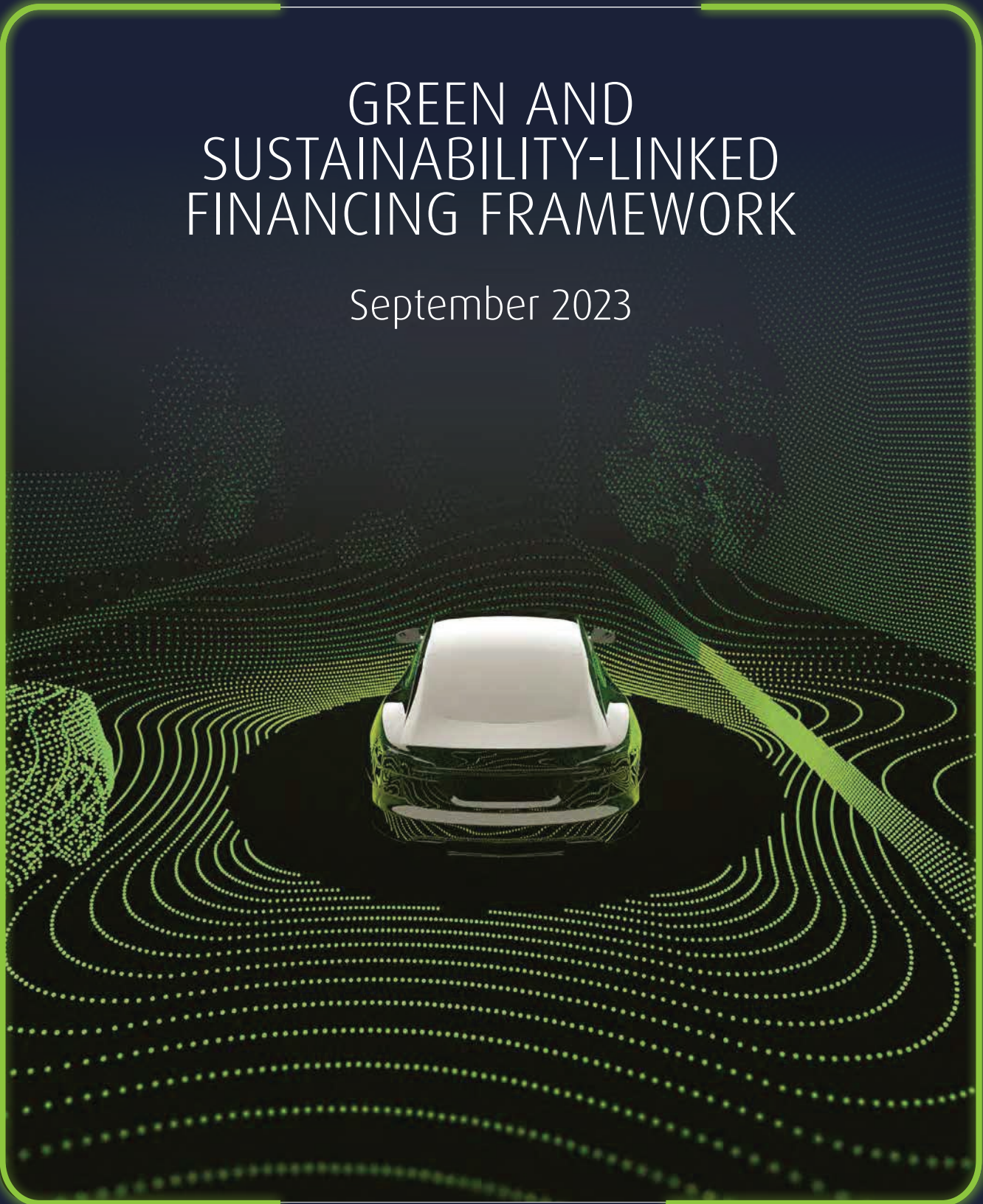




# GREEN AND SUSTAINABILITY-LINKED FINANCING FRAMEWORK

September 2023



SMART TECHNOLOGY FOR SMARTER MOBILITY

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# 1. INTRODUCTION

Valeo is an automotive supplier that partners all automakers worldwide. As a technology company, Valeo proposes innovative products and systems that contribute to the reduction of CO<sub>2</sub> emissions and to the development of more autonomous driving. Valeo is committed to grow in a sustainable way that is beneficial for its employees, the environment and society as a whole.

Valeo enjoys leading positions in its main markets. The Group is structured around four well-balanced, coherent Business Groups that offer innovative solutions to meet the major changes taking place in its markets aimed at reducing CO<sub>2</sub> emissions and developing intuitive driving:

- **Comfort and Driving Assistance Systems** – making driving safer, more autonomous and better connected through perception systems and artificial intelligence. Providing reinvented mobility solutions and human-machine interfaces. Resulting in an innovative user experience;
- **Powertrain Systems** – developing comprehensive, integrated electric powertrain solutions for all vehicles categories, from small urban cars to premium sedans, and technologies to make internal combustion engines cleaner;
- **Thermal Systems** – reducing pollutant emissions from internal combustion engines, optimizing the driving range and battery life of hybrid and electric vehicles, and improving comfort and well-being for passengers in the cabin;
- **Visibility Systems** – designing and producing innovative and efficient lighting and washing systems for safer, more comfortable manual driving and for an improved and enhanced travel experience in autonomous vehicles.

Each of the Business Groups is structured to reinforce cooperation and stimulate growth for all of its product groups worldwide. Valeo has solid fundamentals thanks to its diversified customer portfolio and geographic positioning with an increasing footprint in high-growth potential regions, notably in Asia.

## Valeo is right at the heart of the vehicle electrification and advanced driving assistance systems (ADAS) revolutions

Valeo offers innovative products and systems that make vehicles cleaner, safer and more efficient, and are affordable yet adapted to individual needs. The Group profoundly transformed its product portfolio and became the leader in vehicle electrification and ADAS (Advanced Driver Assistance Systems), the two automotive market segments that are set to witness the fastest growth over the coming years.

### On the road to cleaner mobility

Following the environmental commitments made by countries and political unions, automakers will need to increase massively their production of electrified cars.

Valeo positions itself rightly in the heart of this first revolution thanks to its electrification expertise.

### On the road to safer mobility solutions

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

### Towards smarter mobility solutions thanks to innovation

New business models are emerging and Valeo is already anticipating this market shift to smarter mobility solutions by investing massively in Research & Development.

## Sustainable Development Governance

### Sustainable development organization

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

The Sustainable Development and External Affairs Department lays down policies and plays the role of pilot and coordinator for the Group's various departments.

In order to support the management of risks related to sustainable development challenges – non-financial risks – the Sustainable Development Department performs dedicated mapping and reviews it annually, in conjunction with the Risk Management Department.

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 to 2050. Its aim is to set annual objectives for the various contributing networks and to oversee the deployment of the Carbon Neutrality Plan for 2050.

In addition, other Group functions, including Human Resources, Health, Safety and Environment, Ethics, Compliance and Data Protection, Research and Development, Risk and Insurance, and the operational departments (Purchasing, Quality and Industrial) also contribute to Valeo's sustainable development policy.

### A committee of the Board of Directors in charge of sustainable development and corporate social responsibility

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;
- 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 meets at least five times a year.

### 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. As of 2023, Valeo maintains its position as one of the highest rated automotive suppliers by non-financial rating agencies.

### ESG RATINGS AS OF 1 JUNE 2023

<b>S&amp;P Global</b> <b>72/100</b>	<b>Sustainalytics</b> <b>10.7 (Low risk)<sup>(1)</sup></b>	<b>ISS ESG</b> <b>B-Prime</b>
<b>CDP Climate</b> <b>A</b>	<b>MSCI</b> <b>AAA</b>	<b>Moody's</b> <b>66/100</b>

(1) Lowest score is the best.

## Valeo and the United Nations Sustainable Development Goals

The Group's sustainable development initiatives are aligned with the United Nations' Sustainable Development Goals (SDGs). 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.** Valeo pays particular attention to training its teams at all levels of the organization.

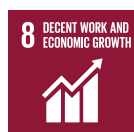
**Target 4.4.** Valeo places great importance on continuous education and access to quality technical training for all, allowing it to support the professional ambitions of each Valeo employee.



### SDG 5 – GENDER EQUALITY

**Target 5.1.** 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.

**Target 5.5.** Valeo's extensive program also aims to promote the place of women among managers and professionals, as well as among operational and management positions.



### SDG 8 – DECENT WORK AND ECONOMIC GROWTH

**Target 8.7.** 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 from all its suppliers that they adhere to the Valeo's Partners Code of Conduct, which incorporates measures relating to the elimination of forced labor.



### SDG 9 – INDUSTRY, INNOVATION AND INFRASTRUCTURE

**Target 9.5.** 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.



### SDG 11 – SUSTAINABLE CITIES AND COMMUNITIES

**Target 11.2.** Valeo aims to develop cleaner, safer and smarter mobility solutions.



### SDG 12 – RESPONSIBLE CONSUMPTION AND PRODUCTION

**Target 12.2.** Valeo has implemented an eco-design approach for its products and reduced its production-related consumption of water and energy. This approach is aimed at reducing the consumption of raw materials (metal, plastic, etc.) or replacing materials impacting the carbon footprint of the end-product (vehicle) with greener substitutes.

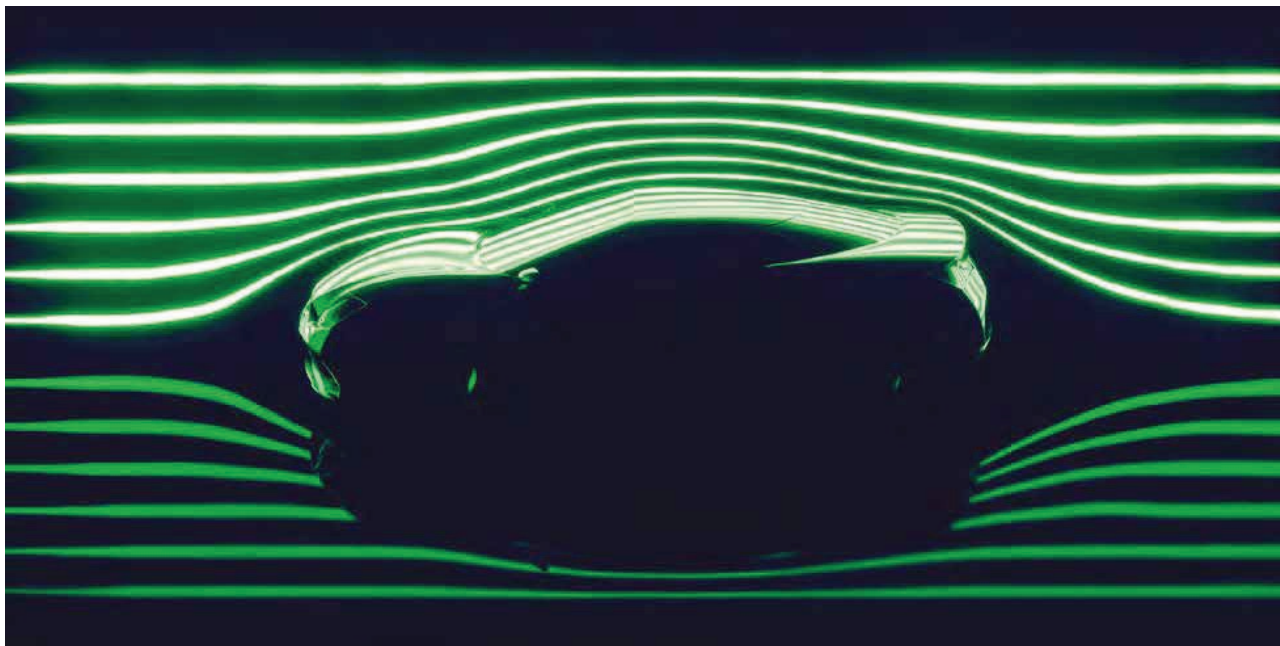
**Target 12.5.** As part of a structured environmental plan, Valeo aims to reduce its landfilled and non-recycled waste.



### SDG 13 – CLIMATE ACTION

**Target 13.1.** Valeo has been closely monitoring its environmental initiatives for many years, particularly in terms of reducing the carbon footprint and water consumption of its sites.





## 2. VALEO SUSTAINABILITY STRATEGY

### 2.1. Valeo's sustainable development policy

**Corporate sustainability is at the very heart of Valeo strategic product planning. Sustainable development is central to who the Group is and its mission. It is embedded in its DNA.**

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. It pervades all the areas where Valeo interacts with stakeholders, both internally and outside the Group.

To illustrate this strategy, Valeo has build sustainability KPIs with mid- or long-term targets.

The main indicators and objectives in the Group's sustainable development policy are reported in the Group's URD in the "Integrated performance and outlook" section.

#### **Innovation policy**

Research and Development are central to Valeo's growth strategy and its identity as a technology company. The Group promotes intuitive and safer driving, and provides solutions for reducing emissions of greenhouse gases, such as CO<sub>2</sub> and pollutants.

The Group's innovation policy serves to make its strategic choices a reality. It draws primarily on an open innovation ecosystem. Valeo is also committed to rolling out a product eco-design strategy to reduce its carbon impact well beyond the simple use phase. This approach aims to reduce CO<sub>2</sub> emissions, increase the recyclability of materials and systems and ensure that materials are safe.

## Environmental policy at Valeo

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;
- improve energy performance in line with ISO 50001;
- optimize the transportation of people and goods in order to reduce greenhouse gas emissions;
- increase purchases of low-carbon electricity;
- 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;
- protect biodiversity;
- develop a circular economy approach.

## Employee policy

The Human Resources Department's priorities are shown in the materiality matrix<sup>(2)</sup>. They form the foundations of the Group's actions in respect of:

- safety and working conditions;
- attracting and retaining talent;
- promoting diversity, equity and inclusion;
- respecting and promoting fundamental rights;
- promoting physical, sports and cultural activities.

Valeo's **social policy** is structured around two key challenges:

- a commitment to ecosystems and local populations;
- sustainable development requirements with regard to suppliers.

## Sustainable purchasing

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 toward 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 GHG emissions reduction targets for their own operations and those of their suppliers.

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(2) [valeo\\_2022-urd\\_uk.pdf](#).

## 2.2. Towards Valeo's carbon neutrality plan for 2050

### A commitment to carbon neutrality by 2050

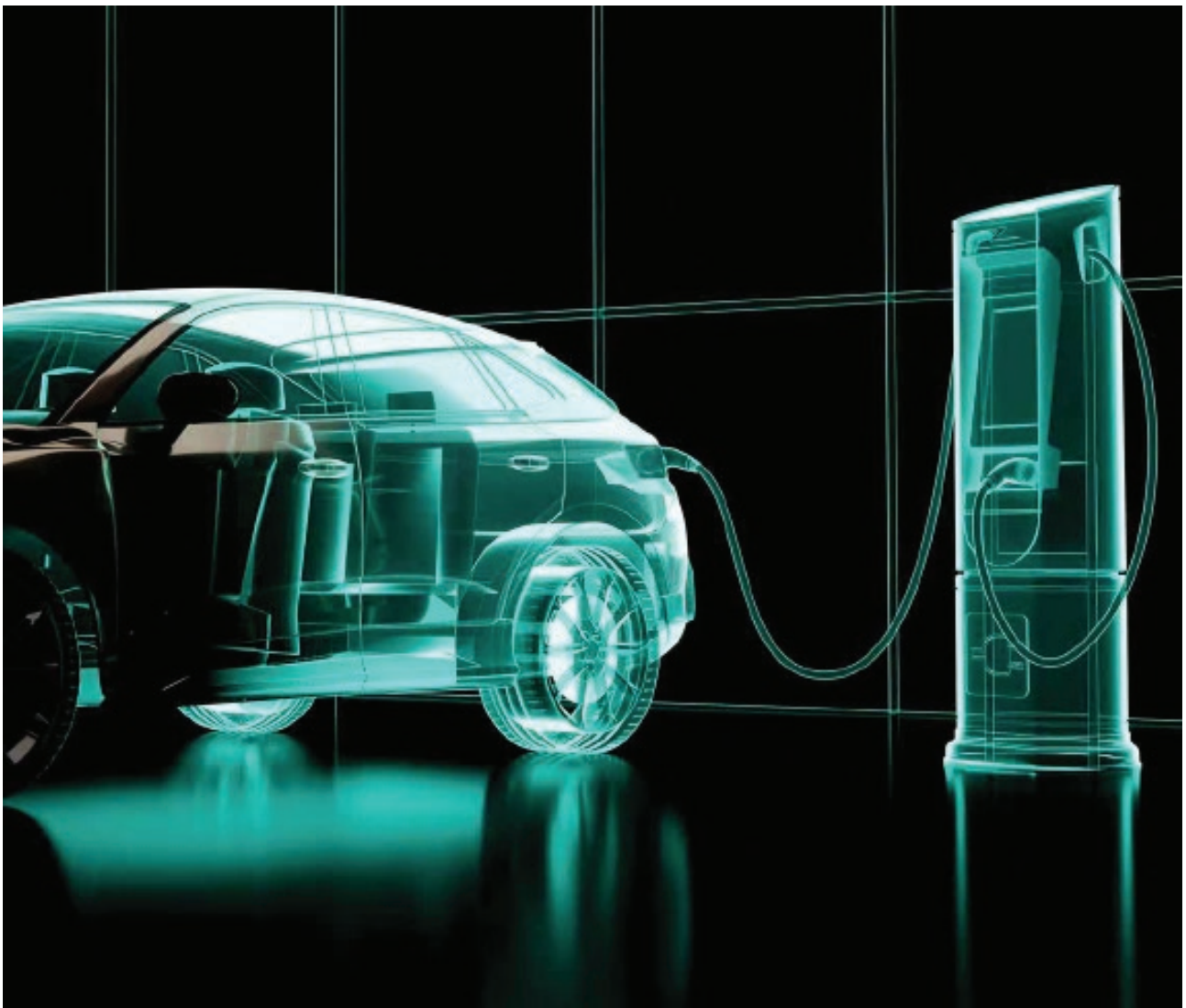
Valeo is committed to become **carbon neutral by 2050**, in all of its operational activities and across its supply chain worldwide (Scopes 1 & 2 and upstream Scope 3), and achieving 100% carbon neutrality in Europe (Scopes 1, 2 & 3, including the end-use of its products).

### An objective of reducing emissions by 45% by 2030

Valeo has set itself three objectives for 2030:

- a 75% reduction in Scope 1&2 emissions compared to 2019, validated by SBTi as aligned with a 1.5° scenario;
- a 15% reduction in Scope 3 emissions aligned with the SBTi;
- a target on avoided Scope 3 emissions leading to an additional 50% Scope 3 emissions reduction target, incorporating the impact of the benefits generated by Valeo's solutions in terms of reducing GHG emissions, also referred to as the "adjusted" target.

The targets for reducing CO<sub>2</sub> emissions by 2030 will be achieved without any recourse to carbon offset actions.





### 3. GREEN FINANCING FRAMEWORK


Valeo has developed this Sustainable Financing Framework to support all Green Finance Instruments including Green Bonds in public and private format (the “Bonds”), Green Loans, and any other instrument aiming at financing Eligible Projects as defined in the “Use of Proceeds” section. This section has been updated in 2023, following the publication of the first Framework, back in 2021.

Valeo views Green Finance Instruments as an effective tool to channel investments to projects that have environmental benefits especially given the fact that Valeo is currently world leader in solutions for vehicle electrification.









The Use of Proceeds Framework is aligned with the four pillars of the Green Bond Principles 2021 (“GBP”) published by the International Capital Markets Association (ICMA) and the Green Loan Principles 2023 (“GLP”) published by the Loan Market Association (LMA).


#### 3.1. Use of Proceeds

An amount equal to the net proceeds from the issuance of the Green Finance Instrument, will be used to finance or refinance, in whole or in part, new or existing, investments or assets that meet the criteria outlined below:

Green Sub-categories	Eligible Projects	Examples of Eligible Investments or Assets	EU Taxonomy objective and/or substantial contribution criteria
<b>CLEAN TRANSPORTATION</b>			
			
<b>Development of zero emission technologies</b>	Investments or assets aiming at developing and producing components, systems and solutions for vehicles with zero tailpipe emissions (Battery electric vehicles, Fuel-cell electric vehicles)	<ul style="list-style-type: none"> <li>Development and production of innovative and affordable high-voltage components and systems for the entire range of on road electric vehicles</li> <li>Research and development of innovative technological advancements and supporting development of solutions for electric vehicles</li> </ul>	<b>Climate change mitigation</b> 3.3 Manufacture of low carbon technologies for transport 3.4 Manufacture of batteries 3.6 Manufacture of other low carbon technologies 3.18 Manufacture of automotive and mobility component <sup>(3)</sup>
<b>Smart mobility</b>	Investments and assets dedicated to emergence of new modes of transportation with zero tailpipe emissions, particularly in urban areas (e-scooters, e-bikes, etc.) and new surface modes using electric propulsion	<ul style="list-style-type: none"> <li>Research and Development on the electric dimension and energy efficiency of the smart mobility solutions.</li> </ul>	<b>Climate change mitigation</b> 3.3 Manufacture of low carbon technologies for transport 3.18 Manufacture of automotive and mobility component <sup>(3)</sup>
<b>Electric vehicles infrastructure</b>	Investments related to the development and installation of charging points for BEVs	<ul style="list-style-type: none"> <li>Installation of charging points for BEVs</li> </ul>	<b>Climate change mitigation</b>

(3) For 2022, Valeo has declared its economic activity to be Taxonomy-eligible in accordance with the conditions laid down for activities 3.3 – Manufacture of low carbon technologies for transport, 3.4 – Manufacture of batteries and 3.6 – Manufacture of other low carbon technologies. Following the EU Commission publication on 13 June 2023 of an [amended Delegated Regulation \(EU\) 2021/2139](#) expanding to new activities including 3.18 Manufacture of automotive and mobility component, Valeo’s eligible activities under the Climate Delegated Act are likely to evolve accordingly and Valeo’s component activity is likely to be reported under 3.18 rather than 3.3.

Green Sub-categories	Eligible Projects	Examples of Eligible Investments or Assets	EU Taxonomy objective and/or substantial contribution criteria
<b>RENEWABLE ENERGY</b>			
 			
<b>Renewable energy capacities</b>	Investments aiming at developing the renewable energy capacities on Valeo sites (such as solar photovoltaic panels)	<ul style="list-style-type: none"> <li>Investments in construction or maintenance services for photovoltaic panels, etc.</li> </ul>	<b>Climate change mitigation</b>
<b>ENERGY EFFICIENCY</b>			
  			
<b>Energy efficient improvement of industrial processes</b>	Investments and assets aiming at improving energy efficiency at production level	<ul style="list-style-type: none"> <li>Investments and assets such as new electric oven, heat recovery compressors, LED lighting in plants, low carbon devices to control temperature in buildings, etc.</li> </ul>	
<b>Energy efficiency improvement of factories</b>	Investments and assets aiming at developing: renovation measures consisting in installation, maintenance or repair of energy efficiency equipment in existing factories	<ul style="list-style-type: none"> <li>Investments in energy efficiency equipments such as heat recovery systems, ventilation, LED lighting</li> </ul>	<b>Climate change mitigation</b>
<b>Smart production</b>	Investments and assets aiming at improving efficiency (energy, raw material, etc.) of production processes through digitalization	<ul style="list-style-type: none"> <li>"Valeo's factory of tomorrow"</li> </ul>	
<b>SUSTAINABLE WATER AND WASTEWATER MANAGEMENT</b>			
  			
<b>Water efficiency and sustainable water management</b>	Investments related to water efficiency, and sustainable water management in industrial processes	<ul style="list-style-type: none"> <li>Rain fed networks</li> <li>Monitoring sites water consumption and optimization of water management</li> <li>Ceasing of residual direct water withdrawal</li> <li>Wastewater recycling circuits</li> </ul>	<b>Sustainable use and protection of water and marine resources</b>

Green Sub-categories	Eligible Projects	Examples of Eligible Investments or Assets	EU Taxonomy objective and/or substantial contribution criteria
<b>CIRCULAR ECONOMY</b>			
			
<b>Transition to Circular Economy</b>	Investments related to the development and implementation of facilities, infrastructure and equipment to prevent the generation of waste and enhance the re-use and recovery of materials,	<ul style="list-style-type: none"> <li>Use of recycled materials (copper, aluminum and steel) in new and remanufactured products</li> </ul>	<b>Transition to a Circular Economy</b>
<b>Sustainable waste management</b>	Investments related to waste diversion from landfill, waste recycling and re using	<ul style="list-style-type: none"> <li>Fitting retention tanks for better management of hazardous materials and creating waste storage areas</li> </ul>	<b>Pollution prevention and control</b>

### Exclusion criteria

Eligible Projects which are part of the Clean Transportation and Circular Economy’s Green Sub-categories will exclude all expenditures towards internal combustion engines vehicles (including hybrid vehicles) development.

## 3.2. Process for Project Evaluation and Selection

### Transparency and process for defining Eligible Projects

In due time before the issuance of an inaugural Green Financing Instrument, a dedicated Green Financing working group will be created to oversee the Green Financing program. The Committee is chaired by the Group CFO, with representatives from the following teams: Corporate Sustainability, Operations Finance, R&D, Purchasing, Investor Relations and Treasury departments.

New projects will be identified on an ongoing basis by the respective operational and/or finance teams of various business units. Identified projects will be submitted to the Green Financing working group, who then evaluates the project eligibility in light of this Framework and decides on the integration (or flagging) to a portfolio of Eligible Projects (the Eligible Project Portfolio).

The working group will meet when required or at least on an annual basis to review the Eligible Project Portfolio and decide on the inclusion of any new projects eligible for financing *via* a Green Finance Instrument.

The working group will monitor exclusions of any project if any Green Eligible Projects exits the Eligible Project Portfolio, or no longer meets the eligibility criteria, or if the working group identifies the occurrence of a material controversy<sup>(4)</sup> associated with one Eligible Project. Following such exclusion, the Green financing working group will meet to strive to reallocate the funds to other Eligible Projects that comply with the eligibility criteria, as soon as reasonably practicable.

The working group will oversee the Green Financing Reporting process and manage the process should this Framework need to be updated. Such updates of this Framework will only apply to Green Finance Instruments that are launched after the issuance of a new Second-Party Opinion.

### Prevention and Management of environmental and social risks

The working group will also review the environmental and social risks associated to the Eligible Projects in accordance with Valeo’s duty of care plan, covering the subsidiaries, subcontractors and suppliers with which the Group has business relations.

<sup>(4)</sup> Controversy with material impact on the business operations.

The duty of care plan is the fruit of joint work by the various departments concerned (Strategy 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 2022 reporting sets out the measures in its duty of care plan:

- the Group's risk mapping and non-financial risk analysis conducted in 2022 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 detail of the plan, the measures implemented and the assessment of their effectiveness are presented in Valeo's Universal Registration Document<sup>(5)</sup> section 4.4 with references to the corresponding sections of chapter 4 giving access to a more detailed presentation.

### 3.3. Management of Proceeds

The net proceeds of any Green Finance Instrument will be managed on a portfolio basis by the treasury department.

An amount equivalent to each financing net proceeds will be used to finance the Eligible Project Portfolio.

The Finance and the Treasury teams will track the proceeds through a green register, that will be reviewed annually by the Green Financing working group. It will contain information of the use of proceeds of each Green Finance Instrument, including the amount of allocation per Eligible Projects Category.

For Bond issuances:

- in case of refinancing, disbursements related to Eligible Projects made in the two calendar years prior to the issuance may be allocated to the Bonds;
- Valeo commits on a best effort basis to reach full allocation within the 24 months following each Bond issuance;
- Valeo intends to provide the investors with an estimated share of refinanced projects prior to each new Green Bond.

Where proceeds cannot be immediately allocated or reallocated, Valeo will invest the balance of the net proceeds at its own discretion as per the Company's liquidity management policy, including in cash or cash equivalents, or in other liquid marketable instruments.

<sup>(5)</sup> [valeo\\_2022-urd\\_uk.pdf](#).

## 3.4. Reporting

In alignment with the Company's transparency and commitment to publicly report on allocation and impact, Valeo will provide an allocation and impact reporting (the Green Financing Reporting) on an annual basis until full allocation.

### 3.4.1. Allocation Reporting

The allocation reporting will include:

- the list of outstanding Green Finance Instruments and the total amount of outstanding net proceeds of Green Finance Instruments;
- the description of the Eligible Projects to which the Green Finance Instruments have been allocated;
- the aggregate amount of allocation of the net proceeds to the Eligible Projects at the category level;
- the aggregate amount of allocation of the net proceeds to the Eligible Projects by region;
- the proportion of net proceeds used for financing vs. refinancing;
- the balance of any unallocated proceeds invested as per the Company's liquidity management policy, including in cash or cash equivalents, or in other liquid marketable instruments;
- any material developments related to the projects financed, including ESG controversies, where feasible and subject to confidentiality considerations. In the case of material developments that impact allocation Valeo will publish a revised allocation overview in a revised Allocation Report, including external verification as described below under "External Verification".

### 3.4.2. Impact Reporting

The report will include an environmental impact report to support the allocation report described above. The impact reporting will include information on the methodology and assumptions used to evaluate the Eligible Projects impacts.

For illustrative purpose, this reporting may include:

Eligible Categories	Green Sub-categories	Potential impact indicators
<b>Clean transportation</b>	Development of zero emission technologies	<ul style="list-style-type: none"> <li>• Estimated CO<sub>2</sub> emission saved (<i>tonnes of CO<sub>2</sub></i>)</li> </ul>
	Smart mobility	<ul style="list-style-type: none"> <li>• Estimated CO<sub>2</sub> emission saved (<i>tonnes of CO<sub>2</sub></i>)</li> </ul>
<b>Renewable Energy</b>	Renewable energy capacities	<ul style="list-style-type: none"> <li>• Installed renewable energy capacity (<i>MW</i>)</li> <li>• Volume of renewable energy produced (<i>MWh/year</i>)</li> <li>• Estimated CO<sub>2</sub> emission saved</li> </ul>
<b>Energy Efficiency</b>	Energy efficient Improvement of industrial processes	<ul style="list-style-type: none"> <li>• Estimated energy saved (<i>MWh/year</i>)</li> <li>• Estimated CO<sub>2</sub> emission saved (<i>tonnes CO<sub>2</sub></i>)</li> </ul>
	Energy efficiency improvement of factories	<ul style="list-style-type: none"> <li>• Estimated energy saved (<i>MWh/year</i>)</li> <li>• Estimated CO<sub>2</sub> emission saved (<i>tonnes CO<sub>2</sub></i>)</li> </ul>
	Smart production	<ul style="list-style-type: none"> <li>• Estimated energy saved (<i>MWh/year</i>)</li> <li>• Estimated CO<sub>2</sub> emission saved (<i>tonnes CO<sub>2</sub></i>)</li> </ul>
<b>Sustainable Water and wastewater management</b>	Investments related to water efficiency, and sustainable water management in industrial processes	<ul style="list-style-type: none"> <li>• Water consumption for domestic use/sales (<i>cu.m/€m</i>)</li> <li>• Water consumption for industrial use/sales (<i>cu.m/€m</i>)</li> <li>• Total water consumption (<i>thousands of cu.m</i>)</li> </ul>
<b>Circular Economy</b>	Investments related to waste diversion from landfill, waste recycling and re using	<ul style="list-style-type: none"> <li>• Total amount of industrial waste (<i>metric tons</i>)</li> <li>• Proportion of hazardous waste (%)</li> <li>• Proportion of recycled waste (%)</li> <li>• Share of recycled or renewable content per product (%)</li> </ul>



### 3.5. Verification

#### 3.5.1. Pre-issuance review

Valeo has appointed ISS ESG to provide a Second Party Opinion on the Sustainable Finance Framework, its transparency, governance and alignment with the ICMA's GBP, and the LMA's GLP.

#### 3.5.2. Post-issuance verification

A verification of the Green Financing Reporting will be conducted by Valeo's external auditor on an annual basis until proceeds are fully allocated and made publicly available. The external auditor will verify that the proceeds of the Green Finance Instruments are either allocated to Eligible Projects or invested in approved financial instruments.



## 4. SUSTAINABILITY-LINKED FINANCING FRAMEWORK

To provide further support for Valeo's climate transition strategy and reinforce its commitment to a low-carbon future, Valeo anticipates issuing Sustainability-Linked Instruments in addition to Green Finance Instruments. This section has been updated in 2023, following the publication of the first Framework, back in 2021.

As forward-looking performance-based instruments, Sustainability Linked Instruments help demonstrate Valeo's integrity to its sustainability ambitions by aligning its corporate financing with its sustainability strategies, while providing transparency and disclosure to investors and stakeholders. Sustainability Linked Instruments move beyond the dedicated use of proceeds outlined in section 3 above, to capture on a forward looking basis, all the transition levers Valeo is undertaking to achieve its transition strategy.

This part of the Framework defines a set of guiding principles for financing instruments linked to the achievement of material, quantitative, pre-determined, ambitious, regularly monitored and externally verified sustainability objectives through Key Performance Indicators ("KPIs") and their associated Sustainability Performance Targets ("SPTs").

Valeo's Framework will apply to any forthcoming Sustainability Linked Instrument, following industry best market practices and subject to future market developments and expectations. The Framework has been developed in alignment with the five core components of the Sustainability-Linked Bond Principles 2023 ("SLBP") as published by ICMA and Sustainability Linked Loan Principles 2023 ("SLLP") as published by LMA.

For all Sustainability Linked Instruments, Valeo affirms that it will adopt the following:

- i. Selection of KPIs;
- ii. Calibration of SPTs;
- iii. Financial characteristics;
- iv. Reporting;
- v. Verification.

### 4.1. Selection of Key Performance Indicators

Sustainability Linked Instruments may be tied to one or more KPIs, as seen fit for particular transactions and company initiatives.

#### 4.1.1. Climate-related KPIs

##### KPI 1: VALEO'S TOTAL ADJUSTED CARBON FOOTPRINT (SCOPES 1, 2 & 3 GHG EMISSIONS)

<b>Definition</b>	<ul style="list-style-type: none"> <li>• Measurement of Valeo's gross carbon footprint across all of its operational activities, its supply chain and use of products (Scopes 1, 2 &amp; 3) minus GHG emissions avoided through the electrification of Valeo's portfolio.</li> <li>• Valeo's gross carbon footprint includes:             <ul style="list-style-type: none"> <li>• <b>Direct GHG emissions:</b> combustion emissions from stationary sources on sites, emissions from fuel combustion by Group vehicles, direct emissions from non-energy processes;</li> <li>• <b>Indirect GHG emissions:</b> associated with energy consumption, related to the consumption of electricity, steam, compressed air and other sources;</li> <li>• <b>Indirect GHG emissions linked to the purchase of materials used in industrial processes</b> (steel, aluminum, copper, zinc, plastics, electronic components, chemicals and packaging);</li> <li>• <b>Indirect GHG emissions related to the use of products.</b></li> </ul> </li> <li>• GHG emissions avoided through the electrification of Valeo's portfolio include emissions savings generated by the use of Valeo's products.</li> </ul>
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**Methodology**

- Calculation method for Valeo's gross carbon footprint:
  - GHG Protocol for Scope 1&2 and Scope 3 categories (excluding categories 2, 3, 5, 6, 7, 8, 9, 10, 12, 13, 14, 15 of GHG Protocol, which are considered as not material by Valeo);
  - Even if Valeo does not integrate those categories in its KPI 1, Valeo does track and report on these CO<sub>2</sub> categories. This information is available annually in the CDP<sup>(6)</sup> reporting;
  - Valeo gross carbon footprint is based on SBTi approach which evaluates the level of emissions of Valeo's different products that will need to be downsized by -15% by 2030 at iso product of analysis compared to 2019.
- Calculation method for Valeo GHG emissions avoided through the electrification of Valeo's portfolio:
  - With the help of Emisia (laboratory spin off of Thessaloniki University, official reviewer for emissions calculations of the EU Commission DG Clima), Valeo has set up a methodology to calculate the adjusted avoided emissions for the vehicles in which Valeo contributes directly through the use of its sold technologies in place in the vehicles;
  - This approach evaluates the level of avoided emissions during the use phase of the lifetime of the vehicles taking into account the following parameters:
    - mass and electric consumption of the product,
    - technical characteristic of the vehicles in which the products are integrated (differentiated evaluation by segment, product lifetime),
    - market penetration of Valeo products within each vehicle segmentation and world market fleet evolution,
    - annual sold Valeo products taken in account for this calculation.

<b>Perimeter</b>	Valeo Group <sup>(7)</sup> , covers 94% of the carbon footprint of the Group in 2019				
<b>Unit</b>	tCO <sub>2</sub> eq				
<b>Baseline year</b>	2019				
<b>Historical data</b>	<i>MtCO<sub>2</sub></i>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	Scope 1&2	1.16	0.63	0.78	0.71
	Scope 3	48.48	39.32	45.46	44.51
	<b>Gross carbon footprint (SBTI perimeter)</b>	<b>49.64</b>	<b>39.95</b>	<b>46.24</b>	<b>45.22</b>
	Avoided emissions linked to gains in Valeo technologies	0.0	(0.5)	1.2	3.5
	<b>Adjusted Carbon footprint</b>	<b>49.6</b>	<b>40.5</b>	<b>45.0</b>	<b>41.7</b>

**Context and materiality**

- The gross carbon footprint objectives are in line with the reduction needed to cap global warming at 1.5°C, the highest level of ambition of the Science Based Targets initiative (SBTi), in keeping with the Paris climate agreement (COP 21).
- 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 GHG emissions reduction commitment submitted by Valeo to the SBTi does not include the carbon benefits of the use of its technologies in downstream Scope 3.
- As a world leader in critical electrification technologies for the decarbonization of mobility (48V and high-voltage electric motors, thermal management of vehicles, etc.), Valeo's aim is to incorporate the impact of the benefits of electrification provided by Valeo's solutions in terms of reducing GHG emissions (downstream Scope 3) in its adjusted carbon footprint target.

(6) [Carbon Disclosure Project](#).

(7) See "Sustainable development reporting methodology" section in the Universal Registration Document.

#### 4.1.2. Sustainable purchasing-related KPI

##### **KPI 2: SHARE OF PRODUCTION PURCHASES FROM WHICH SUPPLIERS ARE SUBJECT TO THE EVALUATION OF THEIR SUSTAINABLE DEVELOPMENT PRACTICES OVER THE YEAR** (% OF THE AMOUNT OF PURCHASES)

<b>Definition</b>	Percentage of Valeo's production purchases performed with suppliers which have been subject to the evaluation of their sustainable development practices over the year
<b>Context</b>	<p><b>GLOBAL SUSTAINABILITY APPROACH FOR SUPPLIERS</b></p> <ul style="list-style-type: none"> <li>• The Group's purchases can be divided into six main components or systems, referred to as commodities: <ul style="list-style-type: none"> <li>• steel and processing;</li> <li>• non-ferrous metals and processing;</li> <li>• plastics and processing;</li> <li>• electronic components and systems;</li> <li>• electromechanical components;</li> <li>• and indirect purchases.</li> </ul> </li> <li>• Sustainability as a requirement starting at supplier panel integration: When entering Valeo's supplier panel and/or being awarded for business, a supplier goes through a standard assessment process, including mandatory requirements on sustainability: <ul style="list-style-type: none"> <li>• Qualitative assessment points: criteria for selecting suppliers and awarding bids and contracts include economic factors, financial risks, logistics, corporate governance, environmental factors, social factors (respect for fundamental rights, environmental protection, employee health and safety, and quality);</li> <li>• Qualitative qualification requirements: <ul style="list-style-type: none"> <li>- 90% of the mandatory items in the supplier qualification questionnaire relate to non-economic criteria,</li> <li>- Sustainable development criteria are given a weighting of 20% in the supplier's final score, and any failure to meet these criteria automatically disqualifies them from Valeo's supplier panel;</li> </ul> </li> <li>• Double layer process: <ul style="list-style-type: none"> <li>- SAQ (Valeo Pre-Evaluation Questionnaire),</li> <li>- Audit process (Evaluation).</li> </ul> </li> </ul> </li> </ul>

**Methodology**

- On a yearly basis, Valeo evaluates a sample of its production and non-production suppliers. The sample is mixing suppliers from all regions worldwide, commodities & segments and integrating different companies types (large corporations, SMEs, etc.).
- Under its policy of increased support for suppliers throughout the entire supply chain, Valeo runs a supplier self-assessment system using a Supplier Self-Assessment Questionnaire (SAQ). This questionnaire consists of 52 questions, divided into six equally weighted categories:
  - Governance: own supplier code of conducts, clear governance structure, global annual CSR/sustainability review process at higher management level;
  - Health & Safety: OHSAS 18001 certification (or equivalent), safety sprinklers, trainings;
  - Environmental and carbon: ISO 14001 management (or equivalent), zero accident policy;
  - Working conditions and Human rights: no child labor (and associated policies and actions to prevent it), no forced and bound labor diversity commitment;
  - Management of own suppliers: engagement with supplier’s own lower tiers suppliers (engagement proof, clear set of requirements, actions checks);
  - Business ethics.
- The methodology used is a Valeo based assessment, constantly updated to the demanding standards of the French legal framework “duty of care” (*devoir de vigilance*) and validated by the most demanding customers in sustainability. The assessment of the suppliers includes corrective actions in the area of sustainability, when needed. It is followed by a sampling of audits mixing commodities, size of companies and targets locations where the risk is higher.
- Valeo has reinforced this assessment of practices by scheduling a global audit campaign among suppliers identified through the sustainable development questionnaire.

**Perimeter** Valeo suppliers (more than 6,000 suppliers in 2022)

**Unit** %

Historical data	2019	2020	2021	2022
	80%	80%	82%	85%

**Materiality**

- As a tier-one automotive supplier, Valeo is at the heart of the automotive industry supply chain. It is an order-giver to tier-two and lower-tier suppliers and a supplier of technologies and systems to automakers.
- 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.
- This process involves the Sustainable Development and External Affairs, the Purchasing and Quality departments and Sustainability teams which are ensuring the monitoring of the answers, provide assistance and corrective measures to some of the suppliers and adapt supplier exposure depending on the supplier performance



## 4.2. Calibration of Sustainability Performance Targets (SPTs)

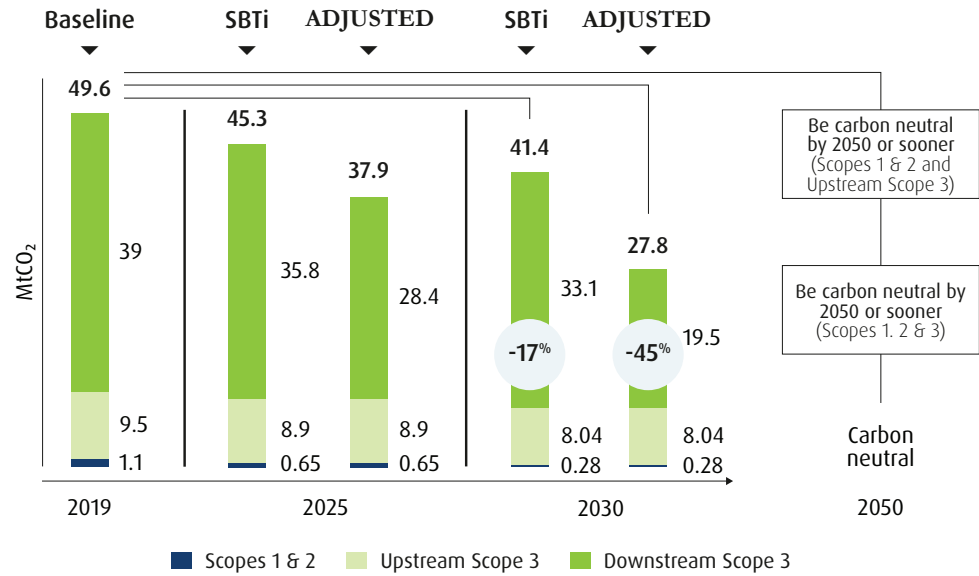
SPTs related to any specific Sustainability Linked Instrument will vary based on the maturity of the instrument but will be calibrated based on the 2025 and 2030 Target Observation Dates.

### SPTs FOR KPI 1

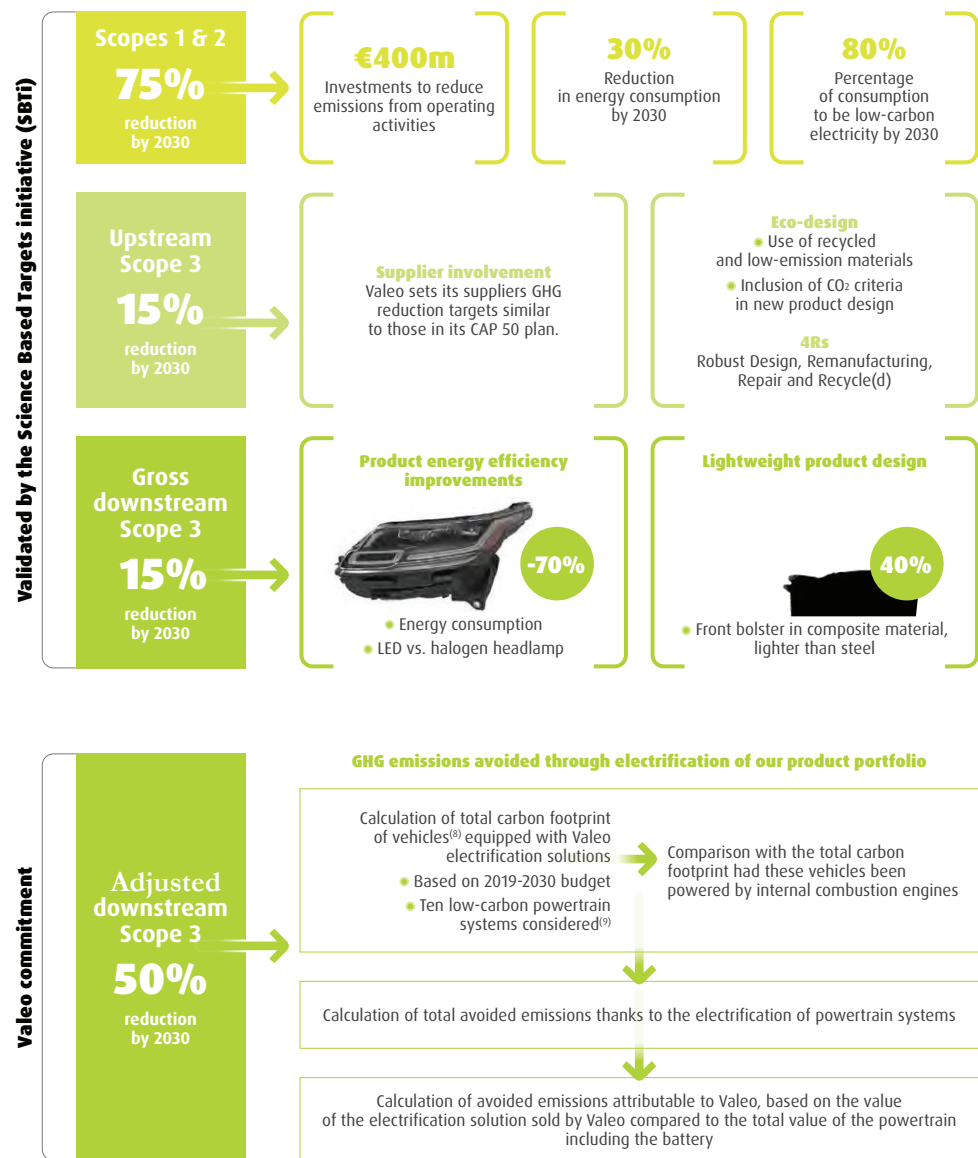
#### Sustainability performance Targets

Target Observation Dates: 31 December 2025 and 31 December 2030

- SPT 1a: 37.95 million CO<sub>2</sub>eq tons in 2025
- SPT 1b: 27.88 million CO<sub>2</sub>eq tons in 2030



Action plan



Ambition of the SPT

- Scope 1, 2 and 3 gross carbon footprint targets have been reviewed by SBTi and validated as in line with a 1.5° scenario for the Scope 1&2 target.
- Valeo plays an enabling role in the transformation of the automotive industry thanks to its technologies that contribute to cleaner mobility and is actively contributing to the decarbonization of the global automotive industry.

(8) C-segment vehicles, irrespective of region. The methodology will be updated to include different vehicle segments and differentiate between geographic areas.

(9) Stop-Start, 12+12V, 48V MHEV (IBSG), 48V MHEV (eMotor), FHEV, PHEV, EREV, BEV, FCEV.

## SPTs FOR KPI 2

<b>Sustainability performance Targets (SPT)</b>	<p>Target Observation Dates: 31 December 2025 and 31 December 2030</p> <ul style="list-style-type: none"> <li>• SPT 2a: 82% of the Group's production purchases comes from suppliers whose ESG practices have been assessed in 2025.</li> <li>• SPT2b: 86% of the Group's production purchases comes from suppliers whose ESG practices have been assessed in 2030.</li> </ul>
<b>Action plan</b>	<ul style="list-style-type: none"> <li>• 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.).</li> <li>• Boosting suppliers' competitiveness by guiding them toward continuous improvement practices in terms of optimizing logistics and environmental costs, reducing energy costs, etc.</li> <li>• Putting down deep roots in local ecosystems, applying a purchasing location policy at a regional level.</li> </ul>
<b>Ambition of the SPT</b>	<ul style="list-style-type: none"> <li>• It is noteworthy to specify that Valeo has a massive suppliers base with more than 6,000 suppliers. 2,131 suppliers account for 95% of the amount of direct purchases (manufacturing purchases) in 2022.</li> <li>• Since 2014, Valeo has started a massive work to address a sustainability evaluation up to 80% of its purchasing volume. The missing 20% to reach 100% of purchased volume represent a huge amount of much smaller suppliers and extremely small volumes of purchasing. Therefore 1% increase in the amount of purchases represents hundreds of new smaller suppliers that are subject to evaluation which requires a massive push and work for the purchasing and sustainability teams together.</li> <li>• Supply chain disruptions driven by geopolitical, logistical or stock-out reasons, could cause major suppliers to drop out of the purchasing volume and may lead to a sudden, exponential increase in the number of suppliers to be evaluated.</li> </ul>

### 4.3. Financial Characteristics

Unless otherwise stated, proceeds of any Sustainability Linked Instrument will be used for general corporate purposes.

For each Sustainability-Linked Instrument, the contractual documentation will define the exact KPI(s), SPT(s) and financial characteristics.

The financial and/or structural characteristics of Valeo's Sustainability-Linked Instruments may vary in the event the applicable SPT(s) in relation to the selected KPI(s) is (are) not achieved as of the relevant Target Observation Date(s) or Valeo fails to comply with certain reporting and verification obligations. They are to be specified in the final terms of each Sustainability-Linked Instrument issued and may include (but are not limited to) coupon step-up(s), the payment of a premium at maturity or a margin adjustment depending on the nature of the Sustainability Linked Instrument.

For any Sustainability Linked Bond where a coupon step-up may occur:

- each Sustainability Linked Bond may have one or more observation dates where step-ups could be triggered;
- a step-up would be applied from the first coupon date following the Notification Date.

## 4.4. Reporting

Until the maturity of the Sustainability-Linked Instrument, Valeo will report annually information required to calculate or observe the performance of KPIs in relation to Sustainability Performance Targets within the Universal Registration Document or published as a separate report or document and kept readily available and easily accessible on Valeo's website ([www.valeo.com](http://www.valeo.com)).

Such reporting will include:

- information on the performance of the KPIs, as per the relevant reporting period and when applicable, as per the Target Observation Date including the calculation methodology and baselines where relevant;
- any relevant information enabling investors and/or lenders to monitor the ambition of the SPTs including any update in its sustainability strategy or any recent announcements, strategic decisions on the related KPI;
- when relevant, any re-assessments of KPIs and/or restatement of the SPTs and/or pro-forma adjustments of KPI scope more generally any information relevant to the analysis of the KPIs and SPTs.

## 4.5. Verification

### 4.5.1. Pre-issuance review

Valeo has appointed ISS ESG to provide a Second Party Opinion on the Sustainable Financing Framework, its transparency, governance and alignment with the ICMA's SLBP, and with the LMA's SLLP.

In case of update of section 3 or 4 of this Framework, Valeo commits to obtain an updated Second Party Opinion.

This Second Party Opinion document will be made publicly available on Valeo's website: <https://www.valeo.com/en/bond-investors/>

### 4.5.2. Post-issuance external verification

Until the maturity of the Sustainability-Linked Instrument, a suitably-qualified independent third-party provider will be appointed to provide an independent and external verification of the performance of the KPIs specified in this Framework on an annual basis, and following each Target Observation Date.

The external verification will be performed by Valeo's external auditor, or any such other qualified provider of third-party assurance or attestation services appointed by Valeo, who will provide:

- an assurance report confirming the annual performance of each selected KPI(s);
- a verification assurance certificate confirming the level of the KPI(s) against the applicable SPT(s) will be provided and made publicly available for the relevant Target Observation Date.

The assurance report and the verification assurance certificate will be made publicly available *via* Valeo's website either in a dedicated section of its URD or on its website as a separate report or document.

## 4.6. Recalculation event

The legal documentation of a Sustainability-Linked Instrument may include recalculation provisions to take into consideration potential exceptional events, such as significant evolution in methodology or perimeters (acquisition and/or disposal) or drastic changes in the regulatory environment that could substantially impact the calculation of the KPI, the restatement of the SPT, and/or pro-forma adjustments of baselines or KPI scope.

In the event of any change, which occurs between the issue date of a Sustainability-Linked Instrument and the SPT date:

- (i) in the Group's perimeter (due to an acquisition, a merger or a demerger or other restructuring (scission or apport partiel d'actifs), an amalgamation, a consolidation or other form of reorganization with similar effect, a spin-off, a disposal or a sale of assets);
- (ii) in or any amendment to any applicable laws, regulations, rules, guidelines and policies relating to the business of the Group; or
- (iii) to the methodology for calculation of any Key Performance Indicator to reflect changes in the market practice or the relevant market standards (including the GHG Protocol),

which, individually or in aggregate, has a significant impact<sup>(10)</sup> on the level of any SPT or any KPI baseline (each, a "Recalculation Event"), the relevant Sustainability Performance Target may be recalculated in good faith by Valeo to reflect such change, provided that the Independent External verifier has independently confirmed that the proposed revision is consistent with the initial level of ambition of the relevant Sustainability Performance Target taking into account the Recalculation Event.

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<sup>(10)</sup> Change of at least 5% in the initial level of the SPTs or Baselines.




## Disclaimer

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