

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green and Sustainability-linked Financing Framework

Valeo SE
10 June 2021

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">• Green Bonds, Green Loans and Sustainability-Linked Bonds
Relevant standards	<ul style="list-style-type: none">• Green Bond Principles and Sustainability-Linked Bond Principles administered by the International Capital Market Association (ICMA) and Green Loan Principles published by the Loan Market Association (LMA)
Scope of verification	<ul style="list-style-type: none">• Valeo's Green and Sustainability-linked Financing Framework (as of April 2021)
Lifecycle	<ul style="list-style-type: none">• Pre-issuance verification
Validity	<ul style="list-style-type: none">• As long as the Green and Sustainability-linked Financing Framework remains unchanged

CONTENTS

SCOPE OF WORK.....	3
ISS ESG SPO ASSESSMENT	6
PART I: GREEN AND SUSTAINABILITY-LINKED FINANCING FRAMEWORK’S LINK TO VALEO’S SUSTAINABILITY STRATEGY	6
A. ASSESSMENT OF VALEO’S ESG PERFORMANCE	6
B. CONSISTENCY OF GREEN BOND WITH VALEO’S SUSTAINABILITY STRATEGY	8
PART II: ALIGNMENT WITH RELEVANT PRINCIPLES	10
A. GREEN BOND PRINCIPLES AND GREEN LOANS PRINCIPLES.....	10
B. SUSTAINABILITY-LINKED BOND PRINCIPLES	14
PART III: SUSTAINABILITY QUALITY OF THE USE OF PROCEEDS CATEGORIES	17
A. CONTRIBUTION OF THE GREEN BOND TO THE UN SDGS	17
B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE SELECTION CRITERIA	18
KPI 1: Valeo’s total carbon footprint (Scopes 1, 2 & 3).....	19
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)	27
ANNEX 1: Methodology	33
ANNEX 2: ISS ESG Corporate Rating Methodology.....	34
ANNEX 3: Quality management processes	37
About ISS ESG SPO	38

SCOPE OF WORK

Valeo SE (“Valeo” or “the issuer”) commissioned ISS ESG to assist with its Green and Sustainability-linked Financing Framework, which includes both Green Bonds, Green Loans and Sustainability-Linked Bonds, or a combination of thereof, by assessing four core elements to determine the sustainability quality of the instruments:

1. Green and Sustainability-linked Financing Framework’s link to Valeo’s sustainability strategy – drawing on Valeo’s overall sustainability profile and issuance-specific Use of Proceeds categories.
2. Valeo’s Green and Sustainability-linked Financing Framework (April 2021 version) – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBPs) & Sustainability-Linked Bond Principles (SLBPs), and against the Loan Market Association’s (LMA) Green Loan Principles (GLPs).
3. The Use of Proceeds selection criteria – whether the projects contribute positively to the UN SDGs and perform against ISS ESG’s issue-specific key performance indicators (KPIs) (See Annex 2).
4. The sustainability credibility of the KPIs selected and Sustainability Performance Target (SPT) calibrated for Sustainability-Linked Transactions – whether the KPIs selected are core, relevant and material to the issuer’s business model and sector and whether the associated targets are ambitious.

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
<p>Part 1:</p> <p>Green and Sustainability-linked Bond link to issuer's sustainability strategy</p>	<p>According to the ISS ESG Corporate Rating published on 18.05.2020, the issuer shows a high sustainability performance against the industry peer group on key ESG issues faced by the Auto Components sector. The issuer is rated 4th out of 80 companies within its sector.</p> <p>The Use of Proceeds categories, KPIs and SPTs defined through this framework are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing Green and Sustainability-linked Bonds is clearly described by the issuer.</p>	<p>Consistent with issuer's sustainability strategy</p>
<p>Part 2:</p> <p>Alignment with GBPs, SLBPs and GLPs</p>	<p>The issuer has defined a formal concept for its Green and Sustainability-linked Financing Framework regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA Green Bond Principles and with LMA Green Loan Principles. The issuer has defined a formal framework for its Sustainability-Linked Securities regarding the selection of KPI, calibration of Sustainability Performance Target (SPT), sustainability-linked securities characteristics, reporting and verification. The framework is in line with the ICMA Sustainability-Linked Bond Principles (SLBPs). Valeo's inaugural Sustainability-Linked Bond is linked to KPI 1 only.</p>	
<p>Part 3:</p> <p>Sustainability quality of the Use of Proceeds selection criteria</p>	<p>The overall sustainability quality of the selection criteria in terms of sustainability benefits and risk avoidance and minimisation is good based upon the ISS ESG assessment. The Green and Sustainability-linked Financing Framework will (re-)finance Eligible Project categories which include technologies for electric vehicles and hybrid vehicles, solar power, purchasing of renewable electricity, and energy-efficient improvements of factories and industrial processes. Those use of proceeds categories have a positive contribution to SDGs 7 'Affordable and Clean Energy' and 13 'Climate Action' according to ISS ESG proprietary methodology. The environmental and social risks associated with those use of proceeds categories have been well managed.</p>	<p>Positive</p>
<p>Part 4:</p> <p>KPI selection and SPT calibration for Sustainability-Linked Transactions</p>	<p>KPI 1² selection: Material to issuer's business model and sustainability profile</p> <p>Sustainability Performance Target 1 (SPT)³ calibration:</p> <ul style="list-style-type: none"> • Ambitious against issuer's past performance. • Ambitious against issuer's sectorial peer group. • Ambitious against Paris Climate Goals. <p>The KPI selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material scope of Valeo's operations and activities.</p>	

¹ ISS ESG's evaluation is based on Valeo's Green and Sustainability-linked Financing Framework (April 2021 version), and on the ISS ESG Corporate Rating applicable at the SPO delivery date (updated on the 18.05.2020).

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

³ SPT 1: Valeo's total carbon footprint (Scopes 1,2 & 3) is lower or equal to 37.95 million CO₂ eq. tons in 2025. Valeo's total carbon footprint (Scopes 1,2 & 3) is lower or equal to 27.88 million CO₂ eq. tons in 2030.

The SPT calibrated by Valeo's is ambitious compared to the issuer's past performance, compared to Auto components sector practices in terms of GHG emissions reduction targets and is in line with the Paris Agreement and with a 1.5°C warming scenario according to the absolute contraction methodology established by the SBTi. The issuer has developed a carbon reduction target (Scopes 1, 2 & 3), with data being reviewed annually by an independent third party under French law on ESG data reporting and transparency. Regarding the target setting, the issuer has set up a target based on SBTi target setting, but also integrating additional CO₂ gains originating from the avoided emissions from its products for the Scope 3 emissions (so far, integration of avoided emissions are not part of SBTi target setting guidelines). The calculation is based on methodology established in the industry and the targets were validated by the SBTi. In term of magnitude, the SPT belongs to the top tier companies in the Auto component sector as per ISS ESG Universe. Only one company has set more ambitious targets in terms of yearly reduction targets. The target is set in a clear timeline, is benchmarkable and supported by a credible strategy and action plan.

KPI 2⁴ selection: Material to issuer's business model and sustainability profile.

Sustainability Performance Target 2 (SPT)⁵ calibration:

- Ambitious against issuer's past performance
- Ambitious against issuer's sectorial peer group
- Ambitious against national standards

The KPI selected is relevant, core and material to the issuer's business model. It is appropriately measurable, quantifiable, externally verifiable but benchmarkable only to a limited extent as companies in the sector do not systematically report on this KPI. The SPT calibrated by Valeo is ambitious against the issuer's past performance and compared to Auto Component sector in terms of defining sustainable development practices for suppliers. According to ISS ESG data, Valeo is one of three out of 108 companies in the Auto Component Industry to achieve the highest suppliers' rating score as per ISS ESG methodology. Hence it belongs to the top 2.7% tier of its sector in terms of achieving the highest rating on this indicator. ISS ESG finds that assessing KPI 2 is ambitious against the French legal framework "duty of care" ("devoir de vigilance"). Valeo goes beyond the required legal framework established by the French government, especially on topics related to Climate and Carbon issues. Furthermore, the SPT achievement would have a positive contribution to the SDG 13 "Climate action".

⁴ 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).

⁵ SPT 2: 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).

ISS ESG SPO ASSESSMENT

PART I: GREEN AND SUSTAINABILITY-LINKED FINANCING FRAMEWORK'S LINK TO VALEO'S SUSTAINABILITY STRATEGY

A. ASSESSMENT OF VALEO'S ESG PERFORMANCE

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments.

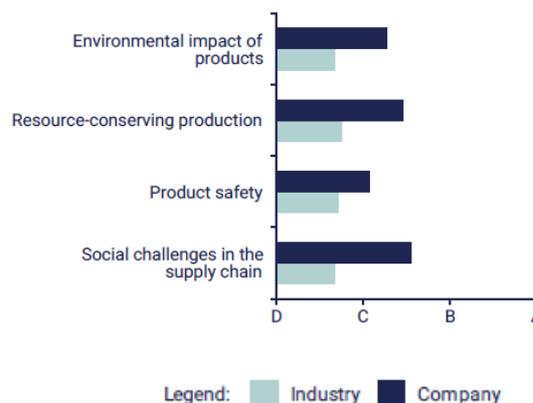
COMPANY	SECTOR	DECILE RANK	TRANSPARENCY LEVEL
VALEO	AUTO COMPONENTS	1	VERY HIGH

This means that the company currently shows a high sustainability performance against peers on key ESG issues faced by the Auto Components sector and obtains a Decile Rank relative to industry group of 1, meaning that the issuer holds a status of Prime, given that a decile rank of 1 indicates highest relative ESG performance out of 10.

ESG performance

As of 10.06.2021, this Rating places Valeo 4th out of 80 companies rated by ISS ESG in the Auto Components sector.

Key challenges faced by companies in terms of sustainability management in this sector are displayed in the chart on the right, as well as the issuer's performance against those key challenges in comparison to the average industry peers' performance.



Sustainability Opportunities

By implementing new technologies, like alternative drive systems, Valeo contributes to the reduction of energy and fuel consumption of vehicles. The company takes the use phase of its products into account, which represents about 90 per cent of the products' environmental footprint. Furthermore, Valeo aims at increasing the energy efficiency of its products, i.e. reducing fuel consumption of vehicles. The group invests in the development of hybrid and electric vehicle components and more energy-efficient combustion engines. Various examples of and information regarding relevant products, such as engine air circuit management solutions, are available. The company also reports on the amounts of energy savings and/or CO2 reductions achieved.

Sustainability Risks

Automotive suppliers such as Valeo are exposed to a number of social and environmental risks, including violations of labor and human rights in the supply chain, health and safety aspects of products, as well as the issue of life cycle assessment including recycling of products, and efficient raw material use in production. Valeo has implemented comprehensive health and safety management

systems covering all its employees. 92% of production sites are certified to an international standard (ISO 45001 or OHSAS 18001) and the positive trend of a falling accident rate can be considered as evidence that the systems are effective. Furthermore, the company has issued a comprehensive code of conduct for suppliers, which has to be signed by them. In addition, Valeo is in the process of expanding measures to control its standards, for example by using audits. Valeo offers various products which increase the safety of vehicles and passengers, for example electronic driving assistance systems. In product development, the company considers environmental impacts from products across the entire product life cycle, from the design phase through to end-of-life disposal. Efficient material use in production processes appears to be a central concern for Valeo, as evidenced by its commitment to a circular economy in some areas of production. In this regard, measures which facilitate an optimization of material efficiency, such as the integration of recycled materials, have been implemented. Furthermore, there is a comparatively good strategy regarding the use, reduction, and substitution of substances of concern.

Governance opinion

The company has established a corporate governance structure which exhibits only few insufficiencies. Nearly 85% of the members of the board of directors are considered independent, ensuring effective supervision of the company's business decisions (as at May 6, 2021). CEO Jacques Aschenbroich serves as board chair and therefore cannot be considered independent. The board has established predominantly independent committees overseeing audit, remuneration, and nomination matters. Compensation is disclosed for members of the executive management team as a whole and the CEO individually and includes fixed and variable components.

With regard to its governance of sustainability, Valeo has established an independent board committee tasked with the supervision of ESG matters. Furthermore, sustainability performance objectives are to a certain extent integrated into the variable remuneration of the CEO. The company's code of conduct provides in-depth information and covers the most important aspects of fair business conduct, including corruption, antitrust violation and conflicts of interest. Reasonable measures have been implemented to ensure fair business practices.

Sustainability impact of products and services portfolio⁶

Using a proprietary methodology, ISS ESG assessed the contribution of Valeo's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along Valeo's production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE	DIRECTION OF IMPACT	UN SDGS
Driving assistance systems	20%	CONTRIBUTION	

⁶ At the time of publication of this SPO, the latest sustainability impact of products and services of the portfolio was not reflecting recent development. Therefore, the assessment below has been amended to reflect the latest data. This data was provided by Valeo.

Specialized parts and systems for electric drives, LEDs	59%	CONTRIBUTION	
Combustion engine-related parts	6%	OBSTRUCTION	

Breaches of international norms and ESG controversies

The company is not facing any controversy.

B. CONSISTENCY OF GREEN BOND WITH VALEO’S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the issuer

For nearly 30 years, Valeo has been committed to limiting the impact of its activities on the environment. The company builds its sustainable development strategy on innovation, environmental eco-efficiency, social responsibility and commitment to corporate citizenship.

Valeo has an ambitious sustainability strategy. The company has committed to achieving carbon neutrality by 2050 and plans to reach 45% of its objective by 2030. By 2030, emissions are planned to have decreased by 45% across the entire value chain – including the emissions from suppliers, own operating activities and the end use of products – compared with 2019. By 2050, Valeo is expecting to have achieved carbon neutrality for the entirety of operating activities and across the entire supply chain worldwide and will be 100% carbon neutral (including the end use of products) in Europe. The targets for reducing CO₂ emissions by 2030 will be achieved without any recourse to carbon offset actions.

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.

Valeo’s social policy is structured on three pillars: anti-corruption and compliance policies, a commitment to ecosystems and local populations where it operates, and the fulfillment of sustainable development requirements with regard to suppliers.

Rationale for issuance

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, as well as Sustainability-linked instruments. The projects financed under the framework, aimed at reducing CO₂ emissions and at improving energy efficiency in a variety of sectors, are in line with the overall company sustainability strategy. Valeo’s efforts, in line with the ongoing transformations in mobility, are recognized by key ESG rating agencies as a one of the main automotive suppliers in terms of non-financial performance.

Contribution of Use of Proceeds categories to sustainability objectives and priorities

ISS ESG mapped the Use of Proceeds categories and KPIs financed under this Green Bond with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Auto Components sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY & KPIs	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Clean transportation	✓	✓	Contribution to a material objective
Renewable Energy	✓	✓	Contribution to a material objective
Energy efficiency	✓	✓	Contribution to a material objective
KPI 1 ⁷	✓	✓	Contribution to a material objective
KPI 2 ⁸	✓	✓	Contribution to a material objective

Opinion: *ISS ESG finds that the Use of Proceeds financed through this Green and Sustainability-linked Financing Framework and KPIs selected for Sustainability-linked transactions are consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry. The rationale for issuing Green Bonds and Sustainability-linked Bonds is clearly described by the issuer.*

⁷ KPI 1: Valeo’s total carbon footprint (Scopes 1, 2 & 3).

⁸ 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).

PART II: ALIGNMENT WITH RELEVANT PRINCIPLES

A. GREEN BOND PRINCIPLES AND GREEN LOANS PRINCIPLES

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 CATEGORY	ELIGIBILITY CRITERIA
Clean Transportation	<p><u>Development of zero emission technologies</u></p> <ul style="list-style-type: none"> - Investments or assets aiming at developing vehicles with zero tailpipe emissions: <ul style="list-style-type: none"> • full electric vehicles <p><u>Development of hybrid technologies</u></p> <ul style="list-style-type: none"> - Investments or assets aiming at developing hybrid technologies (such as 48V platform) used in particular for hybrid vehicles <p><u>Smart mobility</u></p> <ul style="list-style-type: none"> - 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
Renewable Energy	<p><u>Renewable energy capacities</u></p> <ul style="list-style-type: none"> - Investments aiming at developing the renewable energy capacities on Valeo sites (solar photovoltaic panels, for instance) - Investments in supply renewable energy
Energy Efficiency	<p><u>Energy efficient improvement of industrial processes</u></p> <ul style="list-style-type: none"> - Investments and assets aiming at improving energy efficiency at production level <p><u>Energy efficiency improvement of factories</u></p> <ul style="list-style-type: none"> - Investments and assets aiming at developing new energy efficient factories and renovation measures consisting in installation, maintenance or repair of energy efficiency equipment in existing factories

In case of refinancing, disbursements related to Eligible Projects made in the three calendar years prior to the issuance may be allocated to the Bonds.

Opinion: ISS ESG considers the Use of Proceeds description provided by Valeo's Green and Sustainability-Linked Financing Framework as aligned with the GBPs and the GLPs. Environmental and social benefits are clearly defined. The expected lookback period is also defined in line with best market practices.

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, Research and Development (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 Workinggroup, 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.

Opinion: ISS ESG considers the Process for Project Evaluation and Selection description provided by Valeo's Green and Sustainability-Linked Financing Framework as aligned with the GBPs and the GLPs. Valeo involves various stakeholders in the process of project evaluation, in line with market best practices. The company also has a defined process to continuously identify and manage potential ESG risks in case of controversy.

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.

Valeo's 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. 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.

Opinion: ISS ESG considers the Process for Management of Proceeds description provided by Valeo’s Green and Sustainability-Linked Financing Framework as aligned with the GBPs and the GLPs. The company commits to track an amount equivalent to the one of net proceeds and to allocate it within two years. Additionally, Valeo clearly defines the types of investment instruments for unallocated proceeds.

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.

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

ELIGIBLE PROJECT CATEGORIES	ELIGIBLE PROJECT CATEGORIES	IMPACT INDICATORS
Clean transportation	<ul style="list-style-type: none"> • Development of zero emission technologies • Development of hybrid technologies • Smart mobility 	<ul style="list-style-type: none"> • Estimated CO₂ emission saved
Renewable Energy	<ul style="list-style-type: none"> • Renewable energy capacities • Renewable energy purchases 	<ul style="list-style-type: none"> • Volume of renewable energy produced (MWh/year) • Estimated CO₂ emission saved
Energy Efficiency	<ul style="list-style-type: none"> • Energy efficient Improvement of industrial processes • Energy efficiency improvement of factories • Smart production 	<ul style="list-style-type: none"> • Estimated energy saved (MWh/year) • Estimated CO₂ emission saved

policy, including in cash or cash equivalents, or in other liquid marketable instruments.

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.

Opinion: *ISS ESG considers that the reporting provided by Valeo's Green and Sustainability-Linked Financing Framework is aligned with the ICMA Green Bond Principles and the LMA Green Loan Principles. Furthermore, Valeo included impact indicators to measure the positive impact of its activities, in line with best market practices. The company also commits to have an external auditor verify the reporting, which will be publicly available.*

External review

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.

B. SUSTAINABILITY-LINKED BOND PRINCIPLES

Rationale for Framework

FROM VALEO'S 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 above, to capture on a forward-looking basis, all the transition levers Valeo is undertaking to achieve its transition strategy.

Opinion: ISS ESG considers the Rationale for Issuance provided by Valeo as aligned with the Sustainability-Linked Bond Principles (SLBPs). The issuer has created and committed to publicly disclose the first framework of its kind in a comprehensive and credible manner.

2.1. Selection of KPI

ISS ESG conducted a detailed analysis of the sustainability credibility of the KPIs' selection available in Part III of this report.

Opinion: ISS ESG finds that the KPIs selected are core, relevant and material to the issuer's business model and consistent with its sustainability strategy (detailed analysis has been conducted in the [section 1 of this report](#)). The definition of applicable scope and the perimeter for the KPIs are provided. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material scope of the operations and activities of Valeo.

2.2. Calibration of Sustainability Performance Target (SPT)

ISS ESG conducted a detailed analysis of the sustainability credibility of the SPTs. It is available in Part III of this report.

Opinion: ISS ESG considers the Calibration of the SPTs description provided by Valeo as aligned with the SLBPs. ISS ESG finds that SPT 1 calibrated by Valeo is ambitious against the company's past performance, compared to Auto components sector practices in terms of GHG emissions reduction targets, and committed to be in line with the Paris Agreement and with a 1.5 ° Celsius warming scenario according to the absolute contraction methodology established by the SBTi. The baseline year has been verified by an external verifier. The issuer has developed a carbon reduction target (Scopes 1, 2 & 3), with data being reviewed annually by an independent third party under French law on ESG data reporting and transparency. Regarding the target setting, the issuer has set up two targets, one following SBTi target setting guidelines (and validated by SBTi), and a second one integrating additional CO2 gains originated from the avoided emissions from its products for the Scope 3 emissions (so far, integration of avoided emissions are not part of the SBTi target setting guidelines).

For both targets, the calculation is based on methodologies established in the industry. In term of magnitude, the SPT belongs to the top tier companies in the Auto component sector as per ISS ESG Universe. Only one company has set more ambitious targets in terms of yearly reduction targets.

(detailed analysis has been conducted in the [section 3 of this report](#)). The target is set in a clear timeline, is benchmarkable and supported by a credible strategy and action plan.

Regarding SPT 2, ISS ESG finds that the SPT calibrated by Valeo is ambitious against the company's past performance and compared to Auto Component sector practices in terms of defining sustainable development practices for suppliers. According to ISS ESG data, Valeo is one of three out of 108 companies in the Auto Component Industry to achieve the highest suppliers' rating score as per ISS ESG methodology. Hence it thus belongs to the top 2.7% tier of its sector in terms of achieving the highest rating on this indicator. Furthermore, due to a lack of established standardized international supply chain standards, ISS ESG could not benchmark the KPI in order to showcase the ambitiousness of the SPT against international targets. However, the SPT achievement would have a positive contribution to the SDG 13 "Climate action".

2.3. Sustainability-Linked Securities Characteristics

FROM VALEO'S FRAMEWORK

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.

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.

Opinion: ISS ESG considers the Sustainability-Linked Securities Characteristics description provided by Valeo as aligned with the SLBPs. The issuer gives a detailed description of the potential variation of the financial characteristics of the securities, while clearly defining the KPI and SPT and its calculation methodologies. The bond documentation includes an Optional Early Redemption section (please refer to the bond documentation for more details).

2.4. Reporting

FROM VALEO'S FRAMEWORK

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 Valeo's CO₂ emissions following the SBTi methodology and Valeo's own methodology including the benefit from CO₂ emissions 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.

Opinion: ISS ESG considers the Reporting description provided by Valeo as aligned with the SLBPs. The reporting will be made publicly available annually and include valuable information, as described above.

2.5. Verification

FROM VALEO'S FRAMEWORK

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.

Opinion: ISS ESG considers the Verification description provided by Valeo as aligned with the SLBPs. The issuer plans on having all annual values of the relevant SPTs published and verified. This will outline the performance against the SPT, the related impact and timing of such impact on the securities' financial characteristics.

PART III: SUSTAINABILITY QUALITY OF THE USE OF PROCEEDS CATEGORIES

A. CONTRIBUTION OF THE GREEN BOND TO THE UN SDGs

Based on the assessment of the sustainability quality of the Green Bond selection criteria and using a proprietary methodology, ISS ESG assessed the contribution of the Valeo's Green and Sustainability-linked Financing Framework to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 2 for methodology):

Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution
--------------------------------	----------------------------	----------------------	-----------------------------	---------------------------------

Each of the Green Bond's Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Technologies for electric vehicles ⁹	Significant contribution	 
Technologies for hybrid vehicles	Limited contribution	 
Solar P.V.	Significant contribution	 
Purchasing Renewable energy	Significant contribution	 
Electronic ovens, LED lightnings and eco-chilling devices	Limited contribution	 
Heat recovery compressors	Significant contribution	 
Installation, maintenance or repair of energy efficiency equipment in existing factories	Limited contribution	 

⁹ This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an issuer's product and service portfolio on the SDGs.

B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE SELECTION CRITERIA

Green Bond's Use of Proceeds categories

The table below presents the findings of an ISS ESG assessment of the Use of Proceeds categories against ISS ESG KPIs.

ASSESSMENT AGAINST ISS ESG KPI

Biodiversity

- ✓ 100% of the sites are covered by an environmental management system in line with relevant international standards (ISO 14001).

Labour, Health & Safety

- ✓ There are clear policies on compliance with all components of the ILO core conventions for all projects (e.g. as part of eligibility criteria, general financing policies or company policy in case of corporate issuances).
- ✓ There is a clear commitment to uphold relevant international standards (ILO Core Conventions) in all financed projects.
- ✓ 92% of the sites are covered by a health and safety management system in line with internationally recognised standards (OHSAS 18001).

Controversy assessment

The controversy assessment did not reveal any controversial activities or practices that could be attributed to the issuer.

PART IV: CREDIBILITY OF KPIS AND SPTS FOR SUSTAINABILITY-LINKED BONDS

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

1.1. KPI selection

FROM VALEO'S FRAMEWORK

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

Rationale: 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 eq. corresponding to -45% in 2030 compared to 2019), with an intermediary target in 2025.

- **Baseline:** 49.6 million CO₂ eq. tons
- **Baseline year:** 2019
- **Target year:** 2025 or 2030 depending on bond maturity.
- **Target goal:** Valeo's total carbon footprint (Scopes 1,2 & 3) is lower or equal to 27.88 million CO₂ eq. tons in 2030.

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

Calculation methodology for KPI 1:

Valeo's approach is based on a set of 2 calculations:

i) Fulfilling the requirements of SBTi by 2030 of the baselines 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).

Materiality and relevance

Environmental impact of products and resource-conserving production are considered key ESG issues faced by the Auto components sector according to ISS ESG assessment. Companies in this sector have a strong role to play in the decarbonization of the transportation sector by providing low-carbon or carbon neutral products. The auto transportation sector, when based on conventional fuels, is a highly-GHG emitting industry. Thus, decreasing the company's overall CO₂ eq. emissions (Scopes 1,2 & 3) and increasing the purchases' amount from which suppliers are subject to an evaluation on their sustainable development practices is key to achieve climate change mitigation.

By basing its Key Performance Indicators on total CO₂ eq. emissions (i.e. Scopes 1,2 & 3), ISS ESG finds that the issuer captures a material scope of Valeo's overall emissions.

ISS ESG finds that the KPI selected by the issuer related to its total CO₂ eq. emissions (i.e. Scopes 1,2 & 3) is:

- **Relevant** to Valeo's business as its industry is exposed to climate change mitigation solutions.
- **Core** to the issuer's business as reducing Scope 1, 2 & 3 emissions on its total business is core to the business model of the issuer and reflects best practices in the sector.
- **Material** to Valeo from an ESG perspective as it covers 100% of the company's Scope 1 and 2 emissions and 93% of its Scope 3 emissions. Therefore, the KPI verified by the SBTi has a material impact on climate change mitigation by achieving this KPI¹⁰.

Consistency with overall company's sustainability strategy

Valeo has a long-standing history of commitments in limiting the impact of its activities on the environment. Looking forward, Valeo's sustainable development is built on four key pillars: innovation, environmental eco-efficiency, employees and commitment to corporate citizenship. The issuer has clearly defined and set greenhouse gas emissions reduction targets. Furthermore, Valeo has signed the "Business ambition for 1.5 degrees" set by the Science-Based Target initiatives and aims to become carbon neutral by 2050 across all of its operational activities and its supply chain

¹⁰ The second lever target established by Valeo, focuses on "Use phase optimization". The issuer has developed a methodology to calculate how Valeo's products contribute to mobility decarbonation gain. The calculation ultimately captures avoided emissions. Methodologies including avoided emissions are not currently accepted under the SBTi methodology and is the focus of numerous debates in the sector. Nevertheless, it is worth noting that Valeo has started a dialogue with SBTi in the aim to constructively integrate a methodology taking into account net avoided emissions of vehicles. Only the KPI validated by the SBTi is linked to the bond and hence has an impact on the bond characteristics.

globally (scopes 1,2 and upstream 3) and to full carbon neutrality in Europe (scopes 1,2 and 3, including end-use of its products).

ISS ESG conducted a detailed assessment of the consistency of this KPI with the issuer's sustainability strategy in [part I.B.](#) of this report.

Measurability

- **Material scope and perimeter:** The KPI selected covers material operations and activities of the issuer, as it covers all of Valeo's activities. The KPI relates to the issuer's most material activities and CO₂ eq. emissions. Additionally, the perimeter of the selected KPI is well defined by the issuer. Regarding Scope 3 emissions specifically, Valeo is clearly showcasing its sustainability commitment by developing a methodology for calculating emissions relating to the use of its products. Furthermore, the issuer engaged with scientific and technical experts while developing its methodology.
- **Quantifiable:** The KPI selected is measurable and quantifiable.
- **Externally verifiable:** This KPI and associated baseline has been reviewed and validated by an external auditing firm, in the framework of the annual extra-financial legal data reporting (under French law). Additionally, the SBTi has verified the KPI set (not including net avoided emissions).
- **Benchmarkable:** This KPI is commonly reported by Auto component companies and quantifiable, thus benchmarkable.

Opinion on KPI selection: ISS ESG finds that the KPI selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material scope of the operations and activities of Valeo.

1.2. Calibration of SPT

SPT set by the issuer

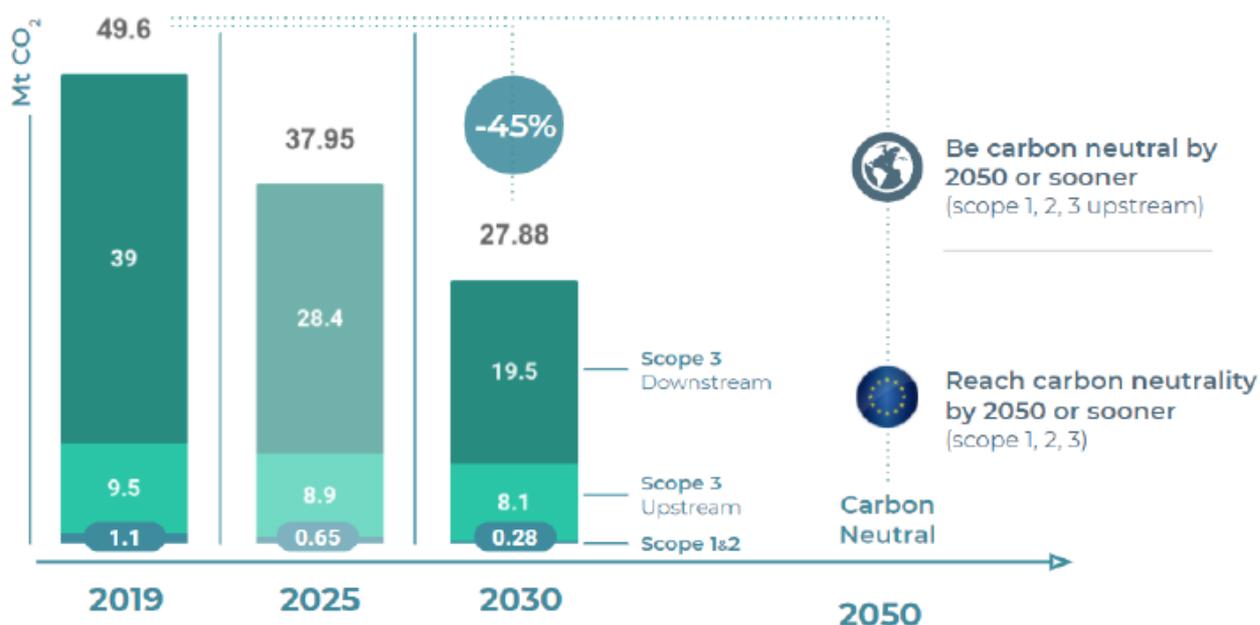
FROM VALEO'S FRAMEWORK AND BOND DOCUMENTATION¹¹

- **Sustainability Performance Target:** Based on the maturity of the bond:
 - Valeo's total carbon footprint (Scopes 1,2 & 3) is lower or equal to 37.95 million CO₂ eq. tons in 2025.
 - Valeo's total carbon footprint (Scopes 1,2 & 3) is lower or equal to 27.88 million CO₂ eq. tons in 2030.
- **Sustainability Performance Target Trigger:** Achieving Valeo's total carbon footprint (Scopes 1,2 and 3) lower or equal to 37.95 million CO₂ eq. tons as of 31 December 2025, or 27.88 million CO₂ eq. tons in 2030 from a 2019 baseline. Note that to trigger a change of bond characteristics, only SPT 1 must be fulfilled.
- **Sustainability Performance Target Observation Date:** As of 31 December 2025, which should be published at the latest together with the 2025 universal registration document and no later than 30 April 2026.
- **Rationale for SPT calibration:** Valeo has set its SPT in the aim 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.
- **Factors supporting the achievement of the target:** 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

¹¹ This information is displayed by the issuer in its Green and Sustainability-Linked Bond Framework and Bond Documentation and have been copied over in this report by ISS ESG for clarity.

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.



Source: Valeo's Green and Sustainability-Linked Bond Framework 2021

Ambition

Against company's past performance

The issuer sets the SPT to reduce its Scopes 1, 2 and 3 emissions targets (validated by the SBTi) from 2019 to 2025 or 2030 depending on the bond's maturity. This equates to approximately a 23.5% reduction by 2025 or 44.2% reduction by 2030 from a 2019 baseline. Therefore, in 2025 Valeo is expected to reduce its CO₂ eq. emissions on Scopes 1,2 and 3 by approximately 4% on average annually in order to meet its Sustainability Performance Target set and by approximately 3.9% annually on average in order to meet its SPT in 2030.

The issuer has provided available historical performance data on Scope 1, 2 and 3 emissions. Data provided on the baseline year (including Scope 1,2 & 3) has been verified by an external verifier.

YEAR	2016	2017	2018	2019	2019 (BASELINE FOR 2030 AND 2050 PLAN)	2025	2030
Number of Valeo sites	120	132	140	153	-	-	-
Total Scope 1&2 (absolute MtCO₂)	0.86	0.93	1.05	1.08	1.10	0.65	0.28
Variation (year-on-year)	-	+8.65%	+12.35%	+3.17%	-	-7%	-11%
Total Scope 3 upstream (materials & Valeo's good shipping) (absolute Mt CO₂)	7.1	8.1	9.1	9.5	9.5	8.9	8.1
Variation (year-on-year)	-	+13%	+13%	+4%	-	-1%	-2%
Scope 3 downstream (absolute Mt CO₂eq)	-	108	99.6	88.2	39.0 ¹²	28.4	19.5
Variation (year-on-year)	-	-	-8%	-11%	-	-5%	-5%
Total Scope 1,2,3 (absolute MtCO₂ eq)	-	117	109.73	98.72	49.60 ¹³	37.95	27.88
Variation (year-on-year)	-	-	-6%	-10%	-	-4%	-3.9%

Table 1: Valeo's past performance in terms of absolute Scope 1, 2 and 3 emissions (MtCO₂)

Based on historical performance data provided by the issuer on Scope 1, 2 and 3 emissions, ISS ESG finds that the SPT set for 2025 and 2030 is ambitious against the company's past performance.

¹² Valeo has worked on developing a new methodology to calculate its Scope 3 downstream emissions which explains the difference between the 2019 data reported and the 2019 baseline.

¹³ Valeo has worked on developing a new methodology to calculate its Scope 3 downstream emissions which explains the difference between the 2019 data reported and the 2019 baseline.

Against company's sectorial peers

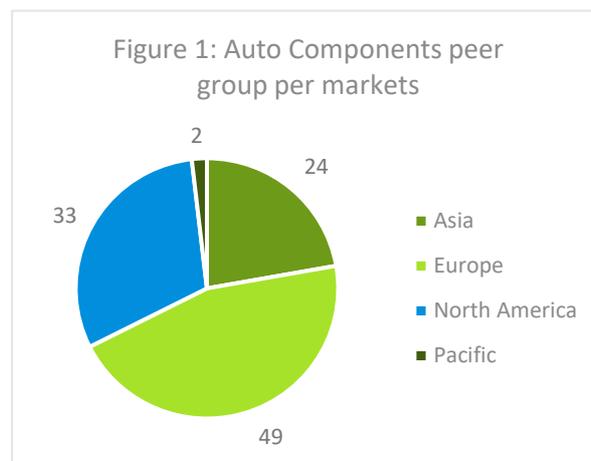
ISS ESG conducted a benchmarking of the SPT set by Valeo against the Auto component peer group of 108 listed companies derived from the ISS ESG Universe. Those companies are located in markets displayed in Figure 1.

As of 26.03.2021, ISS ESG evaluates Valeo as a medium performer in terms of GHG emissions intensity of its operation against its industry peers. According to ISS ESG data, Valeo ranks 12th out of 97 companies¹⁴ in the Auto component Industry in terms of absolute GHG emissions.

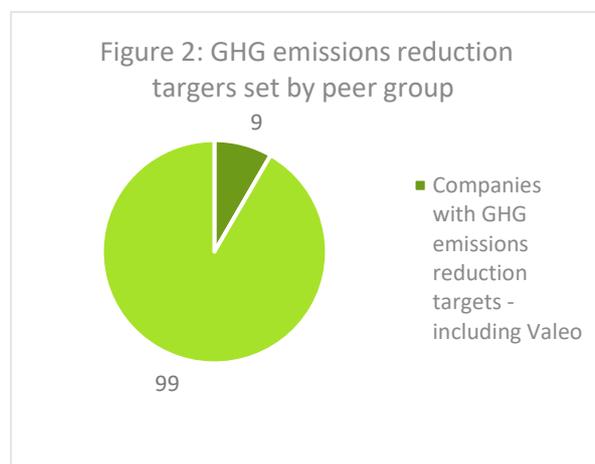
In terms of target set, Valeo is one of nine companies in its industry to have concrete absolute GHG emission reduction target and it thus belongs to the top 10% tier of its sector in terms of existence of such targets (see Figure 2).

Among this top 10% tier, the SPT set by Valeo is not the most ambitious in terms of absolute GHG emission reduction targets set compared to one other company in terms of average yearly reduction.

ISS ESG concludes that the SPT set by the issuer is ambitious compared to the Auto component sector practices in terms of defining a GHG emissions reduction target. In terms of magnitude, the SPT belongs to the top tier companies in the Auto component sector as per ISS ESG Universe.



Source: ISS ESG, as of 25.03.2021



Source: ISS ESG, as of 25.03.2021

Against international targets

Paris Agreement

Valeo benchmarked its SPT against the Science Based Targets initiatives (SBTi) in line with the Paris Agreement. Valeo has set up its commitment based on the SBTi framework, using the absolute contraction approach. According to the SBTi in a 1.5 °C scenario, Scopes 1 and 2 are required to have a contraction of -4.2% annually or -46% over 11 years (2019-2030). In that respect, Valeo has set their target equal to approximately -75% in 2030 compared to the 2019 baseline. Hence the reduction target set for Scopes 1 and 2 is aligned with the SBTi recommendation and therefore aligns with a 1.5 °C scenario, as validated by the SBTi.

For Scope 3 emissions, the required annual contraction in order to align with a 2°C scenario as per the SBTi is a -13.5% reduction by 2030 compared to the baseline year¹⁵. Valeo has set a commitment to reduce Scope 3 emissions by -15% by 2030. The SPT is therefore above the required reduction level established by the SBTi and aligns with the Paris Agreement, as validated by the SBTi.

¹⁴ The issuer ranks 12th equally with other companies in the sector.

¹⁵ Data provided by Valeo.

In this perspective, Valeo signed the “Business Ambition for 1.5 °C” commitment. This means that the company publicly commits to a net-zero 1.5 °C target and be recognized in the lead up to COP 26 in November 2021. The issuer has used the 1.5 °C aligned targets model provided by SBTi based on IPCC SR15 pathways. The issuer has received validation on the set SPT by SBTi. Hence ISS ESG finds that Valeo’s SPT is committed to be ambitious against the international targets and that the benchmark selected by the issuer is provided by an independent third party based on a methodology established in the industry.

UN Sustainable Development Goals

In addition, ISS ESG, using a proprietary methodology, assessed that the SPT achievement would have a positive contribution to the SDG 13 “Climate action”.

Measurability & comparability

- **Historical data:** The issuer has provided relevant historical data for Scope 1, 2 and 3 emissions. The 2019 baseline year for the SPT has been verified by an external verifier.
- **Benchmarkable:** By referring to commonly acknowledge GHG accounting standards and protocol, the KPI is easily comparable with the data reported by other companies.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date, the trigger event and the frequency of SPTs measurement.

Supporting strategy and action plan

To reduce its Scopes 1,2 and 3 emissions by 2030, Valeo will implement a set of investments in its operation to increase efficiency, including:

- **Energy efficiency** – Investing 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.

- The issuer has committed that offsetting will not be used to achieve the SPTs.

The supporting strategy and action plan contemplated by Valeo aligns with sector recommendations¹⁶ to reduce GHG emissions. This action plan is perceived as credible to support the achievement of the SPT set by Valeo.

Opinion on SPT calibration: ISS ESG finds that the SPT calibrated by the issuer is ambitious compared to the issuer's past performance, compared to Auto components sector practices in terms of GHG emissions reduction targets and is in line with the Paris Agreement and aligned with a 1.5° Celsius warming scenario according to the SBTi. The issuer has developed a carbon reduction target (Scopes 1, 2 & 3), with data being reviewed annually by an independent third party under French law on ESG data reporting and transparency. Regarding the target setting, the issuer has validated its SPT by the SBTi. Valeo has developed a two-lever methodology on which it will both report on, as part of its impact reporting. The second lever, which is not linked to the bond, also integrates additional CO₂ gains originating from the avoided emissions from its products for Scope 3 emissions (so far, integration of avoided emissions is not part of SBTi target setting guidelines). The calculation is based on a methodology established in the industry according to the issuer. In term of magnitude, the SPT belongs to the top tier companies in the Auto component sector as per ISS ESG Universe. Only one company has set more ambitious targets in terms of yearly reduction. The target is set in a clear timeline, is benchmarkable and supported by a credible strategy and action plan.

¹⁶ https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_chapter8.pdf

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)

2.1 KPI selection

KPI selected by the issuer

FROM VALEO'S FRAMEWORK

- **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).
- **SPT 2:** 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).

Rationale: Valeo has an important amount of 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.

- **Baseline:** 81%
- **Baseline year:** 2021
- **Target year:** 2025

Scope: 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.

Materiality and relevance

Environmental impact of products, resource-conserving production and social issues in the supply chain are considered key ESG issues faced by the Auto components sector according to ISS ESG. Companies of this sector have a strong role to play in the decarbonization of the transportation sector by providing low-carbon or carbon neutral products, i.e. products that have a reduced CO₂ or neutral CO₂ footprint at all key stages of their life-cycle, from cradle to grave. Thus, sourcing of low carbon materials is a key element, and the automotive supply base must be pushed to transform itself for low carbon extraction & transformation of raw materials. Evaluating the level of maturity and the target set by suppliers is key to drive that low carbon materials & sourcing transformation process at larger scale in a company. The auto transportation sector, when based on conventional fuels, is a highly-GHG emitting industry. Thus, increasing the purchases' amount from which suppliers are subject to an evaluation on their sustainable development practices is key to achieve climate change mitigation.

ISS ESG finds that the KPI selected by the issuer which concentrate in increasing the share of production purchases from which suppliers are subject to the evaluation of their sustainable development practices over the year, is:

- **Relevant** to Valeo's business as the selected KPI will allow the issuer to have an impact on key ESG issues in the sector. Furthermore, the KPI showcases the necessity for other companies in the sector to conduct evaluation on suppliers' sustainable development practices.
- **Core** to the issuer's business as the KPI focuses on increasing Valeo's share of suppliers that follow sustainability standards. Hence, the achievement of this KPI will have a direct impact on Valeo's Scope 3 upstream emissions.
- **Material** to Valeo business model as the issuer addresses through this KPI, key ESG issues in the sector. Furthermore, the KPI which falls under Valeo's Scope 3 upstream emissions, represents nearly 19% of the issuer's total emissions (as per 2019).

Consistency with overall company's sustainability strategy

Valeo has a long-standing history of commitments related to the environment and limiting the impact of its activities on the environment. Valeo's sustainable development is built on four key pillars: innovation, environmental eco-efficiency, employees and commitment to corporate citizenship.

By increasing the share of production purchases from which suppliers are subject to the evaluation of their sustainable development practices over the year, the issuer aims to advance one of its key established pillars for sustainable development: environmental eco-efficiency.

ISS ESG finds that the KPI 2 selected by the issuer is consistent with the issuer's strategy towards 2030.

Measurability

- **Material scope and perimeter:** The KPI selected covers material operations and activities of the issuer, as it focuses on developing the issuer's sustainability standards regarding its production purchases.
- **Quantifiable:** The KPI selected is measurable and quantifiable. The calculation methodology for this KPI is based on the company's own internal data collection and verification system which is subject to an internal control framework. However, the KPI calculation does not refer to any external standard as no such standard is commonly used in the market.
- **Externally verifiable:** The KPI selected has been externally verifiable.
- **Benchmarkable:** This KPI is benchmarkable to a limited extent as companies in the sector do not systematically report on this KPI.

Opinion on KPI selection: ISS ESG finds that the KPI selected is relevant, core and material to the issuer's business model. It is appropriately measurable, quantifiable and externally verifiable. It is benchmarkable to a limited extent as companies in the sector do not systematically report on this KPI. However, ISS ESG would strongly encourage the issuer to get the baseline verified in the year of the coupon trigger.

2.2. Calibration of SPT

SPT set by the issuer

FROM VALEO'S FRAMEWORK AND BOND DOCUMENTATION¹⁷

- **Sustainable Performance 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, from a baseline of 81% as of 2021.
- **Sustainability Performance Target Trigger:** Achieving that 82% of suppliers are subject to the evaluation of their sustainable development practices. Note that this KPI and SPT will not trigger a change of bond characteristics.
- **Sustainability Performance Target Observation Date:** Not applicable.
- **Rationale for SPT calibration:** It is noteworthy to specify that Valeo has an important 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.

Ambition

Against company's past performance

Valeo sets the SPT to increase the amount of its purchases from which suppliers are subject to the evaluation of their sustainable development practices to 82% by 2025, from a baseline of 81% as of 2021.

Valeo has provided past performance data as follow:

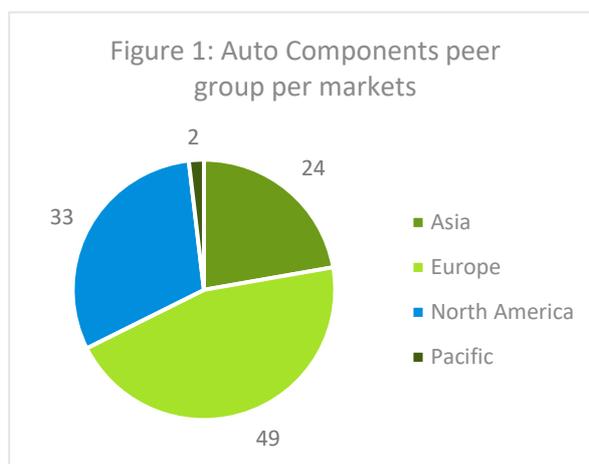
KPI	2015	2016	2017	2018	2019	2020	2021 (BASELINE YEAR)	2025
Share of production purchases for which the suppliers' sustainable development practices were assessed during the year (% of total purchases)	60%	63%	67%	77%	80%	80%	81%	82%
Percentage increase year-on-year	-	+3%	+4%	+10%	+3%	0%	+1%	+1%

¹⁷ This information is displayed by the issuer in the issuer's Green and Sustainability-Linked Bond Framework and Bond Documentation and have been copied over in this report by ISS ESG for clarity.

The issuer has provided a clear trajectory regarding the increase of the share of production purchases for which the supplier’s sustainable development practices were assessed during the year. Although in terms of percentage increase, the target set does not represent a high percentage compared to the past performance data showed in the table above, Valeo has expressed in its Green & Sustainability-Linked Bond Framework that 1% increase in the amount of purchases represents hundreds of new smaller suppliers that are subject to evaluation. This is because the suppliers holding the largest share of purchases have already been assessed against Valeo’s Supplier Sustainable Assessment Program. However, the issuer is not willing to provide data on the suppliers' exact number that represents the percentage of annual sales assessed, as the data is confidential. Nevertheless, the Issuer publicly reports that 1,202 suppliers represents 95 % of the annual production purchases amount (production purchases).

Against company’s sectorial peers

ISS ESG conducted a benchmarking of the SPT set by Valeo against the Auto Component peer group of 108 listed companies derived from the ISS ESG Universe. Those companies are located in the markets displayed in Figure 1.



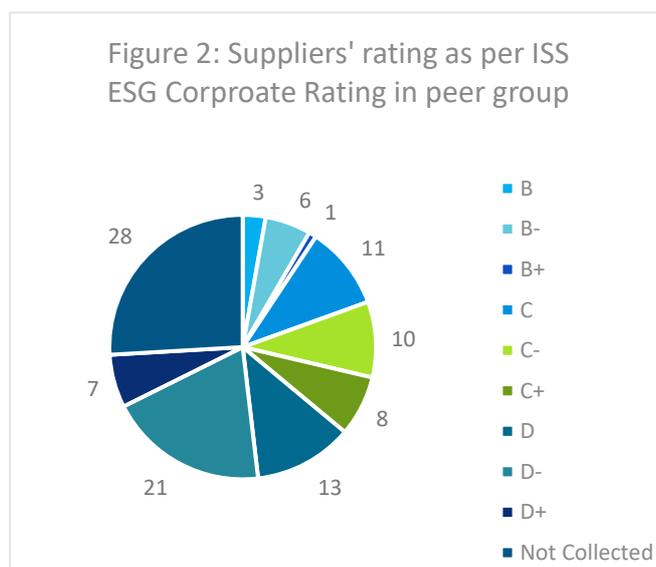
Source: ISS ESG, as of 25.03.2021

As of 25.03.2021, ISS ESG evaluates Valeo as a high performer in terms of suppliers’ standards against its industry peers. According to ISS ESG data, Valeo is one of three companies out of 108 companies in the Auto Component Industry to achieve the highest rating score as per ISS ESG methodology (see figure 2). Hence it thus belongs to the top 2.7% tier of its sector in terms of achieving the highest rating on this indicator (See figure 2).

ISS ESG concludes that the SPT set by the issuer is ambitious compared to Auto Component sector practices in terms of defining sustainability standards for suppliers.

Against international targets

ISS ESG finds that assessing KPI 2 is ambitious against the French legal framework “duty of care” (devoir de vigilance). The legal framework¹⁸ aims at ensuring that ESG risks are prevented. It obliges companies and their supply chains to protect and respect human rights and the effective access to remedies through judicial and non-judicial mechanism. Valeo has established a clear list of questions compiling



¹⁸ <https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000034290626/>

Valeo's supplier Assessment Program under which the supplier is required to provide evidence for its answer. Valeo goes beyond the required legal framework established by the French government, especially on topics related to Climate and Carbon issues. In that respect, ISS ESG finds that the KPI 2 is ambitious against the national legal framework.

UN Sustainable Development Goals

In addition, ISS ESG, using a proprietary methodology, assessed that the SPT achievement would have a positive contribution to the SDG 13 "Climate action".

Measurability & comparability

- **Historical data:** The issuer has provided some historical data in order to assess the ambition of the KPI against the company's past performance. However, the issuer is not willing to provide data on the suppliers' number that represents the percentage of annual sales assessed, as the data is confidential. Nevertheless, the Issuer publicly reports that 1,202 suppliers represents 95% of the annual production purchases amount (production purchases).
- **Benchmarkable:** By referring to the percentage share increase of the amount of Valeo's purchases from which suppliers are subject to the evaluation of their sustainable development practices, the KPI is not easily benchmarkable against market standards and protocol. Nevertheless, the KPI can be compared to ISS ESG suppliers' rating reported by other companies in this sector.
- **Timeline:** The issuer defined a timeline related to the SPT achievement. The target observation date and the frequency of SPTs measurement is defined by the issuer. However, no information on the trigger date has been provided, as the bond characteristics will only focus on KPI 1 for Valeo's first SLB issuance.

Opinion on SPT calibration: ISS ESG finds that the SPT calibrated by Valeo is ambitious against the companies past performance and compared to Auto Component sector practices in terms of defining sustainable development practices for suppliers. According to ISS ESG data, Valeo is one of three out of 108 companies in the Auto Component Industry to achieve the highest suppliers' rating score as per ISS ESG methodology. Hence it thus belongs to the top 2.7% tier of its sector in terms of achieving the highest rating on this indicator. ISS ESG finds that assessing KPI 2 is ambitious against the French legal framework "duty of care" (devoir de vigilance). Valeo has established a clear list of questions compiling Valeo's supplier Assessment Program under which the supplier is required to provide evidence for its answer. Valeo goes beyond the required legal framework established by the French government, especially on topics related to Climate and Carbon issues. Furthermore, the SPT achievement would have a positive contribution to the SDG 13 "Climate action".

DISCLAIMER

1. Validity of the SPO: As long as Valeo's Green and Sustainability-linked Financing Framework remains unchanged.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
5. We would point out that this SPO, in particular the images, text and graphics contained therein, and the layout and company logo of ISS ESG and ISS-ESG are protected under copyright and trademark law. Any use thereof shall require the express prior written consent of ISS. Use shall be deemed to refer in particular to the copying or duplication of the SPO wholly or in part, the distribution of the SPO, either free of charge or against payment, or the exploitation of this SPO in any other conceivable manner.

The issuer that is the subject of this report may have purchased self-assessment tools and publications from ISS Corporate Solutions, Inc. ("ICS"), a wholly-owned subsidiary of ISS, or ICS may have provided advisory or analytical services to the issuer. No employee of ICS played a role in the preparation of this report. If you are an ISS institutional client, you may inquire about any issuer's use of products and services from ICS by emailing disclosure@issgovernance.com.

This report has not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. While ISS exercised due care in compiling this report, it makes no warranty, express or implied, regarding the accuracy, completeness or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment or other purposes. In particular, the research and scores provided are not intended to constitute an offer, solicitation or advice to buy or sell securities nor are they intended to solicit votes or proxies.

ISS is an independent company owned by entities affiliated Genstar Capital ("Genstar"). ISS and Genstar have established policies and procedures to restrict the involvement of Genstar and any of Genstar's employees in the content of ISS' reports. Neither Genstar nor their employees are informed of the contents of any of ISS' analyses or reports prior to their publication or dissemination. The issuer that is the subject of this report may be a client of ISS or ICS, or the parent of, or affiliated with, a client of ISS or ICS.

ANNEX 1: Methodology

ISS ESG Green KPIs

The ISS ESG Green Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Valeo’s Green and Sustainability-linked Financing Framework.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

To review the KPIs used in this SPO, please contact Federico Pezzolato (details below) who will send them directly to you.

Environmental and social risks assessment methodology

ISS ESG evaluates whether the assets included in the asset pool match the Eligible Project category and criteria listed in the Green Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Green Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by Valeo (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which Valeo’s Green Bond contributes to related SDGs.

ANNEX 2: ISS ESG Corporate Rating Methodology

The following pages contain methodology description of the ISS ESG Corporate Rating.

ANNEX 3: Quality management processes

SCOPE

Valeo commissioned ISS ESG to compile a Green and Sustainability-linked Financing Framework SPO. The Second Party Opinion process includes verifying whether the Green and Sustainability-linked Financing Framework aligns with the Green Bond Principles, Sustainability-Linked Bond Principles, Draft Model of EU Green Bond Standard, Draft EU Taxonomy (Delegated Acts December 2020 version) and to assess the sustainability credentials of its Green Bond and Sustainability-Linked Bonds, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Green Bond Principles & Sustainability-Linked Bond Principles
- LMA Green Loan Principles

ISSUER'S RESPONSIBILITY

Valeo's responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management at the asset level

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Green Bond to be issued by Valeo based on ISS ESG methodology and in line with the ICMA Green Bond Principles, Sustainability-Linked Bond Principles & LMA Green Loan Principles.

The engagement with Valeo took place in April, May and June 2021.

ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For Information about SPO services, contact:

Federico Pezzolato

SPO Business Manager EMEA/APAC

Federico.Pezzolato@isscorporatesolutions.com

+44.20.3192.5760

Miguel Cunha

SPO Business Manager Americas

Miguel.Cunha@isscorporatesolutions.com

+1.917.689.8272

For Information about this Green and Sustainability-linked Financing Framework SPO, contact:

SPOOperations@iss-esg.com

Project team

Project lead

Marine Durrieu
Associate
ESG Consultant

Project support

Giorgio Teresi
Analyst
ESG Consultant

Project supervision

Viola Lutz
Associate Director
Deputy Head of Climate Services