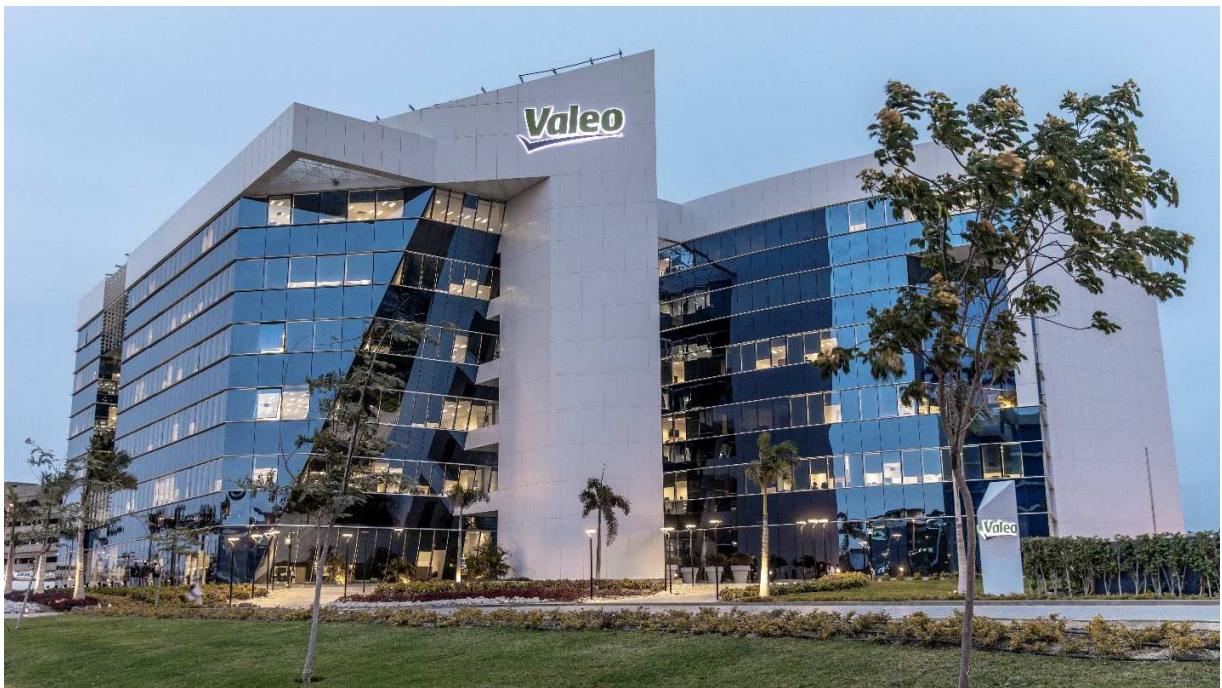




GREEN AND SUSTAINABILITY-LINKED FINANCING FRAMEWORK

20 July 2021



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 CO₂ 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 CO₂ 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, the two automotive market

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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, such as the European Union, automakers could be fined if they fail to meet CO₂ reduction targets. Automakers will need to increase massively their production of electrified cars (electric and hybrid) to avoid the payment of CO₂ emissions penalties.

In the same vein, cities across the world are also lining up as new regulators, adapting urban infrastructure and encouraging new mobility behaviors. At the same time, consumers are becoming increasingly open to electric vehicles. Therefore, 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. Valeo positions itself rightly in the heart of this first revolution thanks to its electrification expertise.

On the road to safer mobility solutions

In response to high community expectations on eliminating road accident fatalities and serious injuries, regulations are encouraging the emergence of new products and systems that ensure a safer mobility experience. 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

The expected increase in mobility needs by 2050 as measured in passenger-kilometers, the large proportion of short trips and the emergence of new modes of transportation, particularly in urban areas (scooters, electric bicycles, robotaxis, autonomous shuttles, delivery droids, etc.) are all generating new opportunities in the mobility market. As a result, 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

In 2010, the Group set up a Sustainable Development Department tasked with defining the Group's sustainable development policy and coordinating its implementation. Outside the Group, its role is to ensure the consistency of the messages shared with external stakeholders.



The department is jointly overseen by the Strategy Department and the Chairman and Chief Executive Officer.

In order to support the management of risks related to sustainable development themes - extra-financial risks - the Sustainable Development Department oversees a dedicated mapping and its annual review, jointly with the Department of Risk Management.

Since 2020, the Sustainable Development Department also steers the governance structure put in place to launch and monitor Valeo's Carbon Neutrality Plan to 2050. It aims to set annual objectives for the various contributing networks and to steer the deployment of the Carbon Neutrality Plan for 2050.












In addition, other Group functions, including Research and Development, Risk and Insurance, Health, Safety and Environment, Human Resources, Ethics and Compliance and Purchasing, also contribute to sustainable development at their level, and have developed their own tools for taking action and assessing performance.

A committee of the Board of Directors in charge of corporate social responsibility

The Governance, Appointments & Corporate Social Responsibility Committee has been given several responsibilities related to sustainable development, among which overseeing the gradual and increasing implementation of the CSR policy, and assessing the Group's contribution to sustainable development.

Sustainability-related Distinctions

Valeo's efforts in line with the ongoing transformations in mobility are regularly recognized by the key ESG rating agencies as a one of the best automotive suppliers in terms of non-financial performance. The Group also maintained its leadership position in the Dow Jones Sustainability (DJSI) World index for the fifth year in a row.

 	<p>In 2020, Valeo was ranked #1 among automotive suppliers, excluding tire manufacturers with a score of 76/100 by SAM (Corporate Sustainability Assessment)</p> <p><i>* excluding tire companies</i></p>
 	<p>In 2020, Valeo was ranked #1 among automotive suppliers with a score of AAA, classified in the "leader" category by MSCI Inc.</p>
 	<p>Valeo is ranked #1 among automotive suppliers, excluding tire manufacturers, with a score of B-, Prime, classified as "Industry leader" **</p> <p><i>* excluding tire companies</i></p> <p><i>** Status conferred by the rating agency in 2019</i></p>
 	<p>In 2020, Valeo was ranked #1 of automotive sector (i.e. auto equipment suppliers and manufacturers) in the new edition of the Corporate Knights ranking of the 100 largest global public companies in terms of sustainable development, replicating the performance achieved in 2019.</p>
	<p>In 2020, Valeo was recognized for leadership in corporate sustainability by global environmental non-profit CDP, securing a place on its prestigious 'A List' for tackling climate change. CDP has recognized Valeo for its actions to cut emissions, mitigate climate risks and develop the low-carbon economy, based on the data reported by the company.</p>
 	<p>In 2020, Valeo was ranked #1 of automotive suppliers with a "Negligeable Risk" rating by Sustainalytics.</p>



Valeo and the United Nations Sustainable Development Goals

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.



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 solutions for "safe, affordable, accessible and viable transport systems"

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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.

Valeo's sustainable development policy is built on the following four key pillars:

At Valeo, sustainable development is built on four key pillars: innovation, environmental eco-efficiency, employees and commitment to corporate citizenship. It pervades all the areas where Valeo interacts with stakeholders, both internally and outside the Group.

Innovation policy

Research and Development are central to Valeo's growth strategy and its identity as a technology company. The Group strives to develop new automotive technology and identify innovative solutions that both anticipate and meet market demands. It promotes intuitive and safer driving, and provides solutions for reducing emissions of greenhouse gases, such as CO₂ 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 their carbon impact well beyond the simple use phase. This approach aims

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to reduce CO₂ emissions, increase the recyclability of materials and systems and ensure that materials are safe.

Environmental policy at Valeo

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;
- 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.

Employee policy

Valeo owes its success to the men and women who work for it. The challenge for Valeo is therefore to build a common corporate culture that is rooted in sound values and geared towards the Group's industrial and commercial objectives. With regards to this challenge, the Group has identified four forms of commitment:

- safety and working conditions;
- attracting and retaining talent;
- promoting diversity;
- respecting and promoting fundamental rights.

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

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

More specifically, Valeo has set three directives for sustainability in the purchasing policy:

- quality and service, which aims to ensure optimal products, process and service quality;
- competitiveness, one of the key constraints in the automotive sector;

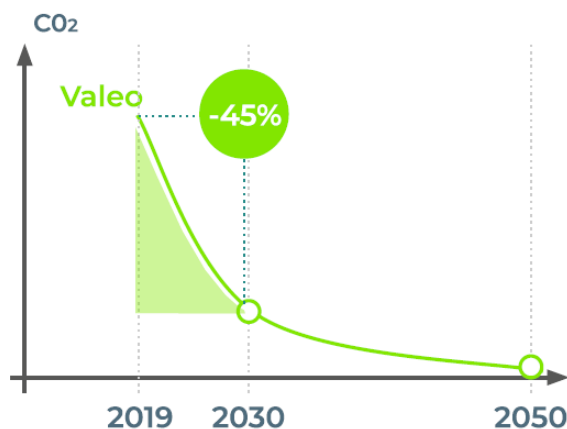


- innovation and advanced technology to support Valeo's strategic choices.

These three directives provide a framework for the goal of achieving sustainability in the purchasing policy. To do so, Valeo takes into account a wider range of risk factors with regards to its supply chain, known as sustainability factors. These factors integrate governance, social, environmental and fundamental rights dimensions. Valeo aims to boost suppliers' competitiveness by guiding them towards continuous improvement practices in terms of optimizing logistics and environmental costs or reducing energy costs. By applying a purchasing location policy at a regional level, Valeo also puts down deep roots in local ecosystems.

2.2. Towards carbon neutrality by 2050

Valeo signed the "Business Ambition for 1.5 ° C" commitment and aims to become carbon neutral by 2050



Valeo aims to become **carbon neutral by 2050**, across all of its operational activities and its supply chain globally (scopes 1 & 2 and upstream scope 3) and to full carbon neutrality in Europe (scopes 1, 2 & 3, including the end-use of its products).

On the journey to carbon neutrality, **2030 is an important and fast-approaching milestone**. By then, Valeo is committed to reducing its emissions across its entire value chain (scopes 1, 2 & 3) in absolute value from 49.6 million tons emitted in 2019 to 27.9 million tons in 2030, (i.e. a reduction of 21.7 million tons of CO₂ corresponding to -45% in 2030 compared to 2019), with an **intermediary target in 2025**.

The targets for reducing CO₂ emissions by 2030 will be achieved without any recourse to carbon offset actions. They are in line with the reduction necessary to maintain global warming at 1.5 °C, which is the highest level of ambition of the **Science Based Targets initiative (SBTi)** benchmark, in line with the Paris climate change Agreement. In this perspective, Valeo signed the "Business Ambition for 1.5 °C" commitment.



Valeo's Action plans to support the reduction of CO₂ emissions in all emission scopes

Energy Efficiency

By 2030, Valeo will invest more than 400 million euros to reduce emissions linked to its operational activities (scopes 1 and 2). The investments will notably enable the transformation of the Group's sites in order for the 100 most emitting sites of CO₂ to date to be ISO 50001 certified (energy management) and to position themselves as high efficiency sites energy in 2030 (ecological buildings, generalization of LEDs, heat recovery systems, etc.).

Low carbon energies

The share of low carbon energies in the Group's energy consumption will increase from 5.5% in 2019 to 80% in 2030, with an intermediary target of 50% in 2025. Several pilot sites are already committed to this path, such as the three Group sites in Chennai (India) where 90% of energy consumption comes from wind power, and the sites of Sanand (India) and Bad Rodach (Germany) which produce 30% and 20% of the energy they consume respectively through solar energy.

GHG emissions

Regarding its supply chain, Valeo sets its suppliers CO₂ emission reduction targets in line with its commitments. The use of low-emission materials will be increased and the consideration of CO₂ emissions will be integrated into the supplier's design specifications.

Innovation

To reduce CO₂ emissions linked to the end use of products, Valeo will continue to develop its portfolio of technologies promoting low-carbon mobility, in particular solutions for the electrification of vehicles. The Group will also continue its efforts to use lighter material or alternative technologies to reduce the mass of products.

Sustainable purchasing

Wishing to conduct targeted audit campaigns specific to purchasing segments or areas identified as critical or at risk, Valeo launched in 2016 a first audit campaign specific to the destination of electronics suppliers.

- During the years **2016 to 2018**, suppliers representing nearly 30% of component and system purchases electronics have been audited (semiconductor industry, manufacturers of electronic parts, on-board systems, etc.). In 2019, a second specific campaign focusing on suppliers in India and the countries of Southeast Asia was launched.



- During the year **2019**, Valeo selected 25 suppliers of various sizes and segments (including assembly, foundry and forge), which have been trained to Valeo's requirements and audited closely for half of them. This exercise is accompanied by a data verification methodology and face-to-face and shop floor audits on the environment, health and safety, the site's energy consumption, human rights, the ethics of commercial relations, social conditions of workers, diversity, understanding the technological roadmaps of Valeo as a customer to be satisfied.
- It was planned for the year **2020**, a follow-up, via audit campaign, corrective actions recommended in 2019. But the issues related to travel and activity slow-down have delayed this audit process in 2020.
- For the year **2021**, the assessment and audit process was revised taking into account the availability of digital tools and the mobilization of local teams, in order to relaunch a physical audit process of supplier sites.




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.



The Use of Proceeds Framework is aligned with the four pillars of the Green Bond Principles 2018 (“GBP”) published by the International Capital Markets Association (ICMA) and the Green Loan Principles 2020 (“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 Financing 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:

Eligible Categories	Green Sub-categories	Eligibility Criteria	Examples of Eligible Investments or Assets
Clean transportation   	Development of zero emission technologies	Investments or assets aiming at developing vehicles with zero tailpipe emissions: Full electric vehicles	<ul style="list-style-type: none"> Investments and financing associated with the development of innovative and affordable high-voltage components and systems for the entire range of on road electric vehicles Research and development of innovative technological advancements and supporting development of solutions for electric vehicles
	Development of hybrid technologies	Investments or assets aiming at developing hybrid technologies (such as 48V platform) used in particular for hybrid vehicles	<ul style="list-style-type: none"> Investments and financing associated with the development of innovative and affordable high-voltage and low-voltage components

			and systems for the entire range of on road hybrid vehicles
			<ul style="list-style-type: none"> Research and development of innovative technological advancements and supporting development of solutions for hybrid vehicles
	Smart mobility	Investments and assets dedicated to emergence of new modes of transportation, particularly in urban areas (e-scooters, e-bikes, robotaxis, autonomous shuttles, delivery droids, etc.). New surface modes using electric propulsion	<ul style="list-style-type: none"> Research and Development on the electric dimension and energy efficiency of the smart mobility solutions.
Renewable Energy	Renewable energy capacities	Investments aiming at developing the renewable energy capacities on Valeo sites (such as solar photovoltaic panels, etc.)	<ul style="list-style-type: none"> Investments in construction or maintenance services for photovoltaic panels, etc...
			
Renewable Energy	Renewable energy purchases	Investments in supply renewable electricity	<ul style="list-style-type: none"> Long term Renewable Energy Purchase Agreement
			
Energy Efficiency	Energy efficient Improvement of industrial processes	Investments and assets aiming at improving energy efficiency at production level	<ul style="list-style-type: none"> Investments and assets such as new electronics oven, heat recovery compressors, LED lighting in plants, eco-chilling devices to cool down buildings, etc...
			

	<p>Energy efficiency improvement of factories</p>	<p>Investments and assets aiming at developing:</p> <ul style="list-style-type: none"> ▪ New energy efficient factories; ▪ Renovation measures consisting in installation, maintenance or repair of energy efficiency equipment in existing factories 	<ul style="list-style-type: none"> ▪ Investments in construction or maintenance services in Valeo plants
	<p>Smart production</p>	<p>Investments and assets aiming at improving efficiency (energy, raw material, etc.) of production processes thought digitalization</p>	<ul style="list-style-type: none"> ▪ "Valeo's factory of tomorrow"

3.2. Process for Project Evaluation and Selection

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 Green Projects.

The working group will meet on an annual basis to review the portfolio of Eligible Green Projects and decide on the inclusion of any new projects eligible for financing via a Green Financing Instrument. The working group will monitor exclusions of any project if any Green Eligible Projects exit the Eligible Project Portfolio or when the working group decides to remove a Green Eligible Project from the Eligible Project Portfolio if such project no longer meets the eligibility



criteria, or if the working group identifies the occurrence of a material controversy associated with one Green Eligible Project

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 financings that are launched after the issuance of a new Second-Party Opinion.

3.3. Management of Proceeds

The net proceeds of any Green financing 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.

Treasury will establish 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 financing, including the amount of allocation per Eligible Projects Category.

For Bond issuances:

- In case of refinancing, disbursements related to Eligible Projects made in the 3 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.

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.

3.4. Reporting:

In alignment with the company's transparency and commitment to publicly report on allocation and impact, Valeo will provide an Investor Report on an annual basis until proceeds are fully allocated.



3.4.1. Allocation Reporting

The report will include:

- The aggregate amount of allocation of the net proceeds to the Eligible Green Projects at the category level;
- The proportion of net proceeds used for financing vs. refinancing; and
- 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.

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.

Eligible Categories	Green Sub-categories	Potential impact indicators
Clean transportation	Development of zero emission technologies	▪ Estimated CO₂ emission saved
	Development of hybrid technologies	▪ Estimated CO₂ emission saved
	Smart mobility	▪ Estimated CO₂ emission saved
Renewable Energy	Renewable energy capacities	▪ Volume of renewable energy produced (MWh/year) ▪ Estimated CO₂ emission saved
	Renewable energy purchases	▪ Volume of renewable energy purchased (MWh/year) ▪ Estimated CO₂ emission saved
Energy Efficiency	Energy efficient Improvement of industrial processes	▪ Estimated energy saved (MWh/year) ▪ Estimated CO₂ emission saved
	Energy efficiency improvement of factories	▪ Estimated energy saved (MWh/year) ▪ Estimated CO₂ emission saved
	Smart production	▪ Estimated energy saved (MWh/year) ▪ Estimated CO₂ emission saved



3.5. External Verification

Valeo has appointed ISS ESG to provide a Second Party Opinion on the Sustainable Finance Framework, its transparency, governance and alignment with the GBP, the GLP and SLBP as detailed in Section 5.

Verification of the Reporting will be conducted by Valeo's external auditor and made publicly available. The external auditor will verify that the proceeds of the bonds are either allocated to Eligible Projects or invested in approved financial instruments.



4. SUSTAINABILITY-LINKED 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 Bonds ("SLB") in addition to Green Financing Instruments. As forward-looking performance-based instruments, SLBs 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. SLBs 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 bonds 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 SLBs, 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 2020 ("SLBP") as published by ICMA.

For all SLBs, Valeo affirms that it will adopt the following:

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

4.1. Selection of Key Performance Indicators

SLBs may be tied to one or more KPIs, as seen fit for particular transactions and company initiatives. These KPIs are:

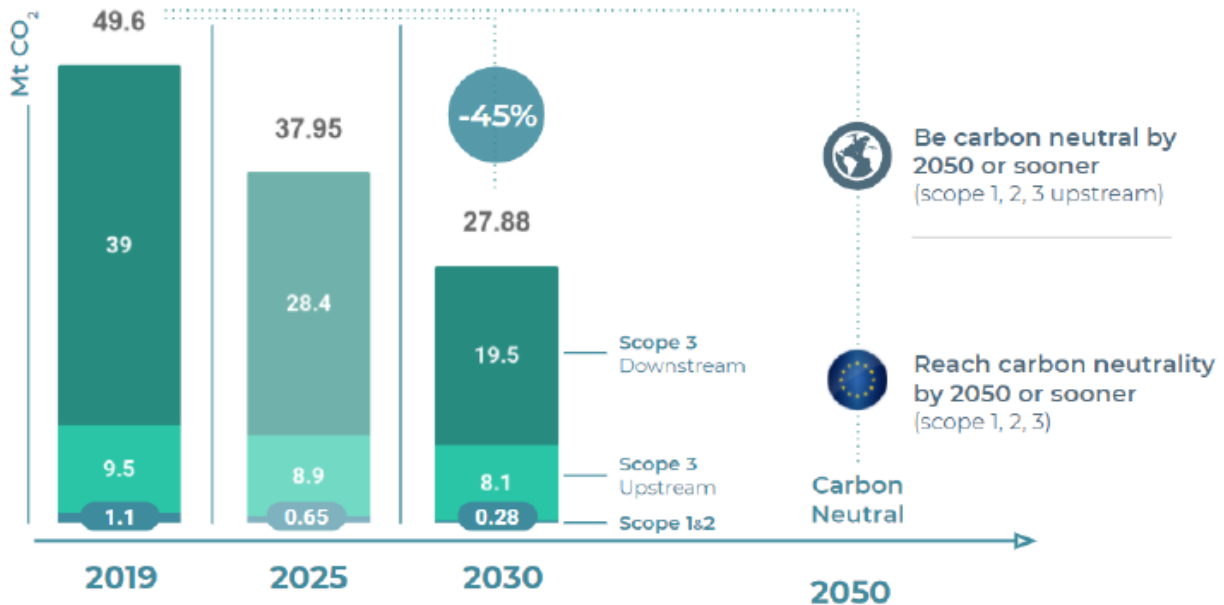
- 1.1. Relevant, core and material to Valeo's overall business, and aligned with the company's overall business and future operations.
- 1.2. Measurable or quantifiable on a consistent methodological basis;
- 1.3. Externally verifiable by Valeo's independent auditor; and



1.4. Able to be benchmarked to Valeo's own performance [and, to a certain extent, taking into account differences in scale and methodology with peers in the sector average]

4.1.1. Climate-related KPI

This first KPI is directly based on the Valeo commitments to carbon neutrality by 2050 and its 2030 decarbonation trajectory approved by the **SBTi** (see Section 2.2 Towards carbon neutrality 2050).



KPI 1: Valeo's total carbon footprint (Scopes 1, 2 & 3)

KPI 1 is structured under the following parameters:

- Measurement of Valeo's carbon footprint across all of its operational activities, its supply chain and use of products (Scopes 1, 2 & 3) includes:
 - 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 VOCs incinerators and direct fugitive emissions relating to refrigerant leaks;
 - Indirect GHG emissions: associated with energy consumption, related to the consumption of electricity, steam, compressed air and other sources;
 - Indirect GHG emissions linked to the purchase of materials used in industrial processes (steel, aluminum, copper, zinc, plastics, electronic components, chemicals and packaging);
 - Indirect GHG emissions related to the use of products.



- Other indirect GHG emissions (scope 3) regarded as not material are:
 - o Emissions related to waste management in the relevant channels;
 - o Emissions from Valeo's assets used with third parties (e.g. loans of molds to suppliers);
 - o Emissions from energy production (e.g. extraction of gas or fuel oil);
 - o Emissions from the installation of our products in vehicles by automakers;
 - o Emissions related to the processing of end-of-life products;
 - o 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:
 - o emissions related to the upstream transport of goods and raw materials;
 - o emissions from employee travel (commuting and business trips).

Methodology applied for KPI 1:

- Valeo's approach is based on a set of 2 calculations:
 - i) Fulfilling the requirements of SBTi by 2030 of the baseline of scopes in 2019 for the entire portfolio of solutions of Valeo.
 - -75% scope 1+ scope 2
 - -15% scope 3 upstream
 - -15% scope 3 downstream (through 2 major levers : lightweight and efficiency of the Valeo products themselves)

Valeo is one of the few global suppliers setting targets for its overall portfolio of scopes and total perimeter of footprint and products.

ii) Despite the lack of existing methodology by SBTi for automotive suppliers calculation of scope 3 downstream in their use phase, with the help of Emisia (laboratory spin off of Thessaloniki University, official reviewer for emissions calculations of the EU Commission DG Clima), Valeo has nevertheless set up a methodology to calculate the net avoided emissions for the vehicles in which Valeo contributes directly through the use of its sold technologies in place in the



vehicles: the targeted avoided emissions correspond to -50% by 2030.

This approach evaluates the level of emission of Valeo's different products, 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.

Valeo has started a constructive dialogue with SBTi on how to integrate a methodology to take in account net avoided emissions of the vehicles.

- All Scope 1, 2 & 3 emissions reported are reviewed and validated by an external auditing firm, in the framework of the annual extra-financial legal data reporting (under French law).

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).

Global Sustainability approach for suppliers.

- Perimeter: Valeo's suppliers
- The Group's purchases can be divided into six main components or systems, referred to as commodities:
 - o steel and processing,
 - o non-ferrous metals and processing,
 - o plastics and processing,
 - o electronic components and systems,
 - o electromechanical components
 - o and indirect purchases.
- 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:

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- o 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).
- o Qualitative qualification requirements:
 - 90% of the mandatory items in the supplier qualification questionnaire relate to non-economic criteria;
 - 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.
- o Double layer process:
 - SAQ (Valeo Pre-Evaluation Questionnaire)
 - Audit process (Evaluation)

This KPI is structured under the following parameters:

- Sustainability Assessment (i.e. for KPI 2): 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.).
- As part of the assessment mechanism of suppliers, Valeo reviews its suppliers' policies and achievements on the following requirements:
 - o Governance: own supplier code of conducts, clear governance structure, global annual CSR / sustainability review process at higher management level;
 - o Health & Safety: OHSAS 18001 certification (or equivalent), safety sprinklers, trainings;
 - o Environmental management: ISO 14001 management (or equivalent), zero accident policy;
 - o Human rights: no child labor (and associated policies and actions to prevent it), no forced and bound labor diversity commitment;
 - o Supplier management: engagement with supplier's own lower tiers suppliers (engagement proof, clear set of requirements, actions checks).



4.2. Calibration of Sustainability Performance Targets (SPTs)

The SPTs will be calibrated from Valeo's Sustainability Strategy outlined in Section 2 of the Framework, which currently aims to reach carbon neutrality by 2050 and includes an intermediary step of a 45% reduction in GHG emissions by 2030 as compared to a 2019 baseline.

SPTs for KPI 1

SPTs related to KPI 1 for any specific SLB will vary based on the maturity of the instrument but will be calibrated off the 2025 and 2030 emissions reduction targets:

• Intermediary Reduction Target: 37.95 million CO₂eq tons in 2025

For information purposes only, Valeo intends to pursue the following objectives, on a best efforts basis, to achieve this intermediary reduction target

- o Reduction in CO₂eq emissions (scope 1 & 2) from 1.1 million tons emitted in 2019 to 0.65 million tons in 2025
- o Reduction in CO₂eq emissions (scope 3 upstream) from 9.5 million tons emitted in 2019 to 8.9 million tons in 2025
- o Reduction in CO₂eq emissions (scope 3 downstream) from 39 million tons emitted in 2019 to 28.4 million tons in 2025 (including electrification portfolio)

• 2030 Reduction Target: 27.88 million CO₂eq tons in 2030

For information purposes only, Valeo intends to pursue the following objectives, on a best efforts basis, to achieve this 2030 reduction target

- o Reduction in CO₂eq emissions (scope 1 & 2) from 1.1 million tons emitted in 2019 to 0.28 million tons in 2030
- o Reduction in CO₂eq emissions (scope 3 upstream) from 9.5 million tons emitted in 2019 to 8.1 million tons in 2030
- o Reduction in CO₂eq emissions (scope 3 downstream) from 39 million tons emitted in 2019 to 19.5 million tons in 2030 (including electrification portfolio)

The external reviewer has confirmed that these reduction targets are ambitious and Valeo has clearly demonstrated the means by which it intends to meet them.

Any SLB issued with a new SPT reduction target and calculation date for KPI 1 will be accompanied by Second Party Opinion to confirm the coherence of the level of ambition of the SPTs as they relate to Valeo's commitments outlined above to reduce GHG emissions.



SPTs for KPI 2

In 2020, the share of production purchases from which suppliers are subject to the evaluation of their sustainable development sustainable amounted to 80%.

- **2025 Target:** Valeo targets to increase the amount of its purchases from which suppliers are subject to the evaluation of their sustainable development practices to 82% by 2025 (and 81% in 2021).

It is noteworthy to specify that Valeo has a massive suppliers base with more than 6000 suppliers. 90% of Valeo's purchasing volume represents around 1200 suppliers. Since the year 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.

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. Valeo does not exclude to envisage the validation by a third party evaluator, when or if needed. 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.

The external reviewer has confirmed that this target is ambitious and Valeo has clearly demonstrated the means by which it intends to meet it.

4.3. Bond Characteristics

Unless otherwise stated, proceeds of any SLB will be used for general corporate purposes.

Valeo intends to assign financial and/or structural implications for the non-achievement of the SPT within the legal documentation for any prospective SLB. These implications could include, but are not limited to, a coupon-step up or a premium at maturity (higher repayment amount).

For any SLBs where a coupon step-up may occur:

- Each SLB 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.

Any adjustments to the aforementioned characteristics will be commensurate and meaningful relative to the original bond's characteristics.

The exact mechanism and impacts of the achievement or failure to reach the predefined SPTs will be detailed for each bond in the pre-issuance note (for example within an investor presentation). Such documents will detail the KPI definition, calculation methodologies, SPTs and trigger events, structural/financial characteristic adjustment mechanisms, as well as where needed any fallback mechanisms in case the SPTs cannot be calculated or observed in a satisfactory manner, and language to take into consideration potential exceptional events or extreme events, including drastic changes in the regulatory environment that could substantially impact the calculation of the KPI or the restatement of the SPT.

4.4. Reporting

Valeo will disclose the performance of the selected KPI(s) on an annual basis within the sustainability report included in the Valeo's Universal Registration Document, which will be made available by the end of April of each calendar year and will include information on potential drivers of the KPI outcomes. Further, Valeo will report on the performance of each KPI as it relates to its associated predefined SPT at the Target Observation Date.

Regarding the KPI 1, Valeo is committed to report separately on the Valeo's CO₂ emissions following the SBTi methodology and the Valeo's own methodology including the benefit from CO₂ emission gains thanks to Valeo's technologies.

For each SLB, Valeo will disclose the following as part of the SLB legal documentation:

- A SPT Target Observation Date, where Valeo's performance of each KPI will be observed and measured against each respective predefined SPT; and
- A SPT Notification Date, where Valeo will notify and report the actual performance as it relates to the selected SPT.



4.5. Verification

Verification of the annual performance on the KPIs will be conducted to a reasonable assurance by Valeo's external auditor and will be made publicly available.

The external auditor will provide a reasonable assurance on Valeo's performance to the designated KPIs annually. This verification will be posted on the Company's website by the end of April of each calendar year.

Furthermore, the external auditor will issue a Compliance Certificate on the achievement of the SPT by the end of April following the SPT observation date.



5. EXTERNAL REVIEW

Valeo has appointed ISS ESG to provide a Second Party Opinion on the Sustainable Financing Framework, its transparency, governance and alignment with the GBP, the GLP and SLBP.

ISS ESG has also confirmed the relevance, coherence and materiality of the selected KPIs and the ambition of associated SPTs.

In the event that additional indicators are added in the future, this Framework will be updated accordingly and Valeo commits to update the Second Party Opinion whenever this Framework is updated.

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



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