourage the independence and professional and personal integration of people with motor disabilities. The Foundation has put together a considerable network of expertise, including doctors, heads of motor disability associations and heads of partner companies. Valeo works alongside professionals from the foundation's wheelchair selection and test center.

The partnership was rounded out in 2019 with a response to the Foundation's call to create a skills sponsorship program for wheelchair innovation.

Public and regulatory policies

Challenges

As a major innovator in the automotive industry operating in many countries, Valeo is committed to transforming the automotive industry and to making a positive impact in the regions where it operates.

Approach and achievements during the year

In its relations with public organizations, the approach adopted is to support the Group in becoming involved in the three revolutions that are currently redefining the automotive industry: vehicle electrification, autonomous and connected vehicles, and digital mobility.

Relationships with public bodies

Valeo develops institutional relationships with relevant administrations (at international, national and local levels), through regular dialog, such as:

- dialog with international organizations (UN Global Compact, OECD, World Bank);
- consultations on request:
  - from the European Commission (Directorates-General for Industry, Research, Transport, and the Environment, Directorate-General for Communications Networks, Content and Technology [DG CONNECT]),
  - from ministries of industry (France, China, Spain), the economy (France, Poland, Japan, Germany), research (France, China), energy (France, United States), transportation (France, Germany, United States) and employment (all countries where there are Valeo sites);

- co-construction/co-management of jointly financed projects, especially through participation in the governance bodies of European Union public-private partnerships (European Green Vehicle Initiative Association – EGVI);
- participation in the creation of roadmaps, under Valeo's co-chairmanship (since 2014) of the European Road Transport Research Advisory Council (ERTRAC), the European Commission technology platform (see section 4.5.2 "Technological commitments", paragraph "Valeo, an actor in the governance of institutional collaborative research organizations", page 259).

In 2017, in compliance with the French legal framework[1], Valeo filed an entry in the register of interest groups, which has since been posted online by the French High Authority for Transparency in Public Life (*Haute Autorité pour la Transparence dans la Vie Publique* – HATVP) and is publicly available. For 2020, Valeo sent the HATVP a summary of the activities to be declared.

Organization of the Valeo Group in public affairs and main items of expenditure

Institutional relationships are coordinated under the responsibility of three people at Valeo's headquarters, and relayed locally, as required, by national directorates in the country or region concerned.

MEMBERSHIP OF PROFESSIONAL ORGANIZATIONS

As an independent, global tier-one automotive equipment supplier, Valeo is a member of the main organizations that represent the interests of original equipment and aftermarket equipment suppliers on the world's main automotive markets:

- in Europe: CLEPA (European Association of Automotive Suppliers);
- in the United States: OESA (Original Equipment Supplier Association);
- in France: PFA (Plateforme de la Filière Automobile);
- in Germany: VDA (Verband der Automobilindustrie!);
- in Spain: Sernauto (Asociación Española de Proveedores de Automoción);
- in Italy: ANFIA (Associazione Nazionale Filiera Industria Automobilistica);
- in Japan: JAPIA (Japan Autoparts Industries Association);
- in Brazil: Sindipeças (Sindicato Nacional da Indústria de Componentes para Veículos Automotores).

Valeo is a member of the International transport Forum's Corporate Partnership Board, as well as the French Association of Private Enterprises (AFEP).

It contributed a total of 500,000 euros to these entities during the year.

The Group's main items of expenditure are:

- membership of the main bodies managing the interests of original equipment manufacturers and aftermarket suppliers of the main global automotive markets, which represent Valeo's main financial contribution to interest groups and its only activities that qualify as lobbying;
- personnel expenses of the External Affairs Department (fewer than three FTEs[2] per year).

As in previous years, the Group did not use public affairs consultancy services in 2020. Moreover, in accordance with its Code of Ethics, Valeo does not make any donations or give any support to political parties in any countries where the Group operates.

(1) *Law No. 2016-1691 of December 9, 2016 on transparency, anti-corruption and economic modernization.*
(2) *Full-time equivalent.*

4.6 METHODOLOGY AND INTERNATIONAL GUIDELINES

4.6.1 Sustainable development reporting methodology

Reporting methodology for environmental indicators

In view of the lack of public guidelines applicable to the automotive supplier business, environmental indicators were reported in compliance with internal procedures developed by the Group. The main methodology rules used to prepare the indicators published in this Universal Registration Document are described below.

Scope and consolidation

Scope

The environmental data reported and the calculation of ISO 14001, ISO 50001 and OHSAS 18001/ISO 45001 certification indicators cover all production sites and distribution platforms managed by Valeo worldwide from the third year of their consolidation within the Group, excluding research centers not located on plants, administrative sites, sites located directly on automakers' sites or nearby (such as front-of-vehicle assembly sites) and the subsidiaries in which the Group has a non-controlling interest. In all, a total of 151 plants report their environmental indicators.

Until 2015, Valeo considered that the reporting year began on December 1 of the prior year and ended on November 30 of the reporting year. In order to publish more reliable data within the required time frame, Valeo amended its reporting period in 2016. It now considers that the reporting year begins on October 1 of the prior year and ends on September 30 of the reporting year. The 2018, 2019 and 2020 figures published in this document correspond to the new year, while figures from previous years correspond to the former year.

Changes in scope

Data for sites newly consolidated in a given year (i.e., new sites or sites in which the Group increases its interest and gains control) are only consolidated as of the following year.

Sites that have been sold or shut down during the reporting year are excluded entirely from that year's data. However, their data for previous years are retained.

Consolidation rules

The environmental impacts generated by sites in which Valeo holds an interest of 50% are included on the basis of a 50% share. The impacts of sites in which Valeo holds an interest of more than 50% are included in full. Most indicators are expressed in absolute value terms (total quantity) as well as in relation to sales. 2020 sales are calculated on the basis of a year beginning on October 1, 2019 and ending on September 30, 2020 so as to match the reporting period of the indicators. The ratio per million euros is calculated by dividing total quantity by sales for the relevant sites. Across all indicators, the lowest coverage rate is 96%. The majority of environmental indicators have a response rate of 100%.

Source of data

Environmental data are collected by a centralized online tool (Valeo Environmental Indicators, VEI), except for environmental indicators relating to the consumption of raw materials, ISO 14001, ISO 50001 and OHSAS 18001/ISO 45001 certification and indirect greenhouse gas emissions relating to logistics, inputs and the use of products sold by Valeo. The other aforementioned data are collected from the relevant internal department and consolidated by the Health, Safety and Environment (HSE) Department. Financial data (sales) and those relating to raw materials for the Scope 3 calculation are sent directly by the Group's Finance Department.

Specifications

In view of the French law on the duty of care of parent companies and ordering companies, additional data have been attached to the presentation of environmental, social and labor-related data. Most were taken from internal data sources that existed prior to this law and are published in this document. The information was also subject to an external audit (see below).

Controls and external verification

Consistency checks on data for each site in the scope are performed by the Business Groups' and Valeo Service's HSE managers, the HSE Department and an external service provider. These controls include reviews of year-on-year changes, comparisons between sites in the same Business Group, and an analysis of major events during the year. Furthermore, VEI applies automatic upstream controls designed to prevent data entry errors and allow sites to provide reporting information with regard to material differences versus previous years.

Certain environmental data are also subject to external verification by the Statutory Auditors.

EY & Associés, an independent audit firm, performed an engagement to verify the environmental data which resulted in a report including a statement of completeness and an opinion as to the accuracy of the information contained therein.

Methodological limits

Methodologies relating to certain environmental indicators may be limited due to:

- the absence of harmonized national or international definitions, especially on hazardous substances and waste;
- use of estimates where measurements are not possible, for example for atmospheric VOC[1] emissions;
- the limited availability of external data required in particular for calculating indirect greenhouse gas emissions (logistics and transportation);
- the absence of a confirmed methodology for calculating indirect emissions related to the use of the Group's products.

Precise definitions of indicators included in VEI and user guides have been prepared in French and English, to improve the reliability of reporting and reduce unreliable sources. They are regularly updated and distributed to all contributors.

Reporting methodology for labor-related indicators

The labor-related indicators were prepared using the obligations and recommendations of Articles L.225-102-1 and R.225-105-1 of the French Commercial Code resulting from the "Grenelle II" decree of April 24, 2012.

Scope and consolidation

Scope

The Group includes in its worldwide scope of consolidation its 187 plants, 20 research centers, 43 development centers and 15 distribution platforms located in 33 countries. As such, all countries and Business Groups are concerned, including Valeo Service. Health and safety indicators only cover plants. Valeo reports its labor-related indicators for the calendar year, i.e., January 1 to December 31 of the year in question.

Changes in scope

Sites that have been sold or shut down during the reporting year are excluded entirely from that year's data. However, their data for previous years are retained.

Consolidation rules

Reporting on labor-related indicators only includes the data of fully consolidated companies.

Source of data

Labor-related indicators are collected by the Business Groups' and Valeo Service's Human Resources Departments and the Group's Human Resources Department via a personal data management application, PeopleSoft.

Financial data are sent directly by the Group Finance Department.

Specifications

In view of the French law on the duty of care of parent companies and ordering companies, additional data have been attached to the presentation of environmental, social and labor-related data. Most were taken from internal data sources that already existed before this law and are published in this document. The information was also subject to an external audit (see below).

Controls and external verification

Consistency checks on data for each site in the scope are performed by the site and the Business Group Human Resources Department. The labor-related data provided in the report of the independent third-party on the non-financial information statement has been certified by the independent firm EY & Associés and are also subject to an external audit by the Statutory Auditors. Precise definitions of indicators included in the tool and user guides have been prepared in French and English, to improve the reliability of reporting and reduce unreliable sources. They are regularly updated and distributed to all contributors.

Reporting methodology for social indicators

The social indicators were prepared in accordance with the commitments and recommendations of Articles L.225-102-1 and R.225-105-1 of the French Commercial Code, as well as the Global Reporting Initiative (GRI).

Scope and consolidation

The Group includes in its worldwide scope of consolidation the 187 plants, 20 research centers, 43 development centers and 15 distribution platforms located in 33 countries, except for the Fuzhou Niles Electronic Co. joint venture. As such, all countries and Business Groups are concerned, including Valeo Service. Valeo reports its social indicators for the calendar year, i.e., January 1 to December 31 of the year in question.

Source of data

Social data are collected as follows:

- data on local plant initiatives, which allow the Group to monitor initiatives aimed at local populations and communities, are reported through a single centralized tool used by Human Resources departments. As all the sites surveyed responded to this questionnaire, the published data covers the Group's entire scope of consolidation;

(1) *See sustainable development glossary, page 295.*

- data concerning Valeo's purchases and suppliers were collected and analyzed jointly by the Purchasing and Sustainable Development and External Affairs Departments. The sustainable development performance of the Group's suppliers was assessed based on a survey entitled "Supplier Evaluation on Sustainable Development Practices", with an online questionnaire to be completed by the supplier. Valeo has established a representative sample of its main suppliers, covering 63% of the total value of the Group's production purchasing;
- data concerning fair practices and compliance were collected by the Ethics and Compliance Office. Quantified data on training on risks related to corruption and anti-competitive practices were collected by the Human Resources network, which regularly records training data (see reporting methodology for labor-related indicators).

Specifications

In view of the French law on the duty of care of parent companies and ordering companies, additional data have been attached to the presentation of environmental, social and labor-related data. Most were taken from internal data sources that already existed before this law and are published in this document. The information was also subject to an external audit (see below).

Controls and external verification

The social data provided in the report of the independent third-party on the non-financial information statement has been certified by the independent firm EY & Associés in the form of a statement of completeness and a limited assurance report, and are also subject to verification by the Statutory Auditors.

4.6.2 Cross-reference with national and international guidelines

SASB (Sustainability Accounting Standards Board) industry standard

Sustainability disclosure topics and accounting metrics

Themes	Accounting indicators	Category	Unit of measure	Code	Chapters/Sections	Pages
Energy management	(1) Total energy consumed, (2) share of grid electricity, (3) share of renewable energy	Quantitative	Gigajoules *(GJ)* Percentage *(%)*	TR-AP-130a.1	4.5.3 – Environmental commitments	282-286
Waste management	(1) Total amount of industrial waste, (2) share of which hazardous waste, (3) share of recycled waste	Quantitative	In metric tons *(t)*, Percentage *(%)*	TR-AP-150a.1	4.3.3 – Valeo's non-financial risks 4.5.3 – Environmental commitments	228-253 282-286
Product safety	Number of recalls issued, customers, number of products recalled	Quantitative	Number	TR-AP-250a.1		
Energy-efficient design	Sales derived from products contributing to energy efficiency and/or reducing GHG emissions(1)	Quantitative	Euros	TR-AP-410a.1	4.5.3 – Environmental commitments	282-286
Purchases of raw materials	Description of the management of risks associated with the use of hazardous materials	Discussion and Analysis	N/A	TR-AP-440a.1	4.3.3 – Valeo's non-financial risks 4.5.3 – Environmental commitments	228-253 282-286
Material recycling	Share of products sold that are recyclable	Quantitative	Percentage *(%)*	TR-AP-440b.1	4.5.3 – Environmental commitments	282-286
	Share of supplies containing recycled or reconditioned materials	Quantitative	Percentage *(%)*	TR-AP-440b.2	4.5.3 – Environmental commitments	282-286

(1) See sustainable development glossary, page 295.

Activity measures

Number of parts produced in 2019 (Code: TR-AP-000.A): 1,345 million.

Cross-reference table with the Global Reporting Initiative (GR)

GRI code	Description of the indicator	Chapters/Sections	Pages
STRATEGY AND ANALYSIS			
G4-1	Statement on sustainable development and the Group's strategy by the Chief Executive Officer	4 – Interview with Jacques Aschenbroich	198-199
G4-2	Key impacts, risks and opportunities	4.3.3 – Valeo's non-financial risks	228-253
ORGANIZATIONAL PROFILE			
G4-3	Name of the organization	7.1.1 – Company name and headquarters	450
G4-4	Primary brands, products and services	1.3 – Operational organization	52-71
G4-5	Headquarters	7.1.1 – Company name and headquarters	450
G4-6	Countries where the organization operates and which are specifically relevant to the sustainability topic covered in the report	7.2 – Information on subsidiaries and affiliates	452-453
G4-7	Ownership and legal form	7.1.2 – Legal structure and governing law 6.6.1 – Changes in share capital	451 443
G4-8	Markets served (geographic breakdown, sectors served and types of customers and beneficiaries)	Integrated Report – Environment in (r)evolution 1.3 – Operational organization	21-27 52-71
G4-9	Scale of the organization (number of employees, locations)	Integrated Report – 4 coherent, well-balanced Business Groups 1.3 – Operational organization 4.1.4 – Sustainable development policies	33-35 52-71 208-217
G4-10	Breakdown of employees by employment type, employment contract, region and gender	4.1.4 – Sustainable development policies	208-217
G4-11	Percentage of total employees covered by collective bargaining agreements	4.5.4 – Employee-related commitments	274-281
G4-12	Description of the organization's supply chain	4.5.1 – A commitment to sustainable development based on strong relationships with stakeholders 4.1.4 – Sustainable development policies	256-258 208-217
G4-13	Significant changes during the reporting period	1.1 – History and development of the Group 5.1.5 – Investments over the past three years 6.4 – Share ownership	50-51 306-310 435-440
G4-14	Precautionary principle and actions in this area	4.3.3 – Valeo's non-financial risks	228-253
G4-15	External charters, principles and initiatives to which the Group subscribes	4 – Interview with Jacques Aschenbroich 4.5.4 – Employee-related commitments	198-199 274-281
G4-16	Membership of associations and/or advocacy organizations	4.5.1 – A commitment to sustainable development based on strong relationships with stakeholders 4.5.5 – Social commitments	256-258 282-286
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES			
G4-17	List of entities included in the consolidated financial statements and list of those not included in the report	4.6.1 – Sustainable development reporting methodology	287-289
G4-18	Procedure for defining report content	4.1.2 – Sustainable development challenges and non-financial risks	201-205
G4-19	List of material aspects	4.1.2 – Sustainable development challenges and non-financial risks	201-205
G4-20	Boundary of each material aspect within the organization	4.1.4 – Sustainable development policies 4.5.5 – Social commitments	208-217 282-286
G4-21	Boundary of each material aspect outside the organization	4.1.4 – Sustainable development policies 4.5.5 – Social commitments	208-217 282-286
G4-22	Restatements of information provided in previous reports	No restatements in 2020	N/A
G4-23	Changes in the scope and aspect boundaries	No substantial changes were observed in 2020	N/A

GRI code		Description of the indicator	Chapters/Sections	Pages
STAKEHOLDER ENGAGEMENT				
G4-24	●	List of stakeholders	4.5.1 – A commitment to sustainable development based on strong relationships with stakeholders	256-258
G4-25	●	Basis for the identification and selection of stakeholders	4.5.1 – A commitment to sustainable development based on strong relationships with stakeholders	256-258
G4-26	●	Stakeholder engagement	4.5.1 – A commitment to sustainable development based on strong relationships with stakeholders	256-258
G4-27	●	Topics raised through stakeholder engagement and how the organization has responded	4.5.1 – A commitment to sustainable development based on strong relationships with stakeholders	256-258
REPORT PROFILE				
G4-28	●	Reporting period	4.6.1 – Sustainable development reporting methodology	287-289
G4-29	●	Date of most recent previous report	4/28/2020	
G4-30	●	Reporting cycle	4.6.1 – Sustainable development reporting methodology	287-289
G4-31	●	Contact point	6.2 – Investor relations	430-434
G4-32	●	"Compliance" option chosen and GRI G4 index	4.6.2 – Cross-reference with national and international guidelines	289-294
G4-33	●	Independent verifier's report	4.8 – Independent third party's report on the non-financial information statement	296-297
GOVERNANCE AND COMMITMENTS				
G4-34	●	Governance structure	4.1.1 – Sustainable development governance	200-201
G4-35	●	Process for delegating authority for economic, environmental and social topics from the Board of Directors to senior executives and other employees	1.3 – Operational organization	52-71
G4-36	●	Senior executives responsible for economic, environmental and social issues, and relationship with the Board of Directors	4.1.1 – Sustainable development governance	200-201
G4-37	●	Stakeholder consultation by the Board of Directors	7.1.10 – Shareholders' Meetings	451
G4-38	●	Composition of the Board of Directors and its committees	3.2 – Composition of the Board of Directors, and preparation and organization of its work	104-153
G4-39	●	Independence of the Chairman of the Board of Directors	3.2.1 – Composition of the Board of Directors	104-132
G4-40	●	Nomination and selection processes for the Board of Directors and its specialized committees, and the experience and expertise of its members	3.2.1 – Composition of the Board of Directors 3.2.2 – Preparation and organization of the Board of Directors' work	104-132 133-145
G4-41	●	Process established by the Board of Directors to avoid and manage conflicts of interest; disclosure of conflicts of interest to stakeholders	3.2.3 – Declarations concerning the Group's corporate officers	145-146
G4-42	●	Role of the Board of Directors and senior executives in the development, approval and review of the tasks, values or mission statements, strategies, organizational policies and objectives relating to economic, environmental and social impacts	-	N/A
G4-43	●	Measures taken to develop and improve the collective knowledge of the Board of Directors on economic, environmental and social impacts	4.1.1 – Sustainable development governance	200-201
G4-44	●	Evaluation of the Board of Directors on economic, environmental and social topics	4.1.1 – Sustainable development governance	200-201

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GRI code	Description of the indicator	Chapters/Sections	Pages
G4-45	Role of the Board of Directors in the identification and management of economic, environmental and social impacts, risks and opportunities	3.2.2 – Preparation and organization of the Board of Directors' work	133-145
G4-46	Role of the Board of Directors in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics	3.2.2 – Preparation and organization of the Board of Directors' work	133-145
G4-47	Frequency of reviews of economic, environmental and social impacts, risks and opportunities by the Board of Directors	4.1.1 – Sustainable development governance	200-201
G4-48	Committee or highest-level position that formally reviews and approves the sustainable development report	5.6.5 – The Sustainable Development Report is an integral part of the Management Report, reviewed and approved by the Board of Directors	423-426
G4-49	Process for communicating critical concerns to the Board of Directors	7.1.10 – Shareholders' Meetings	451
G4-50	Nature and total number of critical concerns communicated to the Board of Directors and the mechanism used to address and resolve them	-	N/A
G4-51	Compensation policy of the members of the Board of Directors and senior executives; relationship between compensation and performance (including labor-related and environmental performance)	3.3 – Compensation of corporate officers, Board members and other Group executive managers	154-195
G4-52	Process of determining compensation and participation in compensation committees	3.3 – Compensation of corporate officers, Board members and other Group executive managers 3.2.2 – Preparation and organization of the Board of Directors' work	154-195 133-145
G4-53	Method used to seek and take into account the views of stakeholders on compensation	7.1.10 – Shareholders' Meetings	451
G4-54	Ratio of the annual total compensation of the highest-paid individual in the organization to the median total annual compensation	-	N/A
G4-55	Ratio of the percentage increase of the annual total compensation of the highest-paid individual in the organization to the median percentage increase in annual total compensation	-	N/A
INNOVATION			
G4-DMA	Management approach	Integrated Report	3-48
G4-EN7	Reduction in energy requirements of products and services	Integrated Report – Strategy	28-47
G4-DMA	Management approach	4.3.3 – Valeo's non-financial risks	228-253
G4-EN2	Percentage of materials used that are recycled input materials (packaging only)	4.3.3 – Valeo's non-financial risks	228-253
G4-EN27	Extent of mitigation of environmental impacts of products and services	4.3.3 – Valeo's non-financial risks	228-253
G4-EN28	Percentage of products sold and their packaging materials that are reclaimed by category	4.5.3 – Environmental commitments	262-274
G4-DMA	Management approach	4.1.4 – Sustainable development policies	208-217
G4-EC8	Significant indirect economic impacts, including extent of impacts	4.1.4 – Sustainable development policies 4.5.2 – Technological commitments	208-217 259-261
ENVIRONMENTAL ECO-EFFICIENCY			
G4-DMA	Management approach	4.5.3 – Environmental commitments	262-274
G4-EN3	Direct energy consumption by primary energy source	4.5.3 – Environmental commitments	262-274
G4-EN4	Indirect energy consumption by primary energy source	4.5.3 – Environmental commitments	262-274
G4-EN5	Energy intensity	4.5.3 – Environmental commitments	262-274
G4-EN6	Reduction of energy consumption	4.5.3 – Environmental commitments	262-274
G4-EN15	Direct greenhouse gas emissions (Scope 1)	4.5.3 – Environmental commitments	262-274
G4-EN16	Energy-related indirect greenhouse gas emissions (Scope 2)	4.5.3 – Environmental commitments	262-274

GRI code		Description of the indicator	Chapters/Sections	Pages
G4-EN17	●	Other indirect greenhouse gas emissions (Scope 3)	4.5.3 – Environmental commitments	262-274
G4-EN18	●	Greenhouse gas emissions intensity	4.1.3 – Valeo's Carbon Neutrality Plan for 2050 4.5.3 – Environmental commitments	206-207 262-274
G4-EN19	●	Reduction of greenhouse gas emissions	4.1.3 – Valeo's Carbon Neutrality Plan for 2050 4.5.3 – Environmental commitments	206-207 262-274
G4-DMA	●	Management approach	4.1.3 – Valeo's Carbon Neutrality Plan for 2050 4.3.3 – Valeo's non-financial risks 4.5.3 – Environmental commitments	206-207 228-253 262-274
G4-EN20	●	Emissions of ozone-depleting substances (ODS)	4.5.3 – Environmental commitments	262-274
G4-EN21	●	Emissions of nitrogen oxides (NOx) and sulfur oxides (SOx) and other significant atmospheric emissions	4.5.3 – Environmental commitments	262-274
G4-EN22	●	Total water discharge by quality and destination	4.5.3 – Environmental commitments	262-274
G4-EN23	●	Total weight of waste by type and disposal method	4.3.3 – Valeo's non-financial risks	228-253
G4-EN24	●	Total number and volume of significant spills	4.3.3 – Valeo's non-financial risks	228-253
G4-EN25	●	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention	4.3.3 – Valeo's non-financial risks	228-253
G4-DMA	●	Management approach	4.5.3 – Environmental commitments	262-274
G4-EN30	●	Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce	4.5.3 – Environmental commitments	262-274
G4-EN1	●	Consumption of raw materials (packaging only)	4.5.3 – Environmental commitments	262-274
G4-DMA	●	Management approach	4.5.3 – Environmental commitments	262-274
G4-EN8	●	Total water withdrawal by source	4.5.3 – Environmental commitments	262-274
G4-EN9	●	Water sources significantly affected by withdrawal of water	4.5.3 – Environmental commitments	262-274
G4-EN10	●	Percentage and total volume of water recycled and reused	4.5.3 – Environmental commitments	262-274
G4-DMA	●	Management approach	4.5.3 – Environmental commitments	262-274
G4-EN11	●	Operational sites owned, leased or managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	4.5.3 – Environmental commitments	262-274
G4-EN12	○	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Not disclosed	N/A
G4-EN13	●	Habitats protected or restored	4.5.3 – Environmental commitments	262-274
G4-EN14	○	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by the operations of the organization, by level of extinction risk	Not disclosed	N/A
EMPLOYEES				
G4-DMA	●	Management approach	4.3.3 – Valeo's non-financial risks	228-253
G4-LA5	●	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on workplace health and safety programs	4.5.4 – Employee-related commitments	274-281
G4-LA6	●	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by geographic area and by gender	4.3.3 – Valeo's non-financial risks	228-253
G4-LA8	●	Health and safety topics covered in formal agreements with trade unions	4.5.4 – Employee-related commitments	274-281
G4-DMA	●	Management approach	4.3.3 – Valeo's non-financial risks	228-253
-	●	Response rate to the Employee Feedback Survey	4.3.3 – Valeo's non-financial risks	228-253

GRI code		Description of the indicator	Chapters/Sections	Pages
G4-LA1	●	Total number and rates of new employee hires and employee turnover by age group, gender and region	4.3.3 – Valeo's non-financial risks	228-253
G4-LA9	●	Average hours of training per year, per employee, by gender and by employee category	4.3.3 – Valeo's non-financial risks	228-253
G4-LA10	●	Programs for competences management and lifelong learning that support the continued employability of employees and assist them in managing career endings	4.3.3 – Valeo's non-financial risks	228-253
G4-LA11	●	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	4.3.3 – Valeo's non-financial risks	228-253
G4-DMA	●	Management approach	4.5.4 – Employee-related commitments	274-281
G4-LA12	●	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	4.5.4 – Employee-related commitments	274-281
COMMITMENT TO CORPORATE CITIZENSHIP				
G4-DMA	●	Management approach	1.4 Operational organization	72
G4-PR1	●	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	1.4 Operational organization	72
G4-DMA	●	Management approach	4.3.3 – Valeo's non-financial risks	228-253
G4-EN32	●	Percentage of new suppliers that were screened using environmental criteria	4.3.3 – Valeo's non-financial risks	228-253
G4-LA14	●	Percentage of new suppliers that were screened using labor practices criteria	4.3.3 – Valeo's non-financial risks	228-253
G4-SO9	●	Percentage of new suppliers that were screened using criteria for impacts on society	4.3.3 – Valeo's non-financial risks	228-253
G4-HR10	●	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken	4.3.3 – Valeo's non-financial risks	228-253
G4-EC9	●	Policy, practices and proportion of spending on locally based suppliers at significant locations of operation	4.1.4 – Sustainable development policies	208-217
G4-DMA	●	Management approach	4.3.3 – Valeo's non-financial risks	228-253
G4-56	●	Codes of conduct and ethics	4.3.3 – Valeo's non-financial risks	228-253
G4-57	●	Advisory mechanisms (ethical and lawful behavior)	4.3.3 – Valeo's non-financial risks	228-253
G4-58	●	Alert mechanisms (unethical and unlawful behavior)	4.3.3 – Valeo's non-financial risks	228-253
G4-SO4	●	Communication and training on anti-corruption policies and procedures	4.3.3 – Valeo's non-financial risks	228-253
G4-DMA	●	Management approach	4.5.5 – Social commitments	282-286
G4-DMA	●	Management approach	4.5.5 – Social commitments	282-286
G4-SO6	●	Total value of political contributions by country and recipient/beneficiary	4.5.5 – Social commitments	282-286
G4-DMA	●	Management approach	4.5.5 – Social commitments	282-286
G4-SO1	●	Percentage of operations with implemented local community engagement, impact assessments and development programs	4.5.5 – Social commitments	282-286
G4-EC6	●	Proportion of senior executives hired from the local community at significant operation sites	4.5.5 – Social commitments	282-286

Legend:
General elements of information that are part of the core reporting option are in bold.

● *Full indicator.*
● *Partial indicator.*
○ *Indicator not applied.*

4.7 SUSTAINABLE DEVELOPMENT GLOSSARY

CMR	Substances classified as carcinogenic, mutagenic, or reprotoxic.
ELV Directive	Directive 2000/53 of the European Parliament and of the Council of September 18, 2000, aiming to reduce end-of-life vehicle waste through prevention, collection, treatment and recycling measures.
GHG	Greenhouse gas: gases which absorb infrared rays emitted by the Earth's surface, contributing to the greenhouse effect.
Greenhouse Gas Protocol (GHG) Protocol or GHG Protocol	The GHG Protocol is a multi-stakeholder partnership between businesses, NGOs, governments, academic institutions and other entities, organized by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD). Launched in 1998, it aims to develop internationally accepted GHG accounting and reporting standards and tools, and to promote their adoption in order to achieve a low-carbon global economy. All GHG Protocol standards and guidelines can be found at www.ghgprotocol.org.
GRI	Global Reporting Initiative: a non-profit organization that develops globally applicable guidelines on corporate sustainability policy and reporting. www.globalreporting.org
ISO 14001	International standard on environmental management systems.
ISO 50001	International standard on energy management systems.
OHSAS 18001	International standard on occupational health and safety management systems.
Open Innovation	Open Innovation is a concept that involves promoting innovation by deriving the maximum possible benefit from the ecosystem surrounding the company, primarily through collaboration between various players (governmental organizations, private companies, academic and research companies, innovative start-ups, etc.).
QRQC	Quick Response Quality Control: four-step problem resolution method: Detection, Communication, Analysis and Verification.
REACH Regulation	European Regulation No. 1907/2006 of December 18, 2006 (Registration, Evaluation, Authorisation and Restriction of Chemicals).
RMI	The Responsible Minerals Initiative, formerly the Conflict-Free Sourcing Initiative, helps companies and organizations make informed choices about responsibly sourced minerals in their supply chains. The initiative, which brings together more than 360 companies from ten different industries, has defined common principles and provides shared monitoring of high-risk suppliers.
SAE International	Society of Automotive Engineers International: a US-based association. Similarly to the VDA (see below), this organization has defined six levels of driving automation, from 0 (no automation, the driver must control everything) to 5 (full automation, no driver input required). Levels 3 and 4 correspond respectively to "conditional automation" and "high automation".
Seveso	The Seveso European Directive requires European Union member states to identify industrial sites which present risks of major accidents. Companies can be Seveso-classified based on the quantities and types of hazardous products on site.
Scopes 1, 2 and 3	Scope 1 covers CO_2 emissions directly emitted by the Group's activities (including combustion emissions from stationary sources on sites, emissions from fuel combustion by Group vehicles, direct emissions from non-energy processes such as the incineration of VOCs, and direct fugitive emissions relating to refrigerant leaks. Scope 2 covers CO_2 emissions related to the consumption of electricity, steam, compressed air and other sources. Scope 3 covers other CO_2 emissions related to purchases of products used in industrial processes, and the transportation of goods and people, as well as indirect CO_2 emissions related to the use of Valeo products.
VDA	*Verband der Automobilindustrie* is a German automotive industry association. Similarly to SAE International (see above), this organization has defined six levels of driving automation, from 0 (no automation, the driver must control everything) to 5 (full automation, no driver input required).
VOC	Volatile organic compound: VOCs are composed of carbon, oxygen and hydrogen and are readily found as atmospheric gases.

4.8 INDEPENDENT THIRD PARTY'S REPORT ON CONSOLIDATED NON-FINANCIAL STATEMENT

This is a free translation into English of the original report issued in the French language and it is provided solely for the convenience of English speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

Year ended the 31th of December 2020

To the General Assembly,

In our quality as an independent verifier, accredited by the COFRAC under the number n° 3-1681 (scope of accreditation available on the website www.cofrac.fr), and as a member of the network of one of the statutory auditors of your entity Valeo (hereafter "entity"), we present our report on the consolidated non-financial statement established for the year ended on the 31.12.2020 (hereafter referred to as the "Statement"), included in the management report pursuant to the requirements of articles L. 225 102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code (*Code de commerce*).

The entity's responsibility

The board of directors is responsible for preparing the Statement, including a presentation of the business model, a description of the principal non-financial risks, a presentation of the policies implemented considering those risks and the outcomes of said policies, including key performance indicators.

The Statement has been prepared in accordance with the entity's procedures (hereinafter the "Guidelines"), the main elements of which are presented in the Statement and available on request from the entity's head office.

Independence and quality control

Our independence is defined by the requirements of article L. 822-11-3 of the French Commercial Code and the French Code of Ethics (*Code de déontologie*) of our profession. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with applicable legal and regulatory requirements, the ethical requirements and French professional guidance.

Responsibility of the independent third party

On the basis of our work, our responsibility is to provide a report expressing a limited assurance conclusion on:

- the compliance of the Statement with the requirements of article R. 225-105 of the French Commercial Code;
- the fairness of the information provided in accordance with article R. 225 105 I, 3° and II of the French Commercial Code, i.e., the outcomes, including key performance indicators, and the measures implemented considering the principal risks (hereinafter the "Information").

However, it is not our responsibility to comment on the entity's compliance with other applicable legal and regulatory requirements, in particular the French duty of care law and anti-corruption and tax avoidance legislation nor on the compliance of products and services with the applicable regulations.

Nature and scope of the work

The work described below was performed in accordance with the provisions of articles A. 225-1 et seq. of the French Commercial Code, as well as with the professional guidance of the French Institute of Statutory Auditors ("CNCC") applicable to such engagements and with ISAE 3000[(1)] :

- we obtained an understanding of all the consolidated entities' activities and the description of the principal risks associated;
- we assessed the suitability of the criteria of the Guidelines with respect to their relevance, completeness, reliability, neutrality and understandability, with due consideration of industry best practices, where appropriate;
- we verified that the Statement includes each category of social and environmental information set out in article L. 225 102 1 III of the French Commercial Code
- we verified that the Statement provides the information required under article R. 225-105 II of the French Commercial Code, where relevant with respect to the principal risks, and includes, where applicable, an explanation for the absence of the information required under article L. 225-102-1 III, paragraph 2 of the French Commercial Code;

(1) ISAE 3000 - Assurance engagements other than audits or reviews of historical financial information

- we verified that the Statement presents the business model and a description of principal risks associated with all the consolidated entities' activities, including where relevant and proportionate, the risks associated with their business relationships, their products or services, as well as their policies, measures and the outcomes thereof, including key performance indicators associated to the principal risks;
- we referred to documentary sources and conducted interviews to
  - assess the process used to identify and confirm the principal risks as well as the consistency of the outcomes, including the key performance indicators used, with respect to the principal risks and the policies presented, and
  - corroborate the qualitative information (measures and outcomes) that we considered to be the most important presented in Appendix 1; our work was carried out on the consolidating entity and on the following entities: Limoges 1 PTS, Guangzhou 3 CDA, Bietigheim 3 VIS, Chrzanow 1 VIS, Nianjing 1 PTS, Rakovnik 1 THS, Meslin L'Evêque 1 VIS and Zaragoza 1 THS.
- we verified that the Statement covers the scope of consolidation, i.e. all the consolidated entities in accordance with article L. 233-16 of the French Commercial Code;
- we obtained an understanding of internal control and risk management procedures the entity has put in place and assessed the data collection process to ensure the completeness and fairness of the Information;
- for the key performance indicators and other quantitative outcomes that we considered to be the most important presented in Appendix 1, we implemented:
  - analytical procedures to verify the proper consolidation of the data collected and the consistency of any changes in those data;
  - tests of details, using sampling techniques, in order to verify the proper application of the definitions and procedures and reconcile the data with the supporting documents. This work was carried out on a contributing entity and covers between 7% and 15% of the consolidated data relating to the key performance indicators and outcomes selected for these tests (7% of the registered headcount, 9% of energy consumption (electricity and gas consumption), 13% of hazardous and non-hazardous waste and 15% of recovered waste, ...);
- we assessed the overall consistency of the Statement based on our knowledge of all the consolidated entities.

We believe that the work carried out, based on our professional judgement, is sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures.

Means and resources

Our verification work mobilized the skills of five people and took place between October 2020 and March 2021 on a total duration of intervention of about thirteen weeks.

We conducted three interviews with the persons responsible for the preparation of the Statement including in particular the departments of public affairs, sustainable development, human resources, environment, health and safety.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the consolidated non-financial statement is not presented in accordance with the applicable regulatory requirements and that the Information, taken as a whole, is not presented fairly in accordance with the Guidelines, in all material respects.

Paris-La Défense, the 24th of March 2021

French original signed by:
Independent third party
EY & Associés

Partner, Sustainable Development	Partner
Eric Mugnier	**Jean-François Bélorgey**

Appendix 1: The most important information

SOCIAL INFORMATION	
Quantitative Information (including key performance indicators)	**Qualitative Information (actions or results)**
Frequency rate of work accidents with lost time. Severity rate of work accidents. Number of category 1 accidents. Average number of training hours per employee. Absenteeism rate. Voluntary turnover for managers and professionals.	Health and safety (prevention actions). Training. Employment (attractiveness, retention, absenteeism).
ENVIRONMENTAL INFORMATION	
Quantitative Information (including key performance indicators)	**Qualitative Information (actions or results)**
Quantity of hazardous and non-hazardous waste, Breakdown between recovered and non-recovered waste. Number of accidental spills. Share of sales generated from products contributing to carbon emissions reduction contributions. Energy consumption (electricity and natural gas). Scope 3 - category 11: use of products sold.	The results of the policy in terms of environmental / energy policy (certifications, means). Pollution prevention measures (water, air, soil…). Circular economy (raw materials, energy, waste management, food waste). Greenhouse gas emissions.
SOCIETAL INFORMATION	
Quantitative Information (including key performance indicators)	**Qualitative Information (actions or results)**
Share of production purchases for which the suppliers' sustainable development practices were assessed during the year. Share of the target population (including newcomers) who have completed the online training program on anti-corruption.	Subcontracting and suppliers (environmental and social issues). Actions taken to prevent corruption.

5 Financial and Accounting Information

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

5.1 ANALYSIS OF 2020 CONSOLIDATED RESULTS AFR

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and endorsed by the European Union. The IFRS as adopted by the European Union can be consulted on the European Commission's website.

The financial statements include the information deemed material as required by the ANC in Standard No. 2016-09.

5.1.1 Business review

Global automotive production

Automotive production *(year-on-year change)*	FOURTH-QUARTER 2020 IHS + CPCA*	SECOND-HALF 2020 IHS + CPCA*	FULL-YEAR IHS + CPCA*
Europe & Africa	1%	-3%	-22%
Asia, Middle East & Oceania	5%	1%	-13%
• *o/w China*	*8%*	*8%*	*-7%*
• *o/w Japan*	*2%*	*-5%*	*-16%*
• *o/w South Korea*	*-5%*	*-1%*	*-10%*
• *o/w India*	*20%*	*8%*	*-23%*
North America	–%	–%	-20%
South America	–%	-11%	-31%
TOTAL	**3%**	**–%**	**-17%**

* *Based on IHS automotive production estimates released on January 16, 2021/CPCA estimates for data relating to China.*

Global automotive production contracted by 17% in 2020.

This decrease reflects the impact of the Covid-19 crisis in the first half (34% decline compared with first-half 2019) and the sharp rally in the second half, especially in China (8% growth in automotive production).

Change in sales

Sales *(in millions of euros)*	FOURTH-QUARTER 2020	2019	LFL* change	Change	SECOND-HALF 2020	2019	LFL* change	Change
Original equipment	4,196	4,094	+5%	+2%	7,947	8,140	–%	-2%
Aftermarket	476	508	-2%	-6%	924	985	-2%	-6%
Miscellaneous	317	327	-2%	-3%	507	576	-11%	-12%
TOTAL	**4,989**	**4,929**	**+4%**	**+1%**	**9,378**	**9,701**	**-1%**	**-3%**

* *Like for like(1).*

Sales *(in millions of euros)*	FULL-YEAR 2020	2019	LFL* change	Change	As a % of 2020 sales
Original equipment	13,810	16,360	-14%	-16%	84%
Aftermarket	1,748	1,990	-10%	-12%	11%
Miscellaneous	878	1,127	-21%	-22%	5%
TOTAL	**16,436**	**19,477**	**-14%**	**-16%**	**100%**

* *Like for like(1).*

(1) See financial glossary, page 48.

Consolidated sales totaled 16,436 million euros in 2020, down 14% on a like-for-like basis(1):

- original equipment sales came in at 13,810 million euros, down 14% on a like-for-like basis;
- aftermarket sales retreated 10% on a like-for-like basis;
- "miscellaneous" sales including tooling revenues (and revenues relating to customer contributions to R&D) dropped 21% on a like-for-like basis, due to a slowdown in customer projects as a result of the health crisis.

Consolidated sales picked up in the fourth quarter, advancing 4% on a like-for-like basis:

- changes in exchange rates had a negative 2.9% impact during the period, primarily due to the appreciation of the euro against the US dollar, the Brazilian real and the Chinese yuan. Changes in Group structure had a negligible impact on sales;
- original equipment sales rose 5.3% on a like-for-like basis, confirming the acceleration in Group sales (decline of 5% in third-quarter 2020);
- aftermarket sales retreated 2% on a like-for-like basis;
- "miscellaneous" sales were down 2% on a like-for-like basis, confirming the upturn in business and the forthcoming production launches.

Change in original equipment sales by destination region

	FOURTH-QUARTER				SECOND-HALF			
Original equipment sales *(in millions of euros)*	**2020**	**2019**	**LFL* change**	**Outperf. vs. IHS/CPCA****	**2020**	**2019**	**LFL* change**	**Outperf. vs. IHS/CPCA****
Europe & Africa	1,940	1,904	+2%	+1 pt	3,650	3,699	-1%	+2 pts
Asia, Middle East & Oceania	1,417	1,355	+7%	+2 pts	2,582	2,641	+1%	0 pts
• *o/w China*	*686*	*591*	*+18%*	*+9 pts*	*1,265*	*1,110*	*+16%*	*+8 pts*
• *o/w Japan*	*299*	*309*	*-1%*	*-3 pts*	*542*	*634*	*-12%*	*-7 pts*
• *o/w South Korea*	*323*	*340*	*-3%*	*+2 pts*	*582*	*660*	*-9%*	*-8 pts*
• *o/w India*	*45*	*39*	*+23%*	*+3 pts*	*80*	*80*	*+7%*	*-1 pt*
North America	759	748	+8%	+7 pts	1,565	1,610	+2%	+2 pts
South America	80	87	+23%	+23 pts	150	190	+5%	+16 pts
TOTAL	**4,196**	**4,094**	**+5%**	**+2 PTS**	**7,947**	**8,140**	**–%**	**0 PTS**

* *Like for like(1).*
** *Based on IHS automotive production estimates released on January 16, 2021/CPCA estimates for data relating to China.*

	FULL-YEAR			
Original equipment sales *(in millions of euros)*	**2020**	**2019**	**LFL* change**	**Outperf. vs. IHS/CPCA****
Europe & Africa	6,389	7,724	-17%	+5 pts
Asia, Middle East & Oceania	4,527	5,022	-9%	+4 pts
• *o/w China*	*2,082*	*1,971*	*+7%*	*+14 pts*
• *o/w Japan*	*1,028*	*1,271*	*-19%*	*-3 pts*
• *o/w South Korea*	*1,080*	*1,311*	*-15%*	*-5 pts*
• *o/w India*	*127*	*169*	*-21%*	*+2 pts*
North America	2,641	3,234	-17%	+3 pts
South America	253	380	-15%	+16 pts
TOTAL	**13,810**	**16,360**	**-14%**	**+3 PTS**

Against the backdrop of the global health crisis and the ensuing severe market disruption throughout 2020, original equipment sales fell 14% on a like-for-like basis during the year, outperforming global automotive production by 3 percentage points (IHS/CPCA estimates).

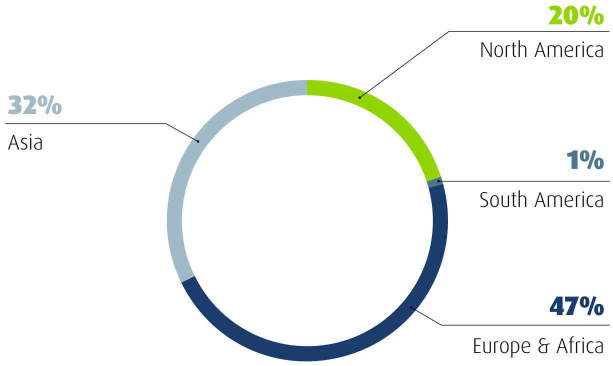
The signs of an upturn observed in third-quarter 2020 were also apparent in the fourth quarter. On a like-for-like basis, original equipment sales gained 5.3% in the fourth quarter, outperforming global automotive production by 2.3 percentage points (1 percentage point underperformance in the third quarter).

(1) *See financial glossary, page 48.*

Original equipment sales trends by geographic areas were as follows:

- in Europe and Africa (46% of original equipment sales), like-for-like original equipment sales declined by 17% over the year, outperforming automotive production by 5 percentage points. Like-for-like original equipment sales rose 2% in the fourth quarter, outperforming global automotive production by 1 percentage point;
- in Asia (33% of original equipment sales), like-for-like original equipment sales fell by 9% in 2020, outperforming automotive production by 4 percentage points. Like-for-like original equipment sales in fourth-quarter 2020 climbed 7%, as the Group's performance improved in all main countries in the region:
  - in China, Valeo's like-for-like original equipment sales for 2020 climbed 7%, outpacing automotive production by 14 percentage points. Outperformance accelerated in the fourth quarter (up 9 percentage points), driven by strong sales in ADAS and thermal systems,
  - in Japan, like-for-like original equipment sales were 19% lower in 2020, underperforming automotive production by 3 percentage points. This performance results mainly from an unfavorable customer mix (strong exposure to Nissan), which particularly hit the Group's third-quarter sales. Like-for-like sales for the fourth quarter were down just 1% (underperforming automotive production by 3 percentage points), due mainly to the launch of new ADAS and lighting systems projects,
  - in South Korea, like-for-like original equipment sales were 15% lower in 2020, underperforming automotive production by 5 percentage points. This performance is attributable to an unfavorable product mix with Hyundai (expiration of certain contracts), which impacted the Group's sales in the second and third quarters. Original equipment sales for the fourth quarter outperformed automotive production by 2 percentage points, buoyed by new project launches in the electrical systems segment (48V);
- in North America (19% of original equipment sales), like-for-like original equipment sales fell by 17% in 2020, outperforming automotive production by 3 percentage points. Like-for-like sales for the fourth quarter accelerated, gaining 8% and outperforming automotive production by 7 percentage points, buoyed mainly by the ramp-up of new projects for North American customers in the ADAS (cameras) and lighting systems segments;
- in South America (2% of original equipment sales), like-for-like original equipment sales fell by 15% in 2020, outpacing automotive production by 16 percentage points owing mainly to the upturn in sales in thermal systems.

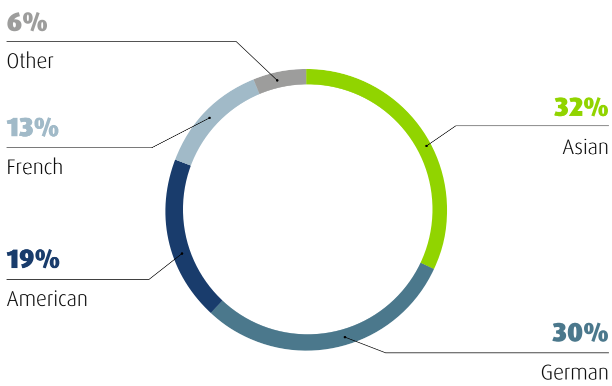
Balanced geographic alignment of Valeo's businesses by production region



Year-on-year changes in the share of original equipment sales in the four main production regions in 2020 were as follows:

- Europe and Africa accounted for 47% of original equipment sales, down 1 percentage point;
- Asia accounted for 32% of original equipment sales, up 2 percentage points;
- North America accounted for 20% of original equipment sales, stable year on year;
- South America accounted for 1% of original equipment sales, down 1 percentage point.

Balanced customer portfolio



The share of original equipment sales among the Group's customers was as follows at the end of 2020:

- Asian customers accounted for 32% of original equipment sales, down 1 percentage point;
- German customers accounted for 30% of original equipment sales, stable year on year;
- American customers accounted for 19% of original equipment sales, up 1 percentage point;
- French customers accounted for 13% of original equipment sales, stable year on year.

5.1.2 Earnings

Following a first half to the year during which the Group's business was significantly impacted by the Covid-19 health crisis, Valeo put in place an action plan to reduce costs (570 million euros) and the Group continued its strict control of costs, working capital and investments in the second half as its business picked up.

Thanks to the efficiency of its technological platforms and the unwavering commitment of its teams, Valeo was able to restart production at all of its plants in excellent operating conditions, despite a challenging health environment and a slower upturn in Europe (the Group's main production region) than in China and North America.

2020

Gross margin[1] represented 13.1% of sales.

The efficiency of the Group's technological platforms, along with its sustained cost-cutting efforts, helped drive down gross Research and Development expenditure by 394 million euros (down 19% on 2019) to 1,660 million euros (2,054 million euros in 2019).

Thanks to tight control over fixed costs, **administrative and selling expenses** fell 4% to 832 million euros (versus 870 million euros in 2019).

Operating margin excluding the share in net earnings (losses) of equity-accounted companies came in at a negative 372 million euros, or a negative 2.3% of sales.

The **share in net earnings (losses) of equity-accounted companies** represented a loss of 278 million euros in 2020, compared to a loss of 237 million euros in 2019, taking into account:

- the share of the loss reported by Valeo Siemens eAutomotive, which implemented the same measures as Valeo to mitigate the impact of the crisis on its business as far as possible: the joint venture's loss was 258 million euros for full-year 2020;
- the positive 13 million euro contribution of Chinese joint ventures, which benefited from the strong uptick in business in the second half.

Operating margin including share in net earnings (losses) of equity-accounted companies[1] came in at a negative 650 million euros, or a negative 4.0% of sales.

The Group reported an **operating loss** of 857 million euros for full-year 2020.

The **effective tax rate** came out at 20.0%.

The Group recorded **net attributable loss** of 1,089 million euros for full-year 2020.

Return on capital employed (ROCE[1]) and return on assets (ROA[1]) stood at 15% and 9%, respectively, for 2020. In light of the exceptional situation relating to the impact of the Covid-19 crisis on the Group's first-half results, ROCE and ROA for 2020 have been calculated based on annualized second-half data.

First-half 2020

As a result of the Covid-19 health crisis, the automotive market has deteriorated in the regions where Valeo and its customers are present. The deterioration led to business disruptions in many countries, a decline in sales, operating losses and a downward revision of short- and medium-term forecasts for automotive production. Amid the unfavorable economic climate which has significant consequences for Valeo, the Group reviewed the value in use of its capitalized development costs, the assets allocated to certain cash-generating units (CGUs), including the Top Column Module business and the Business Groups, as well as the value in use of its Brazilian assets and the residual assets operated by its diesel-related businesses.

As a result, the Group recognized one-off charges for the period of 622 million euros, as detailed below:

- impairment charged against operating assets, particularly those relating to the Group's Brazilian operations, to diesel-related businesses and to capitalized R&D costs for a certain number of projects (392 million euros);
- other operating risks (109 million euros);
- Top Column Module business (53 million euros);
- investments in certain start-ups (31 million euros);
- impairment of deferred tax assets (37 million euros).

At the same time, Valeo took steps to reduce costs by 570 million euros compared with first-half 2019, including variabilization of personnel costs (248 million euros), reduction of gross R&D expenditure (196 million euros) and production overheads (97 million euros), and other cost savings (29 million euros). Thanks to these measures, the Group was able to limit the **operating margin drop-through (before amortization and capitalized Research and Development expenditure)** to 25% for the second quarter and 28% for the first half.

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(1) See financial glossary, page 48.

The **share in net earnings (losses) of equity-accounted companies** represented a loss of 166 million euros in the first half, compared to a loss of 107 million euros in first-half 2019. This line item is affected by the share in the loss reported by Valeo Siemens eAutomotive of 134 million euros, which is bearing the costs needed to expand its order book in a context defined by the health crisis and by the decline in profitability of the Group's Chinese joint ventures. It also includes impairment recognized against the Group's equity investments for 31 million euros.

Operating margin including share in net earnings (losses) of equity-accounted companies amounted to a negative 1,006 million euros in the first half.

The **operating loss** came to 1,141 million euros. This takes into account other income and expenses for a net negative amount of 135 million euros, of which 98 million euros in respect of impairment charged against fixed assets.

The cost of net debt was 33 million euros.

The **effective tax rate** came out at 2.3%.

The **net attributable loss** was 1,215 million euros and includes non-recurring items totaling 622 million euros.

Second-half 2020

Valeo's gross margin was 0.1 percentage points higher than for the year-ago period, at 17.6% of sales versus 17.5% of sales in second-half 2019. Excluding the Top Column Module (TCM) business, gross margin came in at 17.7% of sales.

The improvement in the **gross margin** in the second half was attributable to the following factors:

- tight control over variable costs: positive 0.3 percentage point impact (mainly personnel expenses);
- reduction in fixed costs: positive 0.1 percentage point impact;
- decrease in volumes (versus the same period in 2019): negative 0.1 percentage point impact;
- increase in depreciation and amortization: negative 0.2 percentage point impact;
- decline in R&D sales: negative 0.2 percentage point impact;

Gross Research and Development expenditure contracted by 198 million euros in the second half (down 20% on the same period in 2019).

This is consistent with the decrease in activity and the 1.7 percentage point reduction in the net positive impact of capitalizing development expenditure. The reduction in this net positive impact reflects:

- the 0.8 percentage point decrease in capitalized development expenditure owing to strict compliance with cost-cutting measures and to the high level of new technological platform standardization;
- the 0.9 percentage point increase in amortization and impairment of capitalized development expenditure.

After taking into account the decrease in the net impact of capitalizing development expenditure, Research and Development expenditure represented 767 million euros.

Thanks to tight control over fixed costs, **administrative and selling expenses** fell slightly, to 413 million euros in the second half versus 415 million euros in second-half 2019.

Operating margin excluding the share in net earnings (losses) of equity-accounted companies came in at 356 million euros, or 5.0% of sales (5.4% of sales in second-half 2019). Excluding the Top Column Module business, operating margin represented 5.2% of sales.

The **share in net earnings (losses) of equity-accounted companies** represented a loss of 112 million euros in the second half, compared to a loss of 130 million euros in second-half 2019, taking into account:

- the share of the loss reported by Valeo Siemens eAutomotive, which implemented the same measures as Valeo to mitigate the impact of the crisis on its business as far as possible: the joint venture's loss was 124 million euros;
- the positive 10 million euro second-half contribution of Chinese joint ventures, which benefited from the strong uptick in business.

Operating margin including share in net earnings (losses) of equity-accounted companies(1) came in at 356 million euros, or 3.8% of sales.

Operating income totaled 284 million euros, after taking into account the 47 million euro rise in restructuring costs, recognized on the "Other costs" line.

The **effective tax rate** came out at 29.2%.

Net attributable income was 126 million euros, or 1.3% of sales.

(1) See financial glossary, page 48.

5.1.3 Segment reporting

Change in sales by Business Group

The sales performance for the Business Groups reflects the specific product, geographic and customer mix and the relative weighting of the aftermarket in their activity as a whole.

Sales by Business Group *(in millions of euros)*	FOURTH-QUARTER 2020	2019	Change in sales	Change in OE sales*	Outperf. vs. IHS/ CPCA**	SECOND-HALF 2020	2019	Change in sales	Change in OE sales*	Outperf. vs. IHS/ CPCA**
Comfort & Driving Assistance Systems***	976	919	6.2%	+7%	+4 pts	1,849	1,839	+0.5%	+2%	+2 pts
Powertrain Systems	1,324	1,307	1.3%	+5%	+2 pts	2,473	2,556	-3.2%	-1%	-1 pt
Thermal Systems	1,126	1,122	0.4%	+4%	+1 pt	2,143	2,252	-4.8%	–%	– pts
Visibility Systems	1,533	1,542	-0.6%	+5%	+2 pts	2,855	3,000	-4.8%	–%	– pts

* *Like for like(1).*
** *Based on IHS automotive production estimates released on January 16, 2021/CPCA estimates for data relating to China.*
*** *Excluding the Top Column Module business.*

Sales by Business Group *(in millions of euros)*	FULL-YEAR 2020	2019	Change in sales	Change in OE sales*	Outperf. vs. IHS/CPCA**
Comfort & Driving Assistance Systems***	3,228	3,649	-11.5%	-11%	+6 pts
Powertrain Systems	4,370	5,121	-14.7%	-15%	+3 pts
Thermal Systems	3,703	4,582	-19.2%	-19%	– pts
Visibility Systems	5,024	6,014	-16.5%	-16%	+2 pts

* *Like for like(1).*
** *Based on IHS automotive production estimates released on January 16, 2021/CPCA estimates for data relating to China.*
*** *Excluding the Top Column Module business.*

In the last quarter of the year, all Business Groups outperformed automotive production. In 2020 as a whole, all Business Groups outpaced automotive production with the exception of Thermal Systems, which performed in line with the market. This business is expected to see an acceleration in organic growth from 2022 onwards.

5

EBITDA(1) by Business Group

EBITDA *(in millions of euros and as a % of sales by Business Group)*	H2 2020	H2 2019	Change	2020	2019	Change
Comfort & Driving Assistance Systems	328	316	+3.8%	412	599	-31.2%
	17.7%	17.2%	+0.6 pts	12.8%	16.4%	-3.7 pts
Powertrain Systems	318	366	-13.1%	409	685	-40.3%
	12.9%	14.3%	-1.5 pts	9.4%	13.4%	-4.0 pts
Thermal Systems	278	240	+15.8%	247	502	-50.8%
	13.0%	10.7%	+2.3 pts	6.7%	11.0%	-4.3 pts
Visibility Systems	360	336	+7.1%	435	660	-34.1%
	12.6%	11.2%	+1.4 pts	8.7%	11.0%	-2.3 pts
Other*	19	20	-5.0%	2	50	-96.0%
	32.2%	37.0%	-4.8 pts	1.8%	45.0%	-43.2 pts
GROUP	**1,303**	**1,278**	**+2.0%**	**1,505**	**2,496**	**-39.7%**
	13.9%	**13.2%**	**+0.7 PTS**	**9.2%**	**12.8%**	**-3.7 PTS**

* *Including the Top Column Module business.*
** *Including non-recurring items that had a positive 1.2 percentage point impact on second-half 2019 EBITDA.*

In second-half 2020, all Business Groups saw a year-on-year improvement in their EBITDA margins, with the exception of Powertrain Systems, where non-recurring items recorded in 2019 added 1.2 percentage points to the margin.

(1) See financial glossary, page 48.

5.1.4 Reconciliation of Valeo and Top Column Module business data

The Group has decided to withdraw from the Top Column Module segment.

The following table reconciles published consolidated data with data excluding the Top Column Module business:

		H2 2020	TCM*	H2 2020 excluding TCM	2020	TCM*	2020 excluding TCM
Sales	*(in €m)*	9,378	111	9,267	16,436	196	16,240
Gross margin	*(in €m)*	1,648	5	1,643	2,155	(30)	2,185
	(as a % of sales)	*17.6%*	*4.5%*	*17.7%*	*13.1%*	*(15.3%)*	*13.5%*
R&D expenditure	*(in €m)*	(767)	(11)	(756)	(1,695)	(20)	(1,675)
	(as a % of sales)	*(8.2%)*	*(9.9%)*	*(8.2%)*	*(10.3%)*	*(10.2%)*	*(10.3%)*
Selling and administrative expenses	*(in €m)*	(413)	(6)	(407)	(832)	(12)	(820)
	(as a % of sales)	*(4.4%)*	*(5.4%)*	*(4.4%)*	*(5.1%)*	*(6.1%)*	*(5.0%)*
Operating margin excluding share in net earnings (losses) of equity-accounted companies	*(in €m)*	468	(12)	480	(372)	(62)	(310)
	(as a % of sales)	*5.0%*	*(10.8%)*	*5.2%*	*(2.3%)*	*(31.6%)*	*(1.9%)*

* *Including intercompany transactions.*

5.1.5 Cash flow and financial position

Stockholders' equity

At December 31, 2020, consolidated stockholders' equity amounted to 3,982 million euros versus 5,464 million euros at December 31, 2019. The sharp 1,482 million euro decrease was mainly attributable to (i) a consolidated net loss for the period of 1,070 million euros, (ii) a translation adjustment representing a negative 371 million euros, (iii) dividends paid to Group shareholders (48 million euros) and to non-controlling interests in consolidated subsidiaries (75 million euros), and to a lesser extent (iv) actuarial losses on pension obligations, net of deferred taxes, of 12 million euros. However, consolidated stockholders' equity was increased by (i) sales of treasury shares and share-based payments for 4 million euros and 33 million euros, respectively, (ii) the 2020 Shares4U employee share ownership plan for 15 million euros, (iii) the remeasurement of long-term investments for 15 million euros, (iv) the favorable impact of cash flow hedges representing 15 million euros, and (v) fair value adjustments recognized in equity and relating to put options granted to non-controlling interests for 11 million euros.

Provisions

(in millions of euros)	December 31, 2020	December 31, 2019
Net provisions for pensions and other employee benefits	1,130	1,241
Provisions for product warranties	410	266
Provisions for restructuring costs	66	45
Provisions for tax-related disputes	27	30
Environmental provisions	13	14
Provisions for onerous contracts	39	25
Provisions for employee-related and other disputes	183	134
PROVISIONS	**1,868**	**1,755**
Of which long-term portion (more than one year)	1,460	1,498

Net provisions for pensions and other employee benefits decreased by 111 million euros between December 31, 2019 and December 31, 2020. This is mainly the result of talks held by the Group with labor organizations in a bid to improve its competitiveness. In the wake of these talks, the Group signed agreements in France in September 2020, generating a decrease of 63 million euros in provisions for pensions and other employee benefits. The Group also recorded 18 million euros in actuarial gains before taxes in 2020. Plan assets performed well, generating actuarial gains of 65 million euros. These gains were partly offset by actuarial losses resulting from the impacts of the decrease in discount rates in the different regions of the world.

Provisions for product warranties were up sharply in the year, increasing by 144 million euros. However, this rise is to be considered in light of the significant accrued income recognized in the consolidated statement of financial position at December 31, 2020 in connection with product warranties.

The total amount of provisions for restructuring costs increased by 21 million euros to 66 million euros at December 31, 2020 versus 45 million euros at December 31, 2019. In 2020, the Group continued its cost reduction plan launched in first-half 2019 in light of the downturn in the automotive market as a result of the Covid-19 health crisis.

Provisions for tax-related disputes decreased during the year, amounting to 27 million euros at December 31, 2020 versus 30 million euros at end-2019. Environmental provisions were stable year on year. Provisions for onerous contracts were up by 14 million euros, reflecting the postponed start-up of certain contracts and a decrease in volumes announced by customers on certain projects in light of economic conditions.

Provisions for employee-related and other disputes increased by 49 million euros in 2020, mainly due to a rise in commercial risks in the period. At a total of 183 million euros at end-2020, said provisions cover risks arising in connection with former employees (relating to asbestos), intellectual property disputes and various other disputes related to Valeo's operating activities across the globe, as well as the main risks relating to antitrust investigations.

Cash flows and debt

(in millions of euros)	2020	2019
Gross operating cash flows	1,631	2,360
Income taxes paid	(188)	(292)
Change in operating working capital	397	396
NET CASH FLOWS FROM OPERATING ACTIVITIES	**1,840**	**2,464**
Net payments for purchases of intangible assets and property, plant and equipment	(1,439)	(1,906)
Net payments for the principal portion of lease liabilities(1)	(86)	(84)
Elimination of change in non-recurring sales of accounts and notes receivable(2)	(21)	45
FREE CASH FLOW(3)	**294**	**519**
Change in non-recurring sales of accounts and notes receivable(2)	21	(45)
Net change in certain non-current financial asset items	(211)	(274)
Acquisitions of investments with gain of control, net of cash acquired	(5)	19
Acquisitions of investments in associates and/or joint ventures	–	(5)
Disposals of investments with loss of control, net of cash transferred	(3)	(13)
Acquisitions of investments without gain of control	(1)	(29)
Dividends paid to owners of the Company and to non-controlling interests of consolidated subsidiaries	(122)	(343)
Capital increase in cash	15	19
Sale (purchase) of treasury stock	4	15
Net interest paid/received	(75)	(71)
Loan issue costs and premiums	–	(2)
NET CASH FLOW(3)	**(83)**	**(210)**

(1) The net cash inflow of 8 million euros in respect of lease receivables was set off against payments for the principal portion of lease liabilities.
(2) Valeo carries out recurring and one-off sales of its accounts and notes receivable to banks. An agreement at a specific date is drawn up for one-off, or non-recurring, transactions of this type. Each contract is analyzed in light of the principles set out in IFRS 9 on the derecognition of financial assets in order to determine whether the risks and rewards inherent to ownership of the receivables has been transferred (see section 5.4.6 of this chapter, Note 4.2 "Accounts and notes receivable" to the 2020 consolidated financial statements, pages 329 to 330).
(3) See financial glossary, page 48.

Gross operating cash flows fell sharply from 2,360 million euros in 2019 to 1,631 million euros in 2020, hit by the 1,070 million euro loss for the period. However, expenses with no cash impact such as depreciation, amortization and impairment of non-current assets, along with net additions to provisions, which increased by 808 million euros in 2020, partly offset the deterioration in earnings.

Changes in working capital reflect 397 million euros in cash generated, i.e., in line with the 2019 figure of 396 million euros. After observing a 506 million euro deterioration in working capital in first-half 2020 in line with the decline in revenue, the Group took action and delivered a 903 million euro positive change in working capital in the second half, aided by the upturn in the automotive sector as from June.

Income taxes paid fell to 188 million euros in 2020 from 292 million euros in 2019.

Net payments for purchases of property, plant and equipment and intangible assets in 2020 generated a net cash outflow of 1,439 million euros, representing a significant year-on-year decrease of 467 million euros (down 24%).

Despite the Covid-19 crisis, Valeo generated 294 million euros in free cash flow in 2020, reflecting 1,343 million euros in cash generated in the second half, more than offsetting the 1,049 million euros in cash used in the first half.

Free cash flow totaling 294 million euros for the year partly helped to fund:

- the net change in non-current financial assets representing a negative 211 million euros, mainly comprising additional loans granted to equity-accounted companies including the VSeA joint venture (negative 243 million euro impact), long-term investments made during the year (positive 27 million euro impact), cash inflows relating to dividends received from an investment fund (positive 16 million euro impact) and cash inflows relating to gains on the disposal of shares held by the Japanese subsidiary Ichikoh, which exited its Toyota investment (positive 35 million euro impact);
- dividends paid to Group stockholders in an amount of 48 million euros and to non-controlling interests in consolidated subsidiaries in an amount of 74 million euros;
- net interest paid in 2020, representing an outflow of 75 million euros.

After taking into account the 15 million euro capital increase carried out in connection with the Shares4U employee share plan, net cash flow for the year represented an outflow of 83 million euros in 2020 versus 210 million euros in 2019.

Net cash flows from financing activities in 2020 include subscriptions of long-term loans and borrowings in an amount of 13 million euros and repayments of long-term loans and borrowings for 159 million euros, essentially lease liabilities recognized in accordance with IFRS 16 – "Leases" for 94 million euros. In order to reflect the Group's cash requirements, short-term financing, which was previously recognized within net cash and cash equivalents, is now presented in net cash flows from financing activities in the consolidated statement of cash flows. Short-term financing mainly includes Negotiable European Commercial Paper (NEU CP) (previously "commercial paper"). The change in short-term financing in 2020 represents 1,386 million euros. NEU CP and commercial paper issues were significant in 2020, representing 1,588 million euros at December 31, 2020 versus 243 million euros at end-2019. After taking into account these items along with the impact of changes in exchange rates (negative 56 million euro impact), consolidated net cash and cash equivalents increased by 1,194 million euros in 2020, compared to a decrease of 531 million euros in 2019.

Net debt stood at 2,944 million euros at December 31, 2020, an increase of 127 million euros compared to end-2019. The leverage ratio (net debt/EBITDA) came out at 1.96, compared with 1.13 at December 31, 2019, while the gearing ratio (net debt/stockholders' equity) was 91% at end-2020, compared with 61% at end-2019. Net debt at December 31, 2020 amounting to 2,944 million euros includes 394 million euros in lease liabilities and 68 million euros in liabilities resulting from put options granted to non-controlling interests, namely (i) STEC, which owns 27% of the Group's Chinese joint venture Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd, and (ii) Marco Polo, which owns a 40% interest in Brazilian company Spheros Climatizaçao do Brasil SA. On December 16, 2020, STEC notified Valeo of its decision to exercise its put option on its entire stake in the company. The exercise price of the option will be determined jointly by Valeo and STEC within 60 days of the issue of the valuation report.

EBITDA can be reconciled to free cash flow as follows:

(in millions of euros)	**2020**	**2019**
EBITDA(1)	1,505	2,496
Change in operating working capital*	266	301
Restructuring costs	(62)	(37)
Income tax	(188)	(292)
Provisions for pensions	(86)	(33)
Payments for the principal portion of lease liabilities	(86)	(84)
Other operating items	274	(66)
Investments in property, plant and equipment and intangible assets	(1,329)	(1,766)
FREE CASH FLOW(1)	**294**	**519**
CASH CONVERSION RATE *(% EBITDA)*	**20%**	**21%**

(1) Change in working capital excluding (i) changes in non-recurring sales of accounts and notes receivable in a positive amount of 21 million euros in 2020 and a positive amount of 45 million euros in 2019 and (ii) the restatement of cash contributions to R&D reclassified within investments in property, plant and equipment and intangible assets.

Investments over the past three years

Investments *(in millions of euros)*	**2020**	**2019**	**2018**
Property, plant and equipment	943	1,180	1,273
Intangible assets	615	806	780
Including capitalized development expenditure	*598*	*769*	*716*
TOTAL	**1,558**	**1,986**	**2,053**
as a % of sales	9.5%	10.2%	10.3%

Investments *(as a % of sales by geographic area)*	**2020**	**2019**	**2018**
Western Europe	38%	36%	35%
Central & Eastern Europe and Africa	17%	19%	16%
Asia	31%	27%	27%
North America	13%	17%	19%
South America	1%	1%	3%

Investments in 2020 were adapted to the downturn in automotive production caused by the Covid-19 crisis. Wherever possible, the Group postponed or shelved investments to increase production capacity during the year, while maintaining its service rate for its customers and launching new products.

2020

Investments shrank by 428 million euros (22%) between 2019 and 2020, mainly in North and South America, which slashed their investments by 40%. Investments in Western Europe were down by 21%. Asia, which was the least impacted by the market downturn, reduced investments by 8%, mainly in China, South Korea and India.

Capital expenditure was down primarily in the Thermal Systems and Comfort & Driving Assistance Business Groups, and in the Transmission Systems and Lighting Systems Product Groups.

2019

Investments shrank by 67 million euros between 2018 and 2019. Following the application of IFRS 16 – "Leases", the Group recognized investments of 56 million euros during the year. Excluding the impact of IFRS 16, investments fell by 123 million euros. The decrease in investments forms part of the Group's plan to adapt to new market conditions.

Investments in 2019 were 3% lower (6% lower excluding the impact of IFRS 16) than in 2018, primarily in North and South America, Asia (mainly in China and South Korea) and Western Europe (mainly in Germany, Italy and Spain). In Eastern Europe, investments increased primarily in the Czech Republic and Poland.

Overall, capital expenditure was down primarily in the Comfort & Driving Assistance Systems Business Group and in the Transmission Systems, Thermal Powertrain and Lighting Systems Product Groups.

2018

Investments in 2018 were 8% higher than in 2017 and focused mainly on Western Europe, particularly France, Germany and Ireland, and on South America. In Eastern Europe, investments increased in the Czech Republic and Turkey. The most significant outlays in Asia were in Japan and South Korea, while China reduced its investments to adapt to the economic environment in the second half of 2018.

Overall, capital expenditure was down at constant Group structure (i.e., excluding acquisitions and disposals), mainly in the Comfort & Driving Assistance Systems Business Group and in the Thermal Compressors and Transmissions Product Groups following significant investment in innovation, production capacity and vertical integration in 2018. The Electronics and Engine Cooling Product Groups, on the other hand, increased investment outlay in 2018 due to numerous vehicle electrification projects.

Commitments

The table below shows the main commitments given:

(in millions of euros)	December 31, 2020	December 31, 2019	December 31, 2018
Lease commitments[1]	85	80	474
Guarantees given	2	3	3
Non-cancelable asset purchase commitments	464	565	718
Other commitments given	28	42	52
TOTAL	**579**	**690**	**1,247**

(1) IFRS 16 took effect on January 1, 2019 and has been applied using the modified retrospective approach. Accordingly, the financial statements published before the date of the first-time application of IFRS 16 have not been restated, which explains the difference between the figures stated for December 31, 2018 and December 31, 2019.

IFRS 16 – "Leases" came into force on January 1, 2019. It requires lessees entering into contracts that fall within the scope of the standard to recognize a financial liability representing their obligation to make lease payments, and a non-current asset representing their right to use the leased asset. At December 31, 2020, future minimum commitments on outstanding leases excluded from the scope of IFRS 16 and on leases signed but not yet in force, represented 85 million euros compared to 80 million euros at December 31, 2019.

Binding asset purchase commitments given by the Group decreased from 565 million euros at December 31, 2019 to 464 million euros at December 31, 2020, reflecting the plan to adapt to new market conditions.

Other commitments given relate to guarantees granted by Valeo in connection with divestments (5 million euros at December 31, 2020 versus 20 million euros at end-2019) and with its operating activities (15 million euros at December 31, 2020 versus 22 million euros at end-2019). Valeo also granted an 8 million euro guarantee to HDI Global SE within the scope of its reinsurance operations, also included in other commitments.

5.2 SUBSEQUENT EVENTS

On February 10, 2021, the European Investment Bank (EIB) announced that it had approved 600 million euros in financing for Valeo's European R&D projects focused on reducing CO_2 emissions and improving vehicle safety. An initial credit facility of 300 million euros was signed on February 4, 2021.

5.3 TRENDS AND OUTLOOK

2021 outlook

The base scenario for the top end of our 2021 guidance range is 10% growth in global automotive production. This scenario is based on the assumption that production losses resulting from electronic component shortages in the first half of the year will be offset in the second half.

In this context, the Group has set the following objectives for 2021:

- continued outperformance;
- improved financial performance despite additional costs, estimated at around 80 million euros, related to supply disruptions and the increase in certain raw material prices:

		2021	2020
Sales*	*in billions of euros*	17.6-**18.2**	**16.2**
Original equipment sales*	*in billions of euros*	14.9-**15.5**	**13.6**
EBITDA**	*in millions of euros*	2,250-**2,450**	**1,505**
	as a % of sales	*12.8%*-***13.4%***	***9.2%***
Free cash flow**	*in millions of euros*	330-**550**	**294**

* *Excluding the Top Column Module business.*
** *Including the Top Column Module business.*

- acceleration in growth for the Valeo Siemens eAutomotive joint venture and a reduction in its negative contribution to "Share in net earnings of equity-accounted companies".

5.4 2020 CONSOLIDATED FINANCIAL STATEMENTS AFR

In accordance with Article 19 of Regulation (EU) 2017/1129, the following information is incorporated by reference in this Universal Registration Document:

- the consolidated financial statements and the Statutory Auditors' report for the year ended December 31, 2019, set out on pages 298 to 382 and 383 to 387 of the Universal Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on April 28, 2020 under number D.20-0385;
- the consolidated financial statements and the Statutory Auditors' report for the year ended December 31, 2018, set out on pages 281 to 369 and 370 to 373 of the Registration Document registered with the AMF on March 29, 2019 under number D.19-0224.

5.4.1 Consolidated statement of income

(in millions of euros)	*Notes*	2020	2019
SALES	*4.1*	**16,436**	**19,477**
Cost of sales	*4.3*	(14,281)	(16,023)
Research and Development expenditure	*4.5.1.2*	(1,695)	(1,550)
Selling expenses		(259)	(304)
Administrative expenses		(573)	(566)
OPERATING MARGIN		**(372)**	**1,034**
as a % of sales		-2.3%	5.3%
Share in net earnings (losses) of equity-accounted companies	*4.5.3.1*	(278)	(237)
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	*4.5*	**(650)**	**797**
as a % of sales		-4.0%	4.1%
Other income and expenses	*4.6.2*	(207)	(65)
OPERATING INCOME (LOSS) INCLUDING SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	*4.6.1*	**(857)**	**732**
Cost of net debt	*8.2.1*	(67)	(73)
Other financial income and expenses	*8.2.2*	(14)	(2)
INCOME (LOSS) BEFORE INCOME TAXES		**(938)**	**657**
Income taxes	*9.1*	(132)	(263)
NET INCOME (LOSS) FOR THE YEAR		**(1,070)**	**394**
Attributable to:			
• Owners of the Company		(1,089)	313
• Non-controlling interests	*10.1.3*	19	81
Attributable earnings per share:			
• Basic earnings per share *(in euros)*	*10.2*	(4.55)	1.31
• Diluted earnings per share *(in euros)*	*10.2*	(4.55)	1.31

The Notes are an integral part of the consolidated financial statements.

5.4.2 Consolidated statement of comprehensive income

(in millions of euros)	2020	2019
NET INCOME (LOSS) FOR THE YEAR	**(1,070)**	**394**
Share of changes in comprehensive income from equity-accounted companies that may subsequently be recycled to income	1	(1)
o/w income taxes	-	-
Translation adjustment	(371)	62
Cash flow hedges:		
• Gains (losses) taken to equity	2	39
• (Gains) losses transferred to income (loss) for the year	13	(2)
o/w income taxes	*(1)*	*(4)*
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY SUBSEQUENTLY BE RECYCLED TO INCOME	**(355)**	**98**
Share of changes in comprehensive income from equity-accounted companies that may not subsequently be recycled to income	-	(1)
o/w income taxes	-	-
Actuarial gains (losses) on defined benefit plans	(12)	(102)
o/w income taxes	*(30)*	*(8)*
Remeasurement of long-term investments	15	1
o/w income taxes	*1*	*(2)*
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY NOT SUBSEQUENTLY BE RECYCLED TO INCOME	**3**	**(102)**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(352)**	**(4)**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**(1,422)**	**390**
Attributable to:		
• Owners of the Company	(1,413)	295
• Non-controlling interests	(9)	95

The Notes are an integral part of the consolidated financial statements.

5.4.3 Consolidated statement of financial position

(in millions of euros)	*Notes*	December 31, 2020	December 31, 2019[1]
ASSETS			
Goodwill	*6.1*	2,512	2,571
Other intangible assets	*6.2*	2,341	2,694
Property, plant and equipment	*6.3*	4,919	5,346
Investments in equity-accounted companies	*4.5.3.2*	108	152
Other non-current financial assets	*8.1.1*	641	702
Assets relating to pensions and other employee benefits	*5.3*	19	13
Deferred tax assets	*9.2*	440	437
NON-CURRENT ASSETS		**10,980**	**11,915**
Inventories, net	*4.4*	1,582	1,896
Accounts and notes receivable, net	*4.2*	2,674	2,821
Other current assets		508	455
Taxes receivable		30	33
Other current financial assets	*8.1.1*	100	20
Cash and cash equivalents	*8.1.3.2*	2,951	1,773
Assets held for sale		22	-
CURRENT ASSETS		**7,867**	**6,998**
TOTAL ASSETS		**18,847**	**18,913**
EQUITY AND LIABILITIES			
Share capital	*10.1.1*	242	241
Additional paid-in capital	*10.1.1*	1,545	1,531
Translation adjustment	*10.1.2*	(271)	71
Retained earnings		1,710	2,786
STOCKHOLDERS' EQUITY		**3,226**	**4,629**
Non-controlling interests	*10.1.3*	756	835
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS		**3,982**	**5,464**
Provisions for pensions and other employee benefits – long-term portion	*5.3*	1,091	1,185
Other provisions – long-term portion	*7.1*	369	313
Long-term portion of long-term debt	*8.1.2*	3,869	4,417
Other financial liabilities – long-term portion	*8.1.1*	42	38
Liabilities associated with put options granted to holders of non-controlling interests – long-term portion	*8.1.2.2*	18	20
Subsidies and grants – long-term portion		101	87
Deferred tax liabilities	*9.2*	67	76
NON-CURRENT LIABILITIES		**5,557**	**6,136**
Accounts and notes payable		4,697	4,762
Provisions for pensions and other employee benefits – current portion	*5.3*	58	69
Other provisions – current portion	*7.1*	369	201
Subsidies and grants – current portion		31	41
Taxes payable		132	124
Other current liabilities		1,590	1,578
Current portion of long-term debt	*8.1.2*	622	193
Other financial liabilities – current portion	*8.1.1*	90	14
Liabilities associated with put options granted to holders of non-controlling interests – current portion	*8.1.2.2*	50	59
Short-term financing	*8.1.2.3*	1,631	247
Bank overdrafts	*8.1.2.3*	6	22
Liabilities held for sale		32	3
CURRENT LIABILITIES		**9,308**	**7,313**
TOTAL EQUITY AND LIABILITIES		**18,847**	**18,913**

(1) The consolidated statement of financial position for the year ended December 31, 2019 differs from that presented in the 2019 consolidated financial statements published in February 2020 since it has been adjusted to reflect the exclusion of short-term financing from the definition of net cash and cash equivalents (see Note 8.1.2.3, page 366).

The Notes are an integral part of the consolidated financial statements.

5.4.4 Consolidated statement of cash flows

(in millions of euros)	*Notes*	2020	2019(1)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) for the year		(1,070)	394
Share in net (earnings) losses of equity-accounted companies		278	237
Net dividends received from equity-accounted companies		28	44
Expenses (income) with no cash effect	*11.1*	2,196	1,349
Cost of net debt		67	73
Income taxes (current and deferred)		132	263
GROSS OPERATING CASH FLOWS		**1,631**	**2,360**
Income taxes paid		(188)	(292)
Changes in working capital	*11.2*	397	396
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		**1,840**	**2,464**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(616)	(812)
Acquisitions of property, plant and equipment		(862)	(1,154)
Investment subsidies and grants received		30	16
Disposals of property, plant and equipment and intangible assets		9	44
Net change in non-current financial assets		(203)	(266)
Acquisitions of investments with gain of control, net of cash acquired	*11.3*	(5)	19
Acquisitions of investments in associates and/or joint ventures		-	(5)
Disposals of investments with loss of control, net of cash transferred		(3)	(13)
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**(1,650)**	**(2,171)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(48)	(297)
Dividends paid to non-controlling interests in consolidated subsidiaries		(74)	(46)
Capital increase		15	19
Sale (purchase) of treasury stock		4	15
Issuance of long-term debt	*11.4*	13	613
Loan issuance costs and premiums		-	(2)
Interest paid		(102)	(97)
Interest received		27	26
Repayment of long-term debt	*11.4*	(159)	(447)
Change in short-term financing	*8.1.2.3*	1,386	(578)
Short-term investments		-	-
Acquisitions of investments without gain of control	*11.5*	(1)	(29)
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		**1,061**	**(823)**
CASH AND CASH EQUIVALENTS RELATING TO OPERATIONS HELD FOR SALE	*2.2.1*	**(1)**	**-**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(56)**	**(1)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**1,194**	**(531)**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,751**	**2,282**
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,945**	**1,751**
Of which:			
• Cash and cash equivalents		2,951	1,773
• Bank overdrafts		(6)	(22)

(1) The consolidated statement of cash flows for the year ended December 31, 2019 differs from that presented in the 2019 consolidated financial statements published in February 2020 since it has been adjusted to reflect the exclusion of short-term financing from the definition of net cash and cash equivalents (see Note 8.1.2.3, page 366).

The Notes are an integral part of the consolidated financial statements.

5.4.5 Consolidated statement of changes in stockholders' equity

Number of shares outstanding	*(in millions of euros)*	Share capital	Additional paid-in capital	Cumulative translation adjustment	Retained earnings	TOTAL STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS: Stockholders' equity	Non-controlling interests	Total
237,287,487	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2018**	**240**	**1,513**	**17**	**2,801**	**4,571**	**807**	**5,378**
	Dividends paid[(1)]	-	-	-	(297)	(297)	(46)	(343)
957,981	Treasury shares	-	-	-	15	15	-	15
783,643	Capital increase	1	18	-	-	19	-	19
	Share-based payment	-	-	-	24	24	-	24
	Put options granted[(2)]	-	-	-	9	9	1	10
	Other movements[(3)]	-	-	-	(7)	(7)	(22)	(29)
	TRANSACTIONS WITH OWNERS	**1**	**18**	**-**	**(256)**	**(237)**	**(67)**	**(304)**
	Net income (loss) for the year	-	-	-	313	313	81	394
	Other comprehensive income (loss), net of tax	-	-	54	(72)	(18)	14	(4)
	TOTAL COMPREHENSIVE INCOME (LOSS)	**-**	**-**	**54**	**241**	**295**	**95**	**390**
239,029,111	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2019**	**241**	**1,531**	**71**	**2,786**	**4,629**	**835**	**5,464**
	Dividends paid[(1)]	-	-	-	(48)	(48)	(75)	(123)
540,947	Treasury shares	-	-	-	4	4	-	4
680,660	Capital increase[(4)]	1	14	-	-	15	-	15
	Share-based payment	-	-	-	33	33	-	33
	Put options granted[(2)]	-	-	-	6	6	5	11
	Other movements	-	-	-	-	-	-	-
	TRANSACTIONS WITH OWNERS	**1**	**14**	**-**	**(5)**	**10**	**(70)**	**(60)**
	Net income (loss) for the year	-	-	-	(1,089)	(1,089)	19	(1,070)
	Other comprehensive income (loss), net of tax	-	-	(342)	18	(324)	(28)	(352)
	TOTAL COMPREHENSIVE INCOME (LOSS)	**-**	**-**	**(342)**	**(1,071)**	**(1,413)**	**(9)**	**(1,422)**
240,250,718	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2020**	**242**	**1,545**	**(271)**	**1,710**	**3,226**	**756**	**3,982**

(1) A cash dividend of 0.20 euros per share was paid in 2020, representing a total payout of 48 million euros. The per-share amount paid in June 2019 was 1.25 euros.
(2) This item includes changes in the fair value of liabilities associated with put options granted to holders of non-controlling interests (see Note 8.1.2.2, page 365).
(3) Other movements reflect the impacts of acquiring an additional interest in Ichikoh in 2019.
(4) The terms and conditions of the November 16, 2020 capital increase reserved for employees are detailed in Note 10.1.1.1, page 380.

The Notes are an integral part of the consolidated financial statements.

5.4.6 Notes to the consolidated financial statements

NOTE 1 ACCOUNTING POLICIES AND IMPACTS OF THE COVID-19 HEALTH CRISIS

The consolidated financial statements of the Valeo Group for the year ended December 31, 2020 include:

- the accounts of Valeo;
- the accounts of its subsidiaries;
- Valeo's share in the net assets and earnings of equity-accounted companies (joint ventures and associates).

Valeo is an independent group fully focused on the design, production and sale of components, systems and services for greener, safer and smarter mobility. As a technology company, Valeo proposes innovative products and systems that contribute to the reduction of CO_2 emissions and to the development of driving assistance systems. Valeo is one of the world's leading automotive suppliers and is a partner to all automakers across the globe.

Valeo is a French legal entity listed on the Paris Stock Exchange. Its head office is at 43, rue Bayen, 75017 Paris, France.

Valeo's consolidated financial statements for the year ended December 31, 2020 were authorized for issue by the Board of Directors on February 18, 2021.

They will be submitted for approval to the next Annual Shareholders' Meeting.

1.1 Accounting standards applied

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and endorsed by the European Union. The standards can be consulted on the European Commission's website[1].

The financial statements include the information deemed material as required by the ANC in Standard no. 2016-09.

1.1.1 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2020 and June 1, 2020

The following standards, amendments and interpretations have been published by the IASB and adopted by the European Union:

Standards, amendments and interpretations	**Amendments to IFRS 9, IAS 39 and IFRS 7 – Phase 1** Effective as of January 1, 2020 and early adopted by the Group as of January 1, 2019
Impacts and applications for the Group	The amendments are designed to support the provision of useful financial information by companies during the period of uncertainty arising from the IBOR (interbank offered rate) reform. They modify certain hedge accounting provisions and require entities to provide investors with additional information on hedging relationships that are directly affected by these uncertainties. These amendments were published on September 26, 2019 by the IASB. The European Union adopted them on January 16, 2020. The Group elected to early adopt, as of January 1, 2019, the amendments to IFRS 9, IAS 39 and IFRS 7 published by the IASB in September 2019 in the context of the interest rate benchmark reform. These amendments enable the Group to disregard the uncertainties arising from interest rate benchmark reform when measuring the effectiveness of hedging relationships and/or determining whether the hedged risk is highly probable, ensuring that existing or future hedging relationships are secured until this uncertainty is no longer present. The IASB published an additional set of amendments (Phase 2) in August 2020, which were adopted by the European Union on January 13, 2021. As no IBORs had actually been replaced as of December 31, 2020, Valeo did not early adopt the Phase 2 amendments (see Note 1.1.2, page 319). During the year, Valeo continued its analysis work ahead of the transition to the new IBORs, in order to anticipate the impacts of the reform and prepare for the transition process. Interest rate derivatives designated as hedges of borrowings indexed to a benchmark rate are presented in Note 8.1.4.3, page 372.

The following standards, amendments and interpretations have also been published by the IASB and adopted by the European Union:

Standards, amendments and interpretations effective for reporting periods beginning on or after January 1, 2020	
Revised Conceptual Framework for Financial Reporting	Amendments to references to the Conceptual Framework in IFRS Standards
Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material

Standards, amendments and interpretations effective for reporting periods beginning on or after June 1, 2020	
Amendments to IFRS 16	Covid-19-Related Rent Concessions

These new publications did not have a material impact on the Group's consolidated financial statements.

(1) https://ec.europa.eu/info/law.

1.1.2 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2021 and not early adopted by the Group

Standards, amendments and interpretations effective for reporting periods beginning on or after January 1, 2021	
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Phase 2	Potential consequences of IBOR reform on financial information (see Note 1.1.1, page 318).

1.1.3 Standards, amendments and interpretations published by the IASB but not yet adopted by the European Union

The IASB has also published the following guidance, which is not expected to have a material impact on the Group's consolidated financial statements at the date of this document:

Standards, amendments and interpretations		Effective date[1]
Annual Improvements to IFRSs 2018-2020 cycle	Various provisions	January 1, 2022
Amendments to IFRS 3	Updating a Reference to the Conceptual Framework	January 1, 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022
Amendments to IAS 1	Presentation of Financial Statements: • classification of Liabilities as Current or Non-current; • disclosure of Accounting Policies.	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023

(1) Subject to adoption by the European Union.

On May 14, 2020, the IASB also published amendments to IAS 37 relating to the costs to include when assessing whether a contract is onerous. Subject to adoption by the European Union, these amendments will be effective as of January 1, 2022. A more detailed analysis of the main impacts of these amendments on the Group's consolidated financial statements will be conducted in the coming months to assess any restatements that may be necessary.

1.2 Basis of preparation

The financial statements are presented in euros and are rounded to the nearest million.

Preparation of the financial statements requires Valeo to make estimates and assumptions which could have an impact on the reported amounts of assets, liabilities, income and expenses. These estimates and assumptions concern both risks specific to the automotive supply business, such as those relating to quality and safety, as well as more general risks to which the Group is exposed on account of its industrial operations across the globe.

The Group exercises its judgment based on past experience and all other factors considered to be decisive given the environment and the circumstances. The estimates and assumptions used are revised on an ongoing basis. In view of the uncertainties inherent in any assessment, the final amounts reported in Valeo's future financial statements may differ from the amounts resulting from these current estimates.

In addition to the main significant impacts of the Covid-19 health crisis on the financial statements for the year ended December 31, 2020, presented in Note 1.3, page 320 the material estimates, judgments and assumptions adopted by the Group to prepare its financial statements for the year ended December 31, 2020 chiefly concern:

- the conditions for capitalizing development expenditure (see Note 4.5.1.1, page 331);
- estimates of provisions, particularly provisions for pensions and other employee benefits and provisions for risks linked to product warranties (see Notes 5.3 and 7.1, pages 339 and page 357, respectively);
- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 6, page 348);
- lease terms, as regards optional periods, and determination of discount rates (see Note 6.3, page 350);
- the likelihood that deferred tax assets will be able to be utilized (see Note 9.2, page 378).

1.3 Impacts of the Covid-19 health crisis

Against the backdrop of the global health crisis and the ensuing severe market disruption throughout 2020, the Group's sales fell 15.6% to 16,436 million euros, from 19,477 million euros in 2019 (see Note 4.1, page 328).

Activity picked up from February 2020 in China, and then from May in North America and Europe, where a return to 2019 production levels is proving slower and more gradual than in the two other main regions. In South Korea and Japan, automotive production was hard hit by the fall in exports. The signs of an upturn observed in the first half of the year were also apparent in the six months to December 31, and more particularly in the fourth quarter. Like for like (comparable Group structure and exchange rate basis), the Group's original equipment sales rose by 5.3% year on year in fourth-quarter 2020.

The cost reduction plan launched by the Group in first-half 2019 was extended throughout 2020 in light of the aforementioned market climate (see Note 4.6.2.3, page 337).

1.3.1 Going concern basis and cash management

During the year, Valeo negotiated credit lines for an additional 1.1 billion euros with its main banks, and therefore currently has 2.3 billion euros in undrawn credit lines.

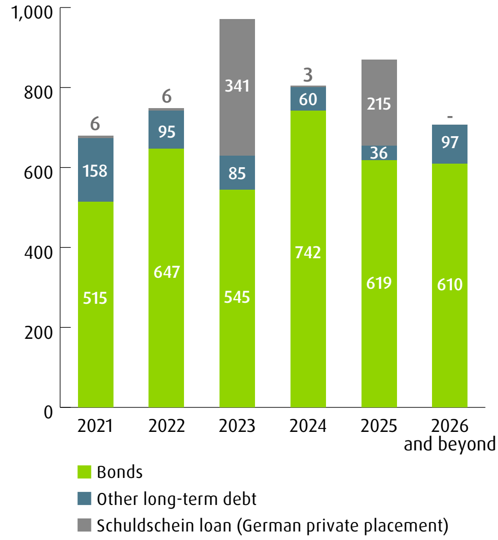
In addition, the Group has a stable financial position:

- net cash and cash equivalents of 2.9 billion euros at December 31, 2020;
- average debt maturity of 3 years;
- net debt to EBITDA ratio of 1.96 (calculated over a 12-month rolling period) at December 31, 2020, i.e., below the 3.5 threshold.

In managing its liquidity risk, the Group seeks to ensure a balanced long-term debt repayment profile.

CONTRACTUAL MATURITY OF LONG-TERM DEBT

(in millions of euros)



The future cash outflows presented above, comprising both interest payments and principal repayments, are not discounted. The forward interest rate curve at December 31, 2020 was used for variable-rate interest.

Detailed information on the Group's borrowings and debt is presented in Note 8, page 360.

Based on the above and given that operations have resumed in all geographic areas, the use of the going concern basis of accounting was appropriate at the date on which the 2020 consolidated financial statements were approved for issue.

1.3.2 Impairment testing of non-financial assets

As a result of the Covid-19 health crisis, the automotive market has deteriorated in the regions where Valeo and its customers are present. The deterioration has led to business disruptions in many countries, a decline in sales, operating losses and a downward revision of short- and medium-term forecasts. Amid this unfavorable economic climate, which has significant consequences for Valeo, the Group has reviewed the value in use of (i) its capitalized development expenditure (see Note 4.5.1.2, page 332), (ii) the assets allocated to certain cash-generating units (CGUs) and Business Groups (see Note 6.4, pages 353 to 356) and (iii) its Brazilian assets (see Note 6.4, pages 353 to 356). The Group also reviewed contracts currently in production in order to identify specific assets whose carrying amount will not be recovered by the economic benefits expected to arise from the contract.

As a result, in 2020 the Group recognized impairment losses of 408 million euros on its property, plant and equipment and intangible assets that can be analyzed as follows:

(in millions of euros)	Impairment of capitalized development expenditure	Impairment of property, plant and equipment	Total
Review of contracts under development or in production	252	46	**298**
CGUs	44	17	**61**
Brazil	9	40	**49**
Other	-	8	**8**
TOTAL	**305**	**103**	**408**

1.3.3 Personnel expenses and employee benefits

In 2020, the Group was allocated almost 110 million euros in government support under short-time working arrangements and job retention schemes, particularly in France and Germany. The amounts receivable from the relevant governments under the measures are recognized as a deduction from personnel expenses as and when the employer contributions on the salaries paid to the employees concerned are recognized, provided that there is reasonable assurance that the Group meets all the eligibility conditions for the support and that the amounts will be received.

In addition, the Group held negotiations with the labor organizations with a view to enhancing its competitiveness and harmonizing practices and benefits across the various Valeo Group plants and entities in France, while also maintaining jobs. Following the negotiations, several agreements were signed in September 2020, leading in particular to a 63 million euro reduction in provisions for pensions and other employee benefits (see Note 5.3.4, page 342).

1.3.4 Deferred tax assets

Based on the medium-term business plan prepared in second-half 2020, the Group assessed the recoverability of its tax loss carryforwards using future taxable profit projections covering a period of five years. As a result of this assessment, no additional write-down was recognized by the Group on top of the 37 million euro write-down taken in its consolidated financial statements for the six months ended June 30, 2020. At December 31, 2020, the Group did not recognize the tax losses relating to Germany and Brazil due to a lack of visibility as to whether they will be able to be utilized in the short term (see Note 9.1.2, page 377).

1.3.5 Hedge accounting

The Group applied the hedge accounting principles described in Note 8.1.4, page 368. Accordingly, for any forecast transaction that was no longer highly probable to occur due in particular to factors such as the decline in activity during the year, cash flow hedge accounting was discontinued. The consequences of the discontinuation were reflected by the Group in the financial statements, with the ineffective portion of the change in the fair value of the derivative instruments recognized in other financial income and expenses (see Note 8.2.2, page 376).

NOTE 2 SCOPE OF CONSOLIDATION

2.1 Accounting policies relating to the scope of consolidation

2.1.1 Consolidation methods

2.1.1.1 Full consolidation

The accounts of companies under Valeo's direct and indirect control are included in the consolidated financial statements using the full consolidation method. Control is deemed to exist when the Group:

- has power over an investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to affect those returns through its power over the investee's relevant activities.

All intercompany transactions are eliminated, as are gains on intercompany disposals of assets, intercompany profits included in inventories and intercompany dividends.

The earnings of subsidiaries acquired are consolidated as from the date the Group has control.

2.1.1.2 Equity-method accounting for joint ventures and associates

Joint arrangements organize the sharing of control of an entity by two or more parties. An arrangement in which the parties have rights to the net assets of that arrangement is called a joint venture. An arrangement in which the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, is known as a joint operation.

Valeo also exercises significant influence over certain entities, known as associates. Significant influence is the power to participate in decisions affecting the entity's financial and operating policies, but is not control or joint control over those policies. Significant influence is deemed to exist when Valeo holds over 20% of the voting rights of another entity.

Joint ventures and associates are accounted for using the equity method. Under the equity method, an investment in an equity-accounted company is recognized in the consolidated statement of financial position on the date on which the entity becomes an associate or joint venture.

The investment is initially recognized at cost. In accordance with IFRS 10.25, in the specific case of loss of control of a subsidiary leading to recognition of an interest in a joint venture or associate, the initial cost of this investment is equal to its fair value at the date control is lost. The investment is subsequently adjusted after the acquisition date to reflect the Group's share of the retained comprehensive income of the investee. These items may be adjusted in line with Group accounting policies.

Goodwill arising on the acquisition of associates or joint ventures is included in investments in equity-accounted companies.

The procedure used to measure investments in equity-accounted companies for impairment is governed by IFRS 9 – "Financial Instruments: Recognition and Measurement" and IAS 28 (revised) – "Investments in Associates and Joint Ventures".

Any impairment losses taken against investments in equity-accounted companies, along with any gains or losses on remeasuring the previously-held equity interest at fair value (on acquisition of a controlling interest in an equity-accounted company) are recorded in share in net earnings of equity-accounted companies.

A list of consolidated companies is provided in Note 13, pages 385 to 392.

2.1.2 Foreign currency translation

2.1.2.1 Foreign currency financial statements

The Group's consolidated financial statements are presented in euros.

The financial statements of each consolidated Group company are prepared in its functional currency. The functional currency is the currency of the principal economic environment in which it operates, and is generally the local currency.

The financial statements of foreign subsidiaries whose functional currency is not the euro are translated into euros as follows:

- statement of financial position items are translated into euros at the year-end exchange rate;
- statement of income items are translated into euros at the exchange rates applicable at the transaction dates or, in practice, at the average exchange rate for the period, as long as this is not rendered inappropriate as a basis for translation by major fluctuations in the exchange rate during the period;
- unrealized gains and losses arising from the translation of the financial statements of foreign subsidiaries are recorded under translation adjustment in other comprehensive income that may subsequently be recycled to income.

2.1.2.2 Foreign currency transactions

General principle

Transactions carried out in a currency other than Valeo's functional currency are translated using the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Non-monetary assets and liabilities denominated in a foreign currency are recognized at the historical exchange rate prevailing at the transaction date.

Differences arising from the translation of foreign currency transactions are generally recognized in income.

Net investment

Certain foreign currency loans and borrowings are considered in substance to be an integral part of the net investment in a subsidiary whose functional currency is not the euro when settlement is neither planned nor likely to occur in the foreseeable future. The foreign currency gains and losses arising on these loans and borrowings are recorded under translation adjustment in other comprehensive income for their net-of-tax amount. This specific accounting treatment applies until the disposal of the net investment, or when partial or full repayment of these loans or borrowings is highly probable.

When the net investment is derecognized, the translation adjustment arising after said date is taken to other financial income and expenses in the consolidated statement of income. Translation adjustments previously recognized in other comprehensive income are only recycled to income when the foreign operation is partially or fully disposed of. The Group examines whether these partial or full repayments of loans or borrowings equate to a partial or full disposal of the subsidiary.

2.1.3 Business combinations

Business combinations are accounted for using the acquisition method, whereby:

- the cost of a combination is determined at the acquisition-date fair value of the consideration transferred, including any contingent consideration. After the measurement period, any subsequent changes in the fair value of contingent consideration is recognized in income or in other comprehensive income as appropriate, in accordance with the applicable standards;
- the difference between the consideration transferred and the acquisition-date fair value of the net identifiable assets acquired and liabilities assumed is classified as goodwill within assets in the statement of financial position.

Adjustments to the provisional fair value of identifiable assets acquired and liabilities assumed resulting from independent analyses in progress or supplementary analyses are recognized as a retrospective adjustment to goodwill if they are made within 12 months of the acquisition date ("measurement period") and result from facts and circumstances that existed as of that date. The impact of any adjustments made after the measurement period is recognized directly in income as a change of accounting estimate.

Intangible assets may be recognized in respect of customer relationships that correspond in substance to contracts in progress at the date control is acquired and/or to relationships with regular customers of the acquired entity (opportunity to enter into new contracts). These intangible assets are measured based on the "excess earnings" method, whereby the value of the intangible asset corresponds to the present value of the cash flows generated by this asset, less a capital charge representing a return on the other assets concerned.

Intangible assets may also be recognized in respect of patented or unpatented technologies and trademarks. These assets are measured based on the "royalties" method or "replacement cost" method.

For each business combination in which the acquirer holds less than 100% of the equity interests in the acquiree at the acquisition date, the amount of the non-controlling interest is measured:

- either at fair value: in this case, goodwill is recognized on the non-controlling interest («full goodwill method»);
- or at the proportionate share in the recognized amounts of the acquiree's net identifiable assets, in which case goodwill is recognized only on the interest acquired ("partial goodwill method").

Costs directly attributable to the combination are included within other income and expenses in the period in which they are incurred.

Adjustments to contingent consideration in a business combination are measured at the acquisition-date fair value, even if the consideration is not expected to materialize. After the acquisition date, changes to the estimated fair value of contingent consideration involve an adjustment to goodwill only if they are made within the measurement period (up to 12 months after the date of the combination) and result from facts and circumstances that existed as of that date. In all other cases, such changes are recognized in income or in other comprehensive income as appropriate, in accordance with the applicable standard.

In a business combination achieved in stages, the Group's previously-held interest in the acquiree is remeasured at its acquisition-date fair value in income. To determine goodwill at the acquisition date, the fair value of the consideration transferred (e.g., price paid) is increased by the fair value of any interest previously held by the Group. The amount previously recognized within other comprehensive income in respect of the previously-held interest is recycled to the statement of income.

2.1.4 Transactions involving non-controlling interests

Changes in transactions involving non-controlling interests that do not result in a change of control are recognized in equity. In particular, in the event of an acquisition of additional shares in an entity already controlled by the Group, the difference between the acquisition price of the shares and the additional interest acquired by the Group in consolidated equity is recorded in stockholders' equity. The value of the entity's identifiable assets and liabilities (including goodwill) for consolidation purposes remains unchanged.

2.1.5 Assets and liabilities held for sale and discontinued operations

When the Group expects to recover the value of an asset or a group of assets through its sale rather than through continuing use, such assets are presented separately under assets held for sale in the statement of financial position. Any liabilities related to such assets are presented on the liabilities held for sale line in the statement of financial position. Assets classified as held for sale are valued at the lower of their carrying amount and their estimated sale price less costs to sell, and are therefore no longer subject to depreciation and amortization.

In accordance with IFRS 5, a discontinued operation is a component of an entity that has either been disposed of or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the date of sale or at an earlier date if the business meets the criteria to be recognized as an asset held for sale. Income or losses generated by these operations, as well as any capital gains or losses on disposal, are presented net of tax on a separate line of the statement of income. To provide a meaningful year-on-year comparison, the same treatment is applied to these items in the previous year.

For assets relating to operations that have not been classified as discontinued, any related impairment losses or proceeds from their disposal are recognized through operating income.

2.2 Changes in the scope of consolidation

2.2.1 Transactions that have not yet been completed

On December 25, 2020, Ichikoh signed a sales agreement on a portion of its stake in Life Elex, thereby reducing its interest in the company from 59.1% to 14.9%. Based on information available at the reporting date, Valeo estimated the likely consequences of the sale and recognized a 4 million euro impairment loss in other income and expenses (see Note 4.6.2.1, page 337). The estimated additional impact on the 2021 financial statements on completion of the sale is not considered material.

This business represented sales of 15 million euros in 2020.

In accordance with IFRS 5, the assets and liabilities relating to this business were therefore classified as assets and liabilities held for sale in the consolidated statement of financial position at December 31, 2020. Valeo chose this classification for these assets and liabilities since it believes that their carrying amount will be recovered principally through a sale transaction rather than through their continuing use. The amounts reclassified as assets and liabilities held for sale represented 22 million euros and 32 million euros, respectively, at December 31, 2020, and are related in particular to this operation.

2.2.2 Subsequent events

None.

2.3 Off-balance sheet commitments relating to the scope of consolidation

2.3.1 Commitments given

2.3.1.1 Put option granted in respect of Detroit Thermal Systems

Valeo and V. Johnson Enterprises set up the company Detroit Thermal Systems in 2012. At December 31, 2020, Valeo and V. Johnson Enterprises had respective 49% and 51% interests in this company.

V. Johnson Enterprises has a put option that may be exercised if certain contractually defined events – not relating to a level of earnings – occur. For example, the option is exercisable in the event that Valeo is unable to contribute to the financing of the venture or if it sells all or part of its interest to a third party. If the put is exercised, all of the shares owned by V. Johnson Enterprises at that time will be sold to Valeo, with the price to be determined according to the provisions of the agreement defining the company's governance arrangements.

2.3.1.2 Other commitments given

Other commitments given relate to guarantees granted by Valeo in connection with divestments. These totaled 5 million euros at December 31, 2020 versus 20 million euros at December 31, 2019. The reciprocal vendor warranty commitment agreed with Siemens in connection with the creation of the Valeo Siemens eAutomotive joint venture expired at the end of 2020.

2.3.2 Commitments received

Commitments received totaled 56 million euros at December 31, 2020 (486 million euros at December 31, 2019) and mainly correspond to guarantees granted to Valeo in connection with its acquisition of gestigon. The guarantees granted to Valeo in connection with the acquisition of FTE and the creation of the Valeo Siemens eAutomotive joint venture expired in 2020.

NOTE 3 SEGMENT REPORTING

In accordance with IFRS 8 – "Operating Segments", the Group's segment information below is presented on the basis of internal reports that are reviewed by the Group's General Management in order to allocate resources to the segments and assess their performance. General Management represents the chief operating decision maker within the meaning of IFRS 8.

Four reportable segments have been identified, corresponding to Valeo's organization into Business Groups. There is no aggregation of operating segments.

The Group's four reportable segments are:

- Comfort & Driving Assistance Systems, which has three Product Groups: Driving Assistance, Connected Cars and Intuitive Interior Controls. Drivers now want their car to form an integral part of their digital lives. At the same time, the regulatory environment demands ever safer vehicles, with automated driving now a reality thanks to increasingly affordable technology. The Comfort & Driving Assistance Systems Business Group focuses on intuitive controls, connectivity and automated driving solutions, making mobility safer and more comfortable for all;

- Powertrain Systems, comprising three Product Groups: Powertrain Electrification Systems, Transmission Systems and Powertrain Actuators and Sensors. This Business Group is at the heart of the vehicle electrification revolution. Combining the expertise of the Business Group's three Product Groups, Valeo manufactures comprehensive, integrated electric powertrain solutions as well as a range of products for cleaner thermal engines;
- Thermal Systems, comprising five Product Groups: Thermal Climate Control, Thermal Powertrain, Thermal Compressor, Thermal Front End and Thermal Commercial Vehicles. The strategic objectives of the Thermal Systems Business Group address the emerging challenges facing the automotive industry in two fields: intelligent management of thermal systems for all electric vehicles, and passenger health and well-being;
- Visibility Systems, comprising two Product Groups and one Product Line: the Lighting Systems Product Group, the Wiper Systems Product Group and the Electronics for Visibility Systems Product Line. The Visibility Systems Business Group designs and produces innovative, efficient and smart exterior and interior lighting, wiper and sensor cleaning systems to support the driver in all driving situations. These systems enable all vehicles, including automated vehicles, to drive in all conditions and create a highly immersive experience for all vehicle passengers.

Each of these Business Groups is also responsible for production and for some of the distribution of products in the aftermarket segment. A significant portion of income and expenses for Valeo Service, which almost exclusively sells products manufactured by the Group, is reallocated among the Business Groups identified. The external trading operations of Valeo Service and the Top Column Module business are presented within "Other", along with the holding companies and eliminations between the four operating segments.

3.1 Key segment performance indicators

The key performance indicators for each segment as presented in the tables below are as follows:

- sales;
- EBITDA, which corresponds to (i) operating margin before depreciation, amortization and impairment losses (included in operating margin) and the impact of government subsidies and grants on non-current assets, and (ii) net dividends received from equity-accounted companies;
- Research and Development expenditure;
- investments in property, plant and equipment and intangible assets;
- segment assets, comprising property, plant and equipment and intangible assets (including goodwill), investments in equity-accounted companies and inventories.

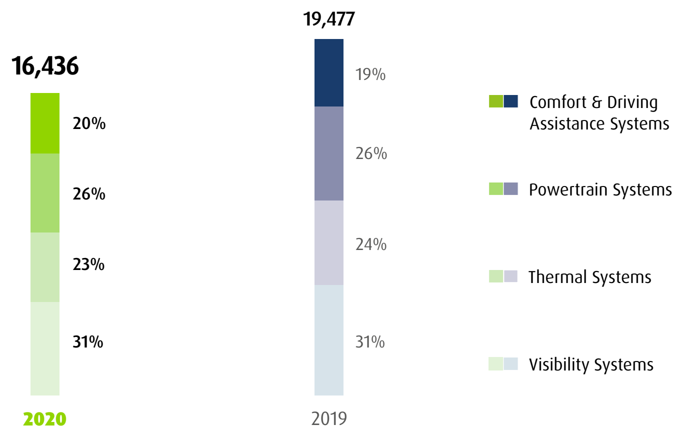
2020

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales						
• segment (excluding Group)	3,204	4,223	3,650	4,957	402	**16,436**
• intersegment (Group)	24	147	53	67	(291)	-
EBITDA	**412**	**409**	**247**	**435**	**2**	**1,505**
Research and Development expenditure	(676)	(287)	(275)	(422)	(35)	**(1,695)**
Investments in property, plant and equipment and intangible assets	389	344	362	424	39	**1,558**
Segment assets	2,548	3,317	2,586	2,830	181	**11,462**

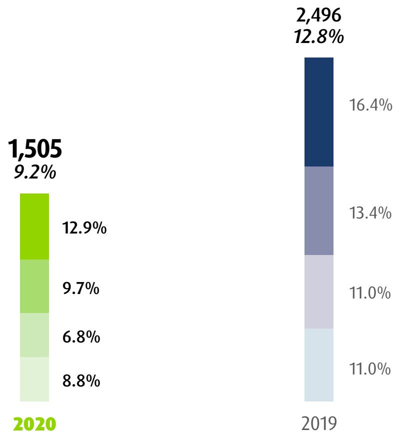
2019

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales						
• segment (excluding Group)	3,591	4,998	4,516	5,923	449	**19,477**
• intersegment (Group)	58	123	66	91	(338)	-
EBITDA	**599**	**685**	**502**	**660**	**50**	**2,496**
Research and Development expenditure	(579)	(293)	(274)	(360)	(44)	**(1,550)**
Investments in property, plant and equipment and intangible assets	534	418	460	522	52	**1,986**
Segment assets	2,813	3,561	2,861	3,124	300	**12,659**

SALES BY BUSINESS GROUP (INCLUDING INTERSEGMENT SALES)
(in millions of euros and as a % of sales)



EBITDA BY BUSINESS GROUP
(in millions of euros and as a % of sales)



3.2 Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating margin:

(in millions of euros)	2020	2019
Operating margin	**(372)**	**1,034**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses(1)	1,869	1,433
Impact of government subsidies and grants on non-current assets recognized in the statement of income	(20)	(15)
Dividends paid by equity-accounted companies	28	44
EBITDA	**1,505**	**2,496**
as a % of sales	*9.2%*	*12.8%*

(1) Solely impairment losses recorded in operating margin.

This indicator is used by Management to monitor and track Business Group performance and to decide on the allocation of resources.

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	December 31, 2020	December 31, 2019
Segment assets	**11,462**	**12,659**
Accounts and notes receivable	2,674	2,821
Other current assets	508	455
Taxes receivable	30	33
Financial assets	3,711	2,508
Deferred tax assets	440	437
Assets held for sale	22	-
TOTAL GROUP ASSETS	**18,847**	**18,913**

3.3 Reporting by geographic area

Non-current assets consist of property, plant and equipment, intangible assets (excluding goodwill) and investments in equity-accounted companies. Goodwill balances cannot be broken down by geographic area as they are allocated to Business Groups that operate in several geographic areas.

2020

(in millions of euros)	External sales by market	Sales by production area	Non-current assets
France	908	2,508	925
Other European countries and Africa	6,811	5,594	2,816
North America	3,020	3,128	1,093
South America	314	255	29
Asia	5,383	5,513	2,508
Eliminations	-	(562)	(3)
TOTAL	**16,436**	**16,436**	**7,368**

2019

(in millions of euros)	External sales by market	Sales by production area	Non-current assets
France	1,285	2,981	937
Other European countries and Africa	8,080	6,765	3,043
North America	3,721	3,851	1,321
South America	489	412	113
Asia	5,902	6,215	2,781
Eliminations	-	(747)	(3)
TOTAL	**19,477**	**19,477**	**8,192**

NOTE 4 OPERATING DATA

4.1 Sales

For each automotive project, the three main typically identified promises made by Valeo to an automaker are:

- Product Development, which includes determining the intrinsic technical features of parts and those related to the relevant production process. This promise is usually considered to be related to the Supply of Parts; any contributions from customers in respect of Product Development are therefore recognized in sales over the period of series production as the promise to deliver the parts is fulfilled, within a period of four years. However, the accounting treatment applied may vary based on each project's specific contractual or operational features;
- Supply of Tooling such as molds and other equipment used to manufacture parts:
  - for certain businesses, the supply of molds may be considered to be a distinct promise in view of the manner in which control is transferred. In such cases, sales are recognized at the start of series production for the project,
  - the supply of other equipment used to manufacture parts is considered to be related to the Supply of Parts. Any contributions received in this respect are therefore deferred and recognized over the duration of the manufacturing phase of the project as the promise to deliver the parts is fulfilled, within a period of four years;
- Supply of Parts, sales of which are recognized when control of the parts is transferred to the customer, i.e., generally upon delivery.

In this respect, sales primarily include sales of finished goods and all tooling revenues and customer contributions to Research and Development expenditure and prototypes. Sales are measured at the fair value of the consideration receivable, net of any trade discounts and volume rebates and excluding any VAT or other taxes.

Under specific contracts, analysis of the relationship with the end customer leads Valeo to consider that it acts as agent when it supplies said end customer with "imposed" components. As such, the transactions in which Valeo acts as agent are recognized based on their net amount. This business model primarily concerns the Thermal Front-End operations of the Thermal Systems Business Group.

The price reductions granted upstream to automakers are deferred in the consolidated statement of financial position at the time of payment and subsequently deducted from sales and reported under income on a straight-line basis as from the start of volume production.

In general, customers award Valeo contracts to supply all the parts required for a specific project. Estimated future volumes cannot be included in the order book as defined by IFRS 15 until the customer has placed an order for a firm volume. Accordingly, disclosure of this information is not considered relevant.

Group sales fell 15.6% to 16,436 million euros in 2020, from 19,477 million euros in 2019.

Changes in exchange rates had a negative 1.4% impact, relating mainly to the depreciation in the Brazilian real, the Chinese renminbi, the Korean won and the US dollar against the euro, while changes in the scope of consolidation during the year had a positive 0.1% impact. Like for like (comparable Group structure and exchange rate basis), consolidated sales for 2020 fell by 14.3% compared with 2019.

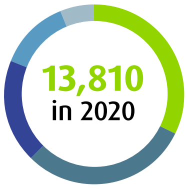
4.1.1 Sales by type

Sales can be analyzed by type as follows:

(in millions of euros)	2020	2019
Original equipment	13,810	16,360
Aftermarket	1,748	1,990
Other	878	1,127
SALES	**16,436**	**19,477**

4.1.2 Original equipment sales by customer portfolio

Original equipment sales can be analyzed by customer portfolio as follows:



	(in millions of euros)	2020	2019
32%	Asian automakers	4,465	5,299
30%	German automakers	4,175	4,947
19%	US automakers	2,597	3,003
13%	French automakers	1,756	2,163
6%	Other	817	948
	ORIGINAL EQUIPMENT SALES	**13,810**	**16,360**

4.2 Accounts and notes receivable

Accounts and notes receivable are current financial assets which are initially recognized at fair value and subsequently carried at amortized cost, less any accumulated impairment losses. The fair value of accounts and notes receivable is deemed to be their nominal amount, since payment periods are generally less than three months.

Accounts and notes receivable may be written down for impairment. Impairment is recognized when it is probable that the receivable will not be recovered and when the amount of the loss can be measured reliably. The Group uses two impairment testing methods:

- impairment estimated taking into account historical loss experience, the age of the receivables, and a detailed risk assessment;
- impairment estimated taking into account customer credit risk.

Impairment losses are recognized in operating income or in other financial income and expenses if they relate to a credit risk on a debtor.

Accounts and notes receivable may be discounted and sold to banks within the scope of recurring or one-off transactions. In accordance with the principles for derecognizing financial assets, an analysis is performed at the time of these transactions to determine the extent to which the risks and rewards inherent to ownership of the receivables have been transferred, particularly in terms of credit, late payment and dilution risks. If the analysis shows that both the contractual rights to receive the cash flows relating to the receivables and substantially all of the risks and rewards have been transferred, the accounts and notes receivable are removed from the consolidated statement of financial position and all of the rights created or retained on transfer are recognized as appropriate.

If this is not the case, the accounts and notes receivable continue to be carried on the consolidated statement of financial position and a debt is recorded to the extent of the discounted amount.

Accounts and notes receivable can be analyzed as follows:

(in millions of euros)	December 31, 2020	December 31, 2019
Accounts and notes receivable, gross	2,705	2,850
Impairment	(31)	(29)
ACCOUNTS AND NOTES RECEIVABLE, NET	**2,674**	**2,821**

At December 31, 2020, Valeo's largest automotive customer accounted for 13% of the Group's accounts and notes receivable (12% at December 31, 2019).

The average days' sales outstanding stood at 45 days at December 31, 2020, compared to 48 days at December 31, 2019.

The table below presents an aged analysis of accounts and notes receivable at the end of the reporting period:

	(in millions of euros)	December 31, 2020	December 31, 2019
93.4%	Not yet due	2,528	2,650
2.8%	Less than 1 month past due	75	84
2.8%	More than 1 month but less than 1 year past due	75	93
1.0%	More than 1 year past due	27	23
	ACCOUNTS AND NOTES RECEIVABLE, GROSS	**2,705**	**2,850**

Gross accounts and notes receivable not yet due and less than one month past due at December 31, 2020 totaled 2,528 million euros and 75 million euros, respectively, and represented 96% of total gross accounts and notes receivable (96% at end-December 2019). Past due receivables were written down in an amount of 31 million euros at December 31, 2020 (29 million euros at December 31, 2019).

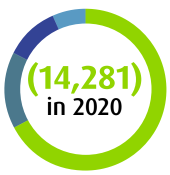
Accounts and notes receivable falling due after December 31, 2020, for which substantially all risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position, break down as follows:

(in millions of euros)	December 31, 2020	December 31, 2019
Receivables sold:		
• Recurring sales of receivables	118	132
• Non-recurring sales of receivables	179	158
ACCOUNTS AND NOTES RECEIVABLE SOLD	**297**	**290**
Financial cost	3	3

4.3 Cost of sales

Cost of sales may include insurance indemnities paid out for claims made within the scope of the Group's operations. These claims can relate to product quality issues or property damage. An insurance gain is recognized in the statement of income at the date of the claim, if it is demonstrated that the claim is duly covered by a valid insurance policy. If this right is contingent on the subsequent completion of repairs or on the acquisition of new assets (contingent claim), the associated gain should be recognized at the time the aforementioned repairs or acquisitions are made.

Cost of sales can be analyzed as follows:



(in millions of euros)		2020	2019
58.6%(1)	Raw materials consumed	(9,620)	(11,145)
13.2%(1)	Labor(2)	(2,177)	(2,546)
9.5%(1)	Direct production costs and production overheads	(1,568)	(1,535)
5.6%(1)	Depreciation and amortization(3)	(916)	(797)
	COST OF SALES	**(14,281)**	**(16,023)**

(1) *As a % of sales.*

(2) *Government support in connection with short-time working arrangements and job retention schemes is presented as a deduction from personnel expenses (see Note 1.3.3, page 321).*

(3) *This amount does not include amortization charged against capitalized development expenditure, which is recognized in Research and Development expenditure. It includes the impact of government subsidies and grants on non-current production assets (excluding Research and Development) recognized in the statement of income for the year.*

4.4 Inventories

Inventories are stated at the lower of cost and net realizable value. Impairment losses are booked when the probable realizable value of inventories is lower than their cost price.

Inventories of raw materials and goods for resale are carried at purchase cost.

Inventories of finished products and work-in-progress are carried at production cost. Production cost includes the cost of raw materials, supplies and labor used in production, and other direct production and indirect plant costs, excluding overheads not related to production. These costs are determined by the "First-in-First-out" (FIFO) method which, due to the rapid inventory turnover rate, approximates the latest cost at the end of the reporting period.

Tooling specific to a given project is subject to an economic analysis of the contractual relationship with the automaker in order to determine if control of the tooling is transferred to that automaker. Tooling is capitalized in the consolidated statement of financial position (see Note 6.3 "Property, plant and equipment") when Valeo has control of the tooling, or is otherwise carried in inventories (until control is transferred). A provision is made for any potential loss on the tooling contract (corresponding to the difference between the customer's contribution and the cost of the tooling) as soon as the amount of the loss is known.

At December 31, 2020, inventories break down as follows:

(in millions of euros)	DECEMBER 31, 2020 Gross carrying amount	Impairment	Net carrying amount	DECEMBER 31, 2019 Net carrying amount
Raw materials	774	(158)	**616**	755
Work-in-progress	211	(35)	**176**	200
Finished goods and supplies	627	(133)	**494**	586
Specific tooling	304	(8)	**296**	355
INVENTORIES, NET	**1,916**	**(334)**	**1,582**	**1,896**

Impairment losses taken against inventories amounted to 334 million euros at December 31, 2020 (290 million euros at December 31, 2019), including an allowance (net of reversals) of 58 million euros during the year. Allowances for impairment of inventories net of reversals amounted to 27 million euros in 2019.

4.5 Operating margin including share in net earnings of equity-accounted companies

Operating margin is equal to sales less costs to sell, Research and Development expenditure and selling and administrative expenses.

Operating margin including share in net earnings of equity-accounted companies corresponds to operating income before other income and expenses.

In 2020, operating margin including share in net earnings (losses) of equity-accounted companies was a negative 650 million euros (negative 4.0% of sales), versus a positive 797 million euros in 2019 (4.1% of sales).

Share in net earnings (losses) of equity-accounted companies represented a loss of 278 million euros in 2020 and a loss of 237 million euros in 2019. See Note 4.5.3, pages 333 to 336 for more information.

4.5.1 Research and Development expenditure

4.5.1.1 Capitalized development expenditure

Innovation can be analyzed as either research or development. Research is an activity which can lead to new scientific or technical knowledge and understanding. Development is the application of research findings with a view to creating new products, before the start of commercial production.

Research costs are recognized in expenses in the period in which they are incurred.

Development expenditure is capitalized where the Group can demonstrate that:

- it has the intention and the technical and financial resources to complete the development, evidenced in particular by an engagement letter from the customer stating that Valeo has been chosen as supplier for the project;
- the intangible asset will generate future economic benefits in excess of its carrying amount, i.e., based in particular on whether the project is expected to generate an adequate margin;
- and the cost of the intangible asset can be measured reliably.

Capitalized development expenditure recorded in assets in the statement of financial position therefore corresponds to projects for specific customer applications drawing on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization as described above. Costs incurred before the formal decision to develop the product are included in expenses for the period. Costs incurred after the launch of series production are considered production costs.

Capitalized development expenditure related to projects that have not yet resulted in the start of series production is tested for impairment at least once a year and whenever there is an indication that it may be impaired. Following the start of series production, capitalized development expenditure is tested on a case-by-case basis in the event of an onerous contract, or otherwise at the level of the cash-generating units (see Note 6.4, pages 353 to 356).

Capitalized development expenditure is amortized on a straight-line basis over a maximum period of four years as from the start of series production.

Changes in capitalized development expenditure in 2019 and 2020 are analyzed below:

(in millions of euros)	2020	2019
GROSS CARRYING AMOUNT AT JANUARY 1	**4,070**	**3,359**
Accumulated amortization and impairment	(1,990)	(1,639)
NET CARRYING AMOUNT AT JANUARY 1	**2,080**	**1,720**
Capitalized development expenditure	598	769
Disposals	(1)	(4)
Impairment	(305)	(14)
Amortization	(483)	(403)
Translation adjustment	(58)	11
Reclassifications	2	1
NET CARRYING AMOUNT AT DECEMBER 31	**1,833**	**2,080**

4.5.1.2 Research and Development expenditure

Research and Development expenditure comprises the costs incurred during the period, including amortization charged against capitalized development expenditure, less research tax credits and the portion of Research and Development subsidies granted to the Group and taken to income.

Research and Development expenditure can be analyzed as follows for 2019 and 2020:

(in millions of euros)	2020	2019
Gross Research and Development expenditure	(1,660)	(2,054)
Subsidies and grants, and other income	102	143
Capitalized development expenditure	598	769
Amortization and impairment of capitalized development expenditure[1]	(735)	(408)
RESEARCH AND DEVELOPMENT EXPENDITURE	**(1,695)**	**(1,550)**

(1) Solely impairment losses recorded in operating margin.

In 2020, the Group recognized impairment losses on capitalized development expenditure in the amount of 305 million euros, of which 53 million euros resulted from the allocation of impairment losses recognized against CGUs and Brazil (see Notes 1.3.2 and 6.4, page 320 and 353, respectively). In light of the Covid-19 health crisis, the Group significantly lowered its medium-term outlook for global automotive production (see Note 6.4.1, page 354) and also factored in the latest information provided by some of its customers. The impairment loss recognized reflects the impact of a decline in volumes on the profitability of certain projects under development.

The research tax credit in France is calculated based on certain research expenditure on "eligible" projects and is paid by the French State, regardless of the entity's income tax position. If the company collecting the research tax credit is liable for income tax, the credit will be deducted from its income tax liability. Otherwise, it will be paid by the French State within a period of three years.

The French research tax credit, or any other similar tax provision in other jurisdictions, does not therefore fall within the scope of IAS 12 – "Income Taxes" and is recognized as a deduction from Research and Development expenditure within the Group's operating margin as and when the related costs are taken to income.

The French research tax credit recognized in income for the year totaled 42 million euros in respect of 2020 (59 million euros in 2019).

4.5.2 Other current assets

Consistent with the treatment for accounts and notes receivable, amounts receivable in respect of the French research tax credit or the former CICE tax credit *(Crédit d'Impôt pour la Compétitivité et l'Emploi)* as well as VAT credits may be discounted and sold to banks. By analogy, the Group has applied the principles for derecognizing financial assets. An analysis is performed to determine the extent to which the risks and rewards inherent to ownership of the receivables are transferred. If the analysis shows that substantially all of the risks and rewards are transferred, these receivables are removed from the consolidated statement of financial position. If this is not the case, the receivables continue to be carried on the consolidated statement of financial position and a debt is recorded for the discounted amount.

At December 31, 2020, amounts receivable in France in respect of the CICE tax credit for 2016, 2017 and 2018 and the research tax credit for 2017, 2018, 2019 and 2020 are no longer carried in the consolidated statement of financial position.

These receivables were transferred as follows:

- the 2017 CICE tax credit receivable on December 22, 2017 for 17 million euros;
- the 2017 research tax credit receivable on June 27, 2018 for 63 million euros;
- the 2018 CICE tax credit receivable on December 19, 2018 for 16 million euros;
- the 2018 research tax credit receivable on June 25, 2019 for 63 million euros;
- the prospective 2019 research tax credit receivable on December 17, 2019 for 60 million euros, and in June 2020 for the remaining 4 million euros;
- the prospective 2020 research tax credit receivable on December 16, 2020 for 48 million euros.

At December 31, 2020 and December 31, 2019, receivables in respect of the VAT credit in France were sold and, as a result, are no longer recorded in the consolidated statement of financial position. Said receivables represented an amount of 22 million euros at December 31, 2020 versus 12 million euros at December 31, 2019.

The cost of the transfers made in 2020, recognized in cost of net debt for the year, was less than 1 million euros for the Group, compared to 1 million euros in 2019.

4.5.3 Associates and joint ventures

4.5.3.1 Share in net earnings of equity-accounted companies

(in millions of euros)	2020	2019
Share in net earnings of associates	-	7
Share in net earnings (losses) of joint ventures	(278)	(244)
SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	**(278)**	**(237)**

All investments accounted for using the equity method, either joint ventures or associates, contribute to the Group's operations and belong to one of its four operating segments. They are included in the Group's internal reporting within the meaning of IFRS 8 and their operating performance is reviewed at the level of the Business Groups to which they belong. Accordingly, the Group considers it appropriate to recognize the share in net earnings of equity-accounted companies within operating margin.

Share in net earnings of associates

(in millions of euros)	2020	2019
Detroit Thermal Systems	1	6
Other investments in associates	(1)	1
SHARE IN NET EARNINGS OF ASSOCIATES	**-**	**7**

Share in net earnings (losses) of joint ventures

(in millions of euros)	2020	2019
Valeo Siemens eAutomotive	(258)	(260)
CloudMade	(32)	(4)
Chinese joint ventures	13	19
Other	(1)	1
SHARE IN NET EARNINGS (LOSSES) OF JOINT VENTURES	**(278)**	**(244)**

4.5.3.2 Investments in equity-accounted companies

Investments in associates

Changes in the investments in associates caption can be analyzed as follows:

(in millions of euros)	2020	2019
INVESTMENTS IN ASSOCIATES AT JANUARY 1	**32**	**29**
Share in net earnings of associates	-	7
Dividend payments	(3)	(4)
Other movements	(7)	-
Translation adjustment	-	-
INVESTMENTS IN ASSOCIATES AT DECEMBER 31	**22**	**32**

The Group's investments in associates are detailed below:

	PERCENTAGE INTEREST *(in %)*		CARRYING AMOUNT *(in millions of euros)*	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Detroit Thermal Systems	49.0	49.0	9	17
APG-FTE automotive Co. Ltd	49.0	49.0	8	9
Kuantic	33.3	33.3	3	4
Other investments in associates	N/A	N/A	2	2
INVESTMENTS IN ASSOCIATES			**22**	**32**

Investments in joint ventures

Changes in the investments in joint ventures caption can be analyzed as follows:

(in millions of euros)	2020	2019
INVESTMENTS IN JOINT VENTURES AT JANUARY 1	**120**	**158**
Share in net earnings (losses) of joint ventures(1)	(8)	(2)
Dividend payments	(25)	(40)
Impact of changes in scope of consolidation	-	5
Other movements	(1)	(1)
Translation adjustment	-	-
INVESTMENTS IN JOINT VENTURES AT DECEMBER 31	**86**	**120**

(1) As its share in the losses of Valeo Siemens eAutomotive exceeds its interest in the joint venture, the Group has discontinued recognizing the losses in accordance with IAS 28 and allocates them to other assets held by the Group in the joint venture.

The Group's investments in joint ventures are detailed below:

	PERCENTAGE INTEREST *(in %)*		CARRYING AMOUNT *(in millions of euros)*	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Valeo Siemens eAutomotive(1)	50.0	50.0	-	-
Chinese joint ventures	N/A	N/A	70	84
CloudMade	50.0	50.0	-	17
Other	N/A	N/A	16	19
INVESTMENTS IN JOINT VENTURES			**86**	**120**

(1) As its share in the losses of Valeo Siemens eAutomotive exceeds its interest in the joint venture, the Group has discontinued recognizing the losses in accordance with IAS 28 and allocates them to other assets held by the Group in the joint venture.

4.5.3.3 Financial information on equity-accounted companies

This information is presented based on a 100% holding and according to IFRS.

Information for equity-accounted associates and joint ventures is provided on an aggregate basis since the entities are not material taken individually, with the exception of the Valeo Siemens eAutomotive joint venture, for which information is presented separately below.

Associates

Aggregate financial data in respect of associates are set out below:

(in millions of euros)	December 31, 2020	December 31, 2019
Non-current assets	45	73
Current assets	80	101
Non-current liabilities	(25)	(47)
Current liabilities	(68)	(82)

(in millions of euros)	December 31, 2020	December 31, 2019
Sales	284	351
Operating expenses	(276)	(335)

Valeo Siemens eAutomotive

Condensed financial data in respect of the Valeo Siemens eAutomotive joint venture are set out below. These data were taken from the joint venture's IFRS financial statements, as adjusted by the Group for the purposes of equity accounting.

(in millions of euros)	December 31, 2020	December 31, 2019
Non-current assets	884	713
Current assets	366	286
Non-current liabilities	(1,432)	(1,285)
Current liabilities	(794)	(313)

(in millions of euros)	December 31, 2020	December 31, 2019
Sales	526	290
Income (loss) from continuing operations	(516)	(520)
Post-tax income (loss) from discontinued operations	-	-
NET INCOME (LOSS) FOR THE YEAR	**(516)**	**(520)**
Other comprehensive income (loss) attributable to owners of the Company	(1)	-
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**(517)**	**(520)**

As its share in the losses of Valeo Siemens eAutomotive exceeds its interest in the joint venture, the Group allocates it to the other components of its share in the joint venture, in accordance with IAS 28. Accordingly, the Group charged 256 million euros against the loans granted to the joint venture in 2020, in addition to the 242 million euros charged in 2019. There was no uncertainty as regards the recoverability of these financial assets at December 31, 2020: an independent expert assessed the joint venture based on the discounted future cash flows projected by its general management in its multi-year business plan (discount rate of 9.76%). A 100-basis point increase in the discount rate used would have no impact on the positions reflected in the Group's financial statements at December 31, 2020.

Joint ventures excluding Valeo Siemens eAutomotive

Aggregate financial data in respect of joint ventures excluding Valeo Siemens eAutomotive are set out below:

(in millions of euros)	December 31, 2020	December 31, 2019
Non-current assets	138	153
Current assets	291	293
Non-current liabilities	(56)	(48)
Current liabilities	(305)	(294)

(in millions of euros)	2020	2019
Sales	591	638
Operating expenses	(567)	(598)

4.5.3.4 Transactions with equity-accounted companies (related parties)

The consolidated financial statements include transactions carried out in the normal course of operations between the Group and its associates and joint ventures. These transactions are carried out at arm's length.

Transactions with associates

(in millions of euros)	December 31, 2020	December 31, 2019
Accounts and notes receivable	4	4
Accounts and notes payable	(6)	(6)
Financial receivables/(net debt)	20	6

(in millions of euros)	2020	2019
Sales of goods and services	27	33
Purchases of goods and services	(34)	(41)

Transactions with joint ventures

(in millions of euros)	December 31, 2020	December 31, 2019
Accounts and notes receivable	88	67
Accounts and notes payable	(22)	(12)
Financial receivables/(net debt)	820	558

(in millions of euros)	2020	2019
Sales of goods and services	204	177
Purchases of goods and services	(68)	(23)

4.6 Operating income (loss) and other income and expenses

4.6.1 Operating income (loss)

Operating income (loss) includes all income and expenses other than:
- interest income and expense comprising cost of net debt;
- other financial income and expenses;
- income taxes.

In 2020, the Group recorded an operating loss including share in net earnings (losses) of equity-accounted companies of 857 million euros, versus income of 732 million euros in 2019.

4.6.2 Other income and expenses

In order to facilitate interpretation of the statement of income and Group performance, unusual items that are material to the consolidated financial statements are presented separately within operating income under other income and expenses.

This caption mainly includes:
- transaction costs and capital gains and losses arising on changes in the scope of consolidation;
- major litigation and disputes unrelated to the Group's operations (this therefore excludes the cost of any disputes relating to the quality of products sold, customers, suppliers or contract losses);
- net costs relating to restructuring plans;
- impairment losses on fixed assets chiefly recognized as a result of impairment tests on cash-generating units (CGUs) and goodwill.

Other income and expenses can be analyzed as follows in 2019 and 2020:

(in millions of euros)	*Notes*	2020	2019
Transaction costs and capital gains and losses arising on changes in the scope of consolidation	*4.6.2.1*	(5)	(1)
Claims and litigation	*4.6.2.2*	(11)	(21)
Restructuring plans	*4.6.2.3*	(73)	(36)
Impairment of fixed assets	*4.6.2.4*	(118)	(7)
OTHER INCOME AND EXPENSES		**(207)**	**(65)**

4.6.2.1 Transaction costs and capital gains and losses arising on changes in the scope of consolidation

This item notably includes an impairment loss of 4 million euros reflecting the estimated impacts of the sale of the Life Elex business at December 31, 2020 (see Note 2.2.1, page 324).

4.6.2.2 Claims and litigation

In 2020, this item includes the impacts of various disputes and the related legal advisory costs.

4.6.2.3 Restructuring plans

Restructuring costs for 2020 primarily include the additional impacts of the Group cost reduction plan launched in first-half 2019 in light of the downturn in the automotive market, and extended throughout 2020 amidst the Covid-19 health crisis. Germany and Japan were impacted in an amount of 31 million euros and 14 million euros, respectively. Restructuring costs also include expenses relating to early retirement plans in Germany.

4.6.2.4 Impairment of fixed assets

As a result of the impairment tests carried out on CGUs in 2020, impairment losses of 20 million euros and 41 million euros were recognized against the Air Charging Systems Product Line CGU and the Top Column Module Product Line CGU, respectively (see Note 6.4.2, page 354). In addition, a non-recurring impairment loss was recognized against the Group's Brazilian assets in an amount of 49 million euros (see Note 6.4.6, page 356). Within the scope of the Group's restructuring plans, impairment losses of 8 million euros were also recognized against assets that will no longer be used.

NOTE 5 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

5.1 Headcount

Including temporary staff, the Group's headcount is as follows:

	2020	2019
Total employees at December 31	110,300	114,700
Average employees during the year	108,425	114,525

5.2 Employee benefits

Employee benefits are measured in accordance with IAS 19. They comprise both short- and long-term benefits.

Group employees are entitled to short-term benefits such as paid annual leave, paid sick leave, bonuses and other benefits (other than termination benefits), payable within 12 months of the end of the period in which the corresponding services are rendered.

These benefits are shown in current liabilities and expensed in the period in which the related service is rendered by the employee.

Long-term benefits cover two categories of employee benefits:

- post-employment benefits, which include statutory retirement bonuses, supplementary pension benefits, and coverage of certain medical costs for retirees and early retirees;
- other long-term benefits payable (during employment), corresponding primarily to long-service bonuses.

Benefits offered to each employee depend on local legislation, collective bargaining agreements, or other agreements in place in each Group entity.

These benefits are broken down into:

- defined contribution plans, under which the employer pays fixed contributions on a regular basis and has no legal or constructive obligation to pay further contributions. These are recognized in expenses based on calls for contributions;
- defined benefit plans, under which the employer guarantees a future level of benefits. An obligation under defined benefit plans (see Note 5.3, page 339) is recognized in liabilities in the statement of financial position.

The statement of income presents personnel expenses by function. They include the following items:

(in millions of euros)	2020	2019
Wages and salaries[(1)(2)]	3,032	3,551
Social security charges	599	690
Share-based payment	34	26
Pension expenses under defined contribution plans	110	118
TOTAL	**3,775**	**4,385**

(1) Including temporary staff.
(2) Government support in connection with short-time working arrangements and job retention schemes is presented as a deduction from personnel expenses (see Note 1.3.3, page 321).

Pension expenses under defined benefit plans are set out in Note 5.3, page 339.

Provisions for restructuring plans and employee disputes are set out in Note 7.1, pages 357 to 358.

5.3 Provisions for pensions and other employee benefits

As indicated in Note 5.2, long-term benefits arising under defined benefit plans give rise to an obligation which is recognized in provisions for pensions and other employee benefits.

The pension provision is equal to the present value of Valeo's future benefit obligation less, where appropriate, the fair value of plan assets in funds allocated to finance such benefits. An asset is only recognized on overfunded plans if it represents future economic benefits that are available to the Group.

The provision for other long-term benefits is equal to the present value of the future benefit obligation. The expected cost of these benefits is recorded in personnel expenses over the employee's working life in the Company.

The calculation of these provisions is based on valuations performed by independent actuaries using the projected unit credit method and end-of-career salaries. These valuations incorporate both macroeconomic assumptions specific to each country in which the Group operates (discount rate, increases in salaries and medical costs) and demographic assumptions, including rate of employee turnover, retirement age and life expectancy.

Discount rates are determined by reference to market yields at the valuation date on high-quality corporate bonds with a term consistent with that of the employee benefits concerned.

The effects of differences between previous actuarial assumptions and what has actually occurred (experience adjustments) and the effect of changes in actuarial assumptions (assumption adjustments) give rise to actuarial gains and losses. Actuarial gains and losses arising on long-term benefits payable during employment are recognized immediately in income. However, actuarial gains and losses arising on post-employment benefits are taken directly to other comprehensive income net of deferred tax.

Past service costs resulting from the adoption of a new plan, amendments to an existing plan or amendments to an existing defined benefit plan are recognized immediately in income.

The expense recognized in the statement of income includes:

- service cost for the period, past service costs, actuarial gains and losses arising on long-term benefits payable during employment and the impact of any plan curtailments, amendments or settlements;
- net interest cost on pension obligations recognized in financial income (including the impact of unwinding) and the expected yield on hedging assets.

5.3.1 Description of the plans in force within the Group

The Group has set up a large number of defined benefit plans covering most of its current and former employees. The specific characteristics of these plans (benefit formula, funded status) vary depending on the laws and regulations prevailing in each country in which its employees work. At December 31, 2020, 95% of provisions are related to post-employment benefits, while the remaining 5% cover other long-term benefits.

The main post-employment defined benefit plans concern:

- supplementary pension benefits in Germany, the United States, Japan and the United Kingdom, which top up the statutory pension plans in force in those countries:
  - pension entitlement is calculated based on end-of-career salaries and number of years' service within the Group. Certain plans are pre-funded due to local legal requirements in some countries (United States/South Korea/United Kingdom) or as a result of the choice made by the company on setting up the plan (Japan),
  - most plans in the United States have been frozen and no longer give rise to any additional benefits;
- retirement termination benefits in France or severance benefits in South Korea, Mexico and Italy:
  - these benefits are fixed amounts and are calculated depending on the number of years' service and the employee's annual compensation, either at the retirement date (as in France) or at the date the employee leaves the company for whatever reason (retirement, resignation or redundancy) – as in South Korea, Mexico and Italy;
- health cover during retirement in the United States:
  - Valeo pays into health plans and life insurance plans for certain retired employees in the United States. These plans are not funded and have all been frozen (the last plan was frozen as of January 1, 2012). Accordingly, no additional benefits have since been offered by these plans to plan participants still working for the Group;
- top-up retirement plans for certain Group managers and executives in France:
  - these plans are now closed to new entrants (the last plan in force concerning a specific level of Valeo management *(cadres hors catégorie)* was closed to new entrants on June 30, 2017). With effect from July 3, 2019, no further conditional top-up pension rights may accrue under these defined benefit plans in respect of employment periods beyond January 1, 2020. For retirees, these plans are covered by an insurance company. A provision has been recognized in respect of the related obligation based on the probable present value of the future benefits payable, determined considering the number of years' service at the year-end relative to the number of years' service at retirement, it being specified that the beneficiaries must still finish their careers at Valeo. A new plan that does not include a presence condition is currently being rolled out and the impacts are reflected in the consolidated financial statements for rights relating to 2020. The new plan will apply with retroactive effect as from January 1, 2020,
  - the portion of the obligation relating to the Group's executive managers is detailed in Note 5.5, page 347.

The table below shows the average duration of the Group's main plans and the employees covered by these plans in each region at December 31, 2020:

	France	Other European countries	North America	Asia	Total
Active Valeo employees	12,570	20,019	11,394	9,801	**53,784**
Active employees having left the Group	-	2,192	901	582	**3,675**
Retirees	4	5,095	5,202	1,546	**11,847**
TOTAL EMPLOYEES	**12,574**	**27,306**	**17,497**	**11,929**	**69,306**
Average duration of post-employment benefit plans *(years)*	**12**	**20**	**12**	**10**	**15**

The Group also grants other long-term benefits, chiefly long-service bonuses or loyalty awards in France, Germany, South Korea and Japan.

All of these plans are accounted for as described above.

5.3.2 Actuarial assumptions

The discount rates used for each geographic area are determined by reference to expected benefit payments under the plans and a yield curve based on a diverse basket of investment-grade (AA-rated) corporate bonds. In countries where the market for investment-grade corporate bonds is insufficient, discount rates are determined by reference to the yield on government bonds.

The discount rates used to measure obligations in the countries representing the Group's most significant obligations were as follows:

Country	December 31, 2020	December 31, 2019
Eurozone	1.00	1.15
United Kingdom	1.70	1.80
United States	2.45	3.15
Japan	1.05	0.50
South Korea	2.55	2.65

The weighted average long-term salary inflation rate was around 2% at December 31, 2020, down on December 31, 2019.

The sensitivity of the Group's main obligations to a 0.5-point rise or fall in discount rates and the inflation rate is set out in Note 5.3.7, page 344.

5.3.3 Breakdown and movements in obligations

Pension obligations and provisions break down as follows by major geographic area:

2020

(in millions of euros)	France	Other European countries	North America[(1)]	Asia	Total
Present value of unfunded obligations	190	585	102	124	**1,001**
Present value of funded obligations	51	188	401	205	**845**
Market value of plan assets	(15)	(106)	(386)	(209)	**(716)**
NET PROVISIONS RECOGNIZED AT DECEMBER 31, 2020	**226**	**667**	**117**	**120**	**1,130**
Permanent employees at December 31, 2020[(2)]	12,502	32,498	15,767	21,394	**82,161**

(1) Unfunded pension obligations in North America include medical plans in the United States representing 64 million euros.

(2) Permanent employees shown in the table above do not include permanent staff in South America, for which no obligation was recognized in respect of pensions or other long-term benefits. The Group's pension obligations in North America are significant with regard to the Group's permanent employees in this region, since a large portion of these obligations relates to retired personnel or employees having left the Group.

2019

(in millions of euros)	France	Other European countries	North America(1)	Asia	Total
Present value of unfunded obligations	249	573	107	138	**1,067**
Present value of funded obligations	34	193	415	224	**866**
Market value of plan assets	(11)	(99)	(365)	(217)	**(692)**
NET PROVISIONS RECOGNIZED AT DECEMBER 31, 2019	**272**	**667**	**157**	**145**	**1,241**
Permanent employees at December 31, 2019(2)	12,939	31,794	15,948	22,543	**83,224**

(1) Unfunded pension obligations in North America include medical plans in the United States representing 68 million euros.
(2) Permanent employees shown in the table above do not include permanent staff in South America, for which no obligation was recognized in respect of pensions or other long-term benefits. The Group's pension obligations in North America are significant with regard to the Group's permanent employees in this region, since a large portion of these obligations relates to retired personnel or employees having left the Group.

Movements in obligations in 2020 and 2019 are shown in the tables below by major geographic area:

2020

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2020	**283**	**766**	**522**	**362**	**1,933**
Actuarial gains and losses recognized in other comprehensive income	2	14	44	(13)	**47**
Benefits paid	(14)	(22)	(36)	(38)	**(110)**
Translation adjustment	-	(8)	(46)	(13)	**(67)**
Reclassifications(1)	-	-	-	(2)	**(2)**
Expenses (income) for the year:	(30)	23	19	33	**45**
• *Service cost*	*28*	*16*	*4*	*28*	***76***
• *Interest cost*	*2*	*8*	*15*	*4*	***29***
• *Other(2)*	*(60)*	*(1)*	*-*	*1*	***(60)***
BENEFIT OBLIGATIONS AT DECEMBER 31, 2020	**241**	**773**	**503**	**329**	**1,846**

(1) Obligations relating to Life Elex were reclassified within liabilities held for sale at December 31, 2020 (see Note 2.2.1, page 324).
(2) "Other" mainly includes actuarial gains and losses recognized immediately in income, past service costs and gains on settlements as well as the impacts in France of amendments to retirement plans and long-service bonuses as part of the agreements signed in September 2020 (see Note 1.3.3, page 321).

Actuarial losses totaling 47 million euros in 2020 primarily reflect the impacts of a decrease in discount rates in most regions of the world.

2019

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2019	**273**	**647**	**489**	**359**	**1,768**
Actuarial gains and losses recognized in other comprehensive income	22	107	51	(15)	**165**
Benefits paid	(13)	(20)	(50)	(25)	**(108)**
Translation adjustment	-	5	9	7	**21**
Expenses (income) for the year:	1	27	23	36	**87**
• *Service cost*	*21*	*16*	*3*	*26*	***66***
• *Interest cost*	*5*	*11*	*19*	*5*	***40***
• *Other(1)*	*(25)*	*-*	*1*	*5*	***(19)***
BENEFIT OBLIGATIONS AT DECEMBER 31, 2019	**283**	**766**	**522**	**362**	**1,933**

(1) "Other" mainly includes actuarial gains and losses recognized immediately in income, past service costs and gains on settlements as well as the impacts in France of amendments to top-up retirement plans under the PACTE law.

Actuarial losses totaling 165 million euros in 2019 primarily reflect the impacts of a decrease in discount rates in the different regions of the world.

5.3.4 Movements in provisions

Movements in provisions in 2020 and 2019, including assets relating to pensions and other employee benefits, are shown in the table below:

(in millions of euros)	France	Other European countries	North America	Asia	Total
NET PROVISIONS AT JANUARY 1, 2019	**265**	**563**	**162**	**161**	**1,151**
Actuarial gains and losses recognized in other comprehensive income	22	100	(6)	(22)	**94**
Amounts utilized during the year	(16)	(21)	(13)	(31)	**(81)**
Translation adjustment	-	-	3	4	**7**
Expenses (income) for the year:	1	25	11	33	**70**
• *Service cost*	*21*	*16*	*3*	*26*	***66***
• *Net interest cost*	*5*	*9*	*7*	*2*	***23***
• *Other*	*(25)*	*-*	*1*	*5*	***(19)***
NET PROVISIONS AT DECEMBER 31, 2019	**272**	**667**	**157**	**145**	**1,241**
Actuarial gains and losses recognized in other comprehensive income	2	5	(16)	(9)	**(18)**
Amounts utilized during the year	(18)	(22)	(21)	(40)	**(101)**
Translation adjustment	-	(4)	(12)	(6)	**(22)**
Reclassifications[(1)]	-	-	-	(1)	**(1)**
Expenses (income) for the year:	(30)	21	9	31	**31**
• *Service cost*	*28*	*16*	*4*	*28*	***76***
• *Net interest cost*	*2*	*6*	*5*	*2*	***15***
• *Other*	*(60)*	*(1)*	*-*	*1*	***(60)***
NET PROVISIONS AT DECEMBER 31, 2020	**226**	**667**	**117**	**120**	**1,130**
Of which current portion (less than one year)	18	20	8	12	**58**

(1) Provisions relating to Life Elex were reclassified within liabilities held for sale at December 31, 2020 (see Note 2.2.1, page 324).

An expense of 31 million euros was recognized in 2020 in respect of pensions and other employee benefits (down compared to 2019), of which 18 million euros was included in operating margin, 15 million euros in other financial income and expenses and income of 2 million euros in other income and expenses. The lower figure compared to 2019 is mainly due to past service costs resulting from amendments to retirement plans and long-service bonuses in France as part of the agreements signed in September 2020 (see Note 1.3.3, page 321).

5.3.5 Breakdown and movements in plan assets

The breakdown of plan assets at December 31, 2020 and 2019 is shown in the tables below:

2020

(in millions of euros)	France	Other European countries[(1)]	North America	Asia[(1)]	Total
Cash at bank	-	1	4	85	**90**
Shares	15	41	150	24	**230**
Government bonds	-	42	174	62	**278**
Corporate bonds	-	19	58	35	**112**
Real estate	-	-	-	3	**3**
Other	-	3	-	-	**3**
BREAKDOWN OF PLAN ASSETS AT DECEMBER 31, 2020	**15**	**106**	**386**	**209**	**716**

(1) At December 31, 2020, plans in Japan, South Korea and Europe were overfunded, with the fair value of the plan assets exceeding the amount of the obligation. The Group therefore recognized non-current financial assets for the amount of the surplus, i.e., 19 million euros, as it considers the right to a refund is unconditional for each plan within the meaning of IFRIC 14.

2019

(in millions of euros)	France	Other European countries	North America	Asia(1)	Total
Cash at bank	-	1	4	65	**70**
Shares	11	37	142	57	**247**
Government bonds	-	40	164	66	**270**
Corporate bonds	-	18	55	26	**99**
Real estate	-	3	-	3	**6**
Other	-	-	-	-	**-**
BREAKDOWN OF PLAN ASSETS AT DECEMBER 31, 2019	**11**	**99**	**365**	**217**	**692**

(1) At December 31, 2019, four Japanese plans and two South Korean plans were overfunded, with the fair value of the plan assets exceeding the amount of the obligation. The Group therefore recognized non-current financial assets for the amount of the surplus, i.e., 13 million euros, as it considers the right to a refund is unconditional within the meaning of IFRIC 14.

These assets are managed by specialized asset management companies.

In managing the risk arising on these assets, the diversification of the funds among the different asset classes (equities, bonds, cash equivalents or other) is defined by the investment committees or trustees specific to each country concerned, acting on recommendations from external advisors. Asset allocation decisions depend on the market outlook and the characteristics of the pension obligations. These committees carry out regular reviews of the investments made and of their performance.

The Group is not exposed to margin calls on its pension obligations due to the nature of its plan assets.

Movements in the value of plan assets in 2020 and 2019 can be analyzed as follows:

2020

(in millions of euros)	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2020	**11**	**99**	**365**	**217**	**692**
Expected return on plan assets	-	2	10	2	**14**
Contributions paid to external funds	4	4	11	21	**40**
Benefits paid	-	(4)	(26)	(19)	**(49)**
Actuarial gains and losses	-	9	60	(4)	**65**
Translation adjustment	-	(4)	(34)	(7)	**(45)**
Reclassifications(1)	-	-	-	(1)	**(1)**
PLAN ASSETS AT DECEMBER 31, 2020	**15**	**106**	**386**	**209**	**716**

(1) Assets relating to Life Elex were deducted from the related obligations and the net provision was reclassified within liabilities held for sale at December 31, 2020 (see Note 2.2.1, page 324).

The increase in the fair value of plan assets in 2020 is chiefly attributable to a good fund performance. The actual return on plan assets in the year was 79 million euros, offset by the adverse impact of fluctuations in the US dollar.

Contributions totaling 40 million euros were paid to external funds in 2020, down 17 million euros compared to estimates. Contributions are estimated at 51 million euros for 2021.

2019

(in millions of euros)	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2019	**8**	**84**	**327**	**198**	**617**
Expected return on plan assets	-	2	12	3	**17**
Contributions paid to external funds	4	4	5	20	**33**
Benefits paid	(1)	(3)	(42)	(14)	**(60)**
Actuarial gains and losses	-	7	57	7	**71**
Translation adjustment	-	5	6	3	**14**
PLAN ASSETS AT DECEMBER 31, 2019	**11**	**99**	**365**	**217**	**692**

The increase in the fair value of plan assets in 2019 is attributable to actuarial gains, in particular on funds in the United States.

5.3.6 Data for previous years

Benefit obligations, financial assets and actuarial gains and losses for previous years can be analyzed as follows:

(in millions of euros)	2020	2019	2018	2017	2016
Benefit obligations	1,846	1,933	1,768	1,750	1,582
Financial assets	(716)	(692)	(617)	(619)	(510)
NET BENEFIT OBLIGATIONS	**1,130**	**1,241**	**1,151**	**1,131**	**1,072**
Actuarial (losses) gains recognized in other comprehensive income	18	(94)	(18)	69	(92)

Actuarial gains and losses recognized in other comprehensive income in 2020 include:

- 40 million euros in actuarial losses on changes in financial assumptions, chiefly due to the fall in discount rates in the United States and the eurozone, partially offset by higher discount rates in Japan;
- 3 million euros in actuarial losses on changes in demographic assumptions, chiefly in the United States, and 4 million euros in actuarial losses resulting from experience adjustments;
- 65 million euros in actuarial gains arising on the return on plan assets.

5.3.7 Sensitivity of obligations

The discount rates and inflation rates applied in each geographic area or country have a significant impact on the amount of the Group's benefit obligations.

A 0.5-point increase or decrease in these rates would have the following impact on the projected benefit obligation at December 31, 2020:

(in millions of euros)	France	Other European countries	North America	Asia	Total
DISCOUNT RATE					
Impact of a 0.5-point increase	(11)	(73)	(29)	(15)	**(128)**
Impact of a 0.5-point decrease	12	79	30	15	**136**
SALARY INFLATION RATE					
Impact of a 0.5-point increase	12	2	2	6	**22**
Impact of a 0.5-point decrease	(11)	(1)	(2)	(6)	**(20)**

At December 31, 2020, the value of the Group's benefit obligation is less sensitive to changes in the salary inflation rate than to changes in the discount rate, particularly in the United States and the United Kingdom. This is due to the existence of plans that have now been frozen and that only bear obligations in relation to the Group's former employees.

Changes in the discount and inflation rates only have a limited impact on 2020 service cost. A 0.5 point decrease in the discount rate would lead to an additional expense of 3 million euros, while a 0.5 point increase in the discount rate would reduce the expense by 3 million euros.

5.3.8 Estimated payouts over the next ten years

Payouts due over the next ten years by the Group in respect of pension plans and other employee benefits can be estimated as follows:

(in millions of euros)	France	Other European countries	North America	Asia	Total
2021	14	17	6	7	**44**
2022	27	18	6	11	**62**
2023	16	19	6	11	**52**
2024	9	21	6	9	**45**
2025	12	21	6	10	**49**
2026/2030	79	120	37	55	**291**
TOTAL	**157**	**216**	**67**	**103**	**543**

5.4 Share-based payment

Some Group employees receive equity-settled compensation in the form of share-based payment.

Free share plans

The fair value of the benefit granted to employees within the scope of free share plans is estimated based on the share price at the grant date, taking into account a discount corresponding to the dividends forfeited over the vesting period and a discount to reflect the lock-up period requirement, calculated using the approach set out in the French national accounting board's (CNC) December 2004 statement.

The overall cost of equity-settled plans is calculated and fixed at the grant date of the plan concerned. The number of instruments that Valeo expects to remit to beneficiaries factors in the turnover of the beneficiary populations concerned by each plan. Since the final allotment of free shares is subject to a presence condition, this personnel expense is recognized against equity on a straight-line basis over the vesting period of the rights. The Group periodically reviews the number of free shares to be allotted in light of expectations as regards the achievement of performance conditions.

Where appropriate, the consequences of revising the number of free shares are reflected in the statement of income. The number of free shares that may be allotted based on total shareholder return (TSR) is determined on the date on which the plan is approved by the Board of Directors.

Stock purchase option plans

The cost of stock purchase option plans is also recorded in personnel expenses. It corresponds to the fair value of the instrument issued and is recognized over the applicable vesting period. Fair value is estimated on the basis of valuation models adapted to the characteristics of the instruments (Black-Scholes-Merton model for options). The Group regularly reviews the number of potentially exercisable options. Where appropriate, the impact of any changes in these estimates is recorded in the statement of income.

Stock purchase options and free shares are included in the calculation of diluted earnings per share, as described in Note 10.2, page 381.

An expense of 34 million euros was recognized in 2020 in respect of free share plans, compared to an expense of 26 million euros in 2019.

5.4.1 Free share plans

The terms and conditions of the shareholder-approved employee free share plans operated by the Valeo Group at December 31, 2020 were as follows:

Year in which plan was set up	Number of free shares authorized	*of which subject to conditions*[(1)]	Outstanding shares not yet remitted at Dec. 31, 2020	Year of vesting[(2)]
2016	1,267,022	*573,522*	201,959[(3)]	2019/2021
2017	1,012,043	*466,551*	533,353	2020/2021/2022
2018	1,234,623	*570,123*	801,913	2021/2022/2023
2019	1,699,281	*779,496*	1,365,006	2022
2020	2,342,306	*1,134,116*	2,070,976	2023
TOTAL	**7,555,275**	***3,523,808***	**4,973,207**	

(1) These free shares are subject to the Group meeting performance conditions over the three years following their allotment, with the exception of the 2017 and 2018 plans, for which it has been decided that the assessment period for the performance conditions subject to which the performance shares will vest to their beneficiaries will only be effective after a period of four years following their allotment, with no holding period.

(2) The year of vesting varies depending on the country in which the beneficiaries of plans set up prior to 2019 are resident. For the 2019 and 2020 plans, only free shares allotted to the Chairman and Chief Executive Officer are subject to a two-year holding period.

(3) All free shares that were subject to the Group meeting performance conditions set out in this plan have been canceled.

The main data and assumptions underlying the valuation of the 2020 free share plan at fair value were as follows:

	2020	
Free shares	Chairman and Chief Executive Officer	Other employees
Share price at authorization date *(in euros)*	16.5	16.5
Risk-free rate *(in %)*	(0.01)	(0.24)
Dividend rate *(in %)*	7.6	N/A
FAIR VALUE OF EQUITY INSTRUMENTS *(in euros)*	**14.3**	**14.8**

5.4.2 Stock purchase option plans

At December 31, 2020, the last employee stock purchase option plan operated by the Valeo Group had expired.

5.4.3 Movements in stock purchase option and free share plans

Movements in stock purchase option and free share plans in 2020 are detailed below:

	Number of options and free shares
OPTIONS NOT EXERCISED/FREE SHARES OUTSTANDING AT JANUARY 1, 2020	**3,552,185**
Options/free shares granted	2,105,361
Options/free shares canceled	(133,636)
Options/free shares expired	(49,029)
Options exercised/free shares remitted	(504,094)
Free shares – Changes related to performance conditions	2,420
FREE SHARES OUTSTANDING AT DECEMBER 31, 2020	**4,973,207**
OPTIONS THAT MAY BE EXERCISED AT DECEMBER 31, 2020	**-**

5.4.4 Employee share ownership plan: Shares4U

In countries that meet the Group's eligibility criteria and where permitted by local laws and regulations, Valeo offers eligible employees the opportunity to become shareholders through an employee share issue carried out specifically for this purpose.

As has been the case since 2016, a new standard plan was offered to employees during second-half 2020, under which they could subscribe to Valeo shares directly or through a Company mutual fund, at a subscription price set by the Group's Chairman and Chief Executive Officer acting on the authority of the Board of Directors on September 21, 2020. The subscription price of 21.61 euros corresponds to the average of the Group's opening share price on the 20 trading days preceding the date of the decision, less a 20% discount. The shares are locked up for five years (except in the case of an early release event provided for by the applicable local law).

Employees bear the risk of fluctuations in the share price relative to the subscription price.

By subscribing to shares within the scope of the Group Employee Savings Plan (*Plan d'Épargne de Groupe* – PEG), employees can benefit from a contribution from their employer. Outside France, employees are allotted free shares subject to certain conditions, governed by the regulations applicable to the Group-approved free share plan. The free shares allotted are existing Valeo shares repurchased on the market.

In all, 680,660 shares were subscribed at a price of 21.61 euros each, representing a 15 million euro capital increase on November 16, 2020 (see Note 10.1, page 380).

The cost of this plan was estimated in accordance with the CNC statement, taking into account the applicable five-year lock-up period for employees.

The assumptions used to value the equity instruments were as follows:

	2020	2019
Date rights granted	October 9	May 2
Reference price *(in euros)*	27.01	29.64
Face value discount *(in %)*	20	20
Subscription price *(in euros)*	21.61	23.72
Beneficiary's 5-year interest rate *(in %)*	3.75	3.84
Risk-free interest rate *(in %)*	(0.44)	(0.03)
Repo rate (in %)	0.320	0.440

Including a discount to reflect the lock-up period requirement, the total cost of the Shares4U 2020 plan was 9 million euros, of which 4 million euros was recognized in personnel expenses for 2020 (including social security charges).

5.5 Executive compensation (related party transactions)

The Group's key management personnel include the Chairman and Chief Executive Officer, the members of the Board of Directors, and the members of the Operations Committee. At December 31, 2020, the Operations Committee had 13 members.

Valeo's Board of Directors approved a number of agreements resulting in the Chairman and Chief Executive Officer's eligibility for the following benefits:

- life insurance covering death, disability, or the consequences of any accidents during business travel;
- a defined benefit pension falling within the scope of Article L. 137-11 of the French Social Security Code *(Code de Sécurité sociale)* (the "Closed Plan"), including the option of paying over benefits to the surviving beneficiary in the event of death if the main beneficiary is still working and if the event occurs after the legal voluntary retirement age. The supplementary pension is capped at 20% of the reference end-of-career salary. The reference salary takes into account the basic fixed compensation and the variable compensation received in each year of vesting. Since February 18, 2016, the vesting of additional rights under the Closed Plan has been subject to a performance condition. The extent to which this performance condition is met is assessed each year. In accordance with the PACTE law, no additional rights may vest under the Closed Plan as from January 1, 2020. The vesting of rights under the Closed Plan until that date remains conditional on the presence of Jacques Aschenbroich within Valeo at the time of his retirement;
- a new pension plan (the "New Plan"), effective as of January 1, 2020 which includes the same ceilings and performance conditions as the Closed Plan. Under this New Plan, the rights will vest without condition of presence in the Company at the end of his career.

The non-compete agreement no longer provides for the payment of any compensation, following the Chairman and Chief Executive Officer's decision to waive his right to such compensation in 2019. The Board of Directors will have to decide whether or not the non-compete agreement will be applied at the time the executive corporate officer leaves, particularly if he leaves Valeo to claim, or after claiming, retirement benefits.

Compensation and other benefits accruing to the members of the Board of Directors and to the members of the Operations Committee can be analyzed as follows:

(in millions of euros)	2020	2019
SHORT-TERM BENEFITS		
• Fixed, variable, exceptional and other compensation	14	10
• Attendance fees	1	1
OTHER BENEFITS		
• Post-employment benefits(1)	9	(7)
• Share-based compensation	8	3

(1) The 7 million euros gain from post-employment benefits in 2019 is primarily attributable to the impact of the PACTE law on defined benefit plans.

At December 31, 2020, provisions included in the Group's statement of financial position in respect of pension obligations accruing to executive managers amounted to 25 million euros, compared with 15 million euros in 2019.

NOTE 6 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

6.1 Goodwill

Goodwill is initially recognized on business combinations as described in Note 2.1.3, pages 322 to 323.

Goodwill is not amortized but is tested for impairment at least once a year and whenever there is an indication that it may be impaired. In 2020, impairment tests were carried out as described in Note 6.4, pages 353 to 356.

Changes in goodwill in 2020 and 2019 are analyzed below:

(in millions of euros)	2020	2019
NET CARRYING AMOUNT AT JANUARY 1	**2,571**	**2,550**
Acquisitions during the year	-	1
Translation adjustment	(59)	20
NET CARRYING AMOUNT AT DECEMBER 31	**2,512**	**2,571**
Including accumulated impairment losses at December 31	-	-

The decrease in goodwill in 2020 mainly reflects the depreciation in the US dollar (30 million euros) and the Japanese yen (11 million euros) against the euro between the two periods.

The increase in goodwill in 2019 mainly reflected the appreciation in the Japanese yen (9 million euros) and the US dollar (7 million euros) against the euro between the two periods.

Goodwill can be broken down by Business Group as follows:

(in millions of euros)		December 31, 2020	December 31, 2019
22%	Comfort & Driving Assistance Systems	563	573
36%	Powertrain Systems	901	910
23%	Thermal Systems	590	607
18%	Visibility Systems	451	474
1%	Other	7	7
	GOODWILL	**2,512**	**2,571**

6.2 Other intangible assets

Separately acquired intangible assets are initially recognized at cost. Intangible assets acquired as part of a business combination are recognized at fair value, separately from goodwill. Intangible assets are subsequently carried at cost, less accumulated amortization and impairment losses. They are tested for impairment using the methodology described in Note 6.4, page 353.

Capitalized development expenditure recognized within other intangible assets in the statement of financial position corresponds to projects for specific customer applications that draw on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization described in Note 4.5.1.1, page 331 to 332.

Costs incurred before the formal decision to develop the product are included in expenses for the period. Costs incurred after the launch of series production are considered as production costs.

Intangible assets are amortized on a straight-line basis over their expected useful lives:

- software 3 to 5 years
- patents and licenses patents and licenses based on their useful lives or duration of protection
- capitalized development expenditure 4 years
- customer relationships acquired up to 25 years
- other intangible assets 3 to 5 years

Other intangible assets can be analyzed as follows:

	DECEMBER 31, 2020			DECEMBER 31, 2019
(in millions of euros)	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
Software	421	(362)	**59**	81
Patents and licenses	249	(158)	**91**	109
Capitalized development expenditure	4,457	(2,624)	**1,833**	2,080
Customer relationships and other intangible assets	673	(315)	**358**	424
OTHER INTANGIBLE ASSETS	**5,800**	**(3,459)**	**2,341**	**2,694**

Changes in intangible assets in 2020 and 2019 are analyzed below:

2020

(in millions of euros)	Software	Patents and licenses	Capitalized development expenditure	Customer relationships and other intangible assets	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2020	**416**	**251**	**4,070**	**700**	**5,437**
Accumulated amortization and impairment	(335)	(142)	(1,990)	(276)	**(2,743)**
NET CARRYING AMOUNT AT JANUARY 1, 2020	**81**	**109**	**2,080**	**424**	**2,694**
Acquisitions	14	1	598	2	**615**
Disposals	(1)	-	(1)	-	**(2)**
Impairment	-	-	(305)	1	**(304)**
Amortization	(34)	(19)	(483)	(47)	**(583)**
Translation adjustment	(2)	(1)	(58)	(8)	**(69)**
Reclassifications	1	1	2	(14)	**(10)**
NET CARRYING AMOUNT AT DECEMBER 31, 2020	**59**	**91**	**1,833**	**358**	**2,341**

2019

(in millions of euros)	Software	Patents and licenses	Capitalized development expenditure	Customer relationships and other intangible assets	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2019	**396**	**246**	**3,359**	**700**	**4,701**
Accumulated amortization and impairment	(299)	(119)	(1,639)	(225)	**(2,282)**
NET CARRYING AMOUNT AT JANUARY 1, 2019	**97**	**127**	**1,720**	**475**	**2,419**
Acquisitions	23	3	769	11	**806**
Disposals	(2)	-	(4)	-	**(6)**
Impairment	-	-	(14)	1	**(13)**
Amortization	(39)	(21)	(403)	(48)	**(511)**
Translation adjustment	-	-	11	2	**13**
Reclassifications	2	-	1	(17)	**(14)**
NET CARRYING AMOUNT AT DECEMBER 31, 2019	**81**	**109**	**2,080**	**424**	**2,694**

6.3 Property, plant and equipment

Separately acquired property, plant and equipment are initially recognized at cost. Cost includes expenses directly attributable to the acquisition of the asset and the estimated cost of the Group's obligation to rehabilitate certain assets, where appropriate. Property, plant and equipment acquired as part of a business combination are recognized at fair value, separately from goodwill.

Property, plant and equipment are subsequently carried at cost, less accumulated depreciation and impairment losses. Material revaluations, recorded in accordance with laws and regulations applicable in countries in which the Group operates, have been eliminated in order to ensure that consistent valuation methods are used for all capital assets in the Group.

Any subsequent costs incurred in respect of property, plant and equipment are expensed as incurred, unless they are designed to extend the asset's useful life.

Property, plant and equipment are tested for impairment using the methodology described in Note 6.4, pages 353 to 356.

Depreciation method and useful life

All property, plant and equipment except land are depreciated over their estimated useful lives using the components approach.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

- buildings 20 years
- fixtures and fittings 8 years
- machinery and industrial equipment 8 to 15 years
- other property, plant and equipment 3 to 8 years

Tooling

Depending on its nature, tooling specific to a given project is subject to an economic analysis of the contractual relationship with the automaker in order to determine if control of the tooling is transferred to that automaker. Tooling is capitalized in the consolidated statement of financial position when Valeo has control of the tooling, or is otherwise carried in inventories (until control is transferred).

Any financing received from customers in respect of capitalized tooling is recognized under liabilities in the statement of financial position and taken to income under sales in line with the depreciation charged against the related assets.

Tooling is depreciated on a straight-line basis over its estimated useful life, not exceeding four years.

Tax credits

In certain countries, the government can contribute to the Group's investment expenditure in the form of tax credits. The tax credits received are analyzed to determine whether they fall within the scope of IAS 12 – "Income Taxes" or whether they should be considered as a government subsidy. In the latter case, the tax credit is recognized in income over the period during which the subsidized assets are depreciated, as a deduction from depreciation expense.

Property, plant and equipment can be analyzed as follows:

(in millions of euros)	DECEMBER 31, 2020 Gross carrying amount	DECEMBER 31, 2020 Depreciation and impairment losses	DECEMBER 31, 2020 Net carrying amount	DECEMBER 31, 2019 Net carrying amount
Land	343	(17)	**326**	344
Buildings	2,298	(1,302)	**996**	1,120
Machinery and industrial equipment	8,555	(5,606)	**2,949**	3,141
Specific tooling	2,303	(1,913)	**390**	427
Other property, plant and equipment	818	(588)	**230**	275
Property, plant and equipment in progress	28	-	**28**	39
PROPERTY, PLANT AND EQUIPMENT	**14,345**	**(9,426)**	**4,919**	**5,346**

Certain items of property, plant and equipment were pledged as security at December 31, 2020 (see Note 6.5.2, page 357).

Changes in property, plant and equipment in 2020 and 2019 are analyzed below:

2020

(in millions of euros)	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Property, plant and equipment in progress	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2020	**359**	**2,343**	**8,380**	**2,339**	**860**	**39**	**14,320**
Accumulated depreciation and impairment	(15)	(1,223)	(5,239)	(1,912)	(585)	-	**(8,974)**
NET CARRYING AMOUNT AT JANUARY 1, 2020	**344**	**1,120**	**3,141**	**427**	**275**	**39**	**5,346**
Acquisitions	30	81	589	145	92	6	**943**
Disposals	(1)	(16)	(18)	(7)	(3)	(1)	**(46)**
Impairment	-	(3)	(89)	(10)	(1)	-	**(103)**
Depreciation	(2)	(155)	(610)	(160)	(70)	-	**(997)**
Translation adjustment	(14)	(48)	(139)	(17)	(8)	(1)	**(227)**
Reclassifications	(31)	17	75	12	(55)	(15)	**3**
NET CARRYING AMOUNT AT DECEMBER 31, 2020	**326**	**996**	**2,949**	**390**	**230**	**28**	**4,919**

2019

(in millions of euros)	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Property, plant and equipment in progress	Total
GROSS CARRYING AMOUNT AT DECEMBER 31, 2018	**352**	**1,815**	**7,635**	**2,181**	**821**	**50**	**12,854**
Accumulated depreciation and impairment	(15)	(1,074)	(4,834)	(1,781)	(529)	-	**(8,233)**
NET CARRYING AMOUNT AT DECEMBER 31, 2018	**337**	**741**	**2,801**	**400**	**292**	**50**	**4,621**
Adoption of IFRS 16	8	377	9	-	46	-	**440**
NET CARRYING AMOUNT AT JANUARY 1, 2019	**345**	**1,118**	**2,810**	**400**	**338**	**50**	**5,061**
Acquisitions	3	125	755	162	123	12	**1,180**
Disposals	(2)	(16)	(6)	(6)	(5)	(3)	**(38)**
Impairment	-	-	2	1	-	-	**3**
Depreciation	(2)	(146)	(545)	(148)	(78)	-	**(919)**
Translation adjustment	5	15	23	3	1	-	**47**
Reclassifications	(5)	24	102	15	(104)	(20)	**12**
NET CARRYING AMOUNT AT DECEMBER 31, 2019	**344**	**1,120**	**3,141**	**427**	**275**	**39**	**5,346**

Leases

For leases falling within the scope of IFRS 16 – "Leases", the lessee recognizes:

- a financial liability representing its obligation to pay for the right to use the asset, in the consolidated statement of financial position;
- a non-current asset representing its right to use the leased asset, in the consolidated statement of financial position;
- depreciation of the right-of-use asset and interest expenses on the lease liability, in the consolidated statement of income.

Lease liabilities

At the lease commencement date, the lease liability is measured at the present value of the minimum lease payments outstanding at that date, plus payments under any options that the lessee is reasonably certain to exercise.

The lease term used to calculate the lease liability is determined based on an economic analysis of any early termination, extension or renewal options or any options to purchase the underlying asset included in the enforceable term of the lease.

This amount is then measured at amortized cost using the effective interest rate. The carrying amount of the lease liability is subsequently increased by the interest due on the lease liability and reduced by the lease payments made.

The discount rates are determined based on the Group's incremental borrowing rate, plus a spread to reflect the economic conditions in each country, the currency, and the duration of the lease.

Right-of-use assets

At the lease commencement date, the right-of-use asset is measured at cost. The cost of the right-of-use asset comprises (i) the initial lease liability, (ii) any prepaid lease payments made, less any lease incentives received, (iii) any initial direct costs incurred by the lessee in establishing the lease, and (iv) an estimate of costs to be incurred by the lessee in dismantling or rehabilitating the underlying asset as required by the terms and conditions of the lease. It is subsequently reduced by depreciation and any impairment losses. The right-of-use asset is depreciated on a straight-line basis. Any non-removable leasehold improvements are depreciated over either the adopted lease term or the estimated period of use, whatever is shorter.

If the lease transfers ownership of the underlying asset to the lessee or when the lease includes a purchase option that the lessee is reasonably certain to exercise, the right-of-use asset is depreciated over the useful life of the underlying asset under the same conditions as those applied to assets owned by the lessee. In all other cases, the right-of-use asset is depreciated over the reasonably certain useful life of the underlying asset.

Subsequently, the lease liability and the right-of-use asset are remeasured to reflect the following:

- changes in the lease term;
- changes in the assessment of an option;
- changes in the amounts expected to be payable under residual value guarantees;
- changes in the rates or indexes used to determine the lease payments;
- changes in the lease payments.

The main exemptions provided under IFRS 16 and adopted by the Group are:

- exclusion of short-term leases;
- exclusion of leases of low-value assets.

Lease payments on leases excluded from the scope of IFRS 16 and any variable payments not included in the initial measurement of the lease liability are recognized in operating expenses and presented within net cash flows from operating activities in the consolidated statement of cash flows.

For leases falling within the scope of IFRS 16, payments for the interest portion of the lease liability and payments for the principal portion are recorded under cash flows from financing activities in the consolidated statement of cash flows. Payments for the principal portion of the lease liability are added back to calculate free cash flow.

Movements in right-of-use assets included within property, plant and equipment can be analyzed as follows:

	RIGHT-OF-USE ASSETS					
(in millions of euros)	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2020	**8**	**420**	**49**	**28**	**82**	**587**
Accumulated depreciation and impairment	(1)	(67)	(28)	(28)	(33)	**(157)**
NET CARRYING AMOUNT AT JANUARY 1, 2020	**7**	**353**	**21**	**-**	**49**	**430**
New contracts/Renewals/Modifications	3	31	8	-	21	**63**
Depreciation	(1)	(70)	(5)	-	(26)	**(102)**
Translation adjustment	-	(13)	(1)	-	(2)	**(16)**
NET CARRYING AMOUNT AT DECEMBER 31, 2020	**9**	**300**	**23**	**-**	**42**	**374**

In 2020, the expenses recorded with the respect to payments on leases excluded from the scope of IFRS 16 and any variable payments amounted to 65 million euros.

6.4 Impairment of fixed assets

Property, plant and equipment and intangible assets with definite useful lives are tested for impairment whenever objective indicators exist that they may be impaired. Goodwill and intangible assets not yet ready to be brought into service are tested for impairment at least once a year and whenever there is an indication that they may be impaired.

Cash-generating units (CGUs) and goodwill

CGUs are operating entities that generate independent cash flows. Based on the Group's organizational structure, CGUs generally correspond to groups of plants belonging to the same Product Line or Product Group. At December 31, 2020, there was a total of 22 CGUs.

CGUs represent the level at which all property, plant and equipment and intangible assets are tested for impairment if there is an indication that they may be impaired. However, specific impairment tests may be carried out on certain idle property, plant and equipment and intangible assets. Valeo may review the value in use of certain assets and recognize non-recurring impairment losses where appropriate, if significant, prolonged adverse factors arise for the Group such as a deterioration in a country's economic environment or in one of the Group's plants, or contractual disputes.

Goodwill is tested for impairment at the level of the Business Groups, as set out in Note 3, pages 324 to 325 "Segment reporting". The Business Groups are groups of CGUs and correspond to the level at which management monitors goodwill.

At the end of the year, goodwill is tested for impairment using the same methodology and assumptions as those used for CGUs and as described below.

Impairment tests

Impairment tests compare the recoverable amount of a fixed asset with its net carrying amount. If the asset's carrying amount is greater than its recoverable amount, it is written down to its recoverable amount. The recoverable amount of an asset or group of assets is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is determined using available information allowing Valeo to establish a best estimate of the selling price net of the costs necessary to make the sale, between knowledgeable, willing parties in an arm's length transaction.

Value in use corresponds to the present value of the future cash flows expected to be derived from an asset or group of assets, taking into account its residual value.

Since there is seldom a reliable basis to measure the fair value less costs to sell of a group of assets belonging to Valeo, the Group uses value in use for CGU and goodwill impairment tests to determine the recoverable amount of an asset or group of assets, unless otherwise specified.

The value in use of CGUs and goodwill is determined as follows:

- post-tax cash flow projections covering a period of five years, prepared on the basis of the budgets and medium-term business plans drawn up by Group entities and approved by General Management, are discounted;
- cash flows beyond the five-year period are extrapolated by applying a perpetuity growth rate to normative forecast cash flows, corresponding to the last year of the medium-term business plan adjusted where applicable for non-recurring items;

- cash flows are discounted based on a rate which reflects current market assessments of the time value of money and the risks specific to the asset (or group of assets). This rate corresponds to the post-tax weighted average cost of capital (WACC). The use of a post-tax rate applied to post-tax cash flows results in recoverable amounts that are similar to those that would have been obtained by applying pre-tax rates to pre-tax cash flows.

Since the application of IFRS 16 – "Leases", the Group has applied the following methodology:

- the capital employed tested does not include right-of-use assets and lease liabilities;
- recoverable amount is calculated based on post-tax cash flows, including payments for the principal portion of lease liabilities (corresponds to the Group's definition of cash flow);
- post-tax WACC does not include the impact of IFRS 16.

Impairment losses recognized for goodwill cannot be reversed.

Impairment losses recognized for assets other than goodwill may only be reversed if there are indications that the impairment may no longer exist or may have decreased. If this is the case, the carrying amount of the asset is increased to its revised estimated recoverable amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset.

6.4.1 Impairment testing

The tests are carried out using the following assumptions:

- the projections used are based on past experience, macroeconomic data for the automotive market, order intake and products under development;
- a perpetuity growth rate of 1.5%, which is the same as that used in 2019 and is in line with the average long-term growth rate for the Group's business sector;
- a post-tax discount rate (WACC) of 9.5% (stable compared to 2019), calculated using the discount rate method reviewed by an independent expert. The sample of comparable companies was reviewed in 2020 and adjusted in order to better reflect the Group's technological dimension as well as its geographic exposure to Asia. It includes around ten companies from the automotive equipment industry. The main components of WACC are a market risk premium, a risk-free rate corresponding to the average yield on long-term government bonds, and beta calculated based on a sample of companies in the industry, which came out at 1.08 (1.13 in 2019).

The key assumptions underpinning the perpetuity growth rate and the discount rate are the same for each group of CGUs to which goodwill has been allocated. Business Groups were created in the organization set up in 2010 to adapt to the increasing globalization of automotive markets and customers. Business Groups are largely similar in terms of market and positioning, and enjoy a global geographic base as well as relations with the world's leading automakers.

To prepare the medium-term business plans and the budget used to perform impairment tests on CGUs and goodwill, the Group based itself on projected data for the automotive market, as well as its order intake and its development prospects on emerging markets.

Forecasts are made at the smallest level (for each CGU), based on detailed projections of the automotive market by automaker, country, model and powertrain, taking into account expected product developments in the CGU's official and potential order intake.

The medium-term business plans for 2021-2025 are underpinned by the following assumptions:

- global automotive production, excluding commercial vehicles in China, of 83 million vehicles in 2022 and 90 million vehicles in 2025, representing average annual growth of a negative 1.2% for 2019-2022 and 0.9% for 2019-2025. This production assumption is consistent with those underlying several independent external forecasts and has been revised downwards compared with the forecasts used one year earlier owing to the Covid-19 health crisis and to expectations that the market will only recover its 2019 production volumes in 2023-2024. At the end of the period covered by the new business plan, Asia and the Middle East should represent 52% of global production, Europe and Africa 26%, North America 18% and South America 4%;
- exchange rate assumptions are based on projections of a panel of banks. The exchange rates used for the main currencies featured in the business plan are 1 euro for: 1.12 US dollars, 7.92 Chinese renminbi, 121 Japanese yen, 1,346 South Korean won and 7.11 Brazilian real at the end of the plan;
- Group sales were forecast based on the orders known at the time the business plan was drawn up and by reference to an estimate of the orders to be taken over the term of the business plan. These target order numbers represent around 26% of cumulative original equipment sales over the five-year forecast period and around 50% of original equipment sales for the final year.

6.4.2 Property, plant and equipment and intangible assets (excluding goodwill)

The Group carries out impairment tests on cash-generating units (CGUs) that (i) have been written down in previous periods and remain sensitive to the criteria set out in Note 6.4.3, page 355 and (ii) present evidence of impairment.

In the context of the health crisis, the Group defines evidence of impairment as negative operating margin in second-half 2020 or a fall of over 20% in sales between second-half 2019 and second-half 2020. CGUs with substantial headroom between their value in use and the net carrying amount of their capital employed at December 31, 2019, immaterial changes in their assets and liabilities versus 2019, and a medium-term business plan drawn up in 2020 using assumptions consistent with those used in 2019, were excluded from the scope of the impairment tests, along with any CGUs experiencing strong growth and whose value in use is significantly above its capital employed.

Based on the above, four CGUs were tested for impairment at December 31, 2020:

- the Air Charging Systems Product Line (part of the Powertrain Systems Business Group);
- the Valeo Telematics & Acoustics Product Line (part of the Comfort & Driving Assistance Systems Business Group);
- the Top Column Module Product Line, which has formed a separate CGU since 2019, when the Group decided to withdraw from this business;
- the Compressors Product Group (part of the Thermal Systems Business Group).

In 2020, the CGU impairment tests led to the recognition of the following in other income and expenses (see Note 4.6.2.4, page 337):

- an impairment loss of 20 million euros against the Air Charging Systems Product Line CGU. in addition to the 9 million euro impairment loss recognized in first-half 2019;
- a total impairment loss of 41 million euros against the Top Column Module Product Line CGU.

Further details of these write-downs are provided in Note 1.3.2, page 320.

6.4.3 Sensitivity of CGU impairment tests

Changes in the following assumptions were used to check the sensitivity of CGU impairment tests assuming an infinite time period (Valeo Telematics & Acoustics Product Line CGU and Compressors Product Group CGU):

- 1-point increase in the discount rate;
- 0.5-point decrease in the perpetuity growth rate;
- 0.7-point decrease in the rate of operating income over sales used to calculate the terminal value.

The headroom of the tests, representing the difference between the value in use and the net carrying amount, as well as the impacts of changes in key assumptions on this headroom, are presented in the table below:

	HEADROOM OF THE TEST	IMPACT ON THE HEADROOM OF THE TEST			
(in millions of euros)	Based on 2020 assumptions	WACC of 10.5% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pt)	0.7-pt decrease in the rate of operating income used to calculate the terminal value	Combination of all three factors
Valeo Telematics & Acoustics Product Line CGU	54	(17)	(7)	(17)	(36)
Compressors Product Group CGU	19	(26)	(11)	(35)	(63)

Since the impairment tests on the Air Charging Systems Product Line CGU and the Top Column Module Product Line CGU assume a finite time period, their sensitivity to changes in the following assumptions was verified:

- 1-point increase in the discount rate;
- 5% fall in sales for each year of the plan, with no variabilization of fixed costs;
- 0.5-point decrease in the materials consumption rate for each year of the plan.

	HEADROOM OF THE TEST	IMPACT ON THE HEADROOM OF THE TEST			
(in millions of euros)	Based on 2020 assumptions	WACC of 10.5% (+1 pt)	5% fall in sales for each year	0.5-point decrease in the materials consumption rate	Combination of all three factors
Air Charging Systems Product Line CGU	(20)	-	(1)	-	(1)
Top Column Module Product Line CGU	(41)	(1)	(9)	(3)	(13)

6.4.4 Goodwill

No impairment losses were recognized against goodwill in 2020 as a result of the impairment tests carried out at the level of the Business Groups in line with the methodology described above. This was also the case in 2019.

6.4.5 Sensitivity of goodwill impairment tests

A one-year pushback in medium-term business plans would have no impact on the results of goodwill impairment tests.

The following changes in the three main assumptions were also used to check the sensitivity of goodwill impairment tests:

- 1-point increase in the discount rate;
- 0.5-point decrease in the perpetuity growth rate;
- 0.7-point decrease in the rate of operating income over sales used to calculate the terminal value.

No additional impairment losses would be recognized as a result of these changes in assumptions, either individually or taken as a whole.

The headroom of the tests, representing the difference between the value in use and the net carrying amount, as well as the impacts of changes in key assumptions on this margin, are presented by Business Group in the table below:

	HEADROOM OF THE TEST	IMPACT ON THE HEADROOM OF THE TEST			
(in millions of euros)	Based on 2020 assumptions	WACC of 10.5% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pt)	0.7-pt decrease in the rate of operating income used to calculate the terminal value	Combination of all three factors
Comfort & Driving Assistance Systems Business Group	1,811	(416)	(191)	(253)	(767)
Powertrain Systems Business Group	1,045	(441)	(175)	(284)	(804)
Thermal Systems Business Group	1,630	(378)	(164)	(248)	(704)
Visibility Systems Business Group	2,380	(475)	(212)	(305)	(885)

6.4.6 Impairment of Brazilian assets

The Group faces a particularly adverse environment in Brazil, which has led to significant operating losses for its businesses in the region. Production forecasts were also revised drastically downwards in 2020 in light of the ongoing health crisis. The amount of cash flows generated by the continuing use of the South American assets is considered minimal.

In response to this situation, the Group recognized a 49 million euro impairment loss in 2020. The impairment loss was allocated to fixed assets, except those with a recoverable amount such as land, buildings and other machinery. It was recognized in other income and expenses in the consolidated statement of income (see Note 4.6.2.4, page 337).

Further details of these write-downs are provided in Note 1.3.2, page 320.

6.5 Off-balance sheet commitments relating to leases and investments

6.5.1 Leases

At December 31, 2020, future minimum commitments on outstanding leases excluded from the scope of IFRS 16 and on leases signed but not yet in force are as follows:

(in millions of euros)	December 31, 2020
Less than 1 year	14
1 to 5 years	25
More than 5 years	46
TOTAL	**85**

The main lease signed in 2020 but not yet in force concerns a turnkey commercial lease for the new Group headquarters in Paris, which is still under construction. The lease represents an estimated commitment of 62 million euros.

6.5.2 Other commitments given

Valeo had given binding asset purchase commitments totaling 464 million euros at December 31, 2020, versus 565 million euros at December 31, 2019, as well as other commitments relating to operating activities in the amount of 15 million euros.

The following items recognized in assets in the Group's statement of financial position have been pledged as security:

(in millions of euros)	December 31, 2020	December 31, 2019
Property, plant and equipment	-	1
Financial assets	2	2
TOTAL	**2**	**3**

NOTE 7 OTHER PROVISIONS AND CONTINGENT LIABILITIES

7.1 Other provisions

A provision is recognized when:

- the Group has a present legal, contractual or constructive obligation resulting from a past event;
- it is probable that future outflows of resources embodying economic benefits will be necessary to settle the obligation; and
- the amount of the obligation can be estimated reliably.

Provisions are measured in accordance with IAS 37 and take into account assumptions deemed most probable at the end of the reporting period.

Provisions for customer warranties are set aside to cover the estimated cost of returns of goods sold and are computed either on a statistical basis or based on specific quality risks. Statistical warranty provisions cover risks related to contractual warranty obligations, and are determined based on both historical data and probability calculations. The provision for specific quality risks covers costs arising in specific situations not covered by usual warranties. The corresponding expense is recognized in cost of sales.

Commitments resulting from restructuring plans are recognized when an entity has a detailed formal plan and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or by announcing its main features.

A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received by the Group under said contracts.

Provisions intended to cover commercial, tax and employee-related risks and disputes arising in the ordinary course of operations are also included in this caption.

When the Group expects all or part of the expenditure required to settle a provision to be reimbursed, it recognizes a receivable, if and only if the reimbursement is virtually certain.

Provisions relating to events that are expected to materialize in more than one year or whose timing cannot be reliably determined are classified within other provisions – long-term portion.

Movements in provisions in 2020 are shown in the table below:

(in millions of euros)	Provisions for product warranties	Provisions for restructuring costs	Other provisions	Total
PROVISIONS AT JANUARY 1, 2020	**266**	**45**	**203**	**514**
Additions	244	50	130	**424**
Amounts utilized during the year	(76)	(22)	(50)	**(148)**
Reversals	(13)	(3)	(10)	**(26)**
Changes in scope	-	-	-	**-**
Reclassifications[1]	-	(1)	(2)	**(3)**
Translation adjustment and other movements	(11)	(3)	(9)	**(23)**
PROVISIONS AT DECEMBER 31, 2020	**410**	**66**	**262**	**738**
Of which current portion (less than one year)	223	46	100	369

(1) Reclassifications primarily relate to liabilities held for sale (see Note 2.2.1, page 324).

At December 31, 2020, the Group recognized a material accrued income item with respect to product warranties. In 2020, the Group did not recognize any other individually material income items offsetting expected outflows of resources in respect of the other provisions mentioned above.

At December 31, 2020 and 2019, provisions break down as follows:

(in millions of euros)		December 31, 2020	December 31, 2019
55%	Provisions for product warranties	410	266
9%	Provisions for restructuring costs	66	45
4%	Provisions for tax-related disputes	27	30
2%	Provisions for environmental risks	13	14
5%	Provisions for onerous contracts	39	25
25%	Provisions for employee-related and other disputes	183	134
	PROVISIONS FOR OTHER CONTINGENCIES	**738**	**514**

Provisions for employee-related and other disputes, which totaled 183 million euros at December 31, 2020, cover risks arising in connection with former employees (in particular relating to asbestos), intellectual property disputes and various other disputes related to Valeo's operating activities across the globe, as well as the main risks relating to antitrust investigations. Each known dispute was reviewed at the date on which the consolidated financial statements were approved for issue. Based on the advice of the Group's legal counsel, where appropriate, the provisions deemed necessary were set aside to cover the estimated outflows of resources. They take into account any compensation agreements signed between the various stakeholders.

7.2 Antitrust investigations

At the end of July 2011, antitrust investigations were initiated against several automotive suppliers (including Valeo) by the US and European antitrust authorities related to components and systems supplied to the automotive industry.

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

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

In Europe, the European Commission issued a decision on March 8, 2017, fining certain automotive air conditioning and engine cooling suppliers for conduct involving thermal systems products. Valeo was fined a total of 26.8 million euros. On June 21, 2017, the European

Commission issued a further decision fining automotive lighting system suppliers and marking an end to all its investigations involving Valeo. Valeo was among those identified by the Commission in the automotive lighting systems case, but was granted immunity and was therefore not fined.

Valeo is in contact with a number of European automakers regarding claims for damages resulting from the European Commission's proceedings. One of those, BMW on November 25, 2019, filed a complaint with the Munich Regional Court in Germany naming Denso and Valeo and seeking compensation for alleged damages based, in Valeo's view, on unfounded claims related to conduct identified in the European Commission's March 2017 Thermal Systems decision. The first hearing before the Munich Regional Court is scheduled for July 14, 2021.

There were no developments in the ongoing class actions in Canada. At the present time, the Group is not aware of any findings or conclusions that could have adverse consequences for Valeo.

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

7.3 Contingent liabilities

Unlike a provision (see definition above), a contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

The Group has contingent liabilities relating to legal, arbitration or regulatory proceedings arising in the normal course of its business. Known or ongoing claims and litigation involving Valeo or its subsidiaries were reviewed at the date on which the consolidated financial statements were approved for issue. Based on the advice of legal counsel, all provisions deemed necessary have been made to cover the related risks.

7.4 Off-balance sheet commitments

Valeo granted an 8 million euro guarantee to HDI Global SE within the scope of the group's reinsurance operations.

NOTE 8 FINANCING AND FINANCIAL INSTRUMENTS

8.1 Financial assets and liabilities

Financial assets and liabilities mainly comprise:

- long-term debt, liabilities associated with put options granted to holders of non-controlling interests, short-term financing and bank overdrafts, which make up gross debt (see Note 8.1.2, pages 362 to 366);
- loans and other non-current financial assets (see Note 8.1.3.1, page 367);
- cash and cash equivalents (see Note 8.1.3.2, page 367);
- derivative instruments (see Note 8.1.4, pages 368 to 374);
- other current and non-current financial assets and liabilities (see Note 8.1.5, pages 374 to 375).

8.1.1 Fair value of financial assets and liabilities

	2020 CARRYING AMOUNT UNDER IFRS 9			DECEMBER 31, 2020	DECEMBER 31, 2019
(in millions of euros)	Amortized cost	Fair value through OCI	Fair value through income	Carrying amount	Carrying amount
ASSETS					
Non-current financial assets:					
• Long-term investments	-	42	174	**216**	232
• Long-term loans and receivables (including accrued interest)	327	-	-	**327**	344
• Deposits and guarantees	31	-	-	**31**	28
• Other non-current financial assets	6	-	-	**6**	6
• Hedging derivatives	-	19	-	**19**	61
• Trading derivatives	-	-	42	**42**	31
Assets relating to pensions and other employee benefits	-	19	-	**19**	13
Accounts and notes receivable	2,674	-	-	**2,674**	2,821
Other current financial assets:					
• Hedging derivatives	-	83	-	**83**	13
• Trading derivatives	-	-	15	**15**	4
• Accrued interest and other current financial assets	-	-	2	**2**	3
Cash and cash equivalents	-	-	2,951	**2,951**	1,773
LIABILITIES					
Non-current financial liabilities:					
• Hedging derivatives	-	11	-	**11**	3
• Trading derivatives	-	-	31	**31**	35
Bonds	3,413	-	-	**3,413**	3,429
Schuldschein loan (German private placement)	547	-	-	**547**	547
Other long-term debt	531	-	-	**531**	634
Liabilities associated with put options granted to holders of non-controlling interests	-	68	-	**68**	79
Accounts and notes payable	4,697	-	-	**4,697**	4,762
Other current financial liabilities:					
• Hedging derivatives	-	45	-	**45**	2
• Trading derivatives	-	-	45	**45**	12
Short-term financing	1,631	-	-	**1,631**	247
Bank overdrafts	-	-	6	**6**	22

IFRS 13 establishes a hierarchy of valuation techniques for financial instruments based on the following categories:

- Level 1: inputs directly based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: prices established using valuation techniques drawing on non-observable inputs.

The fair value of bonds is calculated based on prices quoted on an active bond market. This method corresponds to Level 1 in the fair value hierarchy.

For the *Schuldschein* loan, the fair value of the fixed portion is measured by discounting future cash flows at the market interest rate at the reporting date. This method corresponds to Level 2 in the fair value hierarchy.

The fair value of other components of Group debt, as well as of accounts and notes payable and receivable, is equal to their carrying amount.

	DECEMBER 31, 2020			DECEMBER 31, 2019		
(in millions of euros)	Carrying amount	Fair value	Level	Carrying amount	Fair value	Level
ASSETS						
Cash and cash equivalents	2,951	2,951	1-2	1,773	1,773	1-2
Derivative financial instruments(1)	159	159	2-3	109	109	2-3
LIABILITIES						
Bonds	3,413	3,330	1	3,429	3,411	1
Schuldschein loan (German private placement)	547	555	2	547	552	2
Other long-term debt	531	531	2	634	634	2
LOANS RECOGNIZED AT AMORTIZED COST	**4,491**	**4,416**		**4,610**	**4,597**	
Short-term financing	1,631	1,631	1-2	247	247	1-2
Bank overdrafts	6	6	1-2	22	22	1-2
Derivative financial instruments(1)	132	132	2-3	52	52	2-3
Put options granted to holders of non-controlling interests	68	68	3	79	79	3

(1) The method used to estimate the fair value of derivative financial instruments recorded in assets and liabilities corresponds to Level 2 in the fair value hierarchy for derivatives hedging foreign currency, commodity and interest rate risks. The method used to estimate the fair value of other derivative financial instruments corresponds to Level 2 or Level 3 in the fair value hierarchy.

IFRS 13 prescribes the methods for assessing fair value and for taking into account the credit risk on derivatives, through:

- a Credit Value Adjustment (CVA), which is a component of the market value of a derivative financial instrument that reflects the exposure in the event of counterparty default;
- a Debit Value Adjustment (DVA), which is an adjustment to fair value reflecting the entity's own credit risk.

The credit risk on derivatives is calculated according to historical probabilities of default and a recovery rate, as observed on the market.

At December 31, 2019 and 2020, this has only a minimal impact on the Group.

8.1.2 Gross debt

The definition of gross debt was revised in 2020 in order to separate short-term financing from bank overdrafts. Short-term financing is now included within cash flows from financing activities in the consolidated statement of cash flows. It was previously recognized within net cash and cash equivalents. Gross debt now includes long-term debt, liabilities associated with put options granted to holders of non-controlling interests, short-term financing and bank overdrafts.

At December 31, 2020, the Group's gross debt can be analyzed as follows:

	DECEMBER 31, 2020			DECEMBER 31, 2019		
(in millions of euros)	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	3,869	622	**4,491**	4,417	193	4,610
Put options granted to holders of non-controlling interests	18	50	**68**	20	59	79
Short-term financing	-	1,631	**1,631**	-	247	247
Bank overdrafts	-	6	**6**	-	22	22
GROSS DEBT	**3,887**	**2,309**	**6,196**	**4,437**	**521**	**4,958**

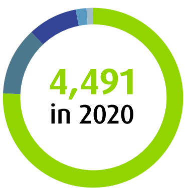
8.1.2.1 Long-term debt

Long-term debt primarily includes bonds, private placements, lease liabilities and other borrowings.

Bonds, private placements and other borrowings are valued at amortized cost. The amount of interest recognized in financial expenses is calculated by multiplying the loan's effective interest rate by its carrying amount. Any difference between the expense calculated using the effective interest rate and the actual interest payment impacts the value at which the loan is recognized.

Lease liabilities are measured as described in Note 6.3, page 352.

Breakdown of long-term debt



(in millions of euros)			December 31, 2020	December 31, 2019
	76%	Bonds	3,413	3,429
	12%	*Schuldschein* loan (German private placement)	547	547
	9%	Lease liabilities	394	441
	2%	Other borrowings	92	147
	1%	Accrued interest	45	46
		LONG-TERM DEBT	**4,491**	**4,610**

Change in and characteristics of long-term debt

(in millions of euros)	Bonds	Schuldschein loan (German private *placement)*	Lease liabilities	Other borrowings	Accrued interest	Total
CARRYING AMOUNT AT JANUARY 1, 2020	**3,429**	**547**	**441**	**147**	**46**	**4,610**
Increases/Subscriptions	-	-	-	13	-	13
New contracts/Renewals/Modifications	-	-	62	-	-	62
Redemptions/Repayments	-	-	(94)	(65)	-	(159)
Value adjustments	26	-	-	1	-	27
Translation adjustment	(42)	-	(15)	(3)	-	(60)
Other movements	-	-	-	(1)	(1)	(2)
CARRYING AMOUNT AT DECEMBER 31, 2020	**3,413**	**547**	**394**	**92**	**45**	**4,491**

At December 31, 2020, the key terms and conditions of long-term debt were as shown below:

Type	Outstanding at Dec. 31, 2020 *(in millions of euros)*	Issuance	Maturity	Nominal *(in millions)*	Nominal amount outstanding *(in millions)*	Currency	Nominal interest rate	Other information
Convertible bond	464	June/ November 2016	June 2021	575	575	USD	0%	Euro/dollar cross currency swaps set up for each operation for a total of 575 million US dollars with the same maturity
Bond (EMTN program)	599	September 2017	September 2022	600	600	EUR	0.3752%	-
Bond (EMTN program)	498	January 2017	January 2023	500	500	EUR	0.625%	-
Bond (EMTN program)	660	January 2014	January 2024	700	700	EUR	3.25%	-
Bond (EMTN program)	597	June 2018	June 2025	600	600	EUR	1.5%	-
Bond (EMTN program)	595	March 2016	March 2026	600	600	EUR	1.625%	-
Schuldschein loan (German private placement)								
Tranche 1	115	April 2019	April 2023	115	115	EUR	0.95%	-
Tranche 2	220	April 2019	April 2023	221	221	EUR	6-month Euribor +0.95%	Floored *swap*, exchanging the variable coupon with a 0% floor for a fixed rate of -0.041%
Tranche 3	90	April 2019	April 2025	90	90	EUR	1.291%	-
Tranche 4	122	April 2019	April 2025	122	122	EUR	6-month Euribor +1.15%	Floored *swap*, exchanging the variable coupon with a 0% floor for a fixed rate of 0.145%
Lease liabilities	394	-	-	-	394	-	-	
Other long-term debt(1)	137	-	-	-	137	-	-	
LONG-TERM DEBT	**4,491**							

(1) Other long-term debt chiefly comprises debt contracted by Ichikoh entities in an amount of 61 million euros and debt contracted by Group subsidiaries at reduced rates in Spain along with accrued interest.

At December 31, 2020, the Group had drawn an amount of 3 billion euros (stable compared with December 31, 2019) under its Euro Medium Term Note financing program capped at 5 billion euros.

The Group also has confirmed bank credit lines with an average maturity of 1.7 years, representing an aggregate amount of 2.3 billion euros. None of these credit lines had been drawn down at December 31, 2020. These bilateral credit lines were taken out with ten leading banks with an average rating of A from S&P and A1 from Moody's.

Maturity of long-term debt

(in millions of euros)	Carrying amount	MATURITY <1 year	≥1 year and ≤5 years 2022	2023	2024	2025	>5 years 2026 and beyond
Bonds	**3,413**	464	599	498	660	597	595
Schuldschein loan (German private placement)	**547**	-	-	335	-	212	-
Lease liabilities	**394**	90	70	63	48	34	89
Other borrowings	**92**	23	25	22	12	2	8
Accrued interest	**45**	45	-	-	-	-	-
LONG-TERM DEBT	**4,491**	**622**	**694**	**918**	**720**	**845**	**692**

Contractual maturity of long-term debt

In managing its liquidity risk, the Group seeks to ensure a balanced long-term debt repayment profile. At December 31, 2020, the average maturity of Valeo's (the parent company) debt was 3 years, down from 4 years at December 31, 2019.

The future cash outflows presented below, comprising both interest payments and principal repayments, are not discounted. The forward interest rate curve at December 31, 2020 was used for variable-rate interest.

(in millions of euros)	Carrying amount	CONTRACTUAL CASH FLOWS <1 year	≥1 year and ≤5 years 2022	2023	2024	2025	>5 years 2026 and beyond	Total
Bonds	3,413	515	647	545	742	619	610	**3,678**
Schuldschein loan (German private placement)	547	6	6	341	3	215	-	**571**
Other long-term debt	531	158	95	85	60	36	97	**531**
LONG-TERM DEBT	**4,491**	**679**	**748**	**971**	**805**	**870**	**707**	**4,780**

Off-balance sheet commitments relating to Group financing

Certain financing contracts include early repayment clauses in the event of failure to comply with specified financial ratios. The table below sets out the main covenant:

Financing agreements	Ratios	Thresholds	Ratio at December 31, 2020[1]
Credit lines	Consolidated net debt/consolidated EBITDA	<3.5	1.96

(1) *Calculated over 12 months.*

In addition, bonds issued within the scope of the Euro Medium Term Note (EMTN) financing program and most bank credit lines include an option granted to bondholders who can request early repayment or redemption of their bonds in the event of a change of control at Valeo leading to a withdrawal of the rating or a downgrade in the rating to below investment grade (assuming that the bonds were previously rated investment grade). If Valeo's bonds had previously been rated below investment grade, bondholders may request the early repayment or redemption of their bonds in the event of a change of control at Valeo resulting in a one-category downgrade in the rating (e.g., from Ba1 to Ba2).

The convertible loan also includes a change of control clause under which investors can request early repayment or – on the choice of the issuer – buyback.

The *Schuldschein* loan also includes a change of control clause under which each investor can request early repayment of the amounts loaned by it.

The credit lines set up by the Group's subsidiaries include early repayment clauses in the event of failure to comply with specified financial ratios. Based on the due diligence performed, the Group believes that the subsidiaries concerned complied with these covenants at December 31, 2020.

The Group's bank credit lines and long-term debt include "cross default" clauses. This means that if a given amount of debt is deemed to be in default, then the other debt amounts may also be deemed to be in default.

At the date these consolidated financial statements were authorized for issue, the Group expects to comply with all debt covenants over the next few months.

Group credit ratings

The Group is rated by several credit rating agencies. Moody's rating confirms Valeo's investment grade status:

Rating agency	Publication date	Long-term debt	Outlook	Short-term debt
Standard & Poor's	July 31, 2020	BB+	Stable	B
Moody's	June 11, 2020	Baa3	Negative	P-3

Subsequent events

The European Investment Bank (EIB) approved 600 million euros in financing for Valeo's European R&D projects focused on reducing CO2 emissions and improving vehicle safety. An initial credit facility of 300 million euros was signed on February 4, 2021.

8.1.2.2 Liabilities associated with put options granted to holders of non-controlling interests

The Group may grant put options to third parties holding non-controlling interests, on all or some of their shares. These puts are considered by the Group as non-interest bearing debt.

This debt is recognized at the present value of the option exercise price. The offsetting entry for the debt associated with these commitments is a decrease in stockholders' equity – non-controlling interests.

The difference between the present value of the exercise price of the options granted and the carrying amount of non-controlling interests is recorded in stockholders' equity as a deduction from consolidated retained earnings.

The amount of the debt is adjusted at the end of each period in order to reflect changes in the option exercise price and a corresponding entry is recorded in stockholders' equity.

(in millions of euros)	Total	Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd	Spheros Climatização do Brasil SA
LIABILITIES AT JANUARY 1, 2019	**89**	**72**	**17**
Fair value adjustments recognized against non-controlling interests	**(1)**	(1)	-
Fair value adjustments recognized in retained earnings	**(9)**	(12)	3
LIABILITIES AT DECEMBER 31, 2019	**79**	**59**	**20**
Fair value adjustments recognized against non-controlling interests	**(5)**	(2)	(3)
Fair value adjustments recognized in retained earnings	**(6)**	(7)	1
LIABILITIES AT DECEMBER 31, 2020	**68**	**50**	**18**

At December 31, 2020, Valeo and STEC owned 73% and 27%, respectively, of China-based Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd. On December 16, 2020, STEC notified Valeo of its decision to exercise its put option on its entire stake in the company. The exercise price of the option will be determined jointly by Valeo and STEC within 60 days of the issue of the valuation report.

At December 31, 2020, Valeo and Marco Polo owned 60% and 40%, respectively, of Spheros Climatização do Brasil SA. Marco Polo has been granted a put option which it may exercise at any time following an agreed period of one year.

The maturity of these financial liabilities is as follows:

			MATURITY					
				≥1 year and ≤5 years				>5 years
(in millions of euros)	Carrying amount	On demand	<1 year	2022	2023	2024	2025	2026 and beyond
Liabilities associated with put options granted to holders of non-controlling interests	68	50	-	18	-	-	-	-

8.1.2.3 Short-term financing and bank overdrafts

Short-term debt mainly includes Negotiable European Commercial Paper (NEU CP) (previously "commercial paper") issued by Valeo for its short-term financing needs. NEU CP has a maturity of between 3 and 12 months and is valued at amortized cost.

In order to reflect the Group's cash requirements, short-term financing, which was previously recognized within net cash and cash equivalents, is now presented in net cash flows from financing activities in the consolidated statement of cash flows.

(in millions of euros)	December 31, 2020	December 31, 2019
Negotiable European Commercial Paper	1,588	243
Other short-term financing	43	4
Bank overdrafts	6	22
SHORT-TERM FINANCING AND BANK OVERDRAFTS	**1,637**	**269**

Valeo has a short-term Negotiable European Commercial Paper (NEU CP) financing program for a maximum amount of 2.5 billion euros. At December 31, 2020, a total of 1,588 million euros had been drawn on this program, compared with 243 million euros at December 31, 2019.

8.1.3 Net debt

Following the revision of the definition of gross debt, net debt now includes all long-term debt, liabilities associated with put options granted to non-controlling interests (see Note 8.1.2.2, page 365), short-term financing and bank overdrafts, less loans and other long-term financial assets, cash and cash equivalents, and the fair value of derivative instruments hedging interest rate and currency risks associated with these items (see Note 8.1.4, pages 368 to 374).

	DECEMBER 31, 2020			DECEMBER 31, 2019		
(in millions of euros)	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	3,869	622	**4,491**	4,417	193	**4,610**
Put options granted to holders of non-controlling interests	18	50	**68**	20	59	**79**
Short-term financing	-	1,631	**1,631**	-	247	**247**
Bank overdrafts	-	6	**6**	-	22	**22**
GROSS DEBT	**3,887**	**2,309**	**6,196**	**4,437**	**521**	**4,958**
Long-term loans and receivables (including accrued interest)	(277)	(50)	**(327)**	(336)	(8)	**(344)**
Accrued interest	-	(1)	**(1)**	-	(3)	**(3)**
Cash and cash equivalents	-	(2,951)	**(2,951)**	-	(1,773)	**(1,773)**
DERIVATIVE INSTRUMENTS ASSOCIATED WITH INTEREST RATE AND FOREIGN CURRENCY RISKS(1)	**1**	**26**	**27**	**(26)**	**5**	**(21)**
NET DEBT	**3,611**	**(667)**	**2,944**	**4,075**	**(1,258)**	**2,817**

(1) At end-December 2020 and end-December 2019, the fair value of derivative instruments associated with an item of net debt comprises the fair value of derivatives hedging financial currency risk and the fair value of derivatives hedging interest rate risk.

8.1.3.1 Long-term loans and receivables

This category consists essentially of long-term loans, which are measured on an amortized cost basis using the effective interest rate. They are shown in the statement of financial position as non-current financial assets.

8.1.3.2 Cash and cash equivalents

Cash and cash equivalents are comprised of marketable securities such as money market and short-term money market funds, deposits and very short-term risk-free securities, which can be readily sold or converted into cash, and cash at bank.

The cash equivalents included in this line are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value. These current financial assets are carried at fair value through income and are held with a view to meeting short-term cash requirements.

(in millions of euros)	December 31, 2020	December 31, 2019
Marketable securities	1,401	102
Cash	1,550	1,671
CASH AND CASH EQUIVALENTS	**2,951**	**1,773**

Cash and cash equivalents totaled 2,951 million euros at December 31, 2020, consisting of 1,401 million euros of marketable securities with a low price volatility risk, and 1,550 million euros in cash. Marketable securities consist solely of money market mutual funds (FCP).

These items were measured using Level 1 inputs of the fair value hierarchy.

Short-term liquidity management

Cash is pooled whenever this is permitted by local legislation. In such cases, subsidiaries' surplus cash or financing requirements are pooled and invested or funded by Valeo, the parent company. The Group has set up a cross-border, multi-currency cash pooling arrangement in euros, Hungarian forint and Czech koruna for European subsidiaries, in US dollars for US subsidiaries, and in Chinese renminbi for Chinese subsidiaries. This arrangement enables day-to-day cash to be managed on a centralized basis. In other countries, local cash pooling arrangements exist and loans and borrowings are regularly taken out with the parent company (Valeo). In some countries, these cross-border transactions can give rise to tax issues or may be subject to specific regulations and require approval from the local tax authorities.

The Group also manages liquidity by ensuring that dividends from subsidiaries are systematically transferred to Valeo.

Bank counterparty risk management

The Group invests its surplus liquidity according to the same principles, with asset management companies that are subsidiaries of leading banks. Securities are held by leading custodians.

8.1.3.3 Analysis of net debt by currency

Net debt can be analyzed as follows by currency:

(in millions of euros)	December 31, 2020	December 31, 2019
Euro	2,583	2,396
US dollar	457	554
Japanese yen	89	89
Brazilian real	(51)	(52)
South Korean won	(61)	(116)
Chinese renminbi	(85)	(39)
Other currencies	12	(15)
TOTAL	**2,944**	**2,817**

8.1.4 Derivative financial instruments

The Group uses derivative financial instruments to manage and reduce its exposure to foreign exchange and commodity risks.

Derivatives are recognized in the statement of financial position at fair value under other non-current financial assets or other non-current financial liabilities when the underlying transaction matures beyond one year, and under other current financial assets or other current financial liabilities when the underlying transaction matures within one year.

The accounting impact of changes in the fair value of these derivative instruments depends on whether or not hedge accounting is applied.

When hedge accounting is applied:

- for fair value hedges of assets and liabilities recognized in the statement of financial position, the hedged item of these assets or liabilities is stated at fair value. Changes in fair value are recognized through income and offset (for the effective portion of the hedge) by symmetrical changes in the fair value of the derivative;
- for future cash flow hedges, changes in the fair value of the derivatives relating to the effective portion of the hedge are recognized directly in other comprehensive income, while the ineffective portion is taken to other financial income and expenses. The amounts recognized in other comprehensive income are recycled to income when the hedged risk itself affects income.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized in other financial income and expenses.

Foreign currency derivatives

Although they may act as hedges, foreign currency derivatives hedging balance sheet positions do not always meet the criteria for hedge accounting (automatic hedging). In these cases, changes in the fair value of the derivatives are recognized in financial income and expenses and are generally offset by changes in the fair value of the underlying receivables and payables. However, foreign currency hedges of foreign currency financing are designated as fair value hedges in order to be eligible for the option available under IFRS 9 whereby forward points are amortized (on a straight-line basis over the term of the hedge) and recognized in the statement of income within cost of net debt.

Foreign currency derivatives hedging highly probable future transactions that are generally material and will impact operating margin are classified as hedges. In these cases, changes in the fair value of the derivatives are recognized in other comprehensive income for the effective portion of the hedge, and subsequently taken to operating income when the hedged item itself affects operating income. The ineffective portion of the hedge is recognized in other financial income and expenses.

Commodity derivatives

In principle, the Group applies cash flow hedge accounting to commodity derivatives. Gains and losses relating to the effective portion of the hedge are reclassified from other comprehensive income to operating margin when the hedged position itself affects income. Gains and losses relating to the ineffective portion of the hedge are recognized in other financial income and expenses. When a forecast transaction is no longer highly probable, the cumulative gains and losses carried in other comprehensive income are transferred immediately to other financial income and expenses.

Interest rate

Variable interest rate hedges protect the Group against the impact of fluctuations in interest rates on its interest payments. These hedges are eligible for cash flow hedge accounting.

The Group elected to early adopt, as of January 1, 2019, the amendments to IFRS 9, IAS 39 and IFRS 7 published by the IASB in September 2019 in the context of the interest rate benchmark reform.

These amendments enable the Group to disregard the uncertainties arising from interest rate benchmark reform when measuring the effectiveness of hedging relationships and/or determining whether the hedged risk is highly probable, ensuring that existing or future hedging relationships are secured until this uncertainty is no longer present.

Hedging instruments are measured at fair value and recognized in the statement of financial position. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income, while changes relating to the ineffective portion are recognized in other financial income and expenses. Amounts carried in other comprehensive income in respect of the effective portion of the hedge are taken to income as and when the hedged interest expenses themselves affect income.

Level 2 in the fair value hierarchy is used to measure the fair value of the Group's derivative financial instruments.

Interest rate derivatives designated as hedges of borrowings indexed to a benchmark rate are presented in Note 8.1.4.3, page 372. The Group has identified the borrowings and derivatives that will be affected by the upcoming benchmark rate reform and is currently analyzing the impacts.

The Group's operating entities are responsible for identifying, measuring and hedging financial risks. However, the Group's Finance Department is responsible for managing derivatives on behalf of subsidiaries with risk exposure.

At monthly Treasury Committee meetings, the main risks and exposures are assessed, the required hedges are approved (in accordance with the strategy described below), and the results of these hedges are analyzed.

To reduce its exposure to market risk, the Group uses derivative financial instruments which had the following fair values at December 31, 2020 and 2019:

(in millions of euros)	Accounting classification	Nominal purchase price(1)	Nominal sale price(1)	OCI reserves	OTHER FINANCIAL ASSETS Non-current	OTHER FINANCIAL ASSETS Current	OTHER FINANCIAL LIABILITIES Non-current	OTHER FINANCIAL LIABILITIES Current	DECEMBER 31, 2020 Total	DECEMBER 31, 2019 Total
Forward foreign currency contracts	Cash flow hedge	1,213	(163)	45	19	32	(2)	(4)	**45**	40
Forward foreign currency contracts	Trading	320	(270)	-	-	3	-	(7)	**(4)**	(1)
TOTAL OPERATING FOREIGN CURRENCY DERIVATIVES		**1,533**	**(433)**	**45**	**19**	**35**	**(2)**	**(11)**	**41**	**39**
Swaps	Fair value hedge	468	468	1	-	40	-	(41)	**(1)**	28
Swaps	Trading	170	170	-	5	12	(1)	(37)	**(21)**	(7)
TOTAL FINANCIAL FOREIGN CURRENCY DERIVATIVES		**797**	**797**	**1**	**9**	**52**	**(1)**	**(78)**	**(18)**	**21**
Swaps – Purchases	Cash flow hedge	118	-	10	-	10	-	-	**10**	2
TOTAL COMMODITY DERIVATIVES		**118**	**-**	**10**	**-**	**10**	**-**	**-**	**10**	**2**
Floored swaps	Cash flow hedge	343	343	(2)	-	1	(6)	-	**(5)**	(2)
Cross-currency swap	Cash flow hedge	159	159	(2)	-	-	(3)	-	**(3)**	1
Cross-currency swap	Trading	21	21	-	-	-	-	(1)	**(1)**	-
TOTAL INTEREST RATE DERIVATIVES		**523**	**523**	**(4)**	**-**	**1**	**(9)**	**(1)**	**(9)**	**(1)**
Convertible bond options	Trading	59	59	-	-	-	-	-	**-**	-
Cross options	N/A	N/A	N/A	N/A	33	-	(30)	-	**3**	(4)
TOTAL OTHER DERIVATIVES				**-**	**33**	**-**	**(30)**	**-**	**3**	**(4)**
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS					**61**	**98**	**(42)**	**(90)**	**27**	**57**

(1) The nominal amounts of the derivatives are expressed in euros.

Bank counterparty risk management

The Group contracts derivatives with leading banks and sets limits for each counterparty, taking into account ratings provided by rating agencies. Special reports are drawn up enabling counterparty risk on each market to be monitored.

8.1.4.1 Fair value of foreign currency derivatives

Operational currency risk management

The Group's subsidiaries are exposed to foreign currency risk arising within the scope of their industrial and commercial activities. These risks and the related hedges are monitored by the Financing and Treasury Department.

The Group systematically hedges statement of financial position exposures (non-financial foreign currency receivables and payables). Subsidiaries primarily hedge their transactions with Valeo, the parent company, which then hedges net Group positions with external counterparties. The corresponding currency instruments are classified as trading derivatives within the meaning of IFRS 9 – "Financial Instruments".

The Group also hedges its operating margin against foreign currency risk, on a regular basis over the budget period and on an exceptional basis over a contractual period (beyond one year) for specific major contracts. In this case, it applies hedge accounting rules as permitted by IFRS 9. The principal hedging instruments used by the Group are forward purchases and sales of foreign currencies.

The fair value of these derivatives is computed as follows: future cash flows are calculated using forward exchange rates at the end of the reporting period and are then discounted using the interest rate of the functional currency. This method corresponds to Level 2 in the fair value hierarchy.

As in 2019, the ineffective portion of these hedges of operational currency risk was not material in 2020.

5

Financial currency risk management

Centralizing cash surpluses, the financing needs of foreign subsidiaries and certain Group financing transactions exposes the Group to financial currency risk. This risk corresponds to the risk of changes in the value of financial receivables or payables denominated in currencies other than the functional currency of the borrowing or lending entity. This currency risk is primarily hedged by currency swaps.

The Group tends to finance its subsidiaries in their local currencies and systematically enters into hedges to protect itself against the resulting currency risk.

The Group's borrowings are generally denominated in euros, in particular for debt issues under the Euro Medium Term Note financing program.

The convertible bond subscribed on June 16, 2016 for 450 million US dollars, to which the Group added 125 million US dollars under the same conditions on November 16, 2016, is hedged by EUR/USD currency swaps through to maturity. These swaps have been documented as fair value hedges.

The unrealized loss of 21 million euros mainly includes currency swaps relating to hedges of intragroup loans and borrowings.

Analysis of the Group's overall net exposure

The Group's overall net exposure (on its balance sheet positions) at December 31, 2020, based on notional amounts, arises on the following main currencies (excluding entities' functional currencies):

	DECEMBER 31, 2020					DECEMBER 31, 2019
(in millions of euros)	USD	JPY	EUR	Other currencies	Total	Total
Accounts and notes receivable	284	23	483	13	**803**	**719**
Other financial assets	535	102	133	890	**1,660**	**1,311**
Accounts and notes payable	(247)	(56)	(708)	(39)	**(1,050)**	**(1,066)**
Long-term debt	(1,249)	(89)	(284)	(729)	**(2,351)**	**(2,033)**
GROSS EXPOSURE	**(677)**	**(20)**	**(376)**	**135**	**(938)**	**(1,069)**
Forward sales	(541)	(176)	(100)	(883)	**(1,700)**	**(1,182)**
Forward purchases	1,294	189	89	636	**2,208**	**1,677**
NET EXPOSURE	**76**	**(7)**	**(387)**	**(112)**	**(430)**	**(574)**

In the table above, the EUR column represents the net euro exposure of Group entities whose functional currency is not the euro. Exposure arises in particular on subsidiaries based in Central Europe and the Mediterranean area which are financed in euros by Valeo.

Analysis of the sensitivity of net foreign currency risk exposure

The sensitivity analysis was based on an exchange rate of 1.2271 US dollars and 126.49 Japanese yen to 1 euro at December 31, 2020 (1.1234 and 121.94, respectively, at December 31, 2019).

An increase of 10% in the value of the euro against these currencies at December 31, 2020 and 2019 would have had the following pre-tax impacts:

	DECEMBER 31, 2020		DECEMBER 31, 2019	
(in millions of euros)	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Exposure to US dollar	(8)	(40)	7	(14)
Exposure to Japanese yen	1	(6)	2	(8)
Exposure to euro	(33)	10	(33)	5
TOTAL	**(40)**	**(36)**	**(24)**	**(17)**

For the purpose of these analyses, it is assumed that all other variables, particularly interest rates, remained unchanged.

Assuming that all other variables remained unchanged, a 10% fall in the value of the euro against these currencies at December 31, 2020 would have had the opposite impacts to the ones shown above.

Remaining contractual maturities of foreign currency derivatives

The European Central Bank (ECB) closing rates and forward rates at December 31, 2020 were used to value foreign currency derivatives.

		CONTRACTUAL CASH FLOWS						
			≥1 year and ≤5 years				>5 years	
(in millions of euros)	**Carrying amount**	**<1 year**	**2022**	**2023**	**2024**	**2025**	**2026 and beyond**	**Total**
Forward foreign currency contracts used as hedges:								
• Assets	54	35	3	6	4	3	3	**54**
• Liabilities	(13)	(11)	(1)	(1)	-	-	-	**(13)**
Currency swaps used as hedges:								
• Assets	61	52	5	-	4	-	-	**61**
• Liabilities	(79)	(78)	(1)	-	-	-	-	**(79)**

8.1.4.2 Fair value of commodity (non-ferrous metals) derivatives

Commodity risk management

The Group manages its exposure to raw materials by using price indexation clauses in commercial contracts as far as possible. This is the case particularly for non-ferrous metals and steel, for which such clauses cover approximately three-quarters and one-half of the Group's exposure, respectively.

Residual exposure to non-ferrous metals listed on the London Metal Exchange and the Shanghai Futures Exchange, and to a lesser extent exposure to propylene, is hedged with leading banks using hedging instruments. These hedges are designed to limit the impact of fluctuations in commodity prices on the Group's earnings and to give Valeo the time it needs to negotiate the corresponding price rises with its customers.

The Group favors hedging instruments which do not involve physical delivery of the underlying commodity (primarily swaps on the average monthly price). These transactions are eligible for cash flow hedge accounting within the meaning of IFRS 9.

Steel, most plastics, and rare-earth metals cannot be hedged on the financial market as they are not listed on an organized exchange.

Inventory values in the Group's statement of financial position are not significantly affected by the rise in commodity prices because the rapid inventory turnover and optimization of logistics flows reduce the amount.

Volumes of non-ferrous metals hedged at December 31, 2020 and 2019 break down as follows:

(in tons)	**December 31, 2020**	**December 31, 2019**
Aluminum	36,224	36,536
Secondary aluminum	7,395	9,881
Copper	11,688	10,100
Zinc	804	588
Polypropylene	8,108	268
TOTAL	**64,219**	**57,373**

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized gain of 10 million euros relating to existing hedges was recognized in other comprehensive income for 2020.

An unrealized gain of 3 million euros recognized in other comprehensive income in 2019 and arising on existing commodity hedges was reclassified in full to operating income in 2020.

Analysis of the sensitivity of the net exposure to metal price risk

The table below shows the pre-tax impact on equity and income of a 10% variation in metal futures prices at December 31, 2020 and 2019:

	DECEMBER 31, 2020		DECEMBER 31, 2019	
(in millions of euros)	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Impact of a 10% rise in metal futures prices	-	14	-	9
Impact of a 10% fall in metal futures prices	-	(14)	-	(9)

For the purposes of the sensitivity analysis, it is assumed that all other variables remain unchanged over the period.

Remaining contractual maturities of commodity derivatives

Forward prices on the London Metal Exchange (LME) and the Shanghai Futures Exchange (SHFE) at December 31, 2020 were used to determine contractual maturities for commodity derivatives.

		CONTRACTUAL CASH FLOWS						
			≥1 year and ≤5 years				>5 years	
(in millions of euros)	Carrying amount	<1 year	2022	2023	2024	2025	2026 and beyond	Total
Commodity derivatives:								
• Assets	10	10	-	-	-	-	-	10
• Liabilities	-	-	-	-	-	-	-	-

8.1.4.3 Fair value of interest rate derivatives

Interest rate risk management

The Group uses interest rate swaps to convert the interest rates on its debt into either a variable or a fixed rate, either at origination or during the term of the loan. Cash and cash equivalents are mainly invested in fixed-rate instruments. At December 31, 2020, 99% of long-term debt (i.e., due in more than one year) was at fixed rates, stable compared to end-2019.

In March 2019, the Group converted the 159 million euro loan granted to one of its Czech subsidiaries into Czech koruna. At the same time, the Group set up a cross currency swap in Czech koruna for the same amount and with the same maturity. The interest rate swap embedded in this derivative has been classified as a cash flow hedge.

In 2020, a Group subsidiary in Japan converted the 2.6 billion Japanese yen loan granted to one of its Indonesian subsidiaries into Indonesian rupiah. At the same time, the Japanese subsidiary set up cross currency swaps in Indonesian rupiah for the same amount and with the same maturity. These swaps have not been classified as hedges.

The two variable-rate tranches of the *Schuldschein* loan issued in April 2019 are hedged by floored interest rate swaps, which exchange the variable coupon with a 0% floor for a fixed rate. The swaps have been classified as cash flow hedges.

	DECEMBER 31, 2020		DECEMBER 31, 2019	
(in millions of euros)	Nominal	Fair value	Nominal	Fair value
Interest rate swaps:				
• Loan in Czech koruna	159	(3)	159	1
• Loan in Indonesian rupiah	21	(1)	14	(1)
Floored interest rate swaps:				
• *Schuldschein* loan (German private placement)	343	(5)	343	(2)
TOTAL	**523**	**(9)**	**516**	**(2)**

Analysis of the Group's net exposure

At the end of the reporting period, the Group's net interest rate position based on nominal values can be analyzed as follows:

2020

	LESS THAN 1 YEAR		1 TO 5 YEARS		MORE THAN 5 YEARS		TOTAL NOMINAL AMOUNT		
(in millions of euros)	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	2,258	23	2,886	387	699	-	5,843	410	**6,253**
Loans	-	(50)	-	(277)	-	-	-	(327)	**(327)**
Accrued interest	(1)	-	-	-	-	-	(1)	-	**(1)**
Cash and cash equivalents	(1,730)	(1,221)	-	-	-	-	(1,730)	(1,221)	**(2,951)**
NET POSITION BEFORE HEDGING	**527**	**(1,248)**	**2,886**	**110**	**699**	**-**	**4,112**	**(1,138)**	**2,974**
Derivative instruments	-	-	343	(343)	-	-	343	(343)	-
NET POSITION AFTER HEDGING	**527**	**(1,248)**	**3,229**	**(233)**	**699**	**-**	**4,455**	**(1,481)**	**2,974**

2019

	LESS THAN 1 YEAR		1 TO 5 YEARS		MORE THAN 5 YEARS		TOTAL NOMINAL AMOUNT		
(in millions of euros)	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	436	26	2,672	220	1,403	122	4,511	368	**4,879**
Loans	-	(8)	-	(336)	-	-	-	(344)	**(344)**
Accrued interest	-	(3)	-	-	-	-	-	(3)	**(3)**
Cash and cash equivalents	-	(1,773)	-	-	-	-	-	(1,773)	**(1,773)**
NET POSITION BEFORE HEDGING	**436**	**(1,758)**	**2,672**	**(116)**	**1,403**	**122**	**4,511**	**(1,752)**	**2,759**
Derivative instruments	-	-	221	(221)	122	(122)	343	(343)	-
NET POSITION AFTER HEDGING	**436**	**(1,758)**	**2,893**	**(337)**	**1,525**	**-**	**4,854**	**(2,095)**	**2,759**

Financial liabilities include the nominal amount of long-term debt, short-term financing and bank overdrafts.

Analysis of sensitivity to interest rate risk

At December 31, 2020, almost all long-term debt was at fixed rates. Fixed-rate debt carried at amortized cost is not included in the calculation of sensitivity to interest rate risk. The Group's exposure to interest rate risk therefore arises solely on its variable-rate debt.

The tables below show the pre-tax impact on income and other comprehensive income of a sudden 1% rise in the interest rates applied to variable-rate financial assets and liabilities, after hedging:

	DECEMBER 31, 2020		DECEMBER 31, 2019	
(in millions of euros)	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Impact of a 1% increase in interest rates	15	-	21	-

Similarly, at December 31, 2020, a sudden 1% fall in interest rates would have had the opposite impact for the same amount.

8.1.4.4 Fair value of other derivative financial instruments

At December 31, 2020, other derivative financial instruments included the following:

- conversion options embedded in the June 2016 and November 2016 bond issues, along with call options purchased. These options are perfectly matched. Since they mature in June 2021, they had a fair value of virtually zero at December 31, 2020 (2 million euros at December 31, 2019);
- put and call options granted by Valeo and Siemens on the creation of their joint venture:
  - Valeo has a call option by virtue of which Siemens is required to sell part or all of its stake in the joint venture on exercise of the option. The fair value of this call option was 30 million euros at December 31, 2020 and 27 million euros at December 31, 2019,
  - Siemens has a put option by virtue of which Valeo is required to purchase its entire stake in the joint venture on exercise of the option. The fair value of this put option was 28 million euros at December 31, 2020 and 31 million euros at December 31, 2019.

  These options are not perfectly matched given the specific contractual terms that govern their exercise. They were valued by an independent expert using a probability-based approach. This method corresponds to Level 3 in the fair value hierarchy;
- put and call options granted by Valeo and the partners of the CloudMade joint venture, each valued at 2 million euros.

Contractual maturities of other material derivative financial instruments

		CONTRACTUAL CASH FLOWS					
			≥1 year and ≤5 years				>5 years
(in millions of euros)	Carrying amount	<1 year	2022	2023	2024	2025	2026 and beyond
Convertible bond options							
• Assets	-	-	-	-	-	-	-
• Liabilities	-	-	-	-	-	-	-
Put and call options relating to the Valeo-Siemens joint venture(1)							
• Assets	30	-	30	-	-	-	-
• Liabilities	(28)	-	(28)	-	-	-	-

(1) Options that can be exercised as from the date indicated if certain contractually specified criteria are met.

8.1.5 Other non-current financial assets and liabilities

8.1.5.1 Other financial assets and liabilities

This caption primarily includes guarantee deposits and long-term investments.

Guarantee deposits are valued at amortized cost.

Long-term investments primarily include investments in non-consolidated companies and mutual funds, which are measured at fair value.

Changes in the fair value of investments in non-consolidated companies are recorded in the statement of income, unless the investment is neither held for trading nor contingent consideration is recognized by an acquirer as part of a business combination. In such cases, the Group may make an irrevocable election at initial recognition of each investment to present subsequent changes in fair value in other comprehensive income, and dividend income in the statement of income. Once this election has been made, unrealized gains and losses recognized in other comprehensive income may not subsequently be recycled to the statement of income, even in the event of disposal of the related investment.

The election described above for equity instruments is not available for mutual funds. Accordingly, changes in fair value are recognized under other financial income and expenses in the consolidated statement of income.

The fair value of securities listed on an active market is their stock market value.

Long-term investments totaled 216 million euros at end-December 2020 and can be analyzed as follows:

(in millions of euros)	2020	2019
LONG-TERM INVESTMENTS AT JANUARY 1	**232**	**217**
Acquisitions	-	13
Disposals[1]	(35)	(8)
Changes in fair value recognized in equity	14	3
Changes in fair value recognized in income	24	29
Dividends paid by Company mutual funds	(16)	(24)
Translation adjustment	(3)	2
LONG-TERM INVESTMENTS AT DECEMBER 31	**216**	**232**

(1) In 2020, the Group withdrew fully from Toyota, generating an inflow of 28 million euros.

They mainly comprise investments in the following companies:

(in millions of euros)	2020	2019
Hubei Cathay China	49	49
Sino-French Innovation Fund (Cathay)	56	50
Sino-French Innovation Fund II (Cathay)	24	25
Toyota	-	31
Other long-term investments[1]	87	77
LONG-TERM INVESTMENTS AT DECEMBER 31	**216**	**232**

(1) Other investments for less than 25 million euros each in investment funds and in companies over which Valeo exercises neither control nor significant influence.

8.1.5.2 Other current financial assets and liabilities

Other current financial assets and liabilities include accounts and notes receivable and payable.

Accounts and notes receivable and payable are initially recognized at fair value and subsequently carried at amortized cost, less any accumulated impairment losses. The fair value of accounts and notes receivable and payable is deemed to be their nominal amount, since payment periods are generally less than three months.

Accounts and notes receivable are detailed in Note 4.2, page 329.

In the ordinary course of its operations in China, Valeo may be paid by its customers or may pay its suppliers using a payment instrument specific to the Chinese market known as a "bank acceptance draft". Owing to their nature, receivables and payables under bank acceptance drafts continue to be recognized within accounts and notes receivable and payable until they fall due. At December 31, 2020, these instruments represented 143 million euros of accounts and notes receivable and 190 million euros of accounts and notes payable (119 million euros and 155 million euros, respectively, at December 31, 2019).

Valeo also operates a reverse factoring program, which has been in place since 2014. This program involves the sale of accounts and notes receivable to a financial institution ("factor") initiated by Valeo (and not by the supplier). Relations between the parties are structured based on two separate agreements:

- Valeo suppliers enter into a sale agreement with the factor for the amounts they are owed by Valeo;
- Valeo enters into an agreement with the factor under which it agrees to pay the invoices sold by its suppliers to the factor at the date they fall due (pre-approved invoices), without recourse.

This program allows the suppliers concerned to ensure that their receivables will be promptly settled by the financial institution. Valeo settles the invoices with the factor at their contractual due dates.

An analysis by the Group indicates that the reverse factoring arrangement does not alter the substance of its payables, which continue to be included in working capital.

8.2 Financial income and expenses

Financial income and expenses comprise interest income, interest expense (cost of net debt) and other financial income and expenses.

8.2.1 Cost of net debt

Interest expense mainly corresponds to interest recognized on debt, while interest income corresponds to interest earned on cash and cash equivalents.

(in millions of euros)	2020	2019
Interest expense[1]	(121)	(118)
Interest income	54	45
COST OF NET DEBT	**(67)**	**(73)**

(1) Including, in 2020, finance costs for 6 million euros on undrawn credit lines, interest on lease liabilities for 14 million euros and financial expenses for 4 million euros arising on discounting arrangements for accounts and notes receivable and amounts receivable under French research tax credits.

8.2.2 Other financial income and expenses

Other financial income and expenses notably include:

- the ineffective portion of gains and losses on interest rate hedging transactions;
- gains and losses on foreign exchange transactions or non-ferrous metals purchases that do not meet the definition of hedges of financial instruments;
- the cost of credit insurance and write-downs taken in respect of credit risk and losses on bad debts in the event of client default;
- the net interest cost arising on provisions for pensions and other employee benefits, which includes the impact of unwinding the discount on the obligations to take into account the passage of time, and financial income related to the expected return on plan assets;
- changes in the fair value of long-term investments held for trading.

(in millions of euros)	2020	2019
Net interest cost on provisions for pensions and other employee benefits[1]	(15)	(23)
Currency gains (losses)	(20)	(7)
Gains (losses) on commodity derivatives (ineffective portion)	(5)	-
Gains (losses) on interest rate derivatives (ineffective portion)	(2)	(1)
Gains (losses) on long-term investments held for trading[2]	24	29
Other	4	-
OTHER FINANCIAL INCOME AND EXPENSES	**(14)**	**(2)**

(1) See Note 5.3.4, page 342.
(2) See Note 8.1.5.1, pages 374 to 375.

NOTE 9 INCOME TAXES

9.1 Income taxes

Income tax expense includes current income taxes and deferred taxes of consolidated companies.

Taxes relating to items recognized directly in other comprehensive income are also recognized in other comprehensive income and not in income.

9.1.1 Breakdown of income tax expense

(in millions of euros)	2020	2019
Current taxes	(201)	(231)
Deferred taxes	69	(32)
INCOME TAXES	**(132)**	**(263)**

The Group recognized an income tax expense of 132 million euros for 2020, corresponding to a negative effective tax rate of 20.0%.

9.1.2 Tax proof

(in millions of euros)	2020	2019
NET INCOME (LOSS) BEFORE INCOME TAXES EXCLUDING SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACOUNTED COMPANIES	**(660)**	**894**
Standard tax rate in France	32.02%	34.43%
THEORETICAL INCOME TAX (EXPENSE)/BENEFIT	**211**	**(308)**
Impact of:		
• Unrecognized deferred tax assets and unused tax losses (current year)	(241)	(21)
• Recognition of previously unrecognized deferred tax assets	-	-
• Other income tax rates	(51)	81
• Utilization of prior-year tax losses	1	3
• Permanent differences between accounting income and taxable income	(37)	1
• Tax credits	1	2
• *Cotisation sur la valeur ajoutée des entreprises* (CVAE)	(16)	(21)
GROUP INCOME TAX (EXPENSE)/BENEFIT	**(132)**	**(263)**
Effective tax rate	-20.0%	29.4%

- In 2020, in the context of the Covid-19 health crisis, the Group wrote down deferred taxes it had previously recognized in respect of tax loss carryforwards relating to French and Romanian entities. Tax losses in Germany and Brazil were not recognized due to a lack of visibility as to whether they will be able to be utilized in the short term.

- The unfavorable 51 million euro impact relating to tax rates that are different from the standard tax rate breaks down as follows:

Country	Current tax rate(1)	2020	2019
China	25.0%	3	25
South Korea	24.2%	2	17
Turkey	22.0%	2	6
Spain	25.0%	1	7
Poland	19.0%	(4)	10
Morocco	9.0%	(5)	(1)
Czech Republic	19.0%	(10)	2
United States	21.0%	(13)	11
Germany	27.8%	(18)	(10)
Other countries		(9)	10
TOTAL		**(51)**	**81**

(1) The current tax rate shown is the effective tax rate at the end of the reporting period. The tax rate used to calculate deferred taxes takes into account any changes adopted inthe tax rate for the coming years.

- Permanent differences between accounting income and taxable income comprise withholding tax not deducted and forfeited, non-deductible interest expense and the impact of the Base Erosion and Anti-Abuse Tax (BEAT) introduced in the 2017 US tax reform.
- The Group considers that the *cotisation sur la valeur ajoutée des entreprises* (CVAE) tax on company value-added meets the definition of income tax set out in IAS 12. Income tax in 2020 therefore includes a net expense of 16 million euros in respect of the CVAE tax (21 million euros in 2019).

9.2 Deferred taxes

Deferred taxes are accounted for using the liability method for all temporary differences between the tax base and the carrying amount of assets and liabilities in the consolidated financial statements, and for all tax loss carryforwards.

The main temporary differences relate to tax loss carryforwards, provisions for pensions and other employee benefits, other temporarily non-deductible provisions and capitalized development expenditure. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the temporary differences reverse, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are only recognized to the extent that it appears probable that Valeo will generate future taxable profits against which these tax assets will be able to be recovered. The Group reviews the probability of future recovery of deferred tax assets on a periodic basis for each tax entity. This review can, where appropriate, lead the Group to derecognize deferred tax assets that it had recognized in prior years. The probability of recovery is assessed using the approach deemed most appropriate in light of the entity's legal and tax organization, tax history and projected taxable earnings outlook.

Each entity or tax consolidation group assesses the recoverability of its tax loss carryforwards annually using future taxable profit projections covering a period of five years, prepared on the basis of medium-term business plans drawn up by Group entities and approved by General Management. Where an entity or tax consolidation group reports a net deferred tax asset position, tax loss carryforwards may generally be recognized in the statement of financial position for a maximum period of five years. Taxes payable and tax credits receivable on planned dividend distributions by subsidiaries are recorded in the statement of income.

Deferred tax assets and liabilities are offset when a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities concern income taxes levied by the same taxation authority. In France, Valeo has elected for tax consolidation. The tax group includes the parent company and its principal French subsidiaries that are eligible for tax consolidation. Valeo has also elected for tax consolidation for its subsidiaries in other countries where this is permitted by local legislation (Germany, Spain, the United Kingdom and the United States).

Deferred taxes broken down by temporary differences are shown below:

(in millions of euros)	December 31, 2020	December 31, 2019
Loss carryforwards	827	715
Capitalized development expenditure	(299)	(357)
Pensions and other employee benefits	246	260
Other provisions	130	119
Inventories	63	77
Provisions for restructuring costs	6	9
Tooling	4	(1)
Non-current assets	17	(33)
Other	169	158
TOTAL DEFERRED TAXES, GROSS	**1,163**	**947**
Unrecognized deferred tax assets	(790)	(586)
TOTAL DEFERRED TAXES	**373**	**361**
Of which:		
• Deferred tax assets	440	437
• Deferred tax liabilities	(67)	(76)

At December 31, 2020, the main countries for which deferred tax assets were recognized in the statement of financial position for tax loss carryforwards are as follows:

(in millions of euros)	Loss carryforwards	Potential tax saving
United States	532	112
Germany[(1)]	210	57
Czech Republic	92	17
MAIN COUNTRIES	**834**	**186**
Other countries		19
DEFERRED TAX ASSETS RECOGNIZED FOR TAX LOSS CARRYFORWARDS		**205**

(1) Tax loss carryforwards are recognized up to the amount of deferred tax liabilities.

For each of the above-mentioned countries, tax losses can be carried forward indefinitely.

At December 31, 2020, deferred tax assets not recognized by the Group can be analyzed as follows:

(in millions of euros)	Tax basis	Potential tax saving
Tax losses available for carryforward from 2021 through 2024	126	(21)
Tax losses available for carryforward in 2025 and thereafter	115	(22)
Tax losses available for carryforward indefinitely	2,274	(579)
CURRENT TAX LOSS CARRYFORWARDS	**2,515**	**(622)**
Unrecognized deferred tax assets on temporary differences		(168)
TOTAL		**(790)**

NOTE 10 STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

10.1 Stockholders' equity

10.1.1 Change in share capital

10.1.1.1 Change in the number of shares outstanding

The number of shares outstanding and the number of treasury shares held at December 31, 2020 can be analyzed as follows:

	2020	2019
NUMBER OF SHARES OUTSTANDING AT JANUARY 1	**239,029,111**	**237,287,487**
Number of treasury shares purchased/sold under the liquidity agreement(1) or delivered following the exercise of stock options or free shares granted	540,947	957,981
Number of shares issued under employee stock ownership plans: Shares4U(2)	680,660	783,643
NUMBER OF SHARES OUTSTANDING AT DECEMBER 31	**240,250,718**	**239,029,111**
Number of treasury shares held by the Group	1,466,685	2,007,632
NUMBER OF SHARES REPRESENTING THE COMPANY'S SHARE CAPITAL AT DECEMBER 31(3)	**241,717,403**	**241,036,743**

(1) *See Note 10.1.1.2, page 380.*

(2) *As part of the Shares4U 2020 plan (see Note 5.4.4, page 346), a 15 million euro capital increase reserved for employees took place on November 16, 2020, issuing 680,660 new shares, each with a par value of 1 euro. This new standard plan was offered to employees, under which they could subscribe to Valeo shares directly or through a Company mutual fund, at a subscription price set by the Group's Chairman and Chief Executive Officer acting on the authority of the Board of Directors on September 21, 2020, at 21.61 euros. This gave rise to 14 million euros in additional paid-in capital.*

(3) *At December 31, 2020 and December 31, 2019, each share had a par value of 1 euro and was fully paid up.*

10.1.1.2 Equity management

The Group seeks to maintain a solid capital base in order to retain the confidence of investors, creditors and the market, and to secure its future development. Its objective is to strike a balance between levels of debt and equity compatible with an investment grade rating.

The Group may be required to buy back treasury shares on the market to cover its obligations with regard to free share and employee stock ownership plans, as well as the liquidity agreement. The liquidity agreement, which is consistent with the Code of Ethics published by the French Association of Investment Firms (*Association Française des Entreprises d'Investissement* – AFEI), was signed with an investment services provider on March 25, 2019, replacing the previous liquidity agreement signed on April 22, 2004. At December 31, 2020, 17,361,776 euros had been allocated to the liquidity agreement compared with 100,000 shares and 14,610,641 euros at December 31, 2019.

10.1.2 Translation adjustment

Movements in the translation adjustment (attributable to the Group) in the year resulted in an unrealized loss of 342 million euros (unrealized gain of 54 million euros at December 31, 2019). In 2020, this essentially reflected the fall in the value of the US dollar (136 million euros), the Brazilian real (43 million euros) and the Chinese renminbi (32 million euros).

10.1.3 Non-controlling interests

Changes in non-controlling interests can be analyzed as follows:

(in millions of euros)	2020	2019
NON-CONTROLLING INTERESTS AT JANUARY 1	**835**	**807**
Share in net earnings	19	81
Dividends paid	(75)	(45)
Changes in scope of consolidation(1)	-	(21)
Fair value adjustments to put options granted to holders of non-controlling interests(2)	5	1
Other movements	-	10
Translation adjustment	(28)	2
NON-CONTROLLING INTERESTS AT DECEMBER 31	**756**	**835**

(1) Changes in the scope of consolidation in 2019 primarily reflect the impacts of acquiring an additional 6.1% interest in Ichikoh during the year.
(2) See Note 8.1.2.2, page 365.

Non-controlling interests can be analyzed as follows:

	PERCENTAGE INTEREST HELD BY NON-CONTROLLING INTERESTS *(in %)*		STOCKHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS *(in millions of euros)*	
	December 31, 2020	December 31, 2019	2020	2019
Pyeong Hwa Company(1)	50.0	50.0	540	608
Ichikoh China Alliance entities	5.8	5.8	27	27
Other Ichikoh entities	38.8	38.8	144	146
Other individually non-material interests	N/A	N/A	45	54
NON-CONTROLLING INTERESTS			**756**	**835**

(1) Pyeong Hwa Company is our longstanding partner in Valeo Pyeong Hwa entities in South Korea and our partner in Valeo-Kapec.

10.2 Earnings per share

Basic earnings per share is calculated by dividing consolidated net income by the weighted average number of shares outstanding during the year, excluding the average number of shares held in treasury stock.

Diluted earnings per share is calculated by dividing consolidated net income by the weighted average number of shares outstanding during the year, plus the weighted average number of ordinary shares that would be outstanding had all the potentially dilutive ordinary shares been converted. Stock options and free shares have a dilutive impact when their exercise price is below market price. This calculation method – known as the treasury stock method – serves to determine the "unpurchased" shares to be added to the shares of common stock outstanding for the purposes of computing the dilution.

	2020	2019
Net income (loss) attributable to owners of the Company *(in millions of euros)*	(1,089)	313
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	239,385	238,170
ATTRIBUTABLE BASIC EARNINGS PER SHARE *(in euros)*	**(4.55)**	**1.31**

	2020	2019
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	239,385	238,170
Dilutive effect from(1) *(in thousands)*:		
• Stock options	5	59
• Free shares	2,190	1,350
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING ADJUSTED FOR IMPACT OF DILUTIVE SHARES *(in thousands of shares)*	**239,385**	**239,579**
ATTRIBUTABLE DILUTED EARNINGS PER SHARE *(in euros)*	**(4.55)**	**1.31**

(1) Stock options and free shares at December 31, 2020 are excluded from the calculation of diluted earnings per share as they are anti-dilutive.

NOTE 11 BREAKDOWN OF CASH FLOWS

11.1 Expenses (income) with no cash effect

Expenses and income with no cash effect can be analyzed as follows in 2020 and 2019:

(in millions of euros)	2020	2019
Depreciation, amortization and impairment of fixed assets	1,967	1,425
Net additions to (reversals from) provisions	184	(82)
Losses (gains) on sales of fixed assets	19	12
Expenses related to share-based payment	33	24
Losses (gains) on long-term investments	(24)	(29)
Losses (gains) on previously held interests	-	-
Other losses (gains) with no cash effect	8	(1)
TOTAL	**2,196**	**1,349**

11.2 Changes in working capital

Changes in the main components of working capital in 2020 and 2019 are shown in the table below:

(in millions of euros)	2020	2019
Inventories	219	29
Accounts and notes receivable	23	(14)
Accounts and notes payable	143	248
Other receivables and payables	12	133
TOTAL	**397**	**396**

Accounts and notes receivable falling due after December 31, 2020 for which substantially all risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position are detailed in Note 4.2, page 329 for accounts and notes receivable and in Note 4.5.2, page 333 for amounts receivable under French research tax credits, CICE tax credits and VAT credits.

11.3 Acquisitions of investments with gain of control, net of cash acquired

The net cash inflow of 19 million euros related mainly to the reimbursement in 2019 of a levy paid by Valeo in 2018 on behalf of the seller as part of an acquisition.

11.4 Issuance and repayment of long-term debt

Repayments made on long-term borrowings in 2020 primarily concern lease liabilities recognized in accordance with IFRS 16 – "Leases" in an amount of 94 million euros (see Note 8.1.2.1, page 362).

In 2019, the Group issued a *Schuldschein* loan, a German private placement, in a nominal amount of 548 million euros (see Note 8.1.2.1, pages 362 to 363). Repayments made on long-term borrowings primarily concerned the 350 million euro bond issued in 2018 (see Note 8.1.2.1, pages 362 to 363) and net lease liabilities recognized in accordance with IFRS 16 – "Leases" in an amount of 84 million euros.

11.5 Acquisitions of investments without gain of control

In 2019, the Group recorded a net cash outflow of 29 million euros, chiefly relating to the impacts of increasing its shareholding in Ichikoh during the first half of the year.

11.6 Free cash flow and net cash flow

Free cash flow corresponds to net cash from operating activities (excluding changes in non-recurring sales of accounts and notes receivable) after taking into account acquisitions and disposals of property, plant and equipment and intangible assets and payments for the principal portion of lease liabilities. This indicator reflects the Group's ability to generate cash from its operations and is taken into account by General Management to define its investment strategy and financing policy.

Net cash flow corresponds to free cash flow less (i) cash flows in respect of investing activities, relating to acquisitions and disposals of investments and to changes in certain items shown in non-current financial assets, (ii) cash flows in respect of financing activities relating to share capital, dividends paid, treasury share purchases and sales, interest paid and received, loan issuance costs and premiums and acquisitions of investments without gain of control, and (iii) changes in non-recurring sales of accounts and notes receivable.

Free cash flow and net cash flow can be reconciled as follows with the consolidated statement of cash flows between 2020 and 2019:

(in millions of euros)	2020	2019
Gross operating cash flows	1,631	2,360
Income taxes paid	(188)	(292)
Changes in working capital	397	396
NET CASH FLOWS FROM OPERATING ACTIVITIES	**1,840**	**2,464**
Net payments for purchases of intangible assets and property, plant and equipment	(1,439)	(1,906)
Net payments for the principal portion of lease liabilities(1)	(86)	(84)
Elimination of change in non-recurring sales of accounts and notes receivable(2)	(21)	45
FREE CASH FLOW	**294**	**519**
Change in non-recurring sales of accounts and notes receivable(2)	21	(45)
Net change in non-current financial assets(1)	(211)	(274)
Acquisitions of investments with gain of control, net of cash acquired	(5)	19
Acquisitions of investments in associates and/or joint ventures	-	(5)
Disposals of investments with loss of control, net of cash transferred	(3)	(13)
Acquisitions of investments without gain of control	(1)	(29)
Dividends paid to owners of the Company and to non-controlling interests of consolidated subsidiaries	(122)	(343)
Capital increase in cash	15	19
Sale (purchase) of treasury stock	4	15
Net interest paid/received	(75)	(71)
Loan issue costs and premiums	-	(2)
NET CASH FLOW	**(83)**	**(210)**

(1) *The net cash inflow of 8 million euros in respect of lease receivables was set off against payments for the principal portion of lease liabilities.*
(2) *Valeo carries out recurring and one-off sales of its accounts and notes receivable to banks. An agreement at a specific date is drawn up for one-off, or non-recurring, transactions of this type. An agreement spanning one or more years is drawn up for recurring transactions. Each contract is analyzed in light of IFRS 9 on the derecognition of financial assets in order to determine whether the risks and rewards inherent to ownership of the receivables have been transferred (see Note 4.2, page 329).*

NOTE 12 FEES PAID TO THE STATUTORY AUDITORS

Fees paid to the Group's Statutory Auditors (excluding their network) and recognized in the consolidated statement of income for the Valeo parent company and the French subsidiaries, are as follows:

	ERNST & YOUNG		MAZARS	
(in millions of euros)	2020	2019	2020	2019
AUDIT				
Statutory audit, certification and review of the individual and consolidated financial statements	1.6	1.8	1.3	1.3
Non-audit services	0.2	-	0.1	-
TOTAL FEES	**1.8**	**1.8**	**1.4**	**1.3**

Non-audit services provided by Ernst & Young et Autres and Mazars to the Group and the entities it controls concern (i) comfort letters in connection with bond issues, (ii) statements issued to validate information presented in expenditure reports relating to subsidized projects and (iii) agreed-upon procedures in connection with a report certifying CSR information.

NOTE 13 LIST OF CONSOLIDATED COMPANIES

	DECEMBER 31, 2020		DECEMBER 31, 2019	
Company	Consolidation method	% interest	Consolidation method	% interest
EUROPE				
FRANCE				
Valeo (parent company)				
DAV	FC	100	FC	100
Equipement 2	FC	100	FC	100
Equipement 11	FC	100	FC	100
SC2N	FC	100	FC	100
Société de Participations Valeo	FC	100	FC	100
Valeo Bayen	FC	100	FC	100
Valeo Embrayages	FC	100	FC	100
Valeo Equipements Electriques Moteur	FC	100	FC	100
Valeo Finance	FC	100	FC	100
Valeo Management Services	FC	100	FC	100
Valeo Matériaux de Friction	FC	100	FC	100
Valeo Comfort and Driving Assistance	FC	100	FC	100
Valeo Service	FC	100	FC	100
Valeo Systèmes de Contrôle Moteur	FC	100	FC	100
Valeo Systèmes d'Essuyage	FC	100	FC	100
Valeo Systèmes Thermiques	FC	100	FC	100
Valeo Vision	FC	100	FC	100
Valeo Siemens eAutomotive France SAS	EM	50	EM	50
Kuantic	EM	33	EM	33
SPAIN				
Valeo Climatización, SAU	FC	100	FC	100
Valeo España, SAU	FC	100	FC	100
Valeo Iluminación, SAU	FC	100	FC	100
Valeo Service España, SAU	FC	100	FC	100
Valeo Termico, SAU	FC	100	FC	100
ITALY				
Valeo Service Italia, SpA	FC	100	FC	100
Valeo, SpA	FC	100	FC	100

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 321).
(1) See Note 2.2.1, page 324.
(2) Creation during the year with no material impact on the consolidated financial statements.
(3) Disposals.
(4) Mergers and liquidations.
(5) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of the identified entities. They will be published in the German Federal Gazette.

	DECEMBER 31, 2020		DECEMBER 31, 2019	
Company	Consolidation method	% interest	Consolidation method	% interest
EUROPE				
GERMANY				
Valeo Auto-Electric GmbH[5]	FC	100	FC	100
Valeo GmbH[5]	FC	100	FC	100
Valeo Holding GmbH[5]	FC	100	FC	100
Valeo Klimasysteme GmbH[5]	FC	100	FC	100
Valeo Schalter und Sensoren GmbH[5]	FC	100	FC	100
Valeo Service Deutschland GmbH[5]	FC	100	FC	100
Valeo Wischersysteme GmbH[5]	FC	100	FC	100
Valeo Telematik und Akustik GmbH (formerly peiker acustic GmbH)(5)	FC	100	FC	100
CloudMade Deutschland GmbH	EM	50	EM	50
Valeo Thermal Commercial Vehicles Germany GmbH[5]	FC	100	FC	100
Valeo Siemens eAutomotive GmbH	EM	50	EM	50
Valeo Siemens eAutomotive Germany GmbH	EM	50	EM	50
Valeo Siemens eAutomotive BSAES Holding GmbH	EM	50	EM	50
FTE Group Holding GmbH[5]	FC	100	FC	100
FTE Verwaltungs GmbH[5]	FC	100	FC	100
FTE Asia GmbH[5]	FC	100	FC	100
FTE automotive GmbH[5]	FC	100	FC	100
FTE automotive systems GmbH[5]	FC	100	FC	100
FTE automotive Möve GmbH[5]	FC	100	FC	100
gestigon GmbH[5]	FC	100	FC	100
Asaphus Vision GmbH	EM	50	EM	50
UNITED KINGDOM				
Valeo (UK) Limited	FC	100	FC	100
Valeo Climate Control Limited	FC	100	FC	100
Valeo Engine Cooling UK Limited	FC	100	FC	100
Valeo Management Services UK Limited	FC	100	FC	100
Valeo Service UK Limited	FC	100	FC	100
Valeo Air Management UK Limited	FC	100	FC	100
CloudMade Holdings Limited	EM	50	EM	50
CloudMade Limited	EM	50	EM	50
IRELAND				
Connaught Electronics Limited	FC	100	FC	100
HI-KEY Limited	FC	100	FC	100
Valeo Ichikoh Holding Limited	FC	94.2	FC	94.2

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 321).
(1) See Note 2.2.1, page 324.
(2) Creation during the year with no material impact on the consolidated financial statements.
(3) Disposals.
(4) Mergers and liquidations.
(5) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of the identified entities. They will be published in the German Federal Gazette.

	DECEMBER 31, 2020		DECEMBER 31, 2019	
Company	**Consolidation method**	**% interest**	**Consolidation method**	**% interest**
BELGIUM				
Valeo Service Belgique	FC	100	FC	100
Valeo Vision Belgique	FC	100	FC	100
LUXEMBOURG				
Coreval	FC	100	FC	100
NORWAY				
Valeo Siemens eAutomotive Norway AS	EM	50	EM	50
DENMARK				
FTE automotive Denmark ApS	FC	100	FC	100
SWEDEN				
Valeo Climate Control Sweden	FC	100	FC	100
FINLAND				
Valeo Thermal Commercial Vehicles Finland Oy (Ltd)	FC	100	FC	100
NETHERLANDS				
Valeo Sub-Holdings CV (formerly Valeo CV (Netherlands)	FC	100	FC	100
Valeo Holding Netherlands BV	FC	100	FC	100
Valeo International Holding BV	FC	100	FC	100
CZECH REPUBLIC				
Valeo Autoklimatizace k.s.	FC	100	FC	100
Valeo Compressor Europe s.r.o.	FC	100	FC	100
Valeo Vymeniky Tepla s.r.o.	FC	100	FC	100
FTE automotive Czechia s.r.o.	FC	100	FC	100
SLOVAKIA				
FTE automotive Slovakia s.r.o.	FC	100	FC	100
POLAND				
Valeo Autosystemy SpZOO	FC	100	FC	100
Valeo Electric and Electronic Systems SpZOO	FC	100	FC	100
Valeo Service Eastern Europe SpZOO	FC	100	FC	100
Valeo Siemens eAutomotive Poland SpZOO	EM	50	EM	50
HUNGARY				
Valeo Auto-Electric Hungary LLC	FC	100	FC	100
Valeo Siemens eAutomotive Hungary Kft.	EM	50	EM	50
ROMANIA				
Valeo Lighting Injection SA	FC	100	FC	100
Valeo Sisteme Termice SRL	FC	100	FC	100
RUSSIA				
Valeo Technology Rus Limited Liability Company	FC	100	FC	100
Valeo Service Limited Liability Company	FC	100	FC	100

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 321).

(1) See Note 2.2.1, page 324.

(2) Creation during the year with no material impact on the consolidated financial statements.

(3) Disposals.

(4) Mergers and liquidations.

(5) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of the identified entities. They will be published in the German Federal Gazette.

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Company	DECEMBER 31, 2020 Consolidation method	% interest	DECEMBER 31, 2019 Consolidation method	% interest
UKRAINE				
CloudMade Ukraine LLC	EM	50	EM	50
Spheros-Elektron TzOV	EM	20	EM	20
TURKEY				
Valeo Otomotiv Sanayi ve Ticaret AS	FC	100	FC	100
Valeo Ticari Tasitlar Termo Sistemleri AS	FC	100	FC	100
AFRICA				
TUNISIA				
DAV Tunisie SA	FC	100	FC	100
Valeo Embrayages Tunisie SA	FC	100	FC	100
Valeo Tunisie SA	FC	100	FC	100
MOROCCO				
Valeo Vision Maroc, SA	FC	100	FC	100
EGYPT				
Valeo Internal Automotive Software Egypt	FC	100	FC	100
SOUTH AFRICA				
Valeo Systems South Africa (Proprietary) Ltd	FC	51	FC	51
Mornay Trading (Proprietary) Limited	FC	100	FC	100
Valeo Thermal Systems East London (Pty) Ltd	FC	51	FC	51
Valeo Thermal Commercial Vehicles SA (Pty) Ltd	FC	100	FC	100
NORTH AMERICA				
UNITED STATES				
Valeo North America, Inc.	FC	100	FC	100
Valeo Radar Systems, Inc.	FC	100	FC	100
Detroit Thermal Systems LLC	EM	49	EM	49
Detroit Thermal Systems Leverage Lender LLC(4)	-	-	EM	49
CloudMade, Inc.	EM	50	EM	50
Valeo Thermal Commercial Vehicles North America, Inc.	FC	100	FC	100
PIAA Corp., USA	FC	61.2	FC	61.2
Valeo Kapec North America, Inc.	FC	50	FC	50
FTE automotive USA Inc.	FC	100	FC	100
FTE automotive North America Inc.	FC	100	FC	100

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 321).
(1) See Note 2.2.1, page 324.
(2) Creation during the year with no material impact on the consolidated financial statements.
(3) Disposals.
(4) Mergers and liquidations.
(5) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of the identified entities. They will be published in the German Federal Gazette

Company	DECEMBER 31, 2020 Consolidation method	DECEMBER 31, 2020 % interest	DECEMBER 31, 2019 Consolidation method	DECEMBER 31, 2019 % interest
CANADA				
Valeo Canada, Inc.	FC	100	FC	100
MEXICO				
Delmex de Juarez, S de RL de CV	FC	100	FC	100
Valeo Sistemas Automotrices de México, SA de CV	FC	100	FC	100
Valeo Sistemas Electricos, SA de CV	FC	100	FC	100
Valeo Sistemas Electronicos, S de RL de CV	FC	100	FC	100
Valeo Iluminacion Servicios, S de RL de CV(4)	-	-	FC	100
Valeo Termico Servicios, S de RL de CV	FC	100	FC	100
Valeo Mexico Tech Center, SA de CV	FC	100	FC	100
Valeo Thermal Commercial Vehicles Mexico, SA de CV	FC	60	FC	60
Valeo Telematica y Acustica, SA de CV (formerly peiker acustic de Mexico, SA de CV)	FC	100	FC	100
Valeo Kapec, SA de CV	FC	50	FC	50
FTE Mexicana, SA de CV	FC	100	FC	100
SOUTH AMERICA				
BRAZIL				
Valeo Sistemas Automotivos Ltda	FC	100	FC	100
Valeo climatizacao do Brasil – veiculos comerciais S/A	FC	60	FC	60
Reparts Comercia de Peças para veiculos Ltda	FC	60	FC	60
Setbus Soluções Automotivas Eireli	FC	60	FC	60
FTE Indústria e Comércio Ltd(4)	-	-	FC	100
ARGENTINA				
Emelar Sociedad Anonima	FC	100	FC	100
Valeo Embragues Argentina, SA	FC	100	FC	100
Valeo Termico Argentina, SA	FC	100	FC	100
Valeo Climatizacion de vehiculos comerciales SAS	FC	100	FC	100
COLOMBIA				
Spheros Thermosystems Colombia SAS	FC	60	FC	60
ASIA PACIFIC				
THAILAND				
Valeo Niles (Thailand) Co. Ltd	FC	100	FC	100
Valeo Siam Thermal Systems Co. Ltd	FC	74.9	FC	74.9
Valeo Comfort and Driving Assistance Systems (Thailand) Ltd	FC	100	FC	100
Ichikoh Industries (Thailand) Co. Ltd	FC	61.2	FC	61.2

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 321).
(1) See Note 2.2.1, page 324.
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(3) Disposals.
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(5) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of the identified entities. They will be published in the German Federal Gazette.

Company	DECEMBER 31, 2020 Consolidation method	% interest	DECEMBER 31, 2019 Consolidation method	% interest
SOUTH KOREA				
Valeo Automotive Korea Co. Ltd	FC	100	FC	100
Valeo Electrical Systems Korea, Ltd	FC	100	FC	100
Valeo Pyeong HWA Co. Ltd	FC	50	FC	50
Valeo Pyeong Hwa Automotive Components Co. Ltd (VPHC)	FC	50	FC	50
Valeo Pyeong HWA International Co. Ltd	FC	50	FC	50
Valeo Samsung Thermal Systems Co. Ltd	FC	50	FC	50
Valeo Pyeong HWA Metals Co. Ltd	EM	49	EM	49
Valeo Kapec Co. Ltd	FC	50	FC	50
PHVS Co. Ltd	FC	49	FC	49
Valeo PHC(2)	FC	50	-	-
INDONESIA				
PT Valeo AC Indonesia	FC	100	FC	100
VPH Asean Transmission	FC	50	FC	50
PT. Ichikoh Indonesia	FC	61.2	FC	61.2
MALAYSIA				
Valeo Malaysia SDN.BHD.	FC	100	FC	100
Ichikoh (Malaysia) SDN.BHD.	FC	42.8	FC	42.8
Valeo Malaysia CDA SDN.BHD.	FC	100	FC	100
Spheros SDN.BHD.	FC	100	FC	100
UNITED ARAB EMIRATES				
Valeo Thermal Commercial Vehicles Middle East FZE	FC	100	FC	100
HONG KONG				
Spheros Ltd	FC	100	FC	100
TAIWAN				
Niles CTE Electronic Co. Ltd	FC	51	FC	51
AUSTRALIA				
Valeo Service Australia Pty Ltd	FC	100	FC	100
Valeo Thermal Commercial Vehicles Australia Pty Ltd	FC	100	FC	100
JAPAN				
Ichikoh Industries Limited	FC	61.2	FC	61.2
Life Elex. Inc(1)	FC	36.2	FC	36.2
Kyushu Ichikoh Industries Ltd	FC	61.2	FC	61.2
Hakuden Ltd	FC	61.2	FC	61.2
Misato Industries Ltd	FC	61.2	FC	61.2
PIAA Corporation	FC	61.2	FC	61.2
Valeo Japan Co. Ltd	FC	100	FC	100
Valeo Kapec Japan K,K.	FC	50	FC	50
CloudMade Co. Ltd	EM	50	EM	50
Nitto Manufacturing Co. Ltd	FC	98	FC	98

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 321).
(1) See Note 2.2.1, page 324.
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(3) Disposals.
(4) Mergers and liquidations.
(5) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of the identified entities. They will be published in the German Federal Gazette.

	DECEMBER 31, 2020		DECEMBER 31, 2019	
Company	Consolidation method	% interest	Consolidation method	% interest
CHINA				
Faw-Valeo Climate Control Systems Co. Ltd	EM	36.5	EM	36.5
Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd	FC	94.2	FC	94.2
Guangzhou Valeo Engine Cooling Co. Ltd	FC	100	FC	100
Huada Automotive Air Conditioner (Hunan) Co. Ltd	EM	45	EM	45
Nanjing Valeo Clutch Co. Ltd	FC	37.5	FC	37.5
Shanghai Valeo Automotive Electrical Systems Company Ltd	EM	50	EM	50
Shenyang Valeo Auto Lighting Co. Ltd	FC	94.2	FC	94.2
Shenyang Valeo Pyeong-Hwa Transmission Systems Co. Ltd	FC	50	FC	50
Taizhou Valeo Wenling Automotive Systems Company Ltd	FC	73	FC	73
Valeo Auto Parts Trading (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Automotive Air Conditioning Hubei Co. Ltd	FC	100	FC	100
Valeo Kapec Torque Converters (Nanjing) Co. Ltd	FC	50	FC	50
Valeo Engine Cooling (Foshan) Co. Ltd	FC	100	FC	100
Valeo Compressor (Changchun) Co. Ltd	FC	100	FC	100
Valeo Friction Materials (Nanjing) Co. Ltd	FC	50	FC	50
Valeo Ichikoh (China) Auto Lighting Co., Ltd	FC	94.2	FC	94.2
Valeo Interior Controls (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Interior Controls (Shenzhen) Co. Ltd	FC	100	FC	100
Valeo Lighting Hubei Technical Center Co. Ltd	FC	94.2	FC	94.2
Valeo Management (Beijing) Co. Ltd(4)	-	-	FC	100
Valeo Management (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Comfort Driving Assistance Systems (Guangzhou) Co. Ltd	FC	100	FC	100
Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd	FC	73	FC	73
Wuhu Valeo Automotive Lighting Systems Co. Ltd	FC	94.2	FC	94.2
Wuxi Valeo Automotive Components and System Co. Ltd	FC	100	FC	100
Changshu Valeo Automotive Wiper System Co. Ltd	FC	73	FC	73
Shanghai Valeo Pyeong Hwa International Co. Ltd	FC	50	FC	50
Valeo Siemens eAutomotive (Shenzhen) Co. Ltd (formerly Valeo ePowertrain (Shenzhen) Co. Ltd)	EM	50	EM	50
Siemens Automotive ePowertrain Systems (Shanghai) Co. Ltd. (formerly Valeo Siemens eAutomotive Shanghai Co. Ltd)	EM	50	EM	50

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 321).
(1) See Note 2.2.1, page 324.
(2) Creation during the year with no material impact on the consolidated financial statements.
(3) Disposals.
(4) Mergers and liquidations.
(5) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of the identified entities. They will be published in the German Federal Gazette.

Company	DECEMBER 31, 2020 Consolidation method	% interest	DECEMBER 31, 2019 Consolidation method	% interest
Beijing Siemens Automotive E-Drive Systems Co. Ltd. Changzhou	EM	30	EM	30
Foshan Valeo Electronic Auto Parts Co. Ltd	FC	100	FC	100
Valeo Thermal Commercial Vehicles System (Suzhou) Co. Ltd	FC	100	FC	100
Spheros (Yangzhou) Limited	FC	100	FC	100
peiker (Shanghai) Automotive Technology Co. Ltd	FC	100	FC	100
Ichikoh (Wuxi) Automotive Parts Co. Ltd	FC	61.2	FC	61.2
Roncheng Life(1)	EM	11.3	EM	11.3
Valeo Powertrain (Nanjing) Co. Ltd	FC	100	FC	100
Valeo Powertrain (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Siemens ePowertrain (Tianjin) Co, Ltd	EM	50	EM	50
Valeo Siemens eAutomotive (Changshu) Co. Ltd	EM	50	EM	50
APG-FTE automotive Co. Ltd	EM	49	EM	49
Fawer Valeo Siemens eAutomotive Parts Changshu	EM	24.8	EM	24.8
FTE automotive (Taicang) Co. Ltd	FC	100	FC	100
Suzhou Valeo PyeongHwa Dongfeng Clutch CO, Ltd	FC	26.25	FC	26.25
INDIA				
Amalgamations Valeo Clutch Private Ltd	EM	50	EM	50
Valeo Friction Materials India Ltd	FC	60	FC	60
Valeo India Private Ltd	FC	100	FC	100
Valeo Service India Auto Parts Private Limited(4)	-	-	FC	100
Valeo Motherson Thermal Commercial Vehicles India Ltd	EM	51	EM	51

FC: fully consolidated/EM: equity method (see Note 2.1.1, page 321).

(1) See Note 2.2.1, page 324.

(2) Creation during the year with no material impact on the consolidated financial statements.

(3) Disposals.

(4) Mergers and liquidations.

(5) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of the identified entities. They will be published in the German Federal Gazette.

5.4.7. Statutory Auditors' report on the consolidated financial statements

This is a translation into English of the statutory auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the information concerning the Group presented in the management report and other documents provided to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the annual general meeting of Valeo,

Opinion

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying consolidated financial statements of Valeo for the year ended December 31, 2020.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at February 18, 2021 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

Independence

We conducted our audit engagement in compliance with independence requirements of the French Commercial Code *(Code de commerce)* and the French Code of Ethics *(Code de déontologie)* for statutory auditors for the period from January 1, 2020 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014.

Justification of Assessments – Key Audit Matters

Due to the global crisis related to the Covid-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of the audits.

It is in this complex and evolving context that, in accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Impairment tests of goodwill and CGUs, capitalized development costs and specific assets

Risk identified	Our response
As at December 31, 2020, goodwill amounted to 2,512 million euros and other intangible assets and properties, plants and equipment amounted to 7,260 million euros, including 1,833 million euros corresponding to capitalized development costs. Every year management conducts an impairment test of goodwill balances at the level of the Business Groups, to measure the risk that these assets cannot be supported by sufficient future cash flows. All property, plant and equipment and other intangible assets are tested for impairment at the level of capitalized development costs or specific assets, and then at the level of Cash-generating units (CGUs) if there is an indication that they may be impaired. During the 2020 financial year, these tests were carried out in the particular context of the health crisis linked to the Covid-19 which led to a deterioration of the automotive market. This deterioration was reflected in lower revenues, reduced operating income and a downward revision of short- and medium-term business forecasts. The implementation method of these tests and the main hypotheses are presented in Note 6.4.1 of the consolidated financial statements. Impairments recorded by the Group as a result of these tests are presented in Notes 1.3.2 of the consolidated financial statements, and in Notes 4.5.1.1, 4.5.1.2, 6.4.2 and 6.4.4 of the consolidated financial statements specifically for the capitalized development costs, CGUs and goodwill. We considered the recoverable value of goodwill and other tangible and intangible assets, which represent a particularly significant amount, to be a key audit matter as the evaluation of the recoverable amounts of the non-current assets, based on the discounted value of future cash flows, is based on significant estimates, judgments and assumptions of the management, in a context of a high economic uncertainty.	We analyzed the existence of impairment indicators, triggering impairment test of capitalized development costs, specific assets and CGUs. Through the expertise of our valuation specialists, and for all the impairment tests including the annual ones on goodwill, we: • reconciled the carrying amounts of each tested CGU and each Business Group, and the carrying amounts of capitalized development costs and specific assets and related to contracts in production, with the consolidated accounts; • examined internal control procedures and management involvement to ensure quality of key information; • evaluated the consistency of the cash flow projections with the latest management's estimates, as they were reported to the board of directors during the preparation process of the medium-term business plan; • conducted an analysis of the management's business plans, by Business Groups and, for the ones having a significant impairment risk, by CGUs, including by comparing with the financial performance of the fiscal year, and the trend observed in the second half of the year; • reviewed volume forecasts, lifespans and internal costs on projects and contracts with impairment indicators; • examined the implementation methods, the valuation method of the recoverable values and its arithmetical implementation; • analyzed the main valuation hypotheses (discount rate and perpetuity growth rate), which we compared with the values provided by the main financial analysts; • evaluated the impact of variations in discount rate and perpetuity growth rate and main operational assumptions through sensitivity analyses. Finally, we assessed the content of the disclosures in the financial statements regarding the impairment losses on goodwill, CGUs' assets, capitalized development costs and specific assets in Notes 1.3.2, 6.4 and 4.5.1 of the consolidated financial statements.

Evaluation of the share in the joint venture VSeA

Risk identified	Our response
As of December 31, 2020, your Company has an investment in the Valeo Siemens eAutomotive joint venture («VSeA»), which is accounted for using the equity method. It also holds loans to the joint venture, with a net book value of 308 million euros at December 31, 2020. As described in Note 4.5.3.3 of the consolidated financial statements, the share in net losses of the joint venture being greater than the net carrying amount of its investment, the Group allocates it on the long-term loans granted by the Valeo Group amounting to 806 million euros, thus depreciated for (498) million euros of the share in accumulated losses by VSeA, of which (256) million euros in FY 2020. Through the expertise of an external expert, Valeo management conducts an evaluation of these financial assets, to assess the long-term loans recoverability according to IFRS 9, and to determine whether there is an objective impairment indicator of net financial assets related to the investment according to IAS 28. The preferred method for this annual evaluation and the hypothesis used are presented in Note 4.5.3.3 of the consolidated financial statements. We considered the evaluation of the share in the joint venture VSeA and the recoverability of the related financial assets to be a key audit matter as they are based on the discounted value of future cash flows and are, as such, based on significant estimates, judgments and assumptions of the management.	With the help of the auditors of the joint venture, we: • conducted an analysis of the business plan prepared by the management of the joint venture, including by comparing with the financial performance of the fiscal year and with the previous business plans and conducted an analysis of the main underlying assumptions by conducting interviews with the management of the joint venture; • evaluated the consistency of the cash flow projections with the latest estimates of the management of the joint venture, as they were reported to the board of directors of the joint venture during the preparation process of the medium-term business plan. Through the expertise of our valuation specialists, we: • reconciled the net carrying amount of the assets related to the joint venture VSeA with the consolidated accounts; • conducted an analysis of the main underlying assumptions of the business plan by conducting interviews with your Company's management; • examined the valuation method of the recoverable value and corroborated the result with another valuation method also based on the discounted value of future cash flows; • analyzed the main valuation hypotheses (discount rate and perpetuity growth rate), which we compared with the values used for the Group; • evaluated the impact of variations in discount rate, normative operating margin and normative investment outflow through sensitivity analyses. Finally, we assessed the content of the disclosures in the consolidated financial statements regarding the investments in equity-accounted companies in Note 4.5.3.3 of the consolidated financial statements.

Assets and liabilities for specific quality risks

Risk identified	Our response
Provisions for customer warranties are set aside to cover the estimated cost of future returns of the goods sold. Those provisions are computed either on a statistical basis or based on specific quality risks. These provisions cover costs related to legal or contractual warranty obligations and costs arising in specific situations not covered by usual warranties with respect to the products already sold. The estimation of these costs is based on both historical data and probability calculations: returns rates observed by products for statistical provisions and reparation costs estimation for provisions for specific quality risks. These provisions are described in Note 7.1 of the consolidated financial statements. The group also analyzes potential benefits and accounts for an accrued income if it is shown that all or part of the costs of implementing the warranties is covered by the group's insurance policies or by the suppliers. We considered the evaluation of provisions for specific quality risk and corresponding accrued income to be a key audit matter as it requires significant estimates and judgments of management.	We got acquainted with the identification and assessment process of these provisions. As part of our audit work we also: • examined the Group's valuation methodology; • assessed the completeness of provisions for specific quality risks by conducting interviews with the director in charge of the monitoring of quality at group level and with the site financial controllers and by examining the Group's internal reporting procedures; • analyzed the hypotheses used in the assessment of the warranties provisions, in particular with the briefing notes prepared by the quality department that summarize the main causes and reparation scenarios of identified technical issues; • obtained an understanding of the group's insurance policy and the policies put in place by interviewing with group's insurance management; • analyzed the available documentation, in particular the communication between the Group and its customers, as well as exchanges between the group and insurers and/or suppliers to assess the existence and reasonableness of the compensation expected when an accrued income is accounted for; • conducted interviews with the site financial controllers and with the financial direction of the Business Groups on specific quality risks, in order to assess the main hypotheses underlying the estimation of the risk and the corresponding accrued income. Finally, we assessed the content of the disclosures in the financial statements regarding the customer's warranties provisions in Note 7.1 of the consolidated financial statements.

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations of the information given in the Board of Directors' Group management report.

We have no matters to report as to their fair presentation and their consistency with the consolidated financial statements.

We attest that the consolidated non-financial statement required by Article L. 225-102-1 of the French Commercial Code *(Code de commerce)* is included in the Group management report, it being specified that, in accordance with Article L. 823-10 of this Code, we have verified neither the fair presentation nor the consistency with the consolidated financial statements of the information contained therein. This information should be reported on by an independent third party.

Report on Other Legal and Regulatory Requirements

Format of presentation of the consolidated financial statements intended to be included in the annual financial report

- In accordance with Article 222-3, III of the AMF General Regulation, the Company's management informed us of its decision to postpone the presentation of the consolidated financial statements in compliance with the European single electronic format as defined in the European Delegated Regulation No 2019/815 of December 17, 2018 to years beginning on or after January 1, 2021. Therefore, this report does not include a conclusion on the compliance with this format of the presentation of the consolidated financial statements intended to be included in the annual financial report mentioned in Article L. 451-1-2, I of the French Monetary and Financial Code *(Code monétaire et financier)*.

Appointment of the Statutory Auditors

- We were appointed as statutory auditors of Valeo by the Annual General Meeting held on June 3, 2010.
- As at December 31, 2020, we were in the eleventh year of total uninterrupted engagement.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with French accounting principles and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code *(Code de commerce)*, our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management in the consolidated financial statements.
- Assesses the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee

We submit to the Audit Committee a report which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code *(Code de commerce)* and in the French Code of Ethics *(Code de déontologie)* for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Courbevoie and Paris-La Défense, February 18, 2021

The Statutory Auditors

French original signed by

MAZARS		ERNST & YOUNG et Autres	
Gonzague Senlis	Jean-Marc Deslandes	Jean-François Ginies	Guillaume Rouger

5.5 ANALYSIS OF VALEO'S RESULTS AFR

Valeo SA is a holding and cash management company on behalf of the Group. It holds financial investments that give it direct or indirect control over the Group's companies and is the head of the tax consolidation group in France. Valeo also implements the financing policy and centralizes the management of the market risks to which the Group's subsidiaries are exposed.

Analysis of results

Valeo reported a net operating loss of 74 million euros in 2020, compared with a net operating loss of 42 million euros in 2019. The increase in the operating loss is attributable to an additional 10 million euro expense in respect of the contribution paid to the intragroup partnership (*groupement d'intérêt économique*), Valeo Management Services, and to a 3 million euro increase in bank fees. Income from brand royalties billed to subsidiaries fell by 5 million euros in 2020, owing mainly to the decline in sales caused by the Covid-19 pandemic.

An amount of 17 million euros was set aside during the year to the provision for charges relating to stock purchase option and free share plans, compared to an amount of 15 million euros set aside in 2019. Expenses recognized in respect of the net carrying amount of treasury shares delivered in the year were down slightly on 2019, at 24 million euros.

Net financial income came in at 272 million euros for 2020, down 39 million euros on 2019 (311 million euros). Dividends received or receivable by the Company rose slightly to 241 million euros from 234 million euros one year earlier. As in 2019, Valeo collected 200 million euros in dividends from its holding company, Valeo International Holding BV. Net financial income also includes an 82 million euro net addition to the impairment provision for (i) investments in subsidiaries and affiliates and (ii) loans and advances to subsidiaries and affiliates, compared to a net addition of 72 million euros in 2019. Valeo's cash management activities also generated net interest income of 128 million euros in the year, down 30 million euros compared to 2019 due mainly to the decline in income from subsidiaries following the repayment of long-term loans by holding companies which were recapitalized in 2020.

No non-recurring items were recorded in 2020, compared to a non-recurring expense of 1 million euros in 2019.

Income tax for 2020 represented a tax benefit of 2 million euros arising on tax consolidation, a decrease of 12 million euros on 2019.

Net income came in at 200 million euros for 2020, compared with 282 million euros in 2019.

Analysis of the balance sheet

At December 31, 2020, Valeo's stockholders' equity stood at 3,963 million euros, an increase compared to the end-2019 figure of 3,796 million euros. This 167 million euro net increase reflects net income of 200 million euros for the year, the 15 million euro share capital increase reserved for employees as part of the 2020 employee share ownership plan (Shares4U), and the July 2020 payment to shareholders of a dividend totaling 48 million euros in respect of 2019 earnings. A dividend of 297 million euros was paid in 2019 in respect of 2018 earnings.

The employee share subscription offers, available since 2016 for employees in the Group's main countries, are part of Valeo's employee share ownership policy being rolled out in France and abroad, with the goal of involving employees more closely in the Group's performance.

Analysis of cash and cash equivalents

Net changes in cash and cash equivalents represented a positive 1,464 million euros in 2020.

Net cash flows used in investing activities reflect the recapitalization of the holding company Société de Participations Valeo for 2,768 million euros, offset by the repayment of long-term loans by the holding companies Société de Participations Valeo (550 million euros), Valeo Bayen (1,818 million euros) and Valeo Finance (400 million euros).

Financing activities represented net cash inflows of 1,312 million euros in 2020, and include 1,345 million euros in short-term debt with external counterparties. To cover its short-term financing requirements, Valeo issued Negotiable European Commercial Paper (NEU CP) amounting to 1,588 million euros at December 31, 2020 (243 million euros at end-2019). Net cash from financing activities also includes the payment of a 48 million euro dividend to the Group's shareholders, and a 15 million euro capital increase carried out in cash and reserved for employees.

Change in governance

On October 27, 2020, the Board of Directors unanimously approved the succession plan for Jacques Aschenbroich. In accordance with the plan, Jacques Aschenbroich will continue to act as Chairman of the Board of Directors until the end of his current term of office as a director, i.e. until May 2023, and will be vested with specific missions which aim to ensure a smooth transition with Christophe Périllat, currently acting as Chief Operating Officer of Valeo, who will succeed Jacques Aschenbroich in his role as Chief Executive Officer of the Company from January 2022.

In this context, Christophe Périllat was appointed as Associate Chief Executive Officer (*Directeur Général Adjoint*) of Valeo as of October 27, 2020 and until the Annual Shareholders' Meeting to be held in May 2021, following which the Board of Directors will appoint him as Deputy Chief Executive Officer (*Directeur Général Délégué*) of Valeo. The Board of Directors will also propose the appointment of Christophe Périllat as a director of Valeo at the Shareholders' Meeting to be held in May 2021.

Information on payment terms

At December 31, 2020, trade payables due by that date excluding accrued payables totaled less than 1 million euros. At December 31, 2019, trade payables due by that date also totaled 1 million euros.

Pursuant to the provisions of Article D.441-4 of the French Commercial Code (*Code de Commerce*), details of payment terms for the Company's suppliers and customers are provided below and include outstanding incoming and outgoing invoices as of December 31, 2020.

Trade payables

	ARTICLE D.441 I – 1° OF THE FRENCH COMMERCIAL CODE: OUTSTANDING INCOMING INVOICES AS OF DECEMBER 31, 2020					
(in thousands of euros)	**0 days (indicative)**	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91+ days**	**Total (1 day or more)**
(A) BY AGING CATEGORY						
Number of invoices	4	16	1	1	24	42
Total amount of invoices (incl. VAT)	87	279	96	40	15	431
Percentage of total amount of purchases over the period (incl. VAT)	0.3%	0.9%	0.3%	0.1%	0.1%	1.5%
(B) INVOICES EXCLUDED FROM (A) RELATING TO DISPUTED OR UNRECOGNIZED PAYABLES AND RECEIVABLES						
Number of invoices excluded	None					
Total amount of invoices excluded	None					
(C) STANDARD PAYMENT TERMS USED						
Payment terms used to calculate late payments	The contractual period does not exceed net 60 days for French suppliers					

Trade receivables

	ARTICLE D.441 I – 2° OF THE FRENCH COMMERCIAL CODE: OUTSTANDING OUTGOING INVOICES AS OF DECEMBER 31, 2020					
(in thousands of euros)	**0 days (indicative)**	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91+ days**	**Total (1 day or more)**
(A) BY AGING CATEGORY						
Number of invoices	6	-	2	-	7	9
Total amount of invoices (incl. VAT)	1,036	-	274	-	36	310
Percentage of total sales over the period (incl. VAT)	3.3%	0.0%	0.9%	0.0%	0.1%	1.0%
(B) INVOICES EXCLUDED FROM (A) RELATING TO DISPUTED OR UNRECOGNIZED PAYABLES AND RECEIVABLES						
Number of invoices excluded	None					
Total amount of invoices excluded	None					
(C) STANDARD PAYMENT TERMS USED						
Payment terms used to calculate late payments	Contractual and statutory terms of 0 to 60 days					

Non tax-deductible expenses

Valeo did not recognize any sumptuary expenses that were not deductible for tax purposes in 2020. No overheads were added back to income for tax purposes in 2020.

5.6 2020 PARENT COMPANY FINANCIAL STATEMENTS AFR

In accordance with Article 19 of Regulation (EU) 2017/1129, the following information is incorporated by reference in this Universal Registration Document:

- the parent company financial statements and the Statutory Auditors' report for the year ended December 31, 2019, set out on pages 390 to 412 and 412 to 415 of the Universal Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on April 28, 2020 under number D.20-0385;
- the parent company financial statements and the Statutory Auditors' report for the year ended December 31, 2018, set out on pages 376 to 397 and 398 to 401 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2019 under number D.19-0224.

5.6.1 Income statement

(in millions of euros)	*Notes*	**2020**	**2019**
Provision reversals	*3.1.2*	26	22
Other operating income	*4.1.1*	26	31
Expense transfers	*4.1.2*	4	2
TOTAL OPERATING INCOME		**56**	**55**
Other purchases and external charges	*4.1.3*	(39)	(23)
Personnel expenses	*3.2*	(34)	(25)
Other taxes		(1)	(1)
Depreciation and amortization	*4.1.4*	(14)	(11)
Provisions	*3.1.2*	(42)	(37)
TOTAL OPERATING EXPENSES		**(130)**	**(97)**
OPERATING LOSS		**(74)**	**(42)**
Net financial income	*7*	272	311
INCOME BEFORE TAX AND NON-RECURRING ITEMS		**198**	**269**
Non-recurring income (expense)		-	(1)
Income tax	*8.2*	2	14
NET INCOME FOR THE YEAR		**200**	**282**

The Notes are an integral part of these financial statements.

5.6.2 Balance sheet

(in millions of euros)	*Notes*	DECEMBER 31, 2020 Gross	DECEMBER 31, 2020 Depr., amort. & impairment losses	DECEMBER 31, 2020 Net	DECEMBER 31, 2019 Net
ASSETS					
Intangible assets		-	-	-	-
Property, plant and equipment		5	(4)	1	1
Long-term financial assets	*5*	8,297	(575)	7,722	7,657
TOTAL NON-CURRENT ASSETS		**8,302**	**(579)**	**7,723**	**7,658**
Prepaid and recoverable taxes	*8.4/10.1*	12	-	12	23
Other operating receivables		2	-	2	2
Financial receivables	*6.1.4*	3,375	-	3,375	2,892
Marketable securities and cash and cash equivalents	*6.1.5*	2,667	-	2,667	1,406
Accrued assets	*4.2.2*	41	-	41	53
TOTAL CURRENT ASSETS		**6,097**	**-**	**6,097**	**4,376**
TOTAL ASSETS		**14,399**	**(579)**	**13,820**	**12,034**

(in millions of euros)	*Notes*	December 31, 2020	December 31, 2019(1)
EQUITY AND LIABILITIES			
Share capital	*9.1*	242	241
Additional paid-in capital	*9.2*	1,545	1,531
Legal reserve		25	25
Untaxed reserves		4	4
Other reserves		263	263
Retained earnings		1,684	1,450
Net income for the year		200	282
STOCKHOLDERS' EQUITY	*9*	**3,963**	**3,796**
Provisions for contingencies arising on stock purchase option and free share plans	*3.1.2*	92	75
Provisions for pensions and other employee benefits	*3.3*	1	1
Other provisions for contingencies and charges	*4.2.1*	74	39
PROVISIONS FOR CONTINGENCIES AND CHARGES		**167**	**115**
Long-term portion of long-term debt	*6.1.2*	3,548	4,060
Current portion of long-term debt	*6.1.2*	509	40
Short-term debt with external counterparties	*6.1.3*	1,588	243
Other short-term debt	*6.1.3*	3,759	3,479
Operating payables	*10.1*	16	7
Other payables	*8.5/10.1*	269	291
Accrued liabilities		1	3
TOTAL LIABILITIES		**9,690**	**8,123**
TOTAL EQUITY AND LIABILITIES		**13,820**	**12,034**

(1) The balance sheet at December 31, 2019 differs from that presented in the 2019 parent company financial statements since it has been adjusted to reflect the exclusion of short-term debt with external counterparties from the definition of net cash and cash equivalents (see Note 6.1.3).

The Notes are an integral part of these financial statements.

5.6.3 Statement of cash flows

(in millions of euros)	*Notes*	2020	2019[1]
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		200	282
Expenses (income) with no cash effect:			
• depreciation and amortization/deferred charges		21	21
• net additions to impairment and provisions		97	81
• other expenses (income) with no cash effect		-	-
GROSS OPERATING CASH FLOWS		**318**	**384**
Changes in working capital:			
• operating receivables		11	80
• operating payables		9	-
• other receivables and payables		(77)	35
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**261**	**499**
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposals of intangible assets		-	-
Acquisitions and capital increases in long-term financial assets	*5.2*	(2,792)	-
Change in loans and advances to subsidiaries and affiliates	*5.2*	2,683	(172)
Disposals and capital decreases in long-term financial assets	*5.2*	-	-
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**(109)**	**(172)**
NET CASH GENERATED (USED) BEFORE FINANCING ACTIVITIES		**152**	**327**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	*9.4*	(48)	(297)
Change in share capital:			
• issuance of shares paid up in cash	*9.4*	15	19
Change in long-term debt:		-	-
• issuance of long-term debt	*6.1.2*	-	548
• repayment of long-term debt	*6.1.2*	-	(350)
Change in short-term debt with external counterparties	*6.1.3*	1,345	(571)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**1,312**	**(651)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**1,464**	**(324)**
Net cash and cash equivalents at beginning of year	*6.1.1*	**819**	**1,143**
Net cash and cash equivalents at end of year	*6.1.1*	**2,283**	**819**

(1) The statement of cash flows for the year ended December 31, 2019 differs from that presented in the 2019 parent company financial statements since it has been adjusted to reflect the exclusion of short-term debt with external counterparties from the definition of net cash and cash equivalents (see Note 6.1.3).

The Notes are an integral part of these financial statements.

5.6.4 Notes to the parent company financial statements

NOTE 1 DESCRIPTION OF THE COMPANY

Valeo is a French company whose registration number (SIREN) is 552 030 967. The Company's registered office is at 43, rue Bayen, 75017 Paris, France.

Valeo is the parent company of the Valeo Group and the head of the tax consolidation group in France.

It acts as a holding company by holding financial investments, which give it direct or indirect control over the Group's companies.

It also implements the Group financing policy and ensures that its subsidiaries' financing requirements are covered. It centralizes the management of market risks (changes in interest rates, exchange rates and listed commodity prices) to which Valeo and its subsidiaries are exposed.

NOTE 2 ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of Valeo (the Company) have been prepared in accordance with Standard No. 2019-09 of December 18, 2019, amending Standard No. 2018-01 issued by the ANC on April 20, 2018. Assets and liabilities are measured at historical cost, contribution value or revalued amount. The accounting principles and policies applied in order to prepare the 2020 parent company financial statements are consistent with those used to prepare the 2019 financial statements.

Figures in the financial statements are presented in millions of euros and are rounded to the nearest million.

Preparation of the financial statements requires Valeo to make estimates and assumptions which could have an impact on the reported amounts of assets and liabilities for both the Company and its subsidiaries and affiliates. These estimates and assumptions concern risks specific to the automotive supply business as well as more general risks to which Group companies are exposed on account of their industrial and commercial operations around the globe. The Group based the medium-term business plans and budgets on projected data for the automotive market, as well as on its order intake and its outlook for new markets thanks to new technologies. These business plans and budgets were used to measure investments in subsidiaries and affiliates (when these measurements are based on subsidiaries' projected data).

The medium-term business plan for 2021-2025 is underpinned by the following assumptions:

- global automotive production, excluding commercial vehicles in China, of 83 million vehicles in 2022 and 90 million vehicles in 2025, representing average annual growth of a negative 1.2% for 2019-2022 and 0.9% for 2019-2025. This production assumption is consistent with those underlying several independent external forecasts and has been revised downwards compared with the forecasts used one year earlier owing to the Covid-19 health crisis and to expectations that the market will only recover its 2019 production volumes in 2023-2024. At the end of the period covered by the new business plan, Asia and the Middle East should represent 52% of global production, Europe and Africa 26%, North America 18% and South America 4%;
- exchange rate assumptions are based on projections of a panel of banks. The exchange rates used for the main currencies featured in the business plan are 1 euro for: 1.12 US dollars, 7.92 Chinese renminbi, 121 Japanese yen, 1,346 South Korean won and 7.11 Brazilian real at the end of the plan;
- Group sales were forecast based on the orders known at the time the business plan was drawn up and by reference to an estimate of the orders to be taken over the term of the business plan. These target order numbers represent around 26% of cumulative original equipment sales over the five-year forecast period and around 50% of original equipment sales for the final year.

The estimates and assumptions used are revised on an ongoing basis. In view of the uncertainties inherent in any assessment, the final amounts reported in future financial statements may differ from the amounts resulting from these estimates.

Covid-19

As a result of the Covid-19 health crisis, the automotive market has deteriorated in the regions where Valeo and its customers are present. The deterioration has led to business disruptions in many countries, a decline in sales, operating losses and a downward revision of short- and medium-term forecasts.

Among the adaptation measures put in place to address the crisis, the Group held talks with the labor organizations with a view to enhancing its competitiveness and harmonizing practices and benefits across the various Valeo Group plants and entities in France, while also maintaining jobs. These talks led to the signature of several agreements in September 2020.

In terms of cash flow, Valeo has negotiated 1.1 billion euros in additional credit lines with its main banks, and at December 31, 2020 its undrawn credit lines represented 2.3 billion euros (see Note 6.2, page 414).

2.2 Foreign currency translation

Transactions in foreign currencies are translated using the exchange rates prevailing at the transaction date.

Assets and liabilities denominated in foreign currencies are translated using the year-end exchange rate.

If no foreign currency hedges are in place, the differences resulting from the translation of foreign currency receivables and payables at the year-end exchange rate are recognized within accruals in the balance sheet. Provisions are recognized for unrealized foreign exchange losses at the year-end to the extent of the unhedged risk. If foreign currency hedges are in place (see Note 6.3, pages 415 to 416), the remeasurement of foreign currency assets and liabilities at the year-end exchange rate is offset by the gains and losses arising on the derivatives.

NOTE 3 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

3.1 Free shares and stock purchase options

Some Valeo Group employees of its direct and indirect subsidiaries receive equity-settled compensation, consisting of free share or stock purchase option plans. Substantially all costs relating to these plans are recognized in Valeo's financial statements.

The different types of plans in place within the Group and their respective accounting treatment are described below.

3.1.1 Equity-settled plans involving the issuance of new shares

No provision has been recognized in respect of these plans pursuant to Article 624-6 of the French General Chart of Accounts. Shares subscribed by employees within the scope of the plans described in Note 9.1, page 419 fall within this category.

3.1.2 Free share and stock purchase option plans involving the delivery of existing shares

Personnel expenses relating to these free shares and stock purchase options are not recorded at the grant date but at the date the free shares are delivered or the stock purchase options are exercised. However, a provision for contingencies and charges is recognized when it is probable that there will be an outflow of resources, i.e., at the date of the decision by Valeo's Board of Directors to allot this plan.

To determine the provision amount, plans are classified into one of two categories: exercisable or non-exercisable plans.

Plans are considered to be non-exercisable when:

- it is considered unlikely that the stock purchase option plan beneficiaries will exercise their options, i.e., because the market value of the shares is lower than the option's exercise price;
- performance and presence conditions are highly unlikely to be met for free share plans.

In the case of exercisable plans, a provision is recognized for treasury shares set aside to cover these plans, corresponding to:

- the number of shares to be allotted; multiplied by
- the cost of the shares at the date they are allocated to the plan, or the probable cost of buying back the shares as assessed at the end of the reporting period, less the exercise price likely to be paid by employees. The exercise price is zero for free share plans.

When the vesting of free shares is explicitly dependent on the grantee remaining employed by Valeo over a certain future period ("vesting period"), the provision is recognized on a straight-line basis over this vesting period.

The amount of the provision recognized changes depending on whether or not treasury shares have been allocated to the relevant stock purchase option or free share plans. These treasury shares are recognized within marketable securities in the balance sheet (see Note 6.1.5, pages 413 to 414) at their repurchase price. When they are allocated to specific plans as from the acquisition date, the value of the shares in the balance sheet continues to be their repurchase price, until they are delivered to the beneficiaries: no impairment is therefore recognized if their acquisition price moves above their market price.

More generally, amounts set aside to these provisions for contingencies and charges are shown on the "Provisions" line within operating income. When the shares are delivered to their beneficiaries, the provision is reversed for the corresponding amount on the "Provision reversals" line within operating items. A personnel expense is also recognized for the carrying amount of the shares delivered. The balance of provisions recognized in respect of these plans is shown under "Provisions for contingencies arising on stock purchase option and free share plans" in the balance sheet.

Movements in these provisions and in personnel expenses relating to the plans are set out below.

Terms and conditions of free share plans

The terms and conditions of the shareholder-approved employee free share plans operated by the Valeo Group at December 31, 2020 were as follows:

Year in which plan was set up	Number of free shares authorized	of which subject to conditions[(1)]	Outstanding shares not yet remitted at Dec. 31, 2020	Year of vesting[(2)]
2016	1,267,022	573,522	201,959[(3)]	2019/2021
2017	1,012,043	466,551	533,353	2020/2021/2022
2018	1,234,623	570,123	801,913	2021/2022/2023
2019	1,699,281	779,496	1,365,006	2022
2020	2,342,306	1,134,116	2,070,976	2023
TOTAL	**7,555,275**	**3,523,808**	**4,973,207**	

(1) *These free shares are subject to the Group meeting performance conditions over the three years following their allotment, with the exception of the 2017 and 2018 plans, for which it has been decided that the assessment period for the performance conditions subject to which the performance shares will vest to their beneficiaries will only be effective after a period of four years following their allotment, with no holding period.*
(2) *The year of vesting varies depending on the country in which the beneficiaries of plans set up prior to 2019 are resident. For the 2019 and 2020 plans, only free shares allotted to the Chairman and Chief Executive Officer are subject to a two-year holding period.*
(3) *All free shares that were subject to the Group meeting performance conditions set out in this plan have been canceled.*

Provisions for contingencies arising on stock purchase option and free share plans

Movements in provisions for contingencies arising on stock purchase option and free share plans in 2019 and 2020 were as follows:

(in millions of euros)	2020	2019
PROVISIONS AT JANUARY 1	**75**	**60**
Utilizations	(24)	(20)
Reversals	(1)	(2)
Additions	42	37
PROVISIONS AT DECEMBER 31	**92**	**75**
Of which current portion (less than 1 year)	*31*	*24*

At December 31, 2020, as all stock purchase option plans had expired, these contingency provisions solely concern treasury shares held to cover free share plans, shown within marketable securities in the balance sheet (see Note 6.1.5, pages 413 to 414). At December 31, 2019, these contingency provisions concerned treasury shares held to cover free share and stock purchase option plans.

The provision utilization in 2020 mainly reflects a 24 million euro reversal relating to the delivery of shares to non-French beneficiaries under the 2015 free share plan, to French beneficiaries under the 2017 free share plan and to Spanish and Italian beneficiaries under the 2017 employee share ownership plan (Shares4U).

In 2019, the 20 million euro provision utilization recognized in the income statement mainly reflected a (i) 19 million euro reversal relating to the delivery of shares to French beneficiaries under the May 26, 2016 free share plan and the delivery of shares to non-French beneficiaries under the March 27, 2014 free share plan, and (ii) a 1 million euro reversal relating to the exercise of stock purchase options under the March 27, 2012 stock purchase option plan.

3.2 Personnel expenses

(in millions of euros)	2020	2019
Employee compensation	(3)	(1)
Other personnel expenses	(31)	(24)
PERSONNEL EXPENSES	**(34)**	**(25)**

3.2.1 Employee compensation

This item includes compensation awarded to Valeo's Chairman and Chief Executive Officer (see Note 3.4, page 408).

3.2.2 Other personnel expenses

In 2020, the Company delivered 441,007 shares, including 301,854 shares to non-French beneficiaries under the 2015 free share plan, 60,985 shares to French beneficiaries under the 2017 free share plan, and 7,994 shares to Spanish and Italian beneficiaries under the 2017 employee share ownership plan (Shares4U). Valeo recognized an expense of 22 million euros corresponding to the net carrying amount of the treasury shares delivered in the year (see Note 3.1.2, pages 406 to 407). An expense of 2 million euros was also booked notably in respect of the 63,087 shares settled in cash for certain non-French beneficiaries of the 2015 plan residing in countries where no share delivery was permitted. The provision set aside in respect of settled plans was also reversed in an amount of 24 million euros.

In 2019, the Company delivered 342,615 shares to non-French beneficiaries under the 2014 free share plan and 63,785 shares to French beneficiaries under the 2016 free share plan. During that year it recognized an expense of 23 million euros corresponding to the net carrying amount of the treasury shares delivered (see Note 3.1.2, pages 406 to 407). An expense of 1 million euros was also booked in respect of the 42,354 shares settled in cash for certain non-French beneficiaries of the 2014 plan residing in countries where no share delivery was permitted.

The provision set aside in respect of these plans was also reversed in an amount of 19 million euros.

In 2020, other personnel expenses also include a provision for 7 million euros in respect of social security contributions due upon delivery of shares to French beneficiaries under the free share plan.

3.3 Provisions for pensions and other employee benefits

The Company accounts for its pension obligations in accordance with ANC Recommendation No. 2013-02 of November 7, 2013 on the measurement and recognition of pension and employee benefit obligations.

These pension obligations solely correspond to supplementary pension benefits payable to former employees. No additional entitlement to these benefits was therefore recognized in 2019 or 2020.

Actuarial gains and losses resulting from experience adjustments and/or changes in assumptions are amortized through expenses in future periods over the expected average residual life of former employees or their beneficiaries, after applying a 10% corridor to the greater of the pension benefit obligation and the fair value of plan assets.

These obligations are calculated on an actuarial basis at the end of each reporting period. The calculations were made using an annual discount rate of 1% at December 31, 2020 and 1.15% at December 31, 2019.

The provision amounts to 1 million euros at both December 31, 2020 and December 31, 2019.

The pension obligation relating to Valeo's Chairman and Chief Executive Officer is carried on the books of another Group company (Valeo Management Services), along with the obligations relating to the Group's other executives.

3.4 Other information

	2020	2019
Headcount at December 31	1	1
Compensation granted to the corporate officer *(in thousands of euros)*	(3,089)	(1,360)
Compensation granted to directors *(in thousands of euros)*(1)	(961)	(949)

(1) Compensation granted to directors is recorded on the "Other purchases and external charges" line in the income statement.

NOTE 4 OTHER OPERATING ITEMS

4.1 Other operating income items

4.1.1 Other operating income

(in millions of euros)	2020	2019
Trademark license fees	22	27
Other	4	4
OTHER OPERATING INCOME	**26**	**31**

Trademark license agreements, under which Valeo allows some of its French subsidiaries to benefit from the Group's expertise, values, business model and processes, generated income of 22 million euros in 2020.

The amount recorded under "Other" corresponds to rebillings to subsidiaries.

4.1.2 Expense transfers

Expense transfers represented 4 million euros in 2020 and related to set-up fees on the new credit lines arranged in the year. These fees are being amortized over the term of these credit lines. Expense transfers represented 2 million euros in 2019 and related to issuance fees on the *Schuldschein* loan (German private placement) totaling 548 million euros.

4.1.3 Other purchases and external charges

(in millions of euros)	2020	2019
Deferred charges	(4)	(2)
Other external charges	(35)	(21)
OTHER PURCHASES AND EXTERNAL CHARGES	**(39)**	**(23)**

Deferred charges totaling 4 million euros relate to set-up fees on the new credit lines arranged in 2020, which are being amortized over the term of these credit lines excluding any extension option, i.e., over a period of one year.

Other external charges include fees, commissions and duties incurred by Valeo in the course of its activities. The increase in this item is primarily due to the recognition of an additional 10 million euro expense relating to the contribution payable to the intragroup partnership Valeo Management Services, and to the 3 million euro year-on-year increase in non-utilization fees on credit lines.

4.1.4 Amortization

Amortization expense totaling 14 million euros in 2020 comprises 11 million euros relating to the deferred recognition of issuance fees for all of the bonds and the *Schuldschein* loan described in the section on long-term debt (see Note 6.1.2, page 412), and 3 million euros relating to the deferred recognition of set-up fees on the new credit lines arranged in 2020. These set-up fees account for most of the 3 million euro year-on-year increase in amortization.

4.2 Other provisions and accrued assets/liabilities

4.2.1 Other provisions for contingencies and charges

Breakdown of other provisions for contingencies and charges

(in millions of euros)	December 31, 2020	December 31, 2019
Provisions for contingencies related to subsidiaries	67	31
Provisions for disputes	7	8
OTHER PROVISIONS FOR CONTINGENCIES AND CHARGES	**74**	**39**

At December 31, 2020, other provisions for contingencies and charges comprise:

- a 67 million euro provision for contingencies intended to cover the negative net equity of certain subsidiaries in which Valeo holds a direct investment (see Note 7, page 417);
- a provision for disputes totaling 7 million euros, chiefly intended to cover employee disputes as well as provisions for clean-up costs related to Valeo's former plants.

Movements

Movements in other provisions for contingencies and charges in 2019 and 2020 are shown in the table below:

(in millions of euros)	2020	2019
OTHER PROVISIONS AT JANUARY 1	**39**	**15**
Utilizations	(2)	(2)
Reversals	(1)	(5)
Additions	38	31
OTHER PROVISIONS AT DECEMBER 31	**74**	**39**
Of which current portion (less than 1 year)	-	-

The increase in other provisions over the period is mainly due to the 34 million euro accrual to provisions for contingencies relating to Group subsidiary Valeo Embrayages. In 2019, an amount of 28 million euros had been accrued to provisions for contingencies relating to this subsidiary.

The Group has contingent liabilities relating to legal, arbitration or regulatory proceedings arising in the normal course of its business. Known or ongoing claims and litigation involving the Company were reviewed at the date on which the financial statements were approved for issue. Based on the advice of legal counsel, all provisions deemed necessary have been made to cover the related risks.

4.2.2 Accrued assets

At December 31, 2020, accrued assets totaling 41 million euros mainly include 35 million euros in deferred bond issuance fees (45 million euros at end-2019).

NOTE 5 LONG-TERM FINANCIAL ASSETS

Investments in subsidiaries and affiliates are initially recognized at cost, including transfer duties, fees and commission and legal costs.

At the end of the reporting period, the Company measures investments in subsidiaries and affiliates at their value in use, as calculated based on relevant criteria for each of the investments valued. The inputs for the value in use calculation include projected data from subsidiaries' medium-term business plans (see Note 2.1, page 405), as well as stockholders' equity and the Group's strategic interests.

The calculation of value in use based on projected data draws on various methods:

- first, post-tax cash flow projections covering a period of five years, prepared on the basis of medium-term business plans, are discounted at the post-tax weighted average cost of capital (WACC), while cash flows beyond the five-year period are extrapolated by applying a perpetuity growth rate to normative forecast cash flows, corresponding to the last year of the medium-term plan adjusted, where applicable, for non-recurring items. The discount rate and perpetuity growth rate assumptions are the same as those used for the Group's cash generating units (CGUs) and goodwill impairment tests, i.e., respectively 9.5% and 1.5% for 2020, unchanged from 2019;
- when value in use as determined on the basis described above falls below the carrying amount of the investments, it is based on an average of the discounted projected cash flows and the projected operating income multiple applied to the third year of the subsidiaries' medium-term business plans.

When value in use as determined on the basis described above falls below the carrying amount of the investments, an impairment provision is recorded corresponding to the difference between these two amounts. However, the carrying amount of the investments after impairment cannot be below the Company's share of the subsidiary or affiliate's equity.

5.1 Analysis by type

	DECEMBER 31, 2020			DECEMBER 31, 2019
(in millions of euros)	Gross	Impairment	Net	Net
Investments in subsidiaries and affiliates	5,510	(559)	4,951	2,188
Loans and advances to subsidiaries and affiliates	2,785	(14)	2,771	5,468
Other investment securities	2	(2)	-	1
LONG-TERM FINANCIAL ASSETS	**8,297**	**(575)**	**7,722**	**7,657**

Loans and advances to subsidiaries and affiliates comprise medium- and long-term loans granted to Valeo's direct and indirect subsidiaries, as well as to the Group's joint venture investees.

5.2 Movements

(in millions of euros)	Investments in subsidiaries and affiliates	Loans and advances to subsidiaries and affiliates	Other investment securities	Long-term financial assets
NET CARRYING AMOUNT AT DECEMBER 31, 2018	**2,237**	**5,296**	**1**	**7,534**
Acquisitions and increase in the share capital of subsidiaries	-	-	-	-
Disposals and decrease in the share capital of subsidiaries	-	-	-	-
Changes in impairment losses	(49)	-	-	(49)
Other movements	-	172	-	172
NET CARRYING AMOUNT AT DECEMBER 31, 2019	**2,188**	**5,468**	**1**	**7,657**
Acquisitions and increase in the share capital of subsidiaries	2,792	-	-	2,792
Disposals and decrease in the share capital of subsidiaries	-	-	-	-
Changes in impairment losses	(29)	(14)	(1)	(44)
Other movements	-	(2,683)	-	(2,683)
NET CARRYING AMOUNT AT DECEMBER 31, 2020	**4,951**	**2,771**	**-**	**7,722**

The measurement of the securities portfolio at the end of 2020 led the Company to recognize net additions of 29 million euros to impairment provisions for investments in subsidiaries and affiliates. In 2019, the Company recognized 49 million euros in net additions to impairment provisions for investments in subsidiaries and affiliates (see Note 7, page 417).

The capital increase at the Société de Participations Valeo subsidiary in September 2020 for 2,768 million euros enabled the Company to repay ahead of term loans granted to the holding companies Société de Participations Valeo (550 million euros), Valeo Bayen (1,818 million euros) and Valeo Finance (400 million euros) (see Note 7, page 417). The loans granted to the CloudMade joint venture were written down in full during the year in an amount of 14 million euros. These changes account for most of the decrease in loans and advances to subsidiaries and affiliates.

In December 2020, Valeo also carried out a 22 million euro capital increase at Coreval, the Group's reinsurance captive.

It should be noted that in 2020, in its capacity as sole shareholder, Valeo decided on the early dissolution without liquidation of Cirpac and Equipement 12 by way of a transfer of all of the entities' assets and liabilities to the Company. This did not have a material impact on the Company's financial statements.

NOTE 6 FINANCING AND RISK HEDGING

6.1 Net debt

6.1.1 Analysis of net debt

The Company's net debt at December 31, 2019 and 2020 can be analyzed as follows:

(in millions of euros)	*Notes*	December 31, 2020	December 31, 2019
Long-term portion of long-term debt	*6.1.2*	3,548	4,060
Current portion of long-term debt	*6.1.2*	509	40
Short-term debt with external counterparties	*6.1.3*	1,588	243
Other short-term debt	*6.1.3*	3,759	3,479
GROSS DEBT		**9,404**	**7,822**
Loans and advances to subsidiaries and affiliates(1)	*5*	(2,771)	(5,468)
Financial receivables	*6.1.4*	(3,375)	(2,892)
Marketable securities and cash and cash equivalents	*6.1.5*	(2,667)	(1,406)
NET DEBT		**591**	**(1,944)**

(1) Loans and advances to subsidiaries and affiliates are included in the calculation of net debt.

The Company's net cash and cash equivalents, which comprise marketable securities and cash equivalents, financial receivables and other short-term debt, represented 2,283 million euros at December 31, 2020 compared to 819 million euros at December 31, 2019.

6.1.2 Analysis of long-term debt

(in millions of euros)	DECEMBER 31, 2020 Less than 1 year	1 to 5 years	More than 5 years	Total	DECEMBER 31, 2019 Total
Bonds	469	2,400	600	3,469	3,512
Private placement	-	548	-	548	548
Accrued interest	40	-	-	40	40
LONG-TERM DEBT	**509**	**2,948**	**600**	**4,057**	**4,100**

There were no issues or repayments of long-term debt in 2020. Changes in the carrying amount of long-term debt between December 31, 2019 and December 31, 2020 is solely attributable to changes in the equivalent euro amount of the 575 million US dollar convertible bond between these two dates.

At December 31, 2020, the main terms and conditions of long-term debt were as shown below:

Type	Outstanding at December 31, 2020 *(in millions of euros)*	Issuance	Maturity	Nominal *(in millions)*	Currency	Nominal interest rate	Other information
Convertible bond	469	June/November 2016	June 2021	575	USD	0%	Euro/dollar currency swaps set up for each operation for a total of 575 million US dollars with the same maturity
Bond (EMTN program)	600	September 2017	September 2022	600	EUR	0.3752%	-
Bond (EMTN program)	500	January 2017	January 2023	500	EUR	0.625%	-
Bond (EMTN program)	700	January 2014	January 2024	700	EUR	3.25%	-
Bond (EMTN program)	600	June 2018	June 2025	600	EUR	1.5%	-
Bond (EMTN program)	600	March 2016	March 2026	600	EUR	1.625%	-
Schuldschein loan (German private placement)							
Tranche 1	115	April 2019	April 2023	115	EUR	0.95%	-
Tranche 2	221	April 2019	April 2023	221	EUR	6-month Euribor +0.95%	Floored swap, exchanging the variable coupon with a 0% floor for a fixed rate of -0.041%
Tranche 3	90	April 2019	April 2025	90	EUR	1.291%	-
Tranche 4	122	April 2019	April 2025	122	EUR	6-month Euribor +1.15%	Floored swap, exchanging the variable coupon with a 0% floor for a fixed rate of 0.145%
Accrued interest	40			40	EUR		
TOTAL LONG-TERM DEBT	**4,057**						

The current portion of long-term debt corresponds to the 575 million US dollar convertible bond falling due in June 2021, and to accrued interest on other debt.

6.1.3 Analysis of short-term debt

(in millions of euros)	December 31, 2020	December 31, 2019
Negotiable European Commercial Paper	1,588	243
SHORT-TERM DEBT WITH EXTERNAL COUNTERPARTIES	**1,588**	**243**
Current accounts with subsidiaries	3,596	3,387
Bank overdrafts	-	21
Other short-term debt	163	71
OTHER SHORT-TERM DEBT	**3,759**	**3,479**
SHORT-TERM DEBT	**5,347**	**3,722**

Short-term debt mainly consists of current accounts with subsidiaries and issuance of commercial paper.

In order to reflect the Group's cash requirements, short-term debt with external counterparties, previously recognized within net cash and cash equivalents, is now presented in net cash flows from financing activities in the statement of cash flows.

At December 31, 2020, other short-term debt mainly reflects the carrying amount of:

- currency hedging instruments taken out as part of the Group's pooled management of currency risk, representing an unrealized loss of 68 million euros. Since the Company acts as an intermediary for the Group's subsidiaries, these instruments are matched to currency hedging instruments which have generated an unrealized gain of a similar amount (see Note 6.1.4, page 413);
- currency instruments hedging the Company's foreign currency loans and borrowings, representing an unrealized loss of 78 million euros.

At December 31, 2019, other short-term debt primarily included items related to forward financial instruments contracted for hedging purposes.

6.1.4 Analysis of financial receivables

(in millions of euros)	December 31, 2020	December 31, 2019
Current account advances	3,035	2,577
Other financial receivables	340	315
FINANCIAL RECEIVABLES	**3,375**	**2,892**

Financial receivables consist primarily of current account advances to subsidiaries.

At December 31, 2020, other financial receivables relate mainly to the dividend receivable from Valeo International Holding BV for 200 million euros and to hedging instruments for 138 million euros, including mainly:

- currency hedging instruments taken out as part of the Group's pooled management of currency risk, representing an unrealized gain of 68 million euros (see Note 6.1.3, page 413);
- the amortized portion of the premium on currency instruments hedging the Company's foreign currency loans and borrowings, representing 40 million euros.

At December 31, 2019, other financial receivables related mainly to the dividend receivable from Valeo International Holding BV for 200 million euros, and to items relating to forward financial instruments contracted for hedging purposes in an amount of 109 million euros.

6.1.5 Marketable securities and cash and cash equivalents

Marketable securities are stated at the lower of cost and market value when the related securities correspond to treasury shares purchased for the purpose of stabilizing the Company's share price or shares that have not been allocated to employee share plans.

(in millions of euros)	December 31, 2020	December 31, 2019
Marketable securities	1,478	234
Cash and cash equivalents	1,189	1,172
MARKETABLE SECURITIES AND CASH AND CASH EQUIVALENTS	**2,667**	**1,406**

Cash equivalents include term deposits amounting to 300 million euros at December 31, 2020 (510 million euros at December 31, 2019).

The marketable securities portfolio at December 31, 2020 includes money-market mutual funds for 1,400 million euros, compared to 100 million euros at December 31, 2019.

The portfolio also included 1,466,685 treasury shares with a carrying amount of 78 million euros at December 31, 2020. No impairment was recognized during the year.

At December 31, 2019, Valeo held 2,007,632 of its own shares with a carrying amount of 104 million euros.

Valeo may be required to buy back treasury shares on the market to cover its obligations with regard to free share and employee share ownership plans, as well as the liquidity agreement.

No share buyback programs other than buybacks under the liquidity agreement were launched in either 2020 or 2019.

The liquidity agreement was signed with a new investment services provider on March 25, 2019 pursuant to the Code of Ethics published by the French Association of Investment Firms (*Association Française des Entreprises d'Investissement* – AFEI). At December 31, 2020, no shares had been allocated to this liquidity agreement, compared with 100,000 shares at December 31, 2019.

In 2020, the Company purchased 3,147,014 and sold 3,247,014 of its own shares under this agreement.

For shares allocated to free share plans, the Company applies ANC Standard No. 2014-03. This Standard sets out the methods for recognizing provisions over the vesting period of plans served by existing shares (see Note 3.1.2, pages 406 to 407). At December 31, 2020 and 2019, shares serving stock purchase option and free share plans only comprise shares to be allotted to employees.

In 2020, the Company delivered 441,007 shares under stock purchase option and free share plans. In 2019, 467,302 shares were delivered.

6.2 Liquidity reserve and covenants

6.2.1 Credit lines

At December 31, 2020, Valeo had confirmed bank credit lines with an average maturity of 1.7 years, representing an aggregate amount of 2.3 billion euros. None of these credit lines were drawn down during 2020. These bilateral credit lines were taken out with ten leading banks with an average rating of A from Standard & Poor's and A1 from Moody's;

6.2.2 Financing programs

At December 31, 2020, the Group had drawn an amount of 3 billion euros under its Euro Medium Term Note financing program capped at 5 billion euros (3 billion euros drawn at December 31, 2019).

6.2.3 Negotiable European Commercial Paper (NEU CP)

Valeo has a short-term Negotiable European Commercial Paper financing program for a maximum amount of 2.5 billion euros. At December 31, 2020, a total of 1,588 million euros (243 million euros at December 31, 2019) had been drawn on this program.

6.2.4 Debt rating

The Group is rated by several credit rating agencies. Moody's rating confirms Valeo's investment grade status:

Rating agency	Publication date	Long-term debt	Outlook	Short-term debt
Standard & Poor's	July 31, 2020	BB+	Stable	B
Moody's	June 11, 2020	Baa3	Negative	P-3

6.2.5 Covenants

Certain financing contracts include early repayment clauses in the event of failure to comply with specified financial ratios. The main ratio is shown in the table below:

Financing agreements	Ratios	Thresholds	Ratio at December 31, 2020[(1)]
Credit lines	Consolidated net debt/consolidated EBITDA	<3.5	1.96

(1) Calculated over 12 months.

Bonds issued within the scope of the Euro Medium Term Note financing program and most bank credit lines include an option granted to bondholders who can request early repayment or redemption of their bonds in the event of a change of control at Valeo leading to a withdrawal of the rating or a downgrade in the rating to below investment grade (assuming that the bonds were previously rated investment grade). If Valeo's bonds had previously been rated below investment grade, bondholders may request the early repayment or redemption of their bonds in the event of a change of control at Valeo resulting in a one-category downgrade in the rating (e.g., from Ba1 to Ba2).

The convertible loan also includes a change of control clause under which investors can request early repayment or – on the choice of the issuer – buyback.

The *Schuldschein* loan also includes a change of control clause under which each investor can request early repayment of the amounts loaned by it.

The Group's bank credit lines and long-term debt include cross-default clauses. This means that if a given amount of debt is deemed to be in default, then the other debt amounts may also be deemed to be in default.

At the date the consolidated financial statements were authorized for issue, the Group expects to comply with all debt covenants over the next few months.

6.3 Foreign currency, commodity and interest rate risk hedging

Since Valeo acts as a holding company, it is not exposed to operational foreign currency or commodity risk.

As part of the pooled management of market risk (foreign currency, commodity and interest rate risks), Group subsidiaries hedge the forex and commodity risk exposure arising on their industrial and commercial activities with the parent company, which enters into derivatives with banks. Gains and losses on such derivatives are passed on to the subsidiaries requesting the hedge.

The Company contracts derivatives to hedge the foreign currency risk on its financing and liquidity pooling activities carried out on behalf of the Group. The remeasurement of foreign currency balance sheet positions (intercompany loans and borrowings, debt with external counterparties, current accounts and bank accounts) at the year-end exchange rate is offset by gains and losses on foreign currency derivatives. Swap points arising on derivatives are recognized over the term of the hedge within financial income.

Financial income and expenses relating to interest rate hedges are recognized on a symmetrical basis with the income and expenses resulting from the remeasurement of the hedged items.

6.3.1 Currency risk hedging

Operational currency risk

The principal hedging instruments used by the Company are forward purchases and sales of foreign currencies.

Financial currency risk

Pooling foreign currency cash surpluses, the financing needs of foreign subsidiaries and certain Group financing transactions exposes the Company to financial currency risk. This risk corresponds to the risk of changes in the value of foreign currency financial receivables or payables. This currency risk is primarily hedged by currency swaps.

The Company tends to finance its subsidiaries in their local currencies and systematically enters into hedges to protect itself against the resulting currency risk.

The Company's borrowings are generally denominated in euros, in particular for debt issues under the Euro Medium Term Note (EMTN) financing program.

At December 31, 2020, the Company's only external foreign currency debt was the convertible bond subscribed on June 16, 2016 for 450 million US dollars, to which the Group added 125 million US dollars under the same conditions on November 16, 2016. This US dollar debt is hedged by EUR/USD currency swaps until it falls due.

At December 31, 2020, Valeo's forex position in the main foreign currencies was as follows:

	DECEMBER 31, 2020						DECEMBER 31, 2019
(in millions of euros)	USD	CZK	CNY	PLN	Other	Total	Total
Forward sales with subsidiaries	(617)	(237)	(2)	(412)	(246)	**(1,514)**	(1,300)
Forward purchases with subsidiaries	217	139	15	145	149	**665**	881
DERIVATIVES WITH SUBSIDIARIES	**(400)**	**(98)**	**13**	**(267)**	**(97)**	**(849)**	**(419)**
Forward sales with external counterparties	(536)	(303)	(15)	(266)	(400)	**(1,520)**	(1,287)
Forward purchases with external counterparties	1,739	177	486	339	451	**3,192**	2,463
DERIVATIVES WITH EXTERNAL COUNTERPARTIES	**1,203**	**(126)**	**471**	**73**	**51**	**1,672**	**1,176**
NET POSITION ON DERIVATIVES	**803**	**(224)**	**484**	**(194)**	**(46)**	**823**	**757**
Balance sheet exposure	(772)	224	(484)	216	46	**(770)**	(749)
TOTAL NET POSITION	**31**	**-**	**-**	**22**	**-**	**53**	**8**

The net position in US dollars on foreign currency derivatives is match-funded to Valeo's intercompany loans and borrowings, cash positions and the convertible bond in an amount of 575 million US dollars. The net position in Chinese renminbi (CNY), Czech koruna (CZK) and Polish zloty (PLN) on foreign currency derivatives is match-funded to intercompany loans and borrowings as well as cash positions.

The market value of currency hedging instruments included in the net position with external counterparties represented an unrealized gain of 15 million euros at December 31, 2020 (unrealized gain of 63 million euros at December 31, 2019).

6.3.2 Commodity risk hedging

The Group favors commodity hedging instruments which do not involve physical delivery of the underlying commodity (primarily swaps on the average monthly price).

Volumes of non-ferrous metals hedged at December 31, 2020 and 2019 break down as follows:

(in metric tons)	December 31, 2020	December 31, 2019
Aluminum	33,487	34,890
Secondary aluminum	7,395	9,777
Copper	11,061	9,716
Zinc	804	535
Polypropylene	8,108	268
TOTAL	**60,855**	**55,186**

Commodities hedged at December 31, 2020 and 2019 were as follows:

	DECEMBER 31, 2020			DECEMBER 31, 2019
(in millions of euros)	With subsidiaries	With external counterparties	Total	Total
Forward sales	141	3	**144**	(122)
Forward purchases	(3)	(141)	**(144)**	122
TOTAL NET POSITION	**138**	**(138)**	**-**	**-**

The market value of instruments hedging metals prices included in the net position with external counterparties represented an unrealized gain of 9 million euros at December 31, 2020 (unrealized gain of 2 million euros at December 31, 2019).

6.3.3 Interest rate risk hedging

Valeo uses interest rate swaps to manage its interest rate risk. These swaps convert the interest rates on its debt into a variable or a fixed rate, either at the origination of the loan or during its term.

The two variable-rate tranches of the *Schuldschein* loan issued in April 2019 are hedged by floored interest rate swaps (the floor only applies for the first two years), which exchange the variable coupon with a 0% floor for a fixed rate.

In March 2019, the Group converted the 159 million euro loan granted to one of its Czech subsidiaries into Czech koruna. At the same time, the Group set up a cross currency swap for the same amount and with the same maturity.

At December 31, 2020, 91% of long-term debt was at fixed rates (92% at December 31, 2019).

	LESS THAN 1 YEAR		1 TO 5 YEARS		MORE THAN 5 YEARS		TOTAL NOMINAL AMOUNT		
(in millions of euros)	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	3,255	2,601	2,605	343	600	-	6,460	2,944	**9,404**
Financial receivables and loans and advances to subsidiaries and affiliates	(763)	(3,034)	(263)	(599)	(1,487)	-	(2,513)	(3,633)	**(6,146)**
Cash and cash equivalents	(1,778)	(889)	-	-	-	-	(1,778)	(889)	**(2,667)**
NET POSITION BEFORE HEDGING	**714**	**(1,322)**	**2,342**	**(256)**	**(887)**	**-**	**2,169**	**(1,578)**	**591**
Derivative instruments	-	-	343	(343)	-	-	343	(343)	**-**
NET POSITION AFTER HEDGING	**714**	**(1,322)**	**2,685**	**(599)**	**(887)**	**-**	**2,512**	**(1,921)**	**591**

NOTE 7 NET FINANCIAL INCOME

(in millions of euros)	2020	2019
Dividends	241	234
Interest income	215	239
Interest expense	(87)	(81)
Net (additions to)/reversals from provisions for impairment and for investments in subsidiaries and affiliates	(82)	(65)
Other financial income and expenses	(15)	(16)
NET FINANCIAL INCOME	**272**	**311**

Dividend income amounted to 241 million euros in 2020, an increase compared with 2019. This amount includes a 200 million euro dividend from Valeo International Holding BV, a 27 million euro dividend from South Korean subsidiaries (including 16 million euros from Valeo Pyeong Hwa International), an 8 million euro dividend from Indian subsidiary Valeo Friction Material India, and a 6 million euro dividend from Turkish subsidiary Valeo Otomotiv Sanayi ve Ticaret AS. Dividend income in 2019 chiefly related to the 200 million euro dividend from Valeo International Holding BV, the 13 million euro dividend from Turkish subsidiary Valeo Otomotiv Sanayi ve Ticaret AS, and the 9 million euro dividend from South Korean subsidiary Valeo Pyeong Hwa International.

Interest income chiefly relates to financing granted to Group subsidiaries and joint ventures. The 24 million euro decrease in interest income compared to 2019 results from the 2,768 million euro decrease in amounts outstanding under long-term loans granted to holding companies Société de Participations Valeo, Valeo Bayen and Valeo Finance.

Interest expense relating to external financing transactions represented 44 million euros in 2020 versus 40 million euros in 2019. Interest paid on cash surpluses and costs associated with hedging foreign currency transactions rose by 2 million euros compared to 2019.

At December 31, 2020, the measurement of the portfolio of investments in subsidiaries and affiliates resulted in a net 44 million euro accrual to impairment provisions for these items (see Note 5.2, page 411) and a net 38 million euro accrual to provisions for contingencies (see Note 4.2.1, pages 409 to 410). Additions for the year mainly concern the provision for impairment of investments in Valeo Service amounting to 26 million euros and the provision for contingencies relating to Valeo Embrayages for 34 million euros. The addition relating to Valeo Embrayages is mainly the result of the impairment tests taking into account the impacts of the downturn in the Company's business. Amounts outstanding under loans granted to the CloudMade joint venture were written down in full during the year in an amount of 14 million euros.

At December 31, 2019, the measurement of the portfolio of investments in subsidiaries and affiliates led to a net 49 million euro accrual to impairment provisions for these items, and to the recognition of a provision for contingencies for 23 million euros. Additions for the year mainly concerned the provision for impairment of investments in Valeo Systèmes de Contrôle Moteur (32 million euros) and in Valeo Embrayages (31 million euros).

Other financial income and expenses in 2020 primarily included 12 million euros relating to the amortization of premiums on stock purchase options intended to cover the convertible bond (12 million euros in 2019), along with the ineffective portion of the interest rate hedge taken out in respect of the *Schuldschein* loans.

NOTE 8 INCOME TAX

8.1 Tax group and taxable income

Valeo has elected for tax consolidation. The tax group includes the parent company and its principal French subsidiaries.

At December 31, 2020, the amount of tax savings arising from tax losses transferred to Valeo by its subsidiaries came to 1,325 million euros (1,226 million euros at December 31, 2019). If a subsidiary returns to profit, it will utilize the previous tax losses and Valeo will be required to pay over the corresponding tax savings to the French State. If a subsidiary leaves the tax consolidation group, Valeo may be required to pay over the related tax savings to this subsidiary, based on the terms and conditions stipulated in the sale agreement. Valeo does not recognize a provision for repayment of tax losses to subsidiaries.

8.2 Income tax

(in millions of euros)	2020	2019
Net tax benefit arising on tax consolidation	2	14
INCOME TAX	**2**	**14**

The net tax benefit receivable from subsidiaries as a result of tax consolidation in 2020 amounts to 2 million euros. The net tax benefit arising on tax consolidation in 2019 (14 million euros) chiefly included the tax benefit received from subsidiaries in an amount of 16 million euros.

In the absence of tax consolidation, the Company would have been liable for an income tax expense of 30 million euros in the year ended December 31, 2020 (56 million euros in the year ended December 31, 2019).

8.3 Items that could result in a decrease or increase in Valeo's future tax liability

	DECEMBER 31, 2020		DECEMBER 31, 2019	
(in millions of euros)	Tax basis	Corresponding tax	Tax basis	Corresponding tax
Timing differences between the recognition of income and expenses for accounting and tax purposes	57	15	59	15
Contribution premium	(134)	(35)	(134)	(35)
Tax loss carryforwards	1,325	342	1,226	317
TOTAL	**1,248**	**322**	**1,151**	**297**

8.4 Prepaid and recoverable taxes

At December 31, 2020, prepaid and recoverable taxes totaling 12 million euros included the tax benefit of 1 million euros arising on the 2020 tax consolidation (see Note 8.2, page 418). The research tax credit receivable at the so-called "seed" stage in respect of 2020 was sold by Valeo at a discount to a bank during the year, for 48 million euros.

In 2019, the research tax credit receivable in respect of 2018 and the research tax credit receivable at the so-called "seed" stage in respect of 2019 were sold by Valeo at a discount to banks, for 62 million euros and 59 million euros, respectively. These receivables had been derecognized on the balance sheet, with an adjusting entry recorded in cash received.

8.5 Other payables

At December 31, 2020, other payables included the 269 million euros owed to subsidiaries that are members of the tax consolidation group in respect of the research tax credit for years 2017 to 2020 and the CICE tax credit for years 2017 and 2018, representing 238 million euros and 31 million euros, respectively.

At December 31, 2019, other payables amounted to 291 million euros and mainly included 244 million euros owed to subsidiaries that were members of the tax consolidation group in respect of the research tax credit for years 2016 to 2019, and 46 million euros in respect of the CICE tax credit for years 2016 to 2018.

NOTE 9 STOCKHOLDERS' EQUITY

9.1 Share capital

In countries that meet the Group's eligibility criteria and where permitted by local laws and regulations, Valeo offers its employees the possibility of becoming shareholders through an employee share issue carried out specifically for this purpose.

As in 2019, a new plan was offered to employees in the second half of 2020. This plan allows employees to subscribe to Valeo shares directly or through a Company mutual fund, at a subscription price set on September 18, 2020 by the Group's Chairman and Chief Executive Officer, acting on the authority of the Board of Directors. The 2020 subscription price of 21.61 euros is the average of the Group's opening share price on the 20 trading days between August 21, 2020 and September 17, 2020 inclusive, less a 20% discount. The shares are locked up for five years (except in the case of an early release event provided for by the applicable local law). Employees bear the risk of fluctuations in the share price relative to the subscription price. By subscribing to shares within the scope of the Group Employee Savings Plan (*Plan d'Epargne de Groupe* – PEG), employees can benefit from a contribution from their employer. Outside France, employees were awarded free shares subject to certain conditions, governed by the regulations applicable to the Group-approved free share plan. The free shares allotted are existing Valeo shares repurchased on the market. At the end of the subscription period, which ran from September 21, 2020 to October 9, 2020, 680,660 shares were subscribed at a price of 21.61 euros each, resulting in a capital increase of 1 million euros on November 16, 2020.

At December 31, 2020, Valeo's share capital totaled 242 million euros, divided into 241,717,403 shares of common stock with a par value of 1 euro each, all fully paid-up. Shares that have been registered in the name of the same holder for at least four years carry double voting rights (6,100,989 shares at December 31, 2020). Share capital stood at 241 million euros at December 31, 2019.

9.2 Additional paid-in capital

Additional paid-in capital represents the net amount received by the Company, either in cash or in assets, in excess of the par value on issuance of Valeo shares.

The employee share subscription offer launched in 2020 generated additional paid-in capital of 14 million euros in the year. Additional paid-in capital was 18 million euros for the employee share subscription offer launched in 2019.

9.3 Reserves

Reserves available for distribution amounted to 2,069 million euros at December 31, 2020 (1,890 million euros at December 31, 2019) before appropriation of income for the year and after deduction of the net carrying amount of treasury shares held at December 31, 2020 (78 million euros versus 104 million euros at December 31, 2019).

9.4 Movements

(in millions of euros)	Share capital	Additional paid-in capital	Reserves and other	Stockholders' equity
STOCKHOLDERS' EQUITY AT DECEMBER 31, 2018	**240**	**1,513**	**2,039**	**3,792**
Dividends paid	-	-	(297)	(297)
Capital increase	1	18	-	19
Net income for the year	-	-	282	282
STOCKHOLDERS' EQUITY AT DECEMBER 31, 2019	**241**	**1,531**	**2,024**	**3,796**
Dividends paid	-	-	(48)	(48)
Capital increase	1	14	-	15
Net income for the year	-	-	200	200
STOCKHOLDERS' EQUITY AT DECEMBER 31, 2020	**242**	**1,545**	**2,176**	**3,963**

NOTE 10 OTHER INFORMATION

10.1 Maturity of receivables and payables

(in millions of euros)	December 31, 2020	Due in less than 1 year	Due in more than 1 year and less than 5 years	Due in more than 5 years
Prepaid and recoverable taxes	12	6	6	-
Other operating receivables	2	2	-	-
OPERATING RECEIVABLES	**14**	**8**	**6**	**-**

(in millions of euros)	December 31, 2020	Due in less than 1 year	Due in more than 1 year and less than 5 years	Due in more than 5 years
Accounts and notes payable	6	6	-	-
Accrued taxes and payroll costs	10	10	-	-
OPERATING PAYABLES	**16**	**16**	**-**	**-**
OTHER PAYABLES	**269**	**77**	**192**	**-**

Accrued expenses included in trade payables amounted to 5 million euros at December 31, 2020.

An analysis of long-term debt by maturity is provided in Note 6.1.2, page 412.

10.2 Related party transactions

10.2.1 Transactions with related companies

The Company's financial statements include transactions carried out in the normal course of business between Valeo and its subsidiaries.

These transactions are carried out at arm's length and represented the following amounts in 2019 and 2020:

(in millions of euros)	2020	2019
INCOME STATEMENT		
Net financial income	413	429
BALANCE SHEET AT DECEMBER 31		
Loans and advances to subsidiaries and affiliates	2,771	5,468
Financial receivables	3,251	2,780
Prepaid and recoverable taxes	3	17
Debt	3,653	3,387
Other payables	269	291

Net financial income essentially includes dividends and interest income on current accounts and loans granted to subsidiaries.

10.2.2 Transactions with related parties

All material related party transactions within the meaning of Article R.123-198 of the French Commercial Code were carried out at arm's length in 2020.

10.3 Off-balance sheet commitments

10.3.1 Commitments given

	December 31, 2020			December 31, 2019		
(in millions of euros)	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Commitments given	5	99	**104**	15	116	**131**

Commitments given mainly include the guarantee given in 2005 to the IUE-CWA-Local 509 trade union as part of the agreement signed in September 2005 in relation to the closure of the Rochester plant (representing 91 million euros at December 31, 2020). It is a first-call guarantee with an indefinite term and covers the commitments undertaken by Valeo North America Inc. (formerly Valeo Electrical Systems Inc.) concerning pensions and other employee benefits.

Other commitments given include:

- a five-year reciprocal vendor warranty commitment agreed with PHC Co Ltd. in connection with the creation of the Valeo-Kapec joint venture (valid until December 1, 2022). This guarantee is not capped;
- an 8 million euro commitment to HDI Global SE within the scope of the Group's reinsurance operations;
- a three-year vendor warranty commitment for 5 million euros granted to Italy's Raicam group in connection with the sale of the Passive Hydraulic Actuator business on March 28, 2018.

At December 31, 2019, commitments given included a reciprocal vendor warranty commitment agreed with Siemens in connection with the creation of the Valeo Siemens eAutomotive joint venture on December 1, 2016, capped at 15 million euros (this cap did not apply to the warranty given in respect of taxes). This commitment expired in 2020.

10.3.2 Commitments received

At December 31, 2020, commitments received include reciprocal commitments with PHC Co Ltd. (see Note 10.3.1, page 421). The reciprocal commitment with Siemens expired in 2020 (see Note 10.3.1, page 421).

10.4 Fees paid to the Statutory Auditors

Fees paid to the Statutory Auditors and recognized in Valeo's income statement are as follows:

	Ernst & Young		Mazars	
(in thousands of euros)	2020	2019	2020	2019
AUDIT				
Statutory audit, review of the individual and consolidated financial statements	25	27	25	27
Non-audit services	51	41	41	47
TOTAL FEES	**76**	**68**	**66**	**74**

Non-audit services provided by Ernst & Young et Autres and Mazars to Valeo and the entities it controls in 2020 concern (i) comfort letters in connection with the renewal of the EMTN program, and (ii) statements issued to validate information presented in expenditure reports relating to subsidized projects.

NOTE 11 LIST OF SUBSIDIARIES AND AFFILIATES

At December 31, 2020

Company *(in millions of euros)*	Share capital	Other equity(1)	% interest	CARRYING AMOUNT OF SHARES Gross	Net	Outstanding loans and advances granted	Guarantees and endorsements given	Sales	Net income (loss)	Dividends
Société de Participations Valeo Paris – France (SIREN: 562 029 181)	3,303	(46)	100	3,606	3,606	114	-	-	(74)	-
Valeo Systèmes de Contrôle Moteur Cergy Saint Christophe – France (SIREN: 479 162 695)	55	47	100	502	130	168	-	362	(14)	-
Valeo International Holding BV Helmond – Netherlands	128	806	100	443	443	-	-	31	1	200
Valeo Vision Bobigny – France (SIREN: 950 344 333)	10	366	90	377	377	-	-	452	3	-
Valeo Systèmes Thermiques Le Mesnil Saint-Denis – France (SIREN: 331 312 108)	37	608	47	216	216	209	-	351	91	-
Valeo Embrayages Amiens – France (SIREN: 438 834 186)	39	(65)	100	140	-	116	-	235	(36)	-
Valeo Matériaux de Friction Limoges – France (SIREN: 438 810 129)	60	33	100	60	60	-	-	47	(2)	-
Valeo Otomotiv Sanayi ve Ticaret AS(3) Bursa – Turkey	15	54	100	40	40	-	-	321	26	6
Valeo Service Saint-Denis – France (SIREN: 306 486 408)	13	(1)	100	38	12	-	-	129	(16)	-
Valeo Auto-Electric GmbH Bietigheim – Germany	-	196	5	27	10	-	-	4	-	-
Coreval Strassen – Luxembourg	23	1	99	23	23	-	-	2	-	-
Valeo Pyeong Hwa Co. Ltd.(3) Daegu – South Korea	10	161	50	12	12	-	-	430	1	5
Amalgamations Valeo Clutch Private Ltd(2)(3) Chennai – India	9	10	50	9	9	-	-	64	2	1
Equipement 11 Paris – France (SIREN: 440 331 411)	-	3	100	8	6	7	-	-	(3)	-
Valeo Pyeong HWA International Co., Ltd(3) Seoul – South Korea	2	66	50	1	1	-	-	116	16	16
Valeo Pyeong HWA Automotive Components Co., Ltd(3) Daegu – South Korea	1	39	50	2	2	-	-	131	9	5
Other French subsidiaries and affiliates (aggregate)	-	-	-	3	1	-	-	-	-	-
Other foreign subsidiaries and affiliates (aggregate)	-	-	-	3	3	66	-	-	-	8
TOTAL				**5,510**	**4,951**	**680**				**241**

(1) Including net income for 2020 before appropriation.
(2) Last financial year ended March 31, 2020.
(3) Translated at the year-end exchange rate and at average exchange rates for 2020.

NOTE 12 **SUBSEQUENT EVENTS**

The European Investment Bank (EIB) approved 600 million euros in financing for Valeo's European R&D projects focused on reducing CO_2 emissions and improving vehicle safety. An initial credit facility of 300 million euros was signed on February 4, 2021.

5.6.5 Statutory Auditors' report on the financial statements

For the year ended December 31, 2020

This is a translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English-speaking users.

This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to the shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Annual General Meeting of Valeo,

Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meeting, we have audited the accompanying financial statements of Valeo for the year ended December 31, 2020.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2020 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Statutory Auditors' Responsibilities for the Audit of the Financial Statements* section of our report.

Independence

We conducted our audit engagement in compliance with independence requirements of rules required by the French Commercial Code (*Code de commerce*) and the French Code of ethics (*Code de déontologie*) for statutory auditors for the period from January 1, 2020 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014.

Justification of assessments – Key audit matters

Due to the global crisis related to the Covid-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of the audits.

It is this complex and evolving context that, in accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

Valuation of long-term investments in the portfolio activity, equity securities and receivables related to equity securities

Risk identified	Our response
As at December 31, 2020, the net carrying amount of investments in subsidiaries and affiliates and related receivables amounted to M€ 7,722, i.e., 56% of total assets. Investments in subsidiaries and affiliates are initially recognized at their acquisition cost. At year end, the Company measures investments in subsidiaries and affiliates at their value in use. If this value in use lower than the carrying amount, an impairment provision is recorded corresponding to the difference between these two amounts. Provisions for contingencies relating to subsidiaries are intended to cover the negative net equity of certain subsidiaries. As at December 31, 2020, these provisions amounted to M€ 67 The value in use is determined based on a multi-criteria analysis adapted to the concerned investments. The criteria correspond to projected data from subsidiaries' medium-term business plans, as well as stockholders' equity, and the Group's strategic interests. Loans and advances to subsidiaries and affiliates comprise medium and long-term loans granted to Valeo's direct and indirect subsidiaries whose maturity is at sight and whose repayment is not likely within one year. These long-term financial assets are described in Note 5 to the financial statements. In view of the material amount of these items, the inherent uncertainty of certain items and their sensitivity to Management's projections, we considered the measurement of investments in subsidiaries and affiliates, related receivables and provisions for contingencies to be a key audit matter.	To assess the valuation of the value in use of investments and affiliates, and based on the available documentation, we conducted the following procedures, that consisted mainly in analyzing the valuation approach and the data used and according to the concerned investments: • for the valuations based on historical data we reconciled the net equity used in impairment tests with those booked in the financial statements of the entities with respect to the International Accounting Standards; • we conducted an analysis of Management's business plans for the investments having a significant impairment risk; • with the support of our valuation specialists, we analyzed the main valuation inputs (discount rate and long-term growth rate), which we compared with the values used for the Group and other companies in the same industry, provided by the financial analysts; • we compared the value in use to the book value of the investments, the loans to subsidiaries and affiliates and, if applicable, to the impairment booked on the subsidiaries' assets; • we analyzed the calculation of provisions for contingencies booked on the subsidiaries that have negative equity in the event that Valeo must bear the losses.

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations.

Information given in the management report and in the other documents with respect to the financial position and the financial statements provided to the shareholders

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Board of Directors' management report and in the other documents with respect to the financial position and the financial statements provided to the shareholders.

We attest the fair presentation and the consistency with the financial statements of the information relating to payment deadlines mentioned in Article D. 441-6 of the French Commercial Code (*Code de commerce*).

Report on Corporate Governance

We attest that the Board of Directors' Report on Corporate Governance sets out the information required by Articles L. 225-37-4, L. 22-10-10 and L. 22-10-9 of the French Commercial Code (*Code de commerce*).

Concerning the information given in accordance with the requirements of Article L. 22-10-9 of the French Commercial Code (*Code de commerce*) relating to remunerations and benefits received by, or allocated the directors and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlled thereby, included in the consolidation scope. Based on these procedures, we attest the accuracy and fair presentation of this information.

With respect to the information relating to items that your Company considered likely to have an impact in the event of a takeover bid or exchange offer, provided pursuant to Article L. 22-10-11 of the French Commercial Code (*Code de commerce*), we have agreed this information to the source documents communicated to us. Based on these procedures, we have no observations to make on this information.

Other information

In accordance with French law, we have verified that the required information concerning the identity of the shareholders or holders of the voting rights has been properly disclosed in the management report.

Other Legal and Regulatory Requirements

Presentation of the financial statements intended to be included in the annual financial report

In accordance with Article 222-3, III of the AMF General Regulation, the Company's management informed us of its decision to postpone the presentation of the financial statements in compliance with the European single electronic format as defined in the European Delegated Regulation No. 2019/815 of 17 December 2018 to years beginning on or after January 1, 2021. Therefore, this report does not include a conclusion on the compliance with this format of the presentation of the consolidated financial statements intended to be included in the annual financial report mentioned in Article L. 451-1-2, I of the French Monetary and Financial Code (*Code monétaire et financier*).

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Valeo by the Annual General Meeting held on June 3, 2010.

As at December 31, 2020, we were in the eleventh year of total uninterrupted engagement.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Financial Statements

Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However,

future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.

- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit to the Audit Committee a report which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics (*Code de déontologie*) for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Courbevoie and Paris-La Défense, March 24, 2021

The Statutory Auditors

MAZARS		ERNST & YOUNG et Autres	
Gonzague Senlis	Jean-Marc Deslandes	Guillaume Rouger	Jean-François Ginies

5.7 STATUTORY AUDITORS' REPORT ON RELATED PARTY AGREEMENTS

Annual General Meeting held to approve the financial statements for the year ended December 31, 2020

This is a translation into English of a report issued in French and it is provided solely for the convenience of English-speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Annual General Meeting of Valeo,

In our capacity as statutory auditors of your Company, we hereby present to you our report on related party agreements.

We are required to inform you, on the basis of the information provided to us, of the terms and conditions of those agreements indicated to us, or that we may have identified in the performance of our engagement, as well as the reasons justifying why they benefit the Company. We are not required to give our opinion as to whether they are beneficial or appropriate or to ascertain the existence of other agreements. It is your responsibility, in accordance with Article R. 225-31 of the French Commercial Code (*Code de commerce*), to assess the relevance of these agreements prior to their approval.

We are also required, where applicable, to inform you in accordance with Article R. 225-31 of the French Commercial Code (*Code de commerce*) of the continuation of the implementation, during the year ended December 31, 2020, of the agreements previously approved by the Annual General Meeting.

We performed those procedures which we deemed necessary in compliance with professional guidance issued by the French Institute of Statutory Auditors (*Compagnie nationale des commissaires aux comptes*) relating to this type of engagement. These procedures consisted in verifying the consistency of the information provided to us with the relevant source documents.

Agreements submitted for approval to the Annual General Meeting

We hereby inform you that we have not been notified of any agreements authorized during the year ended December 31, 2020 to be submitted to the Annual General Meeting for approval in accordance with Article L.225-38 of the French Commercial Code (*Code de commerce*).

Agreements previously approved by the Annual General Meeting

Agreements approved in prior years

We hereby inform you that we have not been notified of any agreements previously approved by the Annual General Meeting, whose implementation continued during the year.

Agreements approved during the year

In addition, we have been notified of the implementation during the year of the following agreements which were approved by the Annual General Meeting of June 25, 2020 based on the statutory auditors' report on related party agreements dated April 27, 2020.

Commitment with regard to Jacques Aschenbroich, Chairman and Chief Executive Officer

New defined benefit pension plan commitment

Nature and purpose

On February 20, 2020, the Board of Directors authorized the new related party commitment below, which was subject to the adoption of the fourth resolution by the Shareholders' Meeting of June 25, 2020.

In accordance with French Ordinance No. 2019-697 of July 3, 2019, the so-called "Article 39" defined benefit pension plan, which no longer welcomes new members since July 1, 2017, no longer allows for the acquisition of new rights as from December 31, 2019 (the "Closed Plan"). Thus, a new commitment, effective as of January 1, 2020 and in accordance with Article L.137-11-2 of the French Social Security Code, has been made in favor of Jacques Aschenbroich with the same ceilings and performance conditions as the Closed Plan.

Conditions

The main features of this new defined benefit pension plan commitment are as follows:

- supplementary pension rights are equal to 1% of the reference salary per vesting year;
- the vesting of supplementary pension rights is subject to a performance condition, which is deemed to have been met if the variable portion of Jacques Aschenbroich's compensation, paid in year Y+1 in respect of year Y, reaches 100% of his fixed compensation due in respect of year Y. In the event that the variable portion does not reach 100% of the fixed compensation, the rights granted will be calculated on a pro rata basis;
- the reference salary is the base salary and the variable compensation received in each year of vesting;
- the cap due to the nature of the plan: a cap of 20% of the final reference salary as defined in the Closed Plan (cap which applies to the sum of the rights acquired under the Closed Plan and under the new plan);
- the cap on the base for determining entitlements: all plans combined are capped at 55% of the final reference salary.

Under this new plan, the rights of Jacques Aschenbroich will vest without condition of presence in the Company at the end of his career.

Reasons justifying why the Company benefits from this agreement

This agreement allows Jacques Aschenbroich to continue to benefit from a defined benefit pension plan.

Courbevoie and Paris La Défense, March 26, 2021

The Statutory Auditors
French original signed by

MAZARS		ERNST & YOUNG et Autres	
Gonzague Senlis	Jean-Marc Deslandes	Guillaume Rouger	Jean-François Ginies

5.8 OTHER FINANCIAL AND ACCOUNTING INFORMATION

5.8.1 Five-year financial summary

	2016	2017	2018	2019	2020
1. SHARE CAPITAL AT DECEMBER 31					
Share capital *(in millions of euros)*	239	239	240	241	242
Number of ordinary shares outstanding	239,143,131	239,653,121	240,253,100	241,036,743	241,717,403
Maximum number of new shares to be issued:					
• on exercise of equity warrants	-	-	-	-	-
• on exercise of stock subscription options	-	-	-	-	-
• on conversion of bonds into new shares	-	-	-	-	-
2. RESULTS OF OPERATIONS FOR THE YEAR *(in millions of euros)*					
Sales	-	-	-	-	-
Income before tax, depreciation, amortization and impairment losses	85	232	240	372	321
Income tax	24	56	30	14	2
Employee profit-sharing	-	-	-	-	-
Net income	262	318	258	282	200
Net dividend	297	296	297	48	72
3. PER-SHARE DATA *(in euros)*					
Net income after tax, but before depreciation, amortization and impairment losses	0.46	1.20	1.14	1.61	1.33
Net income	1.10	1.33	1.09	1.18	0.83
Net dividend	1.25	1.25	1.25	0.20	0.30
4. PERSONNEL					
Headcount at December 31	1	1	1	1	1
Wages and salaries *(in millions of euros)*(1)	34	28	47	25	26
Social security contributions *(in millions of euros)*(2)	1	1	1	-	8

(1) In 2020, this amount includes an expense of 22 million euros relating to the delivery of free shares to non-French beneficiaries under the 2015 free share plan and to the delivery of free shares to French beneficiaries under the 2017 free share plan, as well as an expense of 1 million euros in respect of shares settled in cash for certain foreign beneficiaries of the 2015 plan (see Note 3.2, pages 407 to 408).

(2) In 2020, this amount includes an expense of 7 million euros relating to social security contributions due on delivery of shares to French beneficiaries under free share plans (see Note 3.2, pages 407 to 408).

5.8.2 List of subsidiaries, affiliates and marketable securities

	Number of shares	Net carrying amount *(in millions of euros)*
Société de Participations Valeo	27,074,332	3,606
Valeo International Holding BV	2,845,121	443
Valeo Vision	620,572	377
Valeo Systèmes Thermiques	1,151,133	216
Valeo Systèmes de Contrôle Moteur	5,500,000	130
Valeo Matériaux de Friction	4,002,550	60
Valeo Otomotiv Sanayi ve Ticaret AS	121,513,059	40
Coreval	928,434	23
Valeo Service	860,000	12
Valeo Pyeong Hwa Co. Ltd	1,359,405	12
Valeo Auto-Electric GmbH	1,305	10
Amalgamations Valeo Clutch Private Ltd	56,252,500	9
Equipement 11	32,549	6
Other investments with a net carrying amount below 2 million euros		7
INVESTMENTS IN SUBSIDIARIES AND AFFILIATES		**4,951**
Other securities		-
OTHER INVESTMENT SECURITIES		**-**
MONEY MARKET FUNDS (SICAV)		**1,400**
TREASURY SHARES		**78**
TOTAL		**6,429**

Share Capital and Ownership Structure

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

6.1 STOCK MARKET DATA

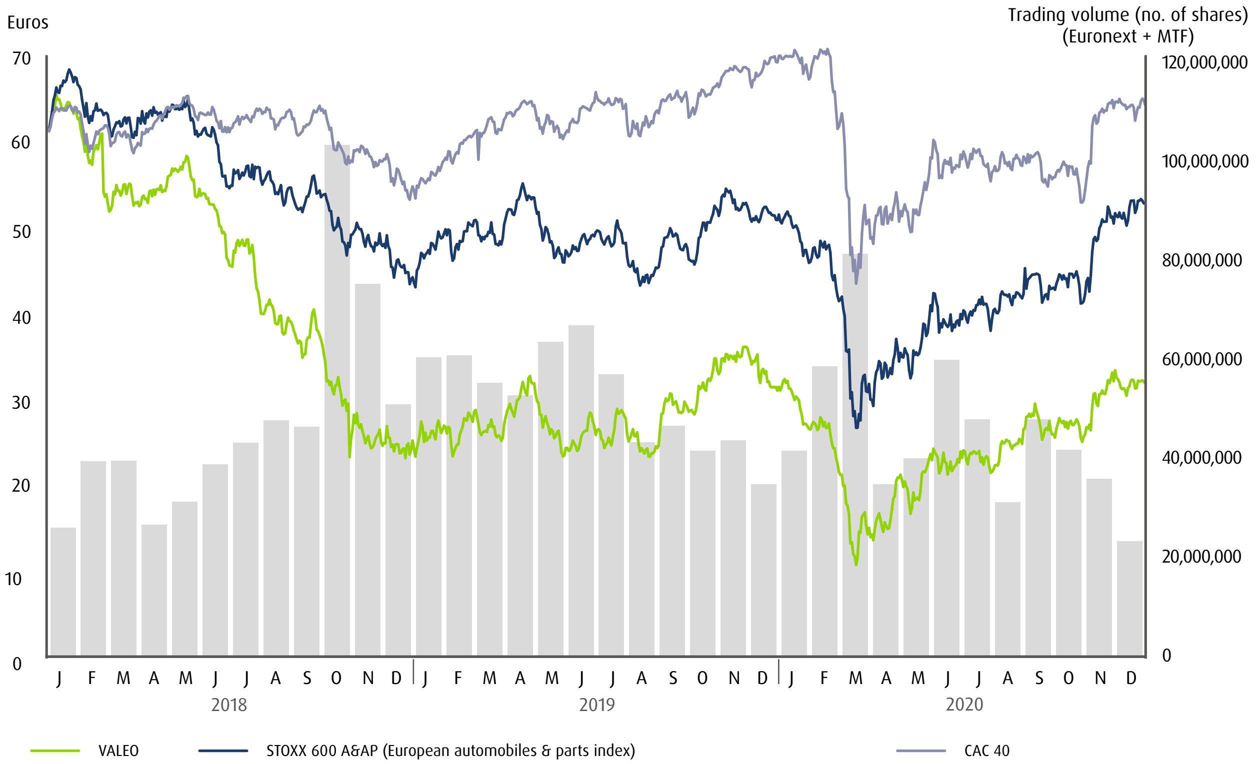
	2018	2019	2020
Market capitalization at year-end *(in billions of euros)*	6.13	7.57	7.80
Number of shares	240,253,100	241,036,743	241,717,403
Highest share price *(in euros)*	66.48	37.02	34.05
Lowest share price *(in euros)*	23.20	23.06	10.51
Average share price *(in euros)*	45.72	28.73	24.86
Share price at year-end *(in euros)*	25.51	31.41	32.28

6.1.1 Share performance

	SHARE PRICE *(in euros)*			TRADING VOLUME		
Effective	**High**	**Low**	**Closing** *(average)*	**MTF[1]** *(in number of shares)*	**Euronext[2]** *(in number of shares)*	**Euronext[2]** *(in capital and millions of euros)*
December 2019	36.25	31.24	33.24	14,728,205	19,972,828	668.08
January 2020	33.00	26.80	30.31	18,964,786	22,457,342	671.22
February 2020	28.72	22.23	26.51	27,285,257	31,333,340	815.78
March 2020	23.31	10.51	16.22	33,277,092	48,389,642	787.32
April 2020	22.09	13.55	16.41	13,653,615	21,116,100	349.07
May 2020	23.34	16.28	19.89	15,851,353	24,060,990	481.62
June 2020	25.50	19.35	22.97	25,242,817	35,328,179	818.62
July 2020	25.10	21.71	23.56	21,961,072	25,809,760	604.55
August 2020	26.40	21.40	24.50	13,065,786	17,990,448	438.73
September 2020	30.12	24.69	27.49	19,647,382	28,188,526	777.04
October 2020	28.97	24.84	27.18	19,307,019	22,297,695	601.19
November 2020	33.73	25.41	30.32	14,276,689	21,464,249	649.34
December 2020	34.05	30.26	32.22	9,270,628	14,789,697	475.23

(1) MTF (Multilateral Trading Facility): includes the trading volumes on the ChiX, Turquoise, Bats and Aquis platforms.
(2) Source: Euronext monthly statistics

6.1.2 Share price and monthly trading volumes



6.2 INVESTOR RELATIONS

Valeo's Investor Relations Department serves as an interface between the Group and the international financial community, including institutional investors such as socially responsible investors (SRIs), as well as financial analysts and individual shareholders. It aims to provide clear, thorough and transparent information in real time to all these market participants, in order to keep them informed of Valeo's strategy, positioning, results and short- and medium-term financial objectives.

Valeo's website, www.valeo.com, features a dedicated, regularly updated "Investors & shareholders" section for its shareholders and the financial community. It includes, in particular:

- the Universal Registration Document including the Integrated Report, the Corporate Governance and Sustainable Development Report and the Half-Year Financial Report ("Regulated information" section);
- financial presentations and press releases ("Financial presentations & releases" section);
- the capital structure, the list of analysts covering the Valeo share, and information regarding the American depositary receipt program ("Stock market" section);
- details of the Group's debt, and the credit ratings assigned by Moody's and Standard & Poor's ("Bond investors" section);
- information for individual shareholders ("Individual shareholders" section);
- information about the Shareholders' Meeting ("Shareholders' Meeting" section).

6.2.1 Institutional investors

The Group's Investor Relations Department closely and consistently interacts with the financial community. The department places great importance on holding meetings throughout the year with shareholders, investors and financial analysts, whether at the Group's headquarters or at major global financial centers (Europe, North America and Asia) during roadshows or conferences. In all, the Investor Relations team met more than 1,000 institutional investors and analysts at these events during 2020, with the Group's Management present at a large number of these meetings.

Valeo has also been developing dedicated communications for investors and analysts specialized in socially responsible investment (SRI). In 2020, the Group had the opportunity to discuss its strategy in areas including corporate governance and social and environmental responsibility. Information on these subjects is available on the Group's website under "SRI" in the "Sustainability" section.

6.2.2 Individual shareholders

Valeo consistently interacts with individual shareholders, who control approximately 5% of Valeo's share capital. As part of this interaction, an "Individual shareholders" section is available on the Group's website and features information related to the stock market and dividends. The Group's Investor Relations Department regularly sends information, such as "flash" e-newsletters and shareholders' letters, to individual shareholders to keep them informed about the Group's latest news and financial results. Since 2017, individual shareholders in France have been able to join an online Shareholders' Club, where they can access presentations on the Group and its operations. The share registrar service has been provided by Société Générale since the end of 2000 and offers a share information line (+33 (0)2 51 85 67 89) for questions concerning dividends, tax issues and order placing.

For any other information about the Group, individual shareholders can call the number provided in section 6.2.4.

6.2.3 Employee shareholders

Since 2010, Valeo has had a policy of allotting free shares to promote the development of employee share ownership over time.

In 2016, Valeo launched a share subscription offering reserved for employees. Following its success, the offering has been renewed every year and in 2020 was rolled out in 21 countries to some 90,000 employees. As is the case every year, information sessions about the offering and the performance of the Valeo share were held at each Group site.

At December 31, 2020, Valeo employees held 6,541,958 shares under Group employee share ownership plans in France and abroad, directly or indirectly through the Valeorizon mutual fund, representing 2.71%[1] of the Company's share capital. At December 31, 2019, they held 5,948,451 shares, or 2.47% of the share capital. The Valeorizon mutual fund is an effective way of involving employees in the Group's performance.

Employee shareholders have access to the same communication tools as individual shareholders, as well as an information line managed by the banks in charge of the share ownership plans. They can call this telephone platform all year round with any questions they may have. For further information, see section 6.4.5 of this chapter, “Employee share ownership”, page 440 and Chapter 4, section 4.3.3 “Valeo’s non-financial risks”, paragraph “Risk related to developing and retaining talent”, page 244.

6.2.4 Contact

Valeo
43, rue Bayen
75848 Paris Cedex 17 – France

Institutional investors and financial analysts
Thierry Lacorre, Investor Relations Director
To arrange a meeting, please contact:
E-mail: valeo.corporateaccess.mailbox@valeo.com

Individual shareholders
Tel.: +33 (0)1 40 55 20 39
Email: valeo.actionnairesindividuels.mailbox@valeo.com
For questions about registered shares, please contact:
Société Générale
Tel.: +33 (0)2 51 85 67 89

6.2.5 Provisional financial publications calendar

- First-quarter 2021 sales: April 28, 2021
- First-half 2021 results: July 22, 2021
- Third-quarter 2021 sales: October 28, 2021
- Full-year 2021 results: second half of February 2022

(1) In accordance with Article L.225-102 of the French Commercial Code, employees hold 1.97% of the share capital. The difference compared to the percentage stated above results from the exclusion of free shares whose allotment was authorized by a Shareholders' Meeting decision prior to August 7, 2015, which do not fall within the scope of this article.

6.3 DIVIDENDS

Dividends over the past three years were as follows:

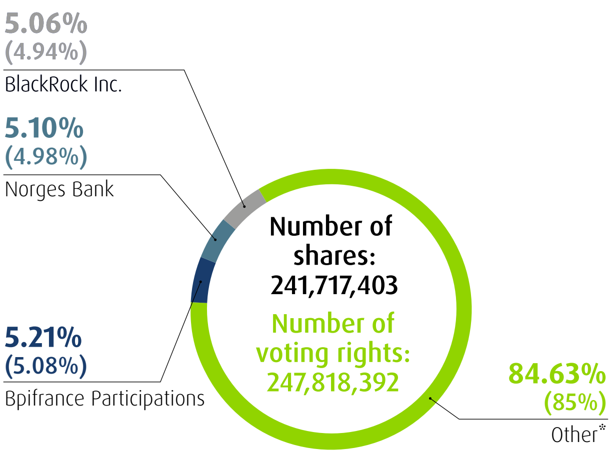
Year	Dividend per share *(in euros)*	Tax allowance	Total *(in millions of euros)*
2017	1.25	Amount eligible for the 40% tax allowance provided for in Article 158,3-2° of the French Tax Code (*Code général des impôts*) for individuals who are tax residents in France	296
2018	1.25	Amount eligible for the 40% tax allowance provided for in Article 158,3-2° of the French Tax Code (*Code général des impôts*) for individuals who are tax residents in France	297
2019	0.20	Amount eligible for the 40% tax allowance provided for in Article 158,3-2° of the French Tax Code (*Code général des impôts*) for individuals who are tax residents in France	48

On February 18, 2021, it was announced that at the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2020, Valeo's Board of Directors would recommend the payment of a dividend of 0.30 euros per share eligible for dividends.

6.4 SHARE OWNERSHIP

6.4.1 Ownership structure

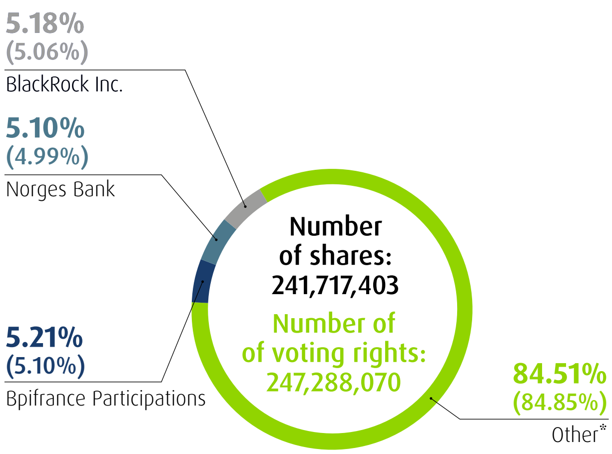
Ownership structure at December 31, 2020



% of share capital
(% of voting rights)

* *Including 1,466,685 treasury shares (0.61% of the share capital).*

Ownership structure at February 18, 2021



% of share capital
(% of voting rights)

* *Including 1,458,881 treasury shares (0.60% of the share capital).*

6.4.2 Direct or indirect shareholdings in the Company brought to the Company's attention

The following details on share capital and voting rights were prepared:

- based on data brought to the Company's attention;
- based on the Company's share capital and theoretical voting rights at December 31 of each of the three years under consideration (2018, 2019 and 2020), and at February 18, 2021.

At December 31, 2020, the Company's share capital comprised 241,717,403 shares, including 1,466,685 treasury shares, representing 247,818,392 theoretical voting rights.

	DECEMBER 31, 2020				FEBRUARY 18, 2021			
	Number of shares	% of share capital	Number of theoretical voting rights(1)	% of theoretical voting rights(1)	Number of shares	% of share capital	Number of theoretical voting rights(1)	% of theoretical voting rights(1)
Bpifrance Participations	12,600,000	5.21	12,600,000	5.08	12,600,000	5.21	12,600,000	5.10
Norges Bank	12,337,905	5.10	12,337,905	4.98	12,337,905	5.10	12,337,905	4.99
BlackRock Inc.	12,237,116	5.06	12,237,116	4.94	12,519,631	5.18	12,519,631	5.06
Employee share ownership(2)	6,541,958	2.71(5)	8,227,660	3.32	6,541,958	2.71(5)	8,227,660	3.33
Treasury shares(3)	1,466,685	0.61	–	–	1,458,881(6)	0.60	–	–
Other(4)	196,533,739	81.31	202,415,711	81.68	196,259,028	81.20	201,602,874	81.52
TOTAL	**241,717,403**	**100**	**247,818,392**	**100**	**241,717,403**	**100**	**247,288,070**	**100**

(1) Registered shares held by the same shareholder for four or more years carry double voting rights (see Chapter 7, section 7.1.11 "Double voting rights", page 451). The total number of voting rights is calculated on the basis of all shares, including shares without voting rights (treasury shares) (Article 223-11 of the AMF's General Regulations).
(2) For more information on employee share ownership, see section 6.4.5 of this chapter, "Employee share ownership", page 440.
(3) For more information on treasury shares, see section 6.5.2 of this chapter, "Treasury shares", page 441.
(4) The number of theoretical voting rights includes theoretical voting rights that were not recognized on treasury shares.
(5) In accordance with Article L.225-102 of the French Commercial Code, employees hold 1.97% of the share capital. The difference compared to the percentage stated above results from the exclusion of free shares whose allotment was authorized by a Shareholders' Meeting decision prior to August 7, 2015, which do not fall within the scope of this article.
(6) At January 31, 2021.

	DECEMBER 31, 2018				DECEMBER 31, 2019			
	Number of shares	% of share capital	Number of theoretical voting rights(1)	% of theoretical voting rights(1)	Number of shares	% of share capital	Number of theoretical voting rights(1)	% of theoretical voting rights(1)
Bpifrance Participations	N/A	N/A	N/A	N/A	12,368,826	5.13	12,368,826	5.01
Harris Associates LP	12,429,136	5.17	12,429,136	5.06	12,429,136	5.16	12,429,136	5.04
Norges Bank	12,337,905	5.14	12,337,905	5.02	12,337,905	5.12	12,337,905	5.00
BlackRock Inc.	N/A	N/A	N/A	N/A	12,328,487	5.11	12,328,487	5.00
Employee share ownership(2)	5,004,024	2.08	5,604,243	2.28	5,948,451	2.47	6,759,009	2.74
Treasury shares(3)	2,965,613	1.23	0	–	2,007,632	0.83	–	–
Other(4)	207,516,422	86.38	215,358,584	87.64	183,616,306	76.18	190,499,711	77.21
TOTAL	**240,253,100**	**100**	**245,729,868**	**100**	**241,036,743**	**100**	**246,723,074**	**100**

(1) Registered shares held by the same shareholder for four or more years carry double voting rights (see Chapter 7, section 7.1.11 "Double voting rights", page 451). The total number of voting rights is calculated on the basis of all shares, including shares without voting rights (treasury shares) (Article 223-11 of the AMF's General Regulations).
(2) For more information on employee share ownership, see section 6.4.5 of this chapter, "Employee share ownership", page 440.
(3) For more information on treasury shares, see section 6.5.2 of this chapter, "Treasury shares", page 441.
(4) The number of theoretical voting rights includes theoretical voting rights that were not recognized on treasury shares.

Shareholders representing more than 5% of the share capital or voting rights

To the best of the Company's knowledge, there were no shareholders with direct or indirect holdings of 5% or more of the Company's share capital or voting rights at December 31, 2020, other than:

- Bpifrance Participations, which held 12,600,000 shares in the Company, i.e., 5.21% of the share capital and 5.08% of the voting rights;
- Norges Bank, which held, directly or indirectly, 12,337,905 shares in the Company, i.e., 5.10% of the share capital and 4.98% of the voting rights;
- BlackRock Inc., which, acting on behalf of funds and clients it manages, held 12,237,116 shares in the Company, i.e., 5.06% of the share capital and 4.94% of the voting rights.

To the best of the Company's knowledge, there were no shareholders with direct or indirect holdings of 5% or more of the Company's share capital or voting rights at February 18, 2021, other than:

- Bpifrance Participations, which held 12,600,000 shares in the Company, i.e., 5.21% of the share capital and 5.10% of the voting rights;
- Norges Bank, which held, directly or indirectly, 12,337,905 shares in the Company, i.e., 5.10% of the share capital and 4.99% of the voting rights;
- BlackRock Inc., which, acting on behalf of funds and clients it manages, held 12,519,631 shares in the Company, i.e., 5.18% of the share capital and 5.06% of the voting rights.

Crossing of disclosure thresholds

Between January 1, 2020 and February 18, 2021, Valeo was notified of the following disclosure threshold crossings:

Shareholder	Date of notification[1]	Effective date[1]	Number of Valeo shares held[1]	Percentage of capital reported[1]	Number of voting rights held[1]	Percentage of theoretical voting rights reported[1]	Threshold crossed/ Increase or decrease [1]
BlackRock Inc.[2]	01/06/2020	01/02/2020	12,367,376	5.13%	5.01%	5% of voting rights	↗
BlackRock Inc.[2]	01/09/2020	01/08/2020	12,181,335	5.05%	4.94%	5% of voting rights	↘
BlackRock Inc.[2]	01/14/2020	01/13/2020	12,466,725	5.16%	5.04%	5% of voting rights	↗
BlackRock Inc.[2]	01/17/2020	01/16/2020	12,273,869	5.09%	4.97%	5% of voting rights	↘
BlackRock Inc.[2]	01/21/2020	01/17/2020	12,021,251	4.99%	4.87%	5% of share capital	↘
BlackRock Inc.[2]	01/21/2020	01/21/2020	12,119,810	5.03%	4.91%	5% of share capital	↗
BlackRock Inc.[2]	01/24/2020	01/23/2020	12,451,248	5.17%	5.05%	5% of voting rights	↗
BlackRock Inc.[2]	01/31/2020	01/29/2020	11,878,005	4.93%	4.51%	5% of share capital and voting rights	↘
BlackRock Inc.[2]	02/07/2020	02/06/2020	12,248,058	5.08%	4.96%	5% of share capital	↗
BlackRock Inc.[2]	02/13/2020	02/12/2020	12,356,660	5.13%	5.12%	5% of voting rights	↗
BlackRock Inc.[2]	03/17/2020	03/13/2020	11,985,712	4.97%	4.87%	5% of share capital and voting rights	↘
BlackRock Inc.[2]	03/24/2020	03/23/2020	12,245,935	5.08%	4.97%	5% of share capital	↗
BlackRock Inc.[2]	03/25/2020	03/24/2020	11,680,958	4.85%	4.74%	5% of share capital	↘
BlackRock Inc.[2]	05/19/2020	05/14/2020	12,060,655	5.00%	4.89%	5% of share capital	↗
BlackRock Inc.[2]	05/19/2020	05/18/2020	11,883,749	4.93%	4.81%	5% of share capital	↘
BlackRock Inc.[2]	05/20/2020	05/19/2020	12,094,092	5.02%	4.90%	5% of share capital	↗
BlackRock Inc.[2]	05/27/2020	05/26/2020	11,897,216	4.94%	4.82%	5% of share capital	↘
BlackRock Inc.[2]	07/02/2020	07/01/2020	12,192,281	5.06%	4.94%	5% of share capital	↗
BlackRock Inc.[2]	07/03/2020	07/02/2020	11,242,327	4.66%	4.55%	5% of share capital	↘
BlackRock Inc.[2]	07/09/2020	07/08/2020	12,633,374	5.24%	5.13%	5% of share capital and voting rights	↗
BlackRock Inc.[2]	07/16/2020	07/15/2020	11,195,256	4.64%	4.54%	5% of share capital and voting rights	↘
BlackRock Inc.[2]	07/27/2020	07/24/2020	12,127,744	5.03%	4.92%	5% of share capital	↗
BlackRock Inc.[2]	07/29/2020	07/28/2020	12,462,427	5.17%	5.06%	5% of voting rights	↗
BlackRock Inc.[2]	07/30/2020	07/29/2020	12,255,559	5.08%	4.98%	5% of voting rights	↘
BlackRock Inc.[2]	08/04/2020	08/03/2020	11,969,084	4.97%	4.86%	5% of share capital	↘
BlackRock Inc.[2]	08/05/2020	08/04/2020	12,390,814	5.14%	5.03%	5% of share capital and voting rights	↗
BlackRock Inc.[2]	08/20/2020	08/19/2020	12,042,361	4.99%	4.89%	5% of share capital and voting rights	↘
BlackRock Inc.[2]	08/21/2020	08/20/2020	12,074,182	5.01%	4.90%	5% of share capital	↗
BlackRock Inc.[2]	08/25/2020	08/24/2020	13,001,762	5.39%	5.28%	5% of voting rights	↗
BlackRock Inc.[2]	09/01/2020	08/31/2020	12,306,748	5.11%	4.99%	5% of voting rights	↘
BlackRock Inc.[2]	09/02/2020	09/01/2020	12,039,503	4.99%	4.88%	5% of share capital	↘
BlackRock Inc.[2]	09/07/2020	09/04/2020	12,070,573	5.01%	4.90%	5% of share capital	↗
BlackRock Inc.[2]	09/08/2020	09/07/2020	11,888,410	4.93%	4.82%	5% of share capital	↘

(1) Information sourced from disclosure threshold crossing notifications published by the AMF.
(2) Acting on behalf of funds and clients it manages.

Shareholder	Date of notification[1]	Effective date[1]	Number of Valeo shares held[1]	Percentage of capital reported[1]	Number of voting rights held[1]	Percentage of theoretical voting rights reported[1]	Threshold crossed/ Increase or decrease [1]
BlackRock Inc.[2]	09/10/2020	09/09/2020	12,605,351	5.23%	5.11%	5% of share capital and voting rights	↗
BlackRock Inc.[2]	09/11/2020	09/10/2020	11,958,944	4.96%	4.85%	5% of share capital and voting rights	↘
BlackRock Inc.[2]	09/14/2020	09/11/2020	13,117,022	5.44%	5.32%	5% of share capital and voting rights	↗
BlackRock Inc.[2]	09/15/2020	09/14/2020	12,144,574	5.04%	4.93%	5% of voting rights	↘
BlackRock Inc.[2]	09/16/2020	09/15/2020	12,409,065	5.15%	5.03%	5% of voting rights	↗
BlackRock Inc.[2]	09/17/2020	09/16/2020	12,072,305	5.01%	4.90%	5% of voting rights	↘
BlackRock Inc.[2]	09/18/2020	09/17/2020	12,837,290	5.33%	5.21%	5% of voting rights	↗
BlackRock Inc.[2]	09/29/2020	09/28/2020	12,281,582	5.10%	4.98%	5% of voting rights	↘
BlackRock Inc.[2]	10/02/2020	10/01/2020	12,343,372	5.12%	5.01%	5% of voting rights	↗
BlackRock Inc.[2]	10/07/2020	10/06/2020	12,164,670	5.05%	4.94%	5% of voting rights	↘
BlackRock Inc.[2]	10/13/2020	10/09/2020	11,976,189	4.97%	4.86%	5% of share capital	↘
Harris Associates LP	10/14/2020	10/06/2020	12,269,820	5.09%	4.98%	5% of voting rights	↘
Harris Associates LP	10/20/2020	10/14/2020	11,949,800	4.96%	4.85%	5% of share capital	↘
BlackRock Inc.[2]	10/29/2020	10/28/2020	12,456,596	5.17%	5.05%	5% of share capital and voting rights	↗
BlackRock Inc.[2]	10/30/2020	10/29/2020	11,765,053	4.88%	4.77%	5% of share capital and voting rights	↘
BlackRock Inc.[2]	11/23/2020	11/20/2020	12,480,884	5.18%	5.06%	5% of share capital and voting rights	↗
BlackRock Inc.[2]	11/26/2020	11/24/2020	12,239,614	5.08%	4.97%	5% of voting rights	↘
BlackRock Inc.[2]	11/26/2020	11/25/2020	12,324,702	5.11%	5.00%	5% of share capital	↗
BlackRock Inc.[2]	11/30/2020	11/27/2020	12,213,174	5.07%	4.95%	5% of voting rights	↘
BlackRock Inc.[2]	12/28/2020	12/24/2020	12,382,482	5.12%	5.01%	5% of voting rights	↗
BlackRock Inc.[2]	01/04/2021	12/31/2020	12,237,116	5.06%	4.95%	5% of voting rights	↘
BlackRock Inc.[2]	01/08/2021	01/07/2021	12,519,631	5.18%	5.06%	5% of voting rights	↗

(1) Information sourced from disclosure threshold crossing notifications published by the AMF.
(2) Acting on behalf of funds and clients it manages.

6.4.3 Directors' interests in Valeo's share capital

At December 31, 2020, to the best of the Company's knowledge, Jacques Aschenbroich and other individual members of the Board of Directors held less than 1% of Valeo's share capital and voting rights in a personal capacity. Bpifrance Participations and the Fonds Stratégique de Participations held 12,600,000 and 9,471,305 shares respectively, bringing the percentage interest held by all members of the Board of Directors (both individuals and companies) in a personal capacity to 9.49% of the share capital and 9.59% of the voting rights. The number of shares held by each member of the Board of Directors is given in Chapter 3, section 3.2.1, paragraphs "Composition of the Board of Directors at December 31, 2020 and changes during the year" and "Presentation of directors in 2020", pages 104 and 116 to 132.

6.4.4 Transactions carried out in the Company's shares by senior management and directors

To the best of the Company's knowledge, no senior managers or directors or related persons reported, pursuant to the applicable legal and regulatory provisions, having carried out transactions involving the Company's shares (i) in 2020 or (ii) between January 1, 2021 and the date of this Universal Registration Document.

6.4.5 Employee share ownership

At December 31, 2020, Valeo employees held 6,541,958 shares under Group employee share ownership plans in France and abroad, directly or indirectly through the Valeorizon mutual fund, representing 2.71%[(1)] of the Company's share capital. At December 31, 2019, they held 5,948,451 shares, or 2.47% of the share capital. The Valeorizon mutual fund is an effective way of involving employees in the Group's performance.

As has been the case since 2016, a share subscription offering reserved for employees was launched in 2020 in 21 of the Group's main countries, giving more than 90% of employees the opportunity to become Valeo shareholders. The offering is part of the development of Valeo's employee share ownership policy in France and abroad, which aims to involve employees in the Group's performance. At the close of the subscription period, which ran from September 21, 2020 to October 9, 2020, employees had subscribed to 680,660 new shares at a unit price of 21.61 euros, reflecting a 20% discount on the reference price. Since the offering in France was carried out under the Group Employee Savings Plan (*Plan d'Épargne Groupe* – PEG), employees who subscribed to shares benefited from a top-up contribution from their employer. Outside France, employees were granted free shares subject to certain conditions.

6.5 SHARE BUYBACK PROGRAM AFR

6.5.1 Current share buyback program adopted by the Shareholders' Meeting of June 25, 2020

In accordance with Articles L.225-209 *et seq.* of the French Commercial Code, Articles 241-1 *et seq.* of the AMF's General Regulations, Regulation No. 596/2014 of the European Parliament and of the Council of April 16, 2014, Commission Delegated Regulation No. 2016/1052 of March 8, 2016 and the market practices permitted by the AMF, the Ordinary and Extraordinary Shareholders' Meeting of June 25, 2020, in its fourteenth resolution, granted the Board of Directors (with power to subdelegate) an authorization to carry out transactions in the shares issued by the Company, for the following purposes:

- the implementation of any Company stock option plan under which beneficiaries may purchase shares in the Company by any means pursuant to Articles L.225-177 *et seq.* of the French Commercial Code or other similar plan; or
- the allotment of free shares in the Company pursuant to Articles L.225-197-1 *et seq.* of the French Commercial Code or other similar plan; or
- the allotment or sale of shares to employees as part of their involvement in the performance of the Company or pursuant to a company or Group employee savings plan (or similar plan) in accordance with applicable law, in particular Articles L.3332-1 *et seq.* of the French Labor Code (*Code du travail*); or
- in general, to comply with obligations in respect of stock option plans or other allotments of shares to employees or corporate officers of the issuer or of a related company; or

(1) *In accordance with Article L.225-102 of the French Commercial Code, employees hold 1.97% of the share capital. The difference compared to the percentage stated above results from the exclusion of free shares whose allotment was authorized by a Shareholders' Meeting decision prior to August 7, 2015, which do not fall within the scope of this article.*

- the delivery of shares on the exercise of rights attached to securities giving access to the share capital (*valeurs mobilières donnant accès au capital*) by redemption, conversion, exchange, presentation of a warrant or any other means; or
- the retention and future delivery of shares (as exchange consideration, as payment or other) in connection with acquisitions, mergers, spin-offs or contributions; or
- the cancelation of all or part of the shares so acquired; or
- market-making for the Valeo share under a liquidity agreement compliant with the market practices permitted by the AMF.

The program is also intended to allow for the implementation of any market practices that may subsequently be permitted by market authorities and, more generally, to carry out any other transactions in compliance with current or future applicable laws and regulations.

The total number of shares purchased by the Company during the share buyback program may not exceed 10% of the shares making up the Company's share capital at any time. This percentage will apply to the share capital as adjusted to take into account any transactions carried out subsequent to the Shareholders' Meeting, it being specified that:

(i) when shares are acquired to increase liquidity, the number of shares used to determine the 10% limit corresponds to the number of shares purchased, less the number of shares sold during the authorized period;

(ii) the number of shares purchased with a view to holding them for future delivery in connection with an external growth operation, merger, spin-off or contribution may not exceed 5% of the share capital;

(iii) the number of shares held by the Company at any time may not exceed 10% of the shares that constitute the Company's share capital.

The maximum purchase price is set at 80 euros per share and the maximum amount allotted to the share buyback program is set at 1,928,293,920 euros. Based on the per-share price of 80 euros, a maximum of 24,103,674 shares may therefore be purchased under the program.

This authorization was given for an 18-month period as of the Shareholders' Meeting of June 25, 2020 and canceled, as of the same date, the unused portion, as at the Shareholders' Meeting of June 25, 2020, of the authorization granted by the Shareholders' Meeting of May 23, 2019 in its eleventh resolution.

A description of the 2020 renewal of the Company's share buyback program was drawn up in accordance with Articles 241-1 *et seq.* of the AMF's General Regulations.

In 2020, Valeo carried out a number of share sale and purchase transactions under the abovementioned share buyback program and under the program authorized at the Shareholders' Meeting of May 23, 2019 (see section 6.5.2 of this chapter, "Treasury shares", page 441).

6.5.2 Treasury shares

At December 31, 2020, the Company held, directly or indirectly, 1,466,685 treasury shares (i.e., 0.61% of the share capital) with a unit value based on the purchase price of 53.22 euros and a par value of 1 euro. At December 31, 2019, Valeo held 2,007,632 shares, or 0.83% of the share capital.

The shares purchased in 2020 were to be used in respect of:

- stock purchase option and free share plans;
- the implementation of a liquidity agreement.

The share purchases were carried out in accordance with authorizations granted by the Shareholders' Meetings of May 23, 2019 and June 25, 2020 to the Board of Directors to buy back Company shares, it being specified that the fourteenth resolution of the Shareholders' Meeting of June 25, 2020 terminated and superseded the authorization granted by the Shareholders' Meeting of May 23, 2019.

The fourteenth resolution of the Shareholders' Meeting of June 25, 2020 authorized the Board of Directors (with the power to subdelegate) to purchase, or arrange for the purchase of, the Company's shares in accordance with the conditions specified in section 6.5.1 of this chapter, "Current share buyback program adopted by the Shareholders' Meeting of June 25, 2020", page 440.

Shares to be allotted to stock purchase option and free share plans

At December 31, 2020, the number of treasury shares to be allocated to stock purchase option and free share (including performance share) plans stood at 1,466,685 compared with 1,907,632 at December 31, 2019.

Shares for use under a liquidity agreement

In 2020, Valeo acquired 3,147,014 shares at an average price of 27.18 euros and sold 3,247,014 shares at an average First-In-First-Out price of 27.33 euros. Trading and transaction fees incurred under the liquidity agreement entered into with an investment services provider that complies with the Code of Ethics of the French Association of Investment Firms (*Association française des entreprises d'investissement* – AFEI) totaled 140,000 euros. These shares were not reallotted to other purposes provided for under the share buyback program.

At December 31, 2020, 0 shares and 17,361,775.23 euros in cash had been allocated to the liquidity agreement, compared with 100,000 shares and 14,610,640.60 euros in cash at December 31, 2019.

6.5.3 Share buyback program to be submitted to the Shareholders' Meeting of May 26, 2021

The Ordinary and Extraordinary Shareholders' Meeting to be held on May 26, 2021 will be asked to renew the authorization granted by the fourteenth resolution approved by the Shareholders' Meeting of June 25, 2020, permitting the Company to carry out transactions in its own shares under a new share buyback program, in accordance with the provisions of Articles L. 22-10-62 *et seq.* of the French Commercial Code, Regulation No. 596/2014 of the European Parliament and of the Council of April 16, 2014, Commission Delegated Regulation No. 2016/1052 of March 8, 2016, and the market practices permitted by the AMF, as well as any other legal or regulatory provisions that may become applicable.

The features of the new share buyback program are described below:

Purposes of the new share buyback program

Under the new share buyback program, which will be submitted to the Ordinary and Extraordinary Shareholders' Meeting on May 26, 2021, Valeo plans to buy back, directly or indirectly, its own shares, for the following purposes:

- the implementation of any stock option plan under the terms of Articles L.225-177 *et seq.* and L.22-10-56 *et seq.* of the French Commercial Code (or other similar plan), in particular by any employee and/or corporate officer of the Company and of related companies or economic interest groups, in accordance with the applicable legal and regulatory provisions; or
- the allotment of free shares under the terms of Articles L.225-197-1 *et seq.* and L. 22-10-59 *et seq.* of the French Commercial Code (or other similar plan), particularly to any employee and/or corporate officer of the Company or related companies or economic interest groups, in accordance with the applicable legal and regulatory provisions; or
- the allotment or sale of shares to employees as part of their involvement in the performance of the Company or pursuant to a company or Group employee savings plan (or similar plan) in accordance with applicable law, in particular Articles L.3332-1 *et seq.* of the French Labor Code (*Code du travail*); or
- in general, to comply with obligations in respect of stock option plans or other allotments of shares to employees or corporate officers of the issuer or of a related company; or
- the delivery of shares on the exercise of rights attached to securities giving access to the share capital (*valeurs mobilières donnant accès au capital*) by redemption, conversion, exchange, presentation of a warrant or any other means; or
- the retention and future delivery of shares (as exchange consideration, as payment or other) in connection with acquisitions, mergers, spin-offs or contributions; or
- the cancelation of all or part of the shares so acquired; or
- market-making for the Valeo share under a liquidity agreement compliant with the market practices permitted by the AMF.

The program is also intended to allow for the implementation of any market practice that may subsequently be permitted by market authorities and, more generally, to carry out any other transactions in compliance with current or future applicable laws and regulations.

Number of shares and percentage of share capital held by the issuer

At January 31, 2021, Valeo directly or indirectly held 1,458,881 shares, representing 0.60% of the Company's share capital.

Breakdown of shares owned by Valeo by purpose

At January 31, 2021:

- 1,458,881 shares were allotted to stock purchase option or free share plans;
- No shares were allotted under the liquidity agreement signed on March 23, 2019 with Rothschild Martin Maurel. This agreement complies with the Code of Ethics of the AFEI, approved by the AMF on March 22, 2005 (which has since become the Code of Ethics of the French Association of Financial and Investment Firms approved by the AMF on October 1, 2008).

Maximum interest in the Company's share capital, maximum number and characteristics of shares that may be purchased under the new share buyback program

The maximum interest that can be purchased under the new share buyback program may not exceed 10% of the shares making up the Company's share capital (i.e., 24,171,740 shares at January 31, 2021, excluding shares already held by the Company). This percentage will apply to the share capital as adjusted to take into account any transactions carried out subsequent to the Shareholders' Meeting.

In accordance with the provisions of Article L.225-210 of the French Commercial Code, the number of shares that Valeo may hold at any time may not represent over 10% of the Company's share capital at the given date. Given the number of shares the Company currently owns, i.e., 1,458,881 shares at January 31, 2021 (0.60% of the Company's share capital) and subject to adjustments affecting the number of shares held by the Company (including cancelation of treasury shares) and the amount of share capital after the Ordinary and Extraordinary Shareholders' Meeting on May 26, 2021, a total of 22,712,859 shares (9.40% of the Company's share capital at January 31, 2021) could be available for purchase.

The securities covered by the buyback program are exclusively shares.

Maximum purchase price per share

The purchase price of shares under the new share buyback program may not exceed 70 euros per share (excluding acquisition costs). This price could be adjusted in the event of a change in the par value of the share, capital increase by capitalization of reserves, allotment of free shares, a stock split or reverse stock split, distribution of reserves, or any other assets, redemption of the share capital, or any other transaction affecting shareholders' equity, so as to take account of the impact of these transactions on the value of the share.

The maximum amount that can be spent under the new share buyback program will be fixed at 1,692,021,800 euros (excluding acquisition costs). Valeo reserves the right to use the full amount authorized under the program.

Term of the new share buyback program

In accordance with the resolution that will be submitted to the Ordinary and Extraordinary Shareholders' Meeting for approval on May 26, 2021, the new share buyback program would be authorized for an 18-month period as of the meeting, i.e., until November 26, 2022. It will supersede the fourteenth resolution approved by the Shareholders' Meeting of June 25, 2020.

6.5.4 Cancelation of treasury shares

In the twentieth resolution of the Ordinary and Extraordinary Shareholders' Meeting of May 23, 2019, the Company's shareholders gave the Board of Directors a 26-month authorization to reduce the Company's capital by canceling treasury shares. Under this authorization, the number of shares canceled in any given 24-month period may not exceed 10% of the Company's share capital.

6.6 ADDITIONAL DISCLOSURES CONCERNING THE SHARE CAPITAL

6.6.1 Changes in share capital

Changes in the Company's capital during 2020 were as follows:

		CHANGES *(in millions of euros)*				
Year	**Type of operation**	**Nominal**	**Premium**	**Total**	**Number of shares issued**	**Total number of shares at Dec. 31, 2020**
2020	Capital increase reserved for employees	1	14	15	680,660	241,717,403

The share capital at December 31, 2020 therefore comprised 241,717,403 shares with a par value of 1 euro, fully paid-up and traded on the Euronext Paris regulated market.

At December 31, 2020, there were no plans in place pursuant to which shares could be issued on exercise of stock subscription options awarded to the Group's employees and corporate officers.

To the best of the Company's knowledge, none of these shares have been pledged.

6.6.2 Other securities giving access to the share capital – Stock purchase option and free share plans

Stock purchase options outstanding in 2020(1)

	2012 PLAN
Date of Board meeting	**03/27/2012**
Date of Shareholders' Meeting	06/08/2011
TOTAL NUMBER OF SHARES THAT CAN BE PURCHASED	**1,101,480**
• Total number of options allotted to corporate officers(2)	105,900
• Total number of options allotted to employees	995,580
• Number of corporate officer grantees(2)	1
• Number of employee grantees	282
Start of exercise period	03/27/2015
Expiration date	03/26/2020
Purchase price(3)	€13.59
PERFORMANCE CRITERIA(4)	
• Chairman and Chief Executive Officer, Operations Committee	Operating margin - ROCE - ROA rate
• Liaison Committee	Operating margin - ROCE rate
• Main direct reports of the Liaison Committee members	Operating margin - ROCE rate
• High-potential managers	-
• All employees	-
PERFORMANCE CRITERIA – RATE OF ACHIEVEMENT	
• Chairman and Chief Executive Officer, Operations Committee	100%
• Liaison Committee and main direct reports of the Liaison Committee members	100%
• High-potential managers	100%
• All employees	-
Number of options exercised at Dec. 31, 2020	967,230
Number of stock options canceled or forfeited at Dec. 31, 2020 (cumulative)	134,250
Number of options outstanding at Dec. 31, 2020	**0**
Number of grantees at Dec. 31, 2020	0

(1) The figures in the table have been adjusted for the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 (nineteenth resolution) and implemented by the Board of Directors on the same date. To protect the interests of stock purchase option holders, at its meeting on May 26, 2016, the Board of Directors decided to adjust the exercise price of the unexercised options, by dividing the exercise price by three and multiplying the number of options by three.
(2) Chairman and Chief Executive Officer.
(3) Equal to the average share price over the 20 trading days preceding the Board of Directors' meeting allotting the options, which is 80% higher than the average purchase price of shares held by Valeo under Articles L.225-208 and L.225-209 of the French Commercial Code, as adjusted.
(4) For definitions of operating margin, ROCE and ROA, see financial glossary, page 48.

Free share plans in force at December 31, 2020[1]

	2014 PLAN	2015 PLAN	2016 PLAN	2017 PLAN	2018 PLAN	2019 PLAN	2020 PLAN
Date of Board meeting	**03/27/2014**	**03/26/2015**	**05/26/2016**	**03/22/2017**	**03/22/2018**	**05/23/2019**	**03/24/2020**
Date of Shareholders' Meeting	06/04/2012	05/21/2014	05/26/2016	05/26/2016	05/26/2016	05/23/2019	05/23/2019
TOTAL NUMBER OF FREE SHARES ALLOTTED	**970,440**	**957,027**	**1,267,022**	**1,012,043**	**1,234,623**	**1,699,281**	**2,342,306**
• Total number of options allotted to corporate officers[2]	31,515	30,696	70,974	51,030	55,026	87,122	130,000
• Total number of shares allotted to employees	938,925	926,331	622,158	538,731	661,237	1,192,159	1,682,306
• Total number of options allotted under employee share ownership plans	-	-	573,890	422,282	518,360	420,000	530,000
• Number of corporate officer grantees[2]	1	1	1	1	1	1	1
• Number of employee grantees	174,308	188,550	28,030[1]	32,214[1]	38,418[1]	39,284[1]	40,385[1]
VESTING DATE OF SHARES							
• Chairman and Chief Executive Officer, Operations Committee	France: 03/27/2017 Other countries: 03/27/2019	France: 03/26/2018 Other countries: 03/26/2020	France: 05/26/2019 Other countries: 05/26/2021	France: 03/22/2020[2] 03/22/2021[3] Other countries: 03/22/2021[3]	France: 03/22/2021[2] 03/22/2022[4] Other countries: 03/22/2022[4]	France/Other countries: 05/23/2022	France/Other countries: 03/24/2023
• Liaison Committee and main direct reports of the Liaison Committee members	France: 03/27/2017 Other countries: 03/27/2019	France: 03/26/2018 Other countries: 03/26/2020	France: 05/26/2019 Other countries: 05/26/2021	France: 03/22/2021[3] Other countries: 03/22/2021[3]	France: 03/22/2022[4] Other countries: 03/22/2022[4]	France/Other countries: 05/23/2022	France/Other countries: 03/24/2023
• High-potential managers	-	France: 03/26/2018 Other countries: 03/26/2020	France: 05/26/2019 Other countries: 05/26/2021	France: 03/22/2020 Other countries: 03/22/2022	France: 03/22/2021 Other countries: 03/22/2023	France/Other countries: 05/23/2022	France/Other countries: 03/24/2023
• All employees	France/Spain/Italy: 03/27/2017 Other countries: 03/27/2019	France/Spain/Italy: 03/26/2018 Other countries: 03/26/2020	France: 05/26/2019 Other countries: 05/26/2021	France: 03/22/2020 Other countries: 03/22/2022	France: 03/22/2021 Other countries: 03/22/2023	France/Other countries: 05/23/2022	France/Other countries: 03/24/2023
• "Employee share ownership"	-	-	Spain/Italy: 11/15/2019 Belgium: 11/15/2021 Other countries: 06/30/2021	Spain/Italy: 07/27/2020 Belgium/Ireland: 07/27/2022 Other countries: 06/30/2022	Italy/Spain: 06/30/2021 Other countries: 06/30/2023	Italy/Spain: 06/27/2022 Other countries: 06/30/2024	Italy/Spain: 11/16/2023 Belgium: 11/16/2025 Other countries: 06/30/2025
SHARES AVAILABLE AS AT							
• Chairman and Chief Executive Officer, Operations Committee	03/27/2019	03/27/2020	05/26/2021	03/22/2022[2] [5]	03/22/2023[2] [5]	05/23/2024[2] [5]	03/24/2025[2] [5]
• Liaison Committee and main direct reports of the Liaison Committee members	03/27/2019	03/27/2020	05/26/2021	[5]	[5]	[5]	[5]
• High-potential managers	-	03/27/2020	05/26/2021	03/22/2022	03/22/2023	[5]	[5]

(1) The figures in the table have been adjusted for the three-for-one stock split approved by the Shareholders' Meeting of May 26, 2016 (nineteenth resolution) and implemented by the Board of Directors on the same date. To protect the interests of the beneficiaries of free shares during the vesting period, at its meeting on May 26, 2016, the Board of Directors decided to multiply the number of free shares (including performance shares) allotted but not yet vested by three.

(2) For the Chairman and Chief Executive Officer only.

(3) For members of the Operations Committee and Liaison Committee, and the main direct reports of the Liaison Committee members only, removal of 2018 and deferral of the performance measurement period by one year (i.e., 2017, 2019 and 2020 instead of 2017, 2018 and 2019). The vesting period is four years instead of three. No holding period.

(4) For members of the Operations Committee and Liaison Committee, and the main direct reports of the Liaison Committee members only, removal of 2018 and deferral of the performance measurement period by one year (i.e., 2019, 2020 and 2021 instead of 2018, 2019 and 2020). The vesting period is four years instead of three. No holding period.

(5) No holding period.

	2014 PLAN	2015 PLAN	2016 PLAN	2017 PLAN	2018 PLAN	2019 PLAN	2020 PLAN
Date of Board meeting	**03/27/2014**	**03/26/2015**	**05/26/2016**	**03/22/2017**	**03/22/2018**	**05/23/2019**	**03/24/2020**
• All employees	France/Other countries: 03/27/2019 – Spain/Italy: 03/27/2020	France/Other countries: 03/27/2020 – Spain/Italy: 03/27/2021	France/Other countries: 06/08/2021	France/Other countries: 03/22/2022	France/Other countries: 03/22/2023	(1)	(1)
• "Employee share ownership"	-	-	Italy/Spain: 11/15/2022 Belgium: 11/15/2021 Other countries: 06/30/2021	Italy/Spain: 07/27/2023 Belgium/ Ireland: 07/27/2022 Other countries: 06/30/2022	Italy/Spain: 06/30/2024 Other countries: 06/30/2023	Italy/Spain: 06/27/2025 Other countries: 06/30/2024	Italy/Spain: 11/16/2026 Belgium: 11/16/2025 Other countries: 06/30/2025
PERFORMANCE CRITERIA(2)							
• Chairman and Chief Executive Officer, Operations Committee	Operating margin - ROCE - ROA rate	Operating margin - ROCE - ROA rate	Operating margin - ROCE - ROA rate	Operating margin - ROCE - ROA rate	Operating margin - ROCE - ROA rate	Operating margin - ROA - TSR rate	Operating margin - ROA - TSR rate
• Liaison Committee and main direct reports of the Liaison Committee members	Operating margin - ROCE rate	Operating margin - ROCE rate	Operating margin - ROCE rate	Operating margin - ROCE rate	Operating margin - ROCE rate	Operating margin - ROA rate	Operating margin - ROA rate
• High-potential managers	-	-	-	-	-	-	-
• All employees	-	-	-	-	-	-	-
PERFORMANCE CRITERIA – RATE OF ACHIEVEMENT							
• Chairman and Chief Executive Officer, Operations Committee	100% 100%	100% 100%	0%(3) 0%(3)	0%(4) 100%	0%(5)		
• Liaison Committee and main direct reports of the Liaison Committee members	100%	100%	0%(3)	100%			
• High-potential managers	-	-	-	-			
• All employees	-	-	-	-			
Number of shares vested at Dec. 31, 2020 (cumulative)	722,364	734,013	83,902	73,513	4,895	3,580	0
Number of stock options canceled or forfeited at Dec. 31, 2020 (cumulative)	248,076	223,014	630,540	165,706	101,059	66,657	34,385
Number of shares outstanding at Dec. 31, 2020	**0**	**0**	**201,959**	**533,353**	**856,939**	**1,537,296**	**2,070,976**
Number of grantees at Dec. 31, 2020	0	0	11,274	14,552	33,522	36,336	33,489

(1) No holding period.

(2) For definitions of operating margin, ROCE, ROA and TSR, see financial glossary, page 48.

(3) Given the demanding target rate for the performance criteria, the rate of achievement was nil. Failure to achieve these criteria was due to the challenging conditions in the Group's operating environment in 2018 caused by disruptions in the automotive industry during the year, such as the introduction of the WLTP, a slowdown in the Chinese market, a rise in commodities prices and, more generally, the turbulence in the financial markets.

(4) Given the demanding target rate for the performance criteria, the rate of achievement was nil. Failure to meet the criteria was due to the challenging conditions in the Group's operating environment in 2018 caused by disruptions in the automotive industry during the year, such as the introduction of WLTP, the market downturn in China and the rise in raw material prices.

(5) Given the demanding target rate for the performance criteria, the rate of achievement was nil. Failure to meet the criteria was due to the challenging conditions in the Group's operating environment in 2018 caused by disruptions in the automotive industry during the year, such as the introduction of WLTP, the market downturn in China and the rise in raw material prices, and in 2020 caused by the Covid-19 crisis.

6.6.3 Securities not representing capital

Information about securities not representing capital (Euro Medium Term Note program and other bonds) is provided in Chapter 5, section 5.4.6, Note 8.1.2.1 "Long-term debt" to the consolidated financial statements, pages 362 to 365.

6.6.4 Other information on the share capital

Change in control

At the date of this Universal Registration Document and to the best of the Company's knowledge, there are no shareholder agreements or other agreements in force that could lead to a change in control of the Company in the future.

Capital under option of any member of the Group

At the date of this Universal Registration Document, no capital of any member of the Group was under option or conditional or unconditional agreement to be put under option.

Disclosure thresholds

In accordance with Article L.233-7 of the French Commercial Code, any individual or legal entity, acting alone or in concert, that holds a number of shares representing over 5%, 10%, 15%, 20%, 25%, 30%, 33.33%, 50%, 66.66%, 90% or 95% of the Company's share capital or voting rights is required to disclose to the Company and the AMF by letter that the related disclosure threshold has been exceeded. Said disclosure must be made no later than the close of the fourth trading day from the date the threshold is exceeded and must also state the total number of shares and voting rights held by the shareholders concerned. The disclosures are subsequently published by the AMF. This disclosure obligation also applies when an interest in the Company's share capital and/or voting rights is reduced to below the abovementioned thresholds. If any shareholder fails to comply with these disclosure requirements, the shares in excess of the relevant threshold will be stripped of voting rights at all Shareholders' Meetings held within the two-year period from the date when the omission is remedied.

Article 9 of the Valeo articles of association states that, in addition to the applicable statutory disclosure thresholds, any individual or legal entity, acting alone or in concert, that raises or reduces its interest in the Company's share capital or voting rights, directly or indirectly, to above or below 2%, respectively, is required to disclose to the Company by registered letter with return receipt requested that the relevant disclosure threshold has been crossed. Said disclosure must be made within 15 days of the date on which the threshold is crossed and the shareholder concerned must state their own identity as well as that of any parties acting in concert with the shareholder. This disclosure requirement also concerns ownership of each additional 2% fraction of the share capital or voting rights. The stated thresholds are calculated in accordance with Articles L.233-7 and L.233-9 of the French Commercial Code and with the AMF's General Regulations. In accordance with the seventh paragraph of Article L.228-1 of the French Commercial Code, this disclosure requirement also applies to intermediaries, without prejudice to the requirements applicable to the underlying shareholders, for all of the shares it manages.

Non-compliance with the above obligations is subject to the penalties set out in Article L.233-14 of the French Commercial Code, at the request of one or several shareholders together holding at least 2% of the Company's share capital or voting rights, as recorded in the minutes of the Shareholders' Meeting.

Shareholder identification

Registered and bearer shares are recorded in shareholders' accounts in accordance with applicable laws and regulations.

However, a bank, broker or other intermediary may register on behalf of shareholders who are domiciled outside France in accordance with Article 102 of the French Civil Code (*Code civil*). This registration may be made in the form of a joint account or several individual accounts, each corresponding to one shareholder. Any such intermediary must inform the Company or the intermediary managing the Company's account that it is holding the shares on behalf of another party.

The Company is entitled to identify all holders of shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at Shareholders' Meetings, in accordance with the procedure provided for in Article L.228-2 *et seq*. of the French Commercial Code.

In order to identify holders of bearer shares, in accordance with the applicable laws and regulations, the Company is entitled to request, at any time, from the central depository responsible for its security issues account, in exchange for a fee, the name - or, in the case of corporate shareholders, the company name - nationality, year of birth - or, in the case of corporate shareholders, the year of incorporation - and address of holders of bearer shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at Shareholders' Meetings, together with details of the number of shares held by each such shareholder and of any restrictions applicable to the securities concerned.

Based on the list provided by the abovementioned organization, where the Company considers that shares may be held on behalf of third parties, it may request, in accordance with the same conditions, either through the organization or directly from the parties mentioned on the list, the same information concerning the holders of the shares. If one of the parties mentioned on the list is a bank, broker or other intermediary, it must disclose the identity of the shareholders for whom it is acting. The information is provided directly to the financial intermediary managing the Company's share account, which will pass on said information either to the Company or the abovementioned central depository, as applicable.

For registered shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares, any intermediary holding the securities on behalf of a third party must disclose the identity of the person or entity for whom it is acting as well as the number of shares held by each of them, upon simple request by the Company or its representative, which may be made at any time.

The Company may also request, from any corporate shareholder holding over 2.5% of the Company's share capital or voting rights, information concerning the identity of persons or companies holding either directly or indirectly over one-third of its share capital or voting rights.

If an individual or corporate shareholder is asked to provide information in accordance with the above conditions and fails to provide it by the applicable deadline, or provides incomplete or incorrect information, the shares or other securities redeemable, exchangeable, convertible or otherwise exercisable for shares recorded in the shareholder's account will be stripped of voting rights for all Shareholders' Meetings until the identification request has been fulfilled, and the payment of any corresponding dividends will also be deferred until that date.

In addition, if an individual or company registered in the Company's shareholders' account deliberately ignores their obligations, the Company or one or more shareholders holding at least 5% of the Company's share capital may petition the court of the place in which the Company's registered office is located to obtain an order to totally or partially strip the shares concerned of their voting rights and the corresponding dividend, for a maximum period of five years.

7 Additional Information

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

7.1 PRINCIPAL PROVISIONS OF THE LAW AND THE ARTICLES OF ASSOCIATION

7.1.1 Company name and headquarters

The Company’s corporate name is Valeo and its headquarters are located at 43, rue Bayen, 75017 Paris, France, tel.: +33 (0)1 40 55 20 20.

7.1.2 Legal structure and governing law

On March 9, 2021, Valeo, incorporated in the form of a *société anonyme* (joint-stock company), became a European company (*Societas Europaea*) governed by the provisions of Council Regulation (EC) No 2157/2001 of October 8, 2001 on the Statute for a European Company. Matters outside the scope of said regulation are governed by the provisions of the French Commercial Code *(Code de commerce)* applicable to joint-stock companies, and by the Company's articles of association. The provisions of the French Commercial Code relating to the management and governance of joint-stock companies are applicable to European companies.

7.1.3 Corporate governance

For the purposes of transparency and disclosure, the Company has set up a number of procedures to ensure that it complies with best corporate governance practices. For further information, see the cross-reference table for the Corporate Governance Report in Chapter 8, section 8.1.4, page 469.

7.1.4 Date of incorporation and term

The Company was incorporated on February 10, 1923 and its term was extended for a further 99 years on February 10, 1972.

7.1.5 Corporate purpose

The Company’s corporate purpose is as follows (Article 3 of the articles of association):

- the research, manufacturing, sale, trade and supply of all products, equipment and services for the industrial and retail sectors, that may be manufactured and developed by factories of the Company or of companies of its Group or that may be of interest to their customers;
- more generally, engaging in any transactions whatsoever, including industrial, commercial, financial, real estate and other property transactions, sales, acquisitions, capital contributions, etc., directly or indirectly related to the corporate purpose or contributing to its extension or development.

7.1.6 Registration details

The Company is registered at the Paris Trade and Companies Registry under the number 552 030 967 RCS Paris.

7.1.7 Fiscal year

The Company’s fiscal year covers a twelve-month period from January 1 to December 31.

7.1.8 Dividends

Each share entitles its holder to a proportion of income equal to the proportion of capital represented by the share.

Distributable income is composed of net income for the year less any prior year losses and amounts appropriated to the legal reserve, plus any income carried forward. Furthermore, shareholders in a Shareholders' Meeting may decide, subject to the conditions set out by law, to distribute amounts taken from available reserves and/or retained earnings. In this case, the related resolution approved by the Shareholders' Meeting must clearly specify the reserve account from which the distributed amounts are to be taken.

Shareholders may resolve to pay out a dividend only after approving the financial statements for the year and noting that amounts are available for distribution. The dividend payment terms are defined by the Annual Shareholders' Meeting or, by default, the Board of Directors.

The Board of Directors may decide to pay an interim dividend for the current year or the year ended before the financial statements are approved, subject to the conditions set out by law, and may set the amount and date of payment.

At the Shareholders' Meeting called to approve the annual financial statements, shareholders may decide to offer a stock dividend alternative to cash dividends representing all or part of the dividend, or interim dividend, as provided for by law.

Dividends unclaimed after a period of five years from the date they were made payable are paid over to the French State.

7.1.9 Liquidation surpluses

Liquidation surpluses are allocated between the shareholders in proportion to their interests in the Company's share capital.

7.1.10 Shareholders' Meetings

Ordinary and Extraordinary Shareholders' Meetings are called and conduct business in accordance with the conditions set out by law.

In accordance with Article R.22-10-28 of the French Commercial Code, shareholders may participate in Shareholders' Meetings subject to submitting evidence of ownership of their shares. Share ownership is evidenced by an entry in Valeo's share register in the name of the shareholder (or of the intermediary acting on their behalf) or in the register of bearer shares held by an accredited intermediary. Such entries must be recorded by 00:00 hours (12:00 am) (CET) on the second working day preceding the date of the meeting. In the case of bearer shares, the accredited intermediary shall provide a share ownership certificate for the shareholders concerned, which must be attached to the postal voting or proxy form or to the admission card made out in the name of the shareholder or in the name of the registered intermediary representing the shareholder.

Subject to the above mentioned conditions, all shareholders are entitled to attend Shareholders' Meetings provided they have settled all capital calls related to their shares.

Shareholders who are unable to attend a meeting in person may choose one of the following three options:

- vote online prior to the Shareholders' Meeting via the secure VOTACCESS platform; or
- cast a postal vote; or
- give proxy to the Chairman of the Shareholders' Meeting or to an appointed individual.

In compliance with the conditions set out by the applicable laws and regulations, shareholders may send proxy and postal voting forms for any Shareholders' Meetings either in paper format or electronically.

Minutes of Shareholders' Meetings are drawn up, and copies and extracts thereof are certified and delivered, in accordance with the law.

7.1.11 Double voting rights

Each shareholder has a number of votes corresponding to the number of shares held or represented by proxy.

However, since the Shareholders' Meeting of June 16, 1992, Article 23 of the Company's articles of association provides that double voting rights are attached to all fully paid shares that have been registered in the name of the same holder for at least four years. In the case of a capital increase paid up by capitalizing reserves, profit or share premiums, the new registered free shares allotted to a shareholder in respect of existing shares with double voting rights will also carry double voting rights from the date of issue. Double voting rights are automatically stripped from any registered shares that are converted into bearer shares or transferred. However, registered shares are not stripped of voting rights and the above four-year qualifying period continues to run following the transfer of shares included in the estate of a deceased shareholder, or in connection with the settlement of the marital estate, or an inter vivos gift to a spouse or relative in the direct line of succession. Double voting rights may be removed by decision of the Extraordinary Shareholders' Meeting, subject to the approval of shareholders entitled to double voting rights, at a special meeting held for that purpose.

7.1.12 Changes in share capital and rights attached to shares

Any changes in the Company's share capital or voting rights attached to shares are subject to the applicable laws as the articles of association do not contain any specific provisions in relation to such operations.

7.2 INFORMATION ON SUBSIDIARIES AND AFFILIATES

The Group's overall legal and operational structure is described in Chapter 1 "Presentation of Valeo", pages 50 to 80.

Following the creation of subsidiaries for its industrial activities in 2002, Valeo SE is now solely a holding and cash management company for the Group. The Company is the head of the tax consolidation group in France.

Excluding certain exceptions, Valeo SE centralizes the management of market risks to which its operating subsidiaries are exposed, including changes in interest rates and fluctuations in exchange rates and prices of quoted commodities.

Valeo SE also centralizes the financing requirements of these subsidiaries and is generally the sole counterparty of the financial institutions that provide the funding to cover these requirements. The related assets (cash and cash equivalents) and liabilities (external debt) are included in Valeo's balance sheet. The Group is also responsible for upholding the image of the Valeo brand. To this end, it has entered into agreements with some of its French subsidiaries, under which Valeo SE allows them to benefit from the Group's expertise, values, business model and processes.

Group-wide control and support functions, encompassing accounting, legal services, information technology, procurement, communication and business development, research and development strategy and management, and quality audits, etc., are performed by the intragroup partnership (*groupement d'intérêt économique*), Valeo Management Services. The purpose of this entity is to make common resources available and to implement the necessary means and take the required action to increase savings and optimize the costs of its members. Valeo Management Services is financed by contributions from its 13 members, which consist of companies belonging to the Group.

The Group's operating assets and liabilities are carried by its subsidiaries with plants, research and/or development centers and distribution platforms. These subsidiaries representing 80% of consolidated sales are listed in the table on the following page.

The entities with distribution platforms are active only on the independent aftermarket, in the countries where they operate. Sales to automakers are handled directly by the Business Groups, Product Groups and Product Lines involved in the production process. The commercial activities of the Business Groups, Product Groups and Product Lines with a given customer are coordinated by the networks of the Sales and Business Development Department, described in Chapter 1, section 1.5.1 "Sales and Business Development", page 73.

A list of consolidated companies is provided in Chapter 5, section 5.4.6, Note 13 "List of consolidated companies" to the 2020 consolidated financial statements, pages 385 to 392 (the list also shows the location of the companies). The position of the direct subsidiaries and interests of Valeo SE, the parent company, is presented in the table included in Chapter 5, section 5.6.4, Note 11 "List of subsidiaries and affiliates" to the parent company financial statements, page 422.

Main companies

(representing 80% of consolidated sales)

Direct and indirect interests by country *(% interest at December 31, 2020)*

			Plants	R&D	Distribution
EUROPEAN UNION					
FRANCE	Valeo Équipements Électriques Moteur	100%	⦿	⦿	
	Valeo Vision	100%	⦿	⦿	
	Valeo Systèmes Thermiques	100%	⦿	⦿	
	DAV	100%	⦿	⦿	
	Valeo Embrayages	100%	⦿	⦿	⦿
	Valeo Service	100%	⦿	⦿	
IRELAND, GERMANY	Connaught Electronics Limited	100%	⦿	⦿	
	Valeo Schalter und Sensoren GmbH	100%	⦿	⦿	
	Valeo Telematik und Akustik GmbH (formerly peiker acustic GmbH)	100%	⦿	⦿	
	Valeo Klimasysteme GmbH	100%	⦿	⦿	
	Valeo Wischersysteme GmbH	100%	⦿	⦿	
SPAIN, ITALY	Valeo Iluminación, SAU	100%	⦿	⦿	
	Valeo Termico, SAU	100%	⦿	⦿	
	Valeo S.p.A.	100%	⦿	⦿	
HUNGARY, POLAND, CZECH REPUBLIC, ROMANIA	Valeo Auto-Electric Hungary LLC	100%	⦿	⦿	
	Valeo Autosystemy Sp.ZO.O	100%	⦿	⦿	
	Valeo Electric and Electronic Systems Sp.ZO.O	100%	⦿	⦿	
	Valeo Autoklimatizace k.s.	100%	⦿	⦿	
	Valeo Lighting Injection SA	100%	⦿	⦿	
EUROPE OUTSIDE THE EU					
TURKEY	Valeo Otomotiv Sanayi ve Ticaret A.S.	100%	⦿	⦿	
AFRICA					
MOROCCO	Valeo Vision Maroc, SA	100%	⦿	⦿	
NORTH AMERICA					
UNITED STATES	Valeo North America, Inc.	100%	⦿	⦿	
MEXICO	Valeo Sistemas Electricos, SA de CV	100%	⦿		
	Valeo Sistemas Automotrices de México, SA de CV	100%			⦿
	Delmex de Juarez S de RL de CV	100%	⦿		
	Valeo Kapec, SA de CV	50%	⦿		
SOUTH AMERICA					
BRAZIL	Valeo Sistemas Automotivos Ltda	100%	⦿	⦿	⦿
ASIA					
CHINA	Valeo Interior Controls (Shenzhen) Co. Ltd	100%	⦿	⦿	
	Valeo Automotive Air Conditioning Hubei Co. Ltd	100%	⦿	⦿	
	Valeo Ichikoh (China) Auto Lighting Co., Ltd	94.2%	⦿		
	Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd	94.2%	⦿	⦿	
	Guangzhou Valeo Engine Cooling Co. Ltd	100%	⦿	⦿	
	Valeo Kapec Torque Converters (Nanjing) Co. Ltd	50%	⦿	⦿	
SOUTH KOREA, JAPAN	Valeo Kapec Co., Ltd	50%	⦿		
	Valeo Pyeong HWA Co. Ltd	50%	⦿	⦿	
	Valeo Electrical Systems Korea, Ltd	100%	⦿	⦿	
	Ichikoh Industries Ltd	55%	⦿	⦿	
	Valeo Japan Co. Ltd	100%	⦿	⦿	⦿

⦿ *Plants.*
⦿ *Research and Development centers.*
⦿ *Distribution platforms.*

7.3 MATERIAL CONTRACTS

With the exception of the contracts mentioned below, neither Valeo nor any of the Group's companies signed any major contracts in the last two years other than those related to the ordinary course of their business.

7.3.1 In 2020

During the year, Valeo negotiated credit lines for an additional 1.1 billion euros with its main banks, and therefore currently has 2.3 billion euros in undrawn credit lines.

7.3.2 In 2019

On January 4, 2019, Mov'InBlue, a smart mobility solution created by Valeo and Capgemini for corporate fleets and car rental companies, and Drivy, Europe's leading car-sharing platform, announced the launch of a connected and interoperable shared mobility solution. Thanks to this solution, fleet managers will be able to make their vehicles available for self-service car-sharing on the Drivy platform.

On January 8, 2019, Valeo signed a partnership agreement with **Mobileye**, a subsidiary of Intel, to develop and promote a new form of autonomous vehicle safety based on Responsibility-Sensitive Safety (RSS). The partnership targets widespread industry take-up of this mathematical safety model developed by Mobileye.

On January 9, 2019, Valeo announced it had signed a strategic cooperation agreement with **Meituan**, China's leading on-demand food delivery platform. The two parties will work together on autonomous delivery vehicles for last-mile delivery. Valeo will contribute its know-how and provide parts, especially in electric powertrain systems, lighting systems, thermal management systems and sensors. The first autonomous electric delivery droid developed through this agreement made its debut at the Las Vegas Consumer Electronics Show (CES) in January 2020.

On October 3, 2019, Valeo announced a global collaboration with **Dana Incorporated** to bring to market end-to-end 48V transmission systems for hybrid and electric vehicles. This new offering provides all the components required to fully electrify light vehicles (three- and four-wheel urban vehicles) and hybridize vehicles weighing up to 2.5 tons. They comprise an electric motor and an inverter designed and manufactured by Valeo, and a *Spicer® Electrified™* e-Gearbox developed by Dana.

7.4 DOCUMENTS ON DISPLAY

The Company's press releases, Registration Documents and Universal Registration Documents filed with the French financial markets authority (*Autorité des marchés financiers* - AMF), including historical financial information relating to the Company and the Group, as well as any updates thereto can be accessed on the Company's website at: www.valeo.com.

In accordance with Article 221-3 of the AMF's General Regulations, the regulated information defined in Article 221-1 of these regulations is posted on the Company's website (www.valeo.com) for five years, as well as on the website of the French Directorate of Legal and Administrative Information (www.info-financiere.fr), the French officially appointed mechanism for the storage of regulated information. It remains on the Company's website for at least five years after the related documents are issued, with the exception of the Registration Documents, Universal Registration Documents, and Annual and Interim Financial Reports, which remain online for at least 10 years.

In accordance with the AMF's General Regulations, the Company's Internal Procedures and the articles of association are available on the Company's website. Together with the minutes of Shareholders' Meetings, Statutory Auditors' reports and all other corporate documents, these documents are also available at Valeo's headquarters in accordance with the conditions set out by law and the Company's articles of association.

Notifications of disclosure thresholds crossed are also published on the AMF's website (www.amf-france.org).

Accordingly, in respect of the period April 28, 2020 to March 31, 2021, the following documents are on display:

Full-year and half-year financial reports, quarterly financial information, share buyback programs and other information (www.valeo.com)

March 3, 2021	Monthly share buyback information – February 2021
February 18, 2021	Press release – 2020 results
February 18, 2021	Presentation – 2020 results
February 18, 2021	2020 consolidated financial statements – 2020 results
February 11, 2021	Monthly share buyback information – January 2021
January 14, 2021	Press release – Second-half 2020 preliminary financial information
January 8, 2021	Half-year update on the liquidity agreement at December 31, 2020
January 8, 2021	Monthly share buyback information – December 2020
December 3, 2020	Monthly share buyback information – November 2020
November 4, 2020	Monthly share buyback information – October 2020
October 27, 2020	Presentation – Third-quarter 2020 sales
October 27, 2020	Press release – Third-quarter 2020 sales
October 6, 2020	Monthly share buyback information – September 2020
September 7, 2020	Monthly share buyback information – August 2020
August 25, 2020	Monthly share buyback information – July 2020
July 21, 2020	Presentation – First-half 2020 results
July 21, 2020	2020 half-year financial report
July 21, 2020	Press release – First-half 2020 results
July 9, 2020	Half-year update on the liquidity agreement at June 30, 2020
July 9, 2020	Monthly share buyback information – June 2020
June 8, 2020	Monthly share buyback information - May 2020
June 25, 2020	2019 Activity and Sustainable Development Report
May 13, 2020	Monthly share buyback information - April 2020
April 29, 2020	Valeo: 2019 Universal Registration Document availability
April 29, 2020	2019 Universal Registration Document
April 29, 2020	2019 Integrated Report

Notifications of disclosure threshold crossings (published on the AMF's website www.amf-france.org)

Notifications of disclosure thresholds crossed may be viewed in section 6.4.2 of Chapter 6, "Direct or indirect shareholdings in the Company brought to the Company's attention", paragraph "Crossing of disclosure thresholds", pages 438 and 439.

Information relating to the total number of voting rights and shares forming Valeo's share capital (www.valeo.com)

Information covering the period from April 28, 2020 to March 31, 2021 is available on Valeo's website under Investors & Shareholders/ Regulated Information: https://www.valeo.com/en/other-regulated-information.

Information published by Valeo in the French legal gazette *(Bulletin des annonces légales obligatoires – BALO)*, available in French on the BALO website (www.journal-officiel.gouv.fr/balo)

July 8, 2020	Approval of the 2019 financial statements by the Shareholders' Meeting of June 25, 2020
June 5, 2020	Notice of Shareholders' Meeting of June 25, 2020
May 6, 2020	Notice of Shareholders' Meeting of June 25, 2020

Information published by Valeo in financial media

February 18, 2021	Press release announcing second-half and full-year 2020 results published on InPublic
October 27, 2020	Press release announcing third-quarter 2020 sales published on InPublic
July 21, 2020	Press release announcing first-half 2020 results published on InPublic

Press releases published on Valeo's website (www.valeo.com)

March 2021	
March 24, 2021	Valeo General Meeting 2021
March 23, 2021	Valeo joins the CAC 40 ESG index
March 16, 2021	Valeo ClimSpray™ – Voted Product of the Year 2021. Disinfectant against coronaviruses in vehicle cabins wins consumer award
March 11, 2021	Completion of the transformation of Valeo into a European Company (*Société Européenne*)
February 2021	
February 10, 2021	EIB approves 600 million euros in financing for Valeo's research projects related to technologies designed to reduce CO_2 emissions and improve active safety
February 4, 2021	Valeo commits to achieving carbon neutrality by 2050 and will have already reached 45% of its objective by 2030
December 2020	
December 18, 2020	Passing of Noël Goutard, Valeo Chairman and CEO from 1987 to 2000
December 15, 2020	Valeo is revolutionizing e-bike drivetrains
November 2020	
November 22, 2020	Thanks to its unfailing commitment to sustainable development and its positioning in electrification, Valeo confirms its leadership in the DJSI World Index for the fifth year in a row
October 2020	
October 27, 2020	Governance evolution and succession plan
October 6, 2020	Valeo recognized at the 2020 Regulatory Information Transparency Awards, in the "Universal Registration Document" category
September 2020	
September 30, 2020	Valeo commits to maintaining jobs in France
September 24, 2020	Covid-19: Valeo equips buses and coaches with a health shield capable of eliminating more than 95% of viruses
September 21, 2020	Valeo announces an employee share offering
June 2020	
June 26, 2020	Valeo ranks as France's second biggest patent filer, all sectors combined
June 25, 2020	Valeo's 2020 Annual Shareholders' Meeting
June 12, 2020	Valeo ClimSpray™, the disinfectant solution for vehicle cabins, receives "virucide" certification, effective in particular against coronaviruses
May 2020	
May 26, 2020	Valeo to support the French automotive recovery plan by locating new technologies like 48V in France
April 2020	
April 28, 2020	Valeo wins 2020 PACE* Award for its XtraVue™ Trailer, an innovation that makes trailers "invisible"
April 23, 2020	Valeo's 2020 Annual Shareholders' Meeting
April 21, 2020	Protecting the health and safety of its employees is Valeo's top priority: agreement reached with labor organizations in France on measures for resuming operations
April 14, 2020	Valeo: Covid-19 update
March 2020	
March 31, 2020	Air Liquide, Groupe PSA, Schneider Electric and Valeo rise to the challenge of producing 10,000 Air Liquide Medical Systems respirators in response to the French government request
March 26, 2020	Valeo receives Road Safety Innovation Award for Valeo Rescuer™
March 25, 2020	Co-optation of the FSP to Valeo's Board of Directors
March 24, 2020	Valeo's General Meeting postponed to June 25, 2020
March 20, 2020	Valeo donates 30,000 FFP2/FFP3 masks to hospitals
February 2020	
February 21, 2020	Project to transform Valeo into a European Company
January 2020	
January 5, 2020	CES 2020: In a world first, Valeo is unveiling its autonomous, electric delivery droid, developed in partnership with Meituan Dianping, China's leading e-commerce platform for services
January 5, 2020	CES 2020: Hexagon, Hyundai and Valeo unveil a high-precision vehicle positioning system to make roads safer

7.5 INFORMATION RELATED TO THE STATUTORY AUDITORS

7.5.1 Principal Statutory Auditors and alternate Statutory Auditors

Principal Statutory Auditors

- **Ernst & Young et Autres**, represented by Jean-François Ginies and Guillaume Rouger – Tour First TSA 14444 – 92037 Paris-La Défense:
  - Member of the Versailles and the Centre Region's Institute of Statutory Auditors (*Compagnie régionale des commissaires aux comptes de Versailles et du Centre*),
  - Term of office began: Shareholders' Meeting of May 26, 2016 (second term),
  - End of current term of office: term expires at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2021;
- **Mazars**, represented by Thierry Colin until June 30, 2020 and Gonzague Senlis from June 30, 2020, and Jean-Marc Deslandes – Exaltis, 61, rue Henri-Regnault, 92400 Courbevoie, France:
  - Member of the Versailles Institute of Statutory Auditors (*Compagnie régionale des commissaires aux comptes de Versailles*),
  - Term of office began: Shareholders' Meeting of May 26, 2016 (second term),
  - End of current term of office: term expires at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2021.

Alternate Statutory Auditors

- **Auditex** - Tour First TSA 14444 - 92037 Paris-La Défense, France:
  - Member of the Versailles Institute of Statutory Auditors (*Compagnie régionale des commissaires aux comptes de Versailles*),
  - Term of office began: Shareholders' Meeting of May 26, 2016 (second term),
  - End of current term of office: term expires at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2021;
- **Jean-Maurice El Nouchi** - 61, rue Henri-Régnault, 92400 Courbevoie, France:
  - Member of the Versailles Institute of Statutory Auditors (*Compagnie régionale des commissaires aux comptes de Versailles*),
  - Term of office began: Shareholders' Meeting of May 26, 2016 (first term),
  - End of current term of office: term expires at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2021.

7.5.2 Fees paid to the Statutory Auditors

	ERNST & YOUNG				MAZARS			
	AMOUNT (EXCL. TAXES)		%		AMOUNT (EXCL. TAXES)		%	
(in millions of euros)	2020	2019	2020	2019	2020	2019	2020	2019
AUDIT								
Statutory audit and review of the individual and consolidated financial statements	4.7	5.0	94%	96%	3.4	3.5	97%	97%
Non-audit services	0.3	0.2	6%	4%	0.1	0.1	3%	3%
TOTAL FEES	**5.0**	**5.2**	**100%**	**100%**	**3.5**	**3.6**	**100%**	**100%**

7.6 PERSON RESPONSIBLE FOR THE UNIVERSAL REGISTRATION DOCUMENT

7.6.1 Name of the person responsible for the Universal Registration Document containing the Annual Financial Report AFR

Jacques Aschenbroich, Chairman and Chief Executive Officer of Valeo.

7.6.2 Declaration by the person responsible for the Universal Registration Document containing the Annual Financial Report

"I hereby declare that the information contained in this Universal Registration Document is, to the best of my knowledge, in accordance with the facts and contains no omissions likely to affect its import.

I further declare that, to the best of my knowledge, the accounts have been prepared in accordance with applicable accounting standards and that they give a true and fair view of the assets, liabilities, financial position, and results of the Company and of all the companies included in the consolidation scope, and that the information provided in the Management Report and listed in the cross-reference table in Chapter 8, section 8.1.3 fairly presents the activity, results and financial position of the Company and of all the companies in the consolidation scope, and the main risks and uncertainties to which they are exposed".

Paris, April 2, 2021

Jacques Aschenbroich
Chairman and Chief Executive Officer

8 Appendices

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

8.1 CROSS-REFERENCE TABLES

8.1.1 Cross-reference table for the Universal Registration Document

This cross-reference table lists the main headings provided for by European Regulation No. 2019/980 of March 14, 2019 (the "Regulation") and gives reference to the sections and, when appropriate, the chapters in this document where information can be found regarding each of these headings. It also refers to the sections and chapters of the Universal Registration Document for the fiscal year ended December 31, 2019, registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on April 28, 2020, under number D.20-0385 ("2019 URD") and, where necessary, to the sections and chapters of the Registration Document for the fiscal year ended December 31, 2018, registered with the AMF on March 29, 2019 under number D.19-0224 ("2018 RD").

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections	Pages
1.	**Persons responsible**		
1.1	Names and functions of persons responsible	7.6.1	459
1.2	Declaration by persons responsible	7.6.2	459
2.	**Statutory Auditors**		
2.1	Name and address of the Statutory Auditors	7.5.1	458
2.2	Information on the resignation of the Statutory Auditors	N/A	
3.	**Risk factors**		
3.1	Description of the material risks	2.1	82-92
4.	**Information about the issuer**		
4.1	Legal and commercial name	7.1.1	450
4.2	Place of registration, registration number and legal entity identifier (LEI)	7.1.6	450
4.3	Date of incorporation and term	7.1.4	450
4.4	Domicile and legal form, legislation under which it operates, country of incorporation, address and telephone number of its registered office, and website	7.1.1 and 7.1.2	450
5.	**Business overview**		
5.1	Principal activities		
5.1.1	Nature of the issuer's operations and principal activities	Integrated Report - Strategy and 1.3	28-47; 52-71
5.1.2	Significant new products that have been introduced	Integrated Report - Strategy and 1.3	28-47; 52-71
5.2	Principal markets in which the issuer operates	Integrated Report - Strategy and 1.3	28-47; 52-71
5.3	Important events	Integrated Report - Strategy, 1.1 and 1.3	28-47; 50-51; 52-71
5.4	Strategy and objectives	Integrated Report - Strategy and 5.3	28-47; 311
5.5	Dependence on patents or licenses, contracts and manufacturing processes	2.1.2	90-91
5.6	The basis for any statements made by the issuer regarding its competitive position	1.3	52-71
5.7	Investments		
5.7.1	Material investments	5.1.5, and sections 5.1.6 of the 2019 URD and 5.1.4 of the 2018 RD	306-310
5.7.2	Material investments that are in progress or for which firm commitments have already been made	5.1.5, and sections 5.1.6 of the 2019 URD and 5.1.4 of the 2018 RD	306-310
5.7.3	Joint ventures and undertakings in which the issuer holds a proportion of the capital	5.4.6 (Note 13), 5.6.4 (Note 11) and 7.2	385-392; 422; 452-453
5.7.4	Environmental issues that may affect the issuer's utilization of property, plant and equipment	2.1.1 and 4.1.3	83-89; 206-207
6.	**Organizational structure**		
6.1	Brief description of the Group	1.2 and 7.2	51-52; 453
6.2	List of significant subsidiaries	5.4.6 (Note 13), 5.6.4 (Note 11) and 7.2	385-392; 422; 452-453

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections	Pages
7.	**Operating and financial review**		
7.1	Financial condition	5.1.5, and sections 5.1.6 of the 2019 URD and 5.1.4 of the 2018 RD	306-310
7.1.1	Development and performance of the business Financial and non-financial key performance indicators	Integrated Report - Key figures	6-9
7.1.2	Indication of the issuer's likely future development and of activities in the field of research and development	N/A	
7.2	Operating results	5.1.1 to 5.1.4, and sections 5.1.1 to 5.1.5 of the 2019 URD and 5.1.1 to 5.1.3 of the 2018 RD	300-310
7.2.1	Significant factors materially affecting the issuer's income from operations	2.1 and 5.1	82-92; 300-310
7.2.2	Explanation of material changes in net sales or revenues	5.1	300-310
8.	**Capital resources**		
8.1	The issuer's capital resources (both short term and long term)	5.1.5 (section 5.1.6 of the 2019 URD and 5.1.4 of the 2018 RD), 5.4.5, 5.4.6 (Notes 8.1 and 10.1), 5.6.4 (Note 9) and 6.6	306-310; 316; 377-379; 380-381; 419; 444-448
8.2	Sources and amounts of cash flows	5.1.5 (section 5.1.6 of the 2019 URD and 5.1.4 of the 2018 RD), 5.4.4, 5.4.6 (Note 11) and 5.6.3	306-310
8.3	Borrowing requirements and funding structure	5.1.5 (section 5.1.6 of the 2019 URD and 5.1.4 of the 2018 RD) and 5.4.6 (Note 8)	315; 382-383; 403
8.4	Restrictions on the use of capital resources	5.4.6 (Note 8.1.3.2) and 5.6.4 (Note 6.2.5)	306-310
8.5	Anticipated sources of funds	5.4.6 (Note 8.1.2)	418
9.	**Regulatory environment**		
9.1	Description of the regulatory environment and information regarding any governmental, economic, fiscal, monetary or political policies or factors	2.1 and 4.3	362-366
10.	**Trend information**		
10.1	Most significant recent trends in production, sales and inventory, and costs and selling prices since the end of the last fiscal year Significant changes in the financial performance of the group since the end of the last fiscal year	5.2 and 5.6.4 (Note 12)	82-92
10.2	Trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the issuer's prospects	Integrated Report - Strategy and 5.3	226-253
11.	**Profit forecasts or estimates**		
11.1	Statement setting out the principal assumptions upon which the issuer has based its forecasts or estimate	N/A	
11.2	Preparation of the profit forecast or estimate	N/A	
11.3	Statement attesting that the profit forecast or estimate is valid	N/A	
12.	**Administrative, management and supervisory bodies, and senior management**		
12.1	Members – Statements	3.1, 3.2.1, 3.2.2 and 3.2.3	102-103; 104-146
12.2	Conflicts of interest	3.2.3	145-146
13.	**Compensation and benefits**		
13.1	Compensation and benefits in kind	3.3 and 5.4.6 (Notes 5.3, 5.4 and 5.5)	154-192; 339-347
13.2	Pension, retirement or similar benefits	3.3 and 5.4.6 (Notes 5.3 and 5.5)	154-192; 339-347

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections	Pages
14.	**Board practices**		
14.1	Terms of office of members of the Board of Directors	3.1 and 3.2.1	102-103; 104-132
14.2	Service contracts between the members of the Board of Directors and the Company	3.2.3	145-146
14.3	Information about the Audit & Risks Committee and Compensation Committee	3.2.2	133-145
14.4	Statement regarding corporate governance	3.2.4 and 7.1.3	147; 450
14.5	Potential material impacts on the corporate governance	3.2	104-145
15.	**Employees**		
15.1	Number of employees	1.4 and 4.1.4 (Employee policy) 1.4 and 4.4.1 of the 2019 URD, 1.5 and 4.4 of the 2018 RD	72; 212-215
15.2	Shareholdings and stock options	3.3, 6.2.3 and 6.4.5	154-192; 343; 440
15.3	Arrangements for involving employees in the capital of the issuer	4.3.3 and 6.4.5, 4.4.2 and 6.4.5 of the 2019 URD and 2018 RD	228-253; 440
16.	**Major shareholders**		
16.1	Identification of major shareholders	6.4	435-440
16.2	Existence of differing voting rights	6.4.2 and 7.1.11	436-439; 451
16.3	Control of the issuer	6.4.2	436-439
16.4	Arrangements which may result in a change in control of the issuer	6.6.4	447-448
17.	**Related party transactions**		
17.1	Related party transactions entered into by the issuer	3.2.7, 5.4.6 (Notes 4.5.3.4 and 5.5) and 5.7, 3.2.7, 3.2.8, 5.4.6 (Notes 4.5.3.4 and 5.5) and 5.7 of the 2019 URD, 5.7 and 3.2.11 of the 2018 RD	149; 336; 347; 427-428
18.	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**		
18.1	Historical financial information		
18.1.1	Audited historical financial information	5.4	312-398
18.1.2	Change of accounting reference date	N/A	
18.1.3	Accounting standards	5.4.6	317-392
18.1.4	Change of accounting framework	N/A	
18.1.5	Audited financial information prepared according to national accounting standards	5.4	312-398
18.1.6	Consolidated financial statements	5.4	312-398
18.1.7	Age of financial information	Dec. 31, 2020	
18.2	Interim and other financial information	N/A	
18.2.1	Half-yearly or quarterly financial information	N/A	
18.3	Auditing of historical annual financial information		
18.3.1	Statement that the historical financial information has been audited	5.4.7 and 5.6.5 of the 2019 URD and 2018 RD	393
18.3.2	Other information audited by the Statutory Auditors	5.4.7 and 5.6.5 of the 2019 URD and 2018 RD	393
18.3.3	Source of financial information not extracted from the issuer's audited financial statements and therefore not audited	N/A	
18.4	Pro forma financial information	N/A	
18.5	Dividend policy		
18.5.1	Policy on dividend distributions and any restrictions thereon	7.1.8	450
18.5.2	Amount of the dividend per share	6.3	435
18.6	Legal and arbitration proceedings	2.1.2 and 5.4.6 (Notes 4.6.2 and 7)	90-91; 337; 357-360
18.7	Significant change in the issuer's financial position	5.2	310

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections	Pages
19.	**Additional information**		
19.1	Share capital		
19.1.1	Amount of issued capital	5.4.6 (Note 10.1), 6.4.1, 6.4.2 and 6.6.1	380-381; 435-439; 443
19.1.2	Shares not representing capital	6.6.3	447
19.1.3	Shares held by or on behalf of the issuer itself or by its subsidiaries	6.5.2	441
19.1.4	Convertible securities, exchangeable securities or securities with warrants	6.6.2	444-446
19.1.5	Information about the terms of any acquisition rights and/or obligations over authorized but unissued capital or an undertaking to increase the capital	3.2.12	152-153
19.1.6	Information about any capital of any member of the Group which is under option or agreed conditionally or unconditionally to be put under option	6.6.4	447-448
19.1.7	Share capital history	6.6.1	443
19.2	Memorandum and articles of association		
19.2.1	Description of the issuer's objects and purposes	7.1.5	450
19.2.2	Description of the rights, preferences and restrictions attaching to each class of existing shares	7.1.8, 7.1.9 and 7.1.11	450; 451
19.2.3	Brief description of any provision of the issuer's articles of association, statutes, charter or bylaws that would have an effect of delaying, deferring, or preventing a change in control of the issuer	3.2.11	151
20.	**Material contracts**		
20.1	Summary of each material contract to which the issuer or any member of the Group is part	7.3	454
21.	**Documents available**		
21.1	Statement regarding documents that can be inspected for the term of the Universal Registration Document	7.4	455-457

8.1.2 Cross-reference table for the Annual Financial Report

	Annual Financial Report	Chapters/Sections	Pages
1.	**Parent company financial statements**	**5.6**	**401-426**
2.	**Consolidated financial statements**	**5.4**	**312-398**
3.	**Management Report (French Monetary and Financial Code)**		
3.1	Articles L.225-100-1 and L.22-10-35 of the French Commercial Code	5.1.1, 5.1.3, 5.1.4 and 5.1.5	300-310
3.1.1	• Analysis of business trends	5.1.1, 5.1.3, 5.1.4, and sections 5.1.1 and 5.1.3 to 5.1.5 of the 2019 URD and 5.1.1, 5.1.3 and 5.1.4 of the 2018 RD	300-302; 305-306
3.1.2	• Analysis of results	5.1.2, 5.1.3, 5.1.5, and sections 5.1.2, 5.1.5 and 5.1.6 of the 2019 URD and 5.1.2 to 5.1.4 of the 2018 RD	303-310
3.1.3	• Analysis of financial position	5.1.5, and sections 5.1.6 of the 2019 URD and 5.1.4 of the 2018 RD	306-310
3.1.4	• Key financial and non-financial performance indicators related to the Company's specific business, such as information pertaining to environmental issues and personnel matters	4.2 and 5.1	219-226; 300-310
3.1.5	• Principal risks and uncertainties	2.1	82-92
3.1.6	• Financial risks related to the impacts of climate change and measures taken by the Company to reduce them by implementing a low-carbon strategy in all components of its business	2.1.1, 4.3.3 and 4.5.3	83-89; 228-253; 262-274
3.1.7	• Internal control and risk management procedures	2.3	93-100
3.1.8	• Company hedging objectives and policy, and exposure to price, credit, liquidity and cash flow risks	5.4.6 (Notes 4.2, 4.3 and 8.1)	329-330; 360-375
3.2	Article L.225-211 of the French Commercial Code:		
3.2.1	• Buyback by the Company of its own shares	6.5	440-444
4.	**Declaration by the person responsible for the Annual Financial Report**	7.6.2	459
5.	**Statutory Auditors' report on the parent company financial statements**	5.6.5	423-426
6.	**Statutory Auditors' report on the consolidated financial statements**	5.4.7	393-398
7.	**Fees paid to the Statutory Auditors**	5.4.6 (Note 12), 5.6.4 (Note 10.4) and 7.5.2	384; 421; 458
8.	**Board of Directors' report on corporate governance, prepared in accordance with Article L.225-37 of the French Commercial Code**	See dedicated cross-reference table in section 8.1.4	469-470
9.	**Statutory Auditors' report on the Corporate Governance Report**	5.6.5	423-426

8.1.3 Cross-reference table for the Management Report as provided for by Articles L.225-100 *et seq.* and L.22-10-35 *et seq.* of the French Commercial Code

	Management Report	Chapters/Sections	Pages
1.	**Financial position and operations**		
1.1	Financial position and operations of the Company during the past fiscal year	5.1 and 5.5	300-310; 399-400
1.2	Results of operations of the Company and the Group	5.1 and 5.5	300-310; 399-400
1.3	Review of the business, results of operations and financial position	5.1 and 5.5	300-310; 399-400
1.4	Key financial and non-financial performance indicators	4.2 and 5.1	219-226; 300-310
1.5	Material events occurring between the end of the reporting period and the date the report was prepared	5.2 and 5.6.4 (Note 12)	310; 423
1.6	Company and Group outlook	5.3	311
1.7	Research and Development activity	1.5.6, 4.1.3, 4.2 and 4.5.2	79; 206-207; 219-226; 259-262
1.8	Material investments or controlling interests taken during the past fiscal year in companies with registered offices in France	5.1.5. (section 5.1.6 of the 2019 URD and 5.1.4 of the 2018 RD and 2019 URD) and 5.4.6 (Note 2.2)	306-310; 324
2.	**SHARE OWNERSHIP STRUCTURE AND SHARE CAPITAL**		
2.1	Share ownership structure and changes during the past fiscal year	6.4 and 6.6.1	435-440; 443
2.2	Status of employee share ownership plans	6.4.5	440
2.3	Trading by the Company in its own shares	6.5	440-444
2.4	Name of companies controlled and equity interest	5.4.6 (Note 13) and 5.6.4 (Note 11)	385-392; 422
2.5	Share disposals to adjust reciprocal shareholdings	N/A	
2.6	Amount of dividends and other distributed earnings paid during the past three fiscal years	6.3	435
2.7	Adjustments for the issuance of marketable securities giving access to the share capital	N/A	
2.8	Adjustments for stock subscription or purchase options	3.3.1	154-177
2.9	Information on stock subscription and purchase option plans granted to corporate officers and employees	3.3.1, 3.3.4 and 6.6.2	154-177; 195; 444-446
2.10	Restriction on exercising stock subscription or purchase options or obligation for executive corporate officers to hold shares obtained on exercising stock subscription or purchase options	3.3.1 and 6.6.2	154-177; 444-446
2.11	Information on free shares granted to corporate officers and employees	3.3.1, 3.3.3, 3.3.4 and 6.6.2	154-177; 194-195; 444-446
2.12	Obligation for executive corporate officers to hold free shares	3.3.1, 3.3.4 and 6.6.2	154-177; 195; 444-446
3.	**RISK FACTORS AND INTERNAL CONTROL**		
3.1	Description of major risks and uncertainties	2.1	82-92
3.2	Financial risks relating to the impacts of climate change and measures taken by the Company to reduce them by implementing a low-carbon strategy	2.1.1 and 4.3	83-89; 226-252
3.3	Company hedging objectives and policy, and exposure to price, credit, liquidity and cash flow risks	5.4.6 (Notes 4.2, 4.3 and 8.1)	329-330; 360-376
3.4	Internal control and risk management procedures related to the preparation and processing of accounting and financial information	2.3.6	99-100

	Management Report	Chapters/Sections	Pages
4.	**Environmental, social and employee information**		
4.1	Non-financial information statement	4.3	226-252
4.2	Duty of care plan and report on its implementation	4.4	226-252
4.3	Information on facilities classified as high-threshold Seveso sites	N/A	
5.	**Other disclosures**		
5.1	Supplier and customer payment cycles	5.4.6 (Note 4.2 and 8.1.5.2) and 5.5	429; 375; 399-400
5.2	Changes in the presentation of the annual parent company financial statements and methods of measurement	5.4.6 (Note 1.1.1 and 1.1.2) and 5.6.4 (Note 2)	382; 405-406
5.3	Information on existing branches	N/A	
5.4	Sumptuary expenses	5.5	399-400
5.5	Add back of excessive overheads	N/A	
5.6	Injunctions or monetary penalties for anti-competitive practices	2.1.2 and 5.4.6 (Note 7.2)	90-91; 358-359
5.7	Transactions in the Company's shares carried out by executive managers and by those with whom they have close relationships	6.4.4	440
5.8	Intercompany loans	N/A	
A.	**Appendix to the Management Report**		
A.1	Board of Directors' Corporate Governance Report	See dedicated cross-reference table in section 8.1.4	469-470
A.2	Five-year financial summary	5.8.1	429
A.3	Opinion of the independent third party on the information given in the non-financial information statement	4.8	296-297
A.4	Statutory Auditors' statement on intercompany loans	N/A	

8.1.4 Cross-reference table for the Corporate Governance Report as provided for by Articles L.225-37 *et seq.* of the French Commercial Code

	Corporate Governance Report	Chapters/Sections	Pages
1.	**Compensation**		
1.1	Presentation of the compensation policy for corporate officers and the related draft resolutions	3.3.1	154-177
1.2	Total compensation and benefits paid or awarded during the past fiscal year to each corporate officer; relative proportion of fixed and variable compensation	3.3.1 and 3.3.2	154-193
1.3	Use of the option to request payment of a variable compensation component	N/A	
1.4	Commitments given by the Company on behalf of corporate officers in the form of compensation or benefits owed or likely to be owed on appointment, termination or change of position or subsequent to the performance of that position	3.3.1	154-177
1.5	Compensation paid or awarded by a company included in the scope of consolidation	N/A	
1.6	Ratio between the compensation of each of the executive corporate officers and the average full-time equivalent (FTE) compensation of Company employees other than the corporate officers, and ratio between the compensation of each of these executives and the median FTE compensation of Company employees other than the corporate officers	3.3.2	178-193
1.7	Annual change in compensation over the last five years	3.3.2	178-193
1.8	Explanation of the manner in which total compensation complies with the Company's compensation policy	3.3.1, 3.3.2 and 3.3.3	154-195
1.9	Consideration of the vote of the last Shareholders' Meeting on the ordinary resolution concerning the compensation policy	3.3.1	154-177
1.10	Divergences from or waivers of the compensation policy procedure	N/A	
1.11	Suspension of compensation for breach of parity rules	N/A	
1.12	Reference to resolutions subject to an *ex ante* vote	3.3.1	154-177
1.13	Restrictions imposed on corporate officers by the Board of Directors in relation to the exercise of stock options and the sale of securities	3.3.2	154-177
2.	**Governance**		
2.1	List of all directorships and positions held in companies by each corporate officer during the past fiscal year	3.2.1	104-132
2.2	Agreements between a corporate officer or a shareholder holding at least 10% of the voting rights and a controlled company within the meaning of Article L.233-3 of the French Commercial Code	3.2.8	150
2.3	Summary table of powers currently delegated by the Shareholders' Meeting to the Board of Directors with respect to raising new equity	3.2.12	152
2.4	General Management procedures	3.2.6	148-149
2.5	Composition, preparation and organization of the work of the Board of Directors	3.2.1 and 3.2.2	104-145
2.6	Diversity policy applied to the Board of Directors, balanced representation of men and women on the Operations Committee and outcome of measures to improve diversity in 10% of top management positions.	3.2.1	104-132
2.7	Limitations on the powers of the Chief Executive Officer	3.2.6	148-149
2.8	Reference to a corporate governance code and the application of the "comply or explain" principle and indication of where the code can be consulted	3.2.4	147
2.9	Specific arrangements for attendance at Shareholders' Meetings	3.2.10 and 7.1.10	150; 451
2.10	Procedure for reviewing agreements entered into in the ordinary course of business and its implementation	3.2.9	150
3.	**Information likely to have an impact in the event of a takeover or exchange offer**	3.2.11	151

8.1.5 Cross-reference table for the non-financial information statement

	Non-financial information statement		Chapters/Sections	Pages
1.	**Business model**			
1.1	The Group's main activities		Integrated Report - Strategy	28-47
1.2	Organization		Integrated Report - Strategy	28-47
1.3	Business model		Integrated Report - Strategy	28-47
1.4	Strategy, outlook and objectives		Integrated Report - Strategy	28-47
2.	**Significant non-financial risk factors for the Group and the main policies**			
2.1	Environmental non-compliance and loss of opportunities in technologies contributing to CO_2 emissions reduction	Description of the risk Risk management policy Measures taken to reduce the risk	2.1.1 and 4.3.3 4.3.3 2.1.1 and 4.3.3	83-89; 228-253 228-253 83-89; 228-253
2.2	Accidental pollution of water and soil	Description of the risk Risk management policy Measures taken to reduce the risk	4.3.3 4.3.3 4.3.3	228-253 228-253 228-253
2.3	Health and safety	Description of the risk Risk management policy Measures taken to reduce the risk	4.3.3 4.3.3 4.3.3	228-253 228-253 228-253
2.4	Attracting talent	Description of the risk Risk management policy Measures taken to reduce the risk	2.1.1 and 4.3.3 4.3.3 2.1.1 and 4.3.3	83-89; 228-253 228-253 83-89; 228-253
2.5	Developing and retaining talent	Description of the risk Risk management policy Measures taken to reduce the risk	2.1.1 and 4.3.3 4.3.3 2.1.1 and 4.3.3	83-89; 228-253 228-253 83-89; 228-253
2.6	Risk of individual corruption	Description of the risk Risk management policy Measures taken to reduce the risk	4.3.3 4.3.3 4.3.3	228-253 228-253 228-253
2.7	Non-compliance with sustainable development requirements by Valeo's suppliers	Description of the risk Risk management policy Measures taken to reduce the risk	2.1.1 and 4.3.3 4.3.3 2.1.1 and 4.3.3	83-89; 228-253 228-253 83-89; 228-253
3.	**Other regulatory issues**			
3.1	Fight against tax evasion		1.2.3 and 4.3.1	51-52; 226-227
3.2	Impacts on climate change of the Group's operations and the use of the goods and services it produces		2.1.1 and Introduction to Chapter 4	83-89; 198-199
3.3	Social commitments in support of sustainable development		4.5.5	282-286
3.4	Circular economy		1.3.5, 4.3.3 and 4.5.3	69-71; 228-253; 262-274
3.5	Fight against food waste		4.3.1	226-227
3.6	Fight against food insecurity		4.3.1	226-227
3.7	Respect for animal welfare and responsible, fair and sustainable food		4.3.1	226-227
3.8	Collective bargaining agreements entered into by the Company and their impact on the Company's financial performance and employee working conditions		4.5.4	274-281
3.9	Measures to combat discrimination, promote diversity and integrate people with disabilities		4.5.4	274-281
3.10	Respecting human rights		4.5.4	274-281

8.2 SAFE HARBOR STATEMENT

This document and the documents incorporated herein by reference contain statements which, when they are not historical fact, constitute "forward-looking statements".

These forward-looking statements include projections and estimates, statements regarding projects, objectives, intentions and expectations with respect to future financial results, events, operations, services, product development and potential, and statements regarding future performance. They are based on data, assumptions and estimates considered to be reasonable by Valeo as at the date of this Universal Registration Document and should not be interpreted as guarantees that the facts or data stated will occur. Forward-looking statements can sometimes be identified by the use of terms or expressions indicating, in particular, anticipation, presumption, conviction, continuation, estimate, expectation, forecast, intention, possibility of increase, reduction or change or any similar expressions or by the use of verbs in future or conditional form. These terms or expressions are in no way the sole way of identifying such statements.

Even though Valeo's Management feels that the forward-looking statements are reasonable as at the date of this document, investors are put on notice that the forward-looking statements are subject to numerous factors, risks and uncertainties that are difficult to predict and generally beyond Valeo's control, which could cause actual results and events to differ materially from those expressed or projected in the forward-looking statements. Such factors include, among others, the Company's ability to generate cost savings or manufacturing efficiencies to offset or exceed contractually or competitively required price reductions. The risks and uncertainties to which Valeo is exposed mainly comprise the risks resulting from the investigations currently being carried out by the antitrust authorities as identified in the Universal Registration Document, risks which relate to being a supplier in the automotive industry and to the development of new products and risks due to certain global and regional economic conditions. Also included are environmental and industrial risks, risks associated with the Covid-19 epidemic, as well as risks and uncertainties described or identified in the public documents submitted by Valeo to the French financial markets authority (*Autorité des marchés financiers* – AMF), including those set out in the "Risk Factors" section of this Universal Registration Document. In addition, other risks which are currently unidentified or considered to be non-material by the Group, could have the same adverse impact and investors could lose all or part of their investment.

Forward-looking statements are given only as at the date of this Universal Registration Document and Valeo does not assume any obligation to update any forward-looking statements to reflect events or circumstances which occur subsequent to the date of this document.

Valeo assumes no responsibility for any analyses issued by analysts and any other information prepared by third parties which may be used in this document. Valeo neither intends to review, nor will it confirm, any estimates issued by analysts.

Incorporation by Reference

In accordance with Article 19 of Regulation (EU) No. 2017/1129 of the European Parliament and of the Council of June 14, 2017, the following information is incorporated by reference in this Universal Registration Document:

1. in respect of the year ended December 31, 2019: the consolidated financial statements, the parent company financial statements and the related Statutory Auditors' reports, as well as the review of the Company's financial position and other information relating to the Company's financial statements set out on pages 3 to 48 and 279 to 420 of the 2019 Universal Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on April 28, 2020 under number D.20-0385;
2. in respect of the year ended December 31, 2018: the consolidated financial statements, the parent company financial statements and the related Statutory Auditors' reports, as well as the review of the Company's financial position and other information relating to the Company's financial statements set out on pages 3 to 46 and 267 to 406 of the 2018 Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2019 under number D.19-0224.

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