2009 Registration Document

Automotive technology, naturally

Valeo

< Contents >

Registration Document 2009

containing **the annual financial report**

Group profile

Valeo is an independent Group fully focused on the design, manufacture and sale of components, integrated systems and modules for the automotive industry, mainly for CO_2 emissions reduction.Valeo ranks among the world's top automotives suppliers.

The Group has **120** plants, **21** Research centers, **40** Development centers, **10** distribution platforms and employs **52,200** people in **27** countries worldwide.

Valeo's strategy is based on a philosophy of sustainable and responsible development.

AUTORITÉ DES MARCHÉS FINANCIERS

AMF

This "document de référence" was filed with the Autorité des Marchés Financiers (AMF) on March 23, 2010, pursuant to Article 212-13 of the AMF's General Regulation. It may only be used in connection with a corporate finance transaction if it is accompanied by a memorandum approved by the AMF. This document was prepared by the issuer, and the signatories hereto are liable for its contents.

In accordance with Article 28 of European Regulation No. 809/2004 dated April 29, 2004, the reader is asked to refer to previous "documents de référence" containing the following specific information:

1. the management report, consolidated financial statements, parent company financial statements, Statutory Auditors' reports on the consolidated financial statements and parent company financial statements for the year ended December 31, 2008, and the Statutory Auditors' special report on regulated agreements relating to 2007 included in the "document de référence" filed with the Autorité des Marchés Financiers on March 17, 2009 under No. D.09-128;
2. the management report, consolidated financial statements, parent company financial statements, Statutory Auditors' reports on the consolidated financial statements and parent company financial statements for the year ended December 31, 2007, and the Statutory Auditors' special report on regulated agreements relating to 2006 , included in the "document de référence" filed with the Autorité des Marchés Financiers on April 30, 2008 under No. D.08-338.

valeo added™

< Contents >

1

2

3

4

5

6

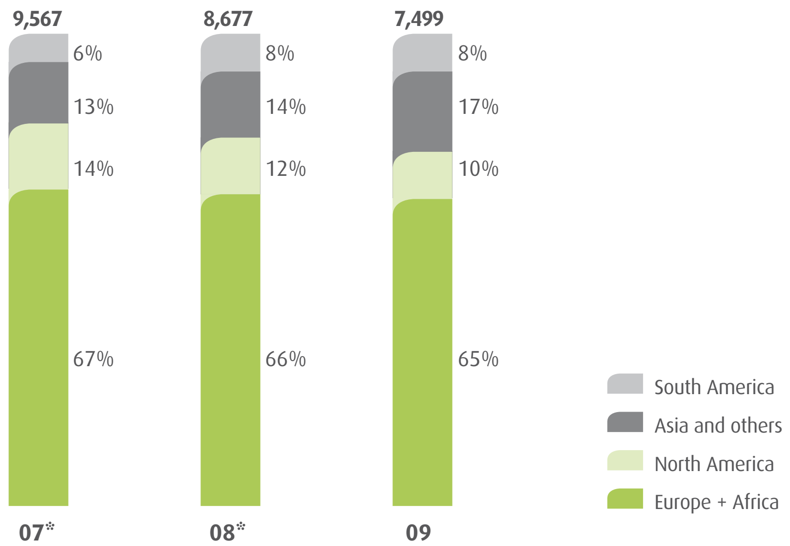
7

1 Key figures

< Contents >

1.A. Net sales by region

In millions of euros and % of net sales

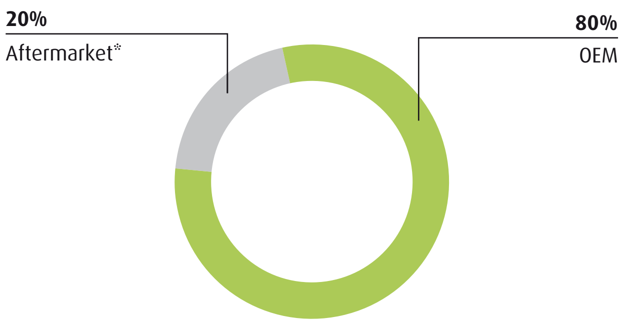


* The Group has changed the presentation of its income statement, notably net sales, as of January 1, 2009. Other operating revenue is now classified mainly as deductible R&D expenses. The figures for 2007 and 2008 have been restated accordingly.

1
2
3
4
5
6
7

1.B. Net sales by market (2009)

% of net sales

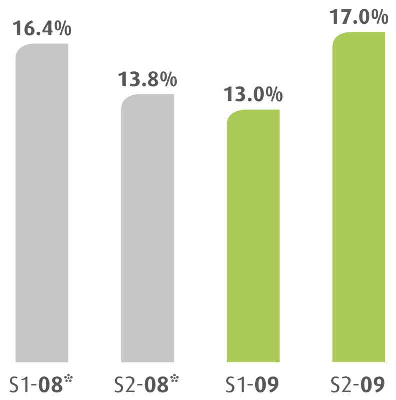


* included miscellaneous sales and tooling

< Contents >

1.C. Gross margin

% of net sales



* The Group has changed the presentation of its income statement, notably net sales, as of January 1, 2009. Other operating revenue is now classified mainly as deductible R&D expenses. The figures for 2007 and 2008 have been restated accordingly.

1 2 3 4 5 6 7

1.D. Research and Development expenses

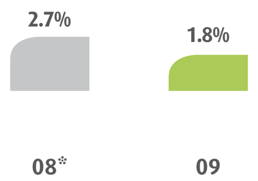
% of net sales, net of expenditure rebilled to customers

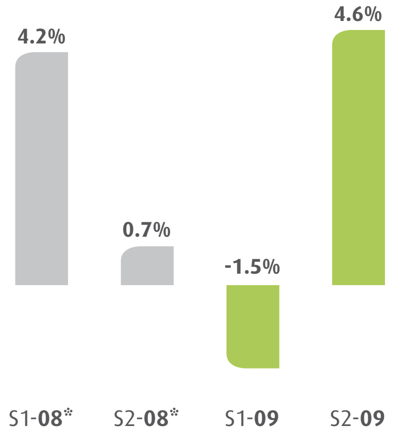
* The Group has changed the presentation of its income statement, notably net sales, as of January 1, 2009. Other operating revenue is now classified mainly as deductible R&D expenses. The figures for 2007 and 2008 have been restated accordingly.

< Contents >

1.E. Operating margin

% of net sales





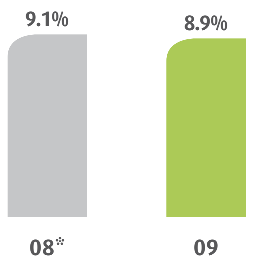
* The Group has changed the presentation of its income statement, notably net sales, as of January 1, 2009. other operating revenue is now classified mainly as deductible r&d expenses. the figures for 2007 and 2008 have been restated accordingly.

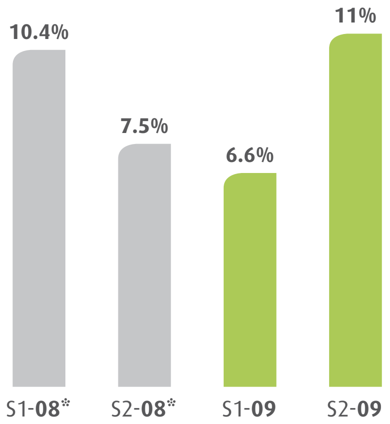
1
2
3
4
5
6
7

1.F. EBITDA

Operating income before amortization, depreciation, impairment losses (included in operating margin) and other income and expenses.

% of net sales



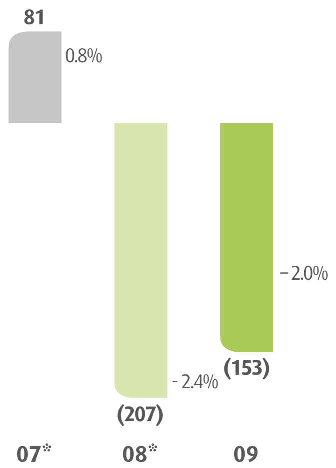


* The Group has changed the presentation of its income statement, notably net sales, as of January 1, 2009. Other operating revenue is now classified mainly as deductible R&D expenses. The figures for 2007 and 2008 have been restated accordingly.

< Contents >

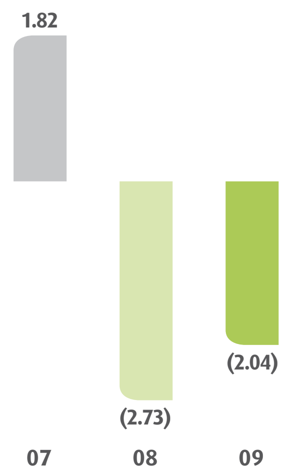
1.G. Net attributable income

In millions of euros and % of net sales

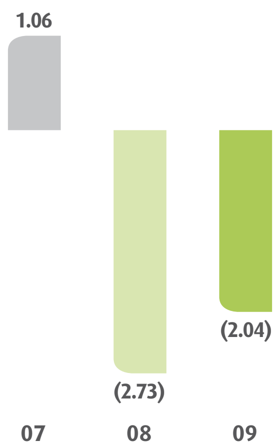


* The Group has changed the presentation of its income statement, notably net sales, as of January 1, 2009. Other operating revenue is now classified mainly as deductible R&D expenses. The figures for 2007 and 2008 have been restated accordingly.

1.H. Earnings per share from continuing operations (euro/share)

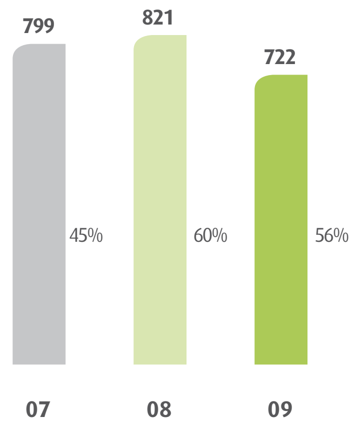


1.I. Earnings per share (euro/share)



1.J. Net debt

In millions of euros and % of equity



1
2
3
4
5
6
7

< Contents >

1
2
3
4
5
6
7

< Contents >

2 Activity

< Contents >

2.A. History

The Group's origins date back to the creation, in 1923, of Société Anonyme Française du Ferodo (SAFF), which operated out of a workshop in Saint-Ouen near Paris. SAFF started by distributing, then manufacturing, brake linings and clutch facings under the Ferodo license. In 1932, the Company was listed on the Paris Stock Exchange.

For SAFF, **the 1960s and 1970s** were a time of development, both through diversification into new sectors (brake systems in 1961, thermal systems in 1962, lighting systems in 1970 and electrical systems in 1978) and through international growth (Spain in 1963, Italy in 1964, Brazil in 1974). On May 28, 1980, at its Annual General Meeting of Shareholders, SAFF adopted the name Valeo, a Latin word meaning "I am well".

By the 1980s, Valeo had become a global Group, developing through acquisitions around the world:

1987

- Acquisition of Neiman (security systems) and its Paul Journée subsidiary (wiper systems).
- Acquisition of Chausson's heat exchanger business.

1988

- Acquisition of Clausor and Tibbe (security systems in Spain and Germany).
- Creation of Valeo Pyeong Hwa (clutches and ring gears in Korea), Valeo Transtürk (clutches and distribution in Turkey), and Valeo Eaton (clutches for heavy-duty trucks in the United States).
- Creation of the Valeo/Acustar Thermal Systems Inc. joint venture (climate control in the United States).

1989

- Acquisition of Delanair (climate control in the UK).
- Acquisition of Blackstone (engine cooling in the United States with businesses in Mexico, Canada, Sweden, Spain and Italy).

This drive for growth was accompanied by the refocusing of the Group's activities around a number of core businesses, and the sale of non-strategic activities (brake linings, ignition, horns) in 1990.

The 1990s

The Group implemented a powerful strategy based on:

- a new industrial culture: the Group adopted its "5 Axes" method in 1991 (see "5 Axes" in "The Group" section 2.B.4.3. "Technical Functions");
- a sustained Research & Development drive: in 1992, the Group set up an electronics research center in Créteil (France) and an electronic module production site at Meung-sur-Loire (France). In 1993, Valeo opened R&D centers for lighting systems in Bobigny and for clutches in Saint-Ouen (France);
- increasing international growth: the first production sites in Mexico and Wales (climate control) and Italy (lighting systems) opened in 1993, and in 1994 the first joint ventures in China were created for wiper systems, climate control, lighting systems and electrical systems.

The Group's external growth continued throughout the decade:

1995

- Acquisition of Siemens' thermal business in Germany.

1
2
3
4
5
6
7

< Contents >

1996

- Acquisition of a stake in Mirgor (thermal systems in Argentina).
- Acquisition of Fist S.p.a. and a division of Ymos AG (security systems in Italy and Germany).
- Acquisition of Klimatizacni Systemy Automobilu (thermal systems in the Czech Republic).

1997

- Creation of clutches joint ventures in India and China and a friction materials joint venture in India.
- Acquisition of Univel (security systems in Brazil).
- Acquisition of Osram Sylvania's automobile business to create Valeo Sylvania (lighting systems) in the United States.

1998

- Acquisition of the Electrical Systems activity of ITT Industries.

1999

- Acquisition of a division of Mando (electrical systems in South Korea).
- Sale of its 50% stake in the German company LuK.

2000

- Creation of a joint venture with Unisia Jecs (transmissions in Japan).
- Acquisition of a stake in Zexel (thermal systems).
- Strategic alliance with Ichikoh (lighting systems in Japan).
- Acquisition of Labinal's automotive business (Argentina, Eastern Europe, Italy, Spain, France, India, North Africa, Portugal).

The 2000s

The Group implemented a program of industrial rationalization with production reorganized across fewer sites, a greater portion of sites in low-cost regions, and the sale of selective non-strategic activities.

As of 2004, the Group focused on technology through targeted acquisitions, while accelerating its expansion in Asia, particularly China.

2001

- Sale of the Filtrauto business and of Valeo Transmissions Ltd, UK.

2003

- Valeo increased its stake in the joint venture ZVCC (Zexel Valeo Climate Control) to 50%.
- Valeo increased its stakes in two Chinese joint ventures, to 50% in electrical systems and 55% in wiper systems.

2005

- Valeo acquired the Engine Electronics division of Johnson Controls (JCEED), which designs and produces complete engine management systems, electronic control units and electronic motor drives as well as engine components.
- Acquisition of shares held by Bosch in the Group's Climate Control businesses in Asia (Zexel Valeo Climate Control plant and Valeo Zexel China Climate Control). This gave Valeo control of all the share capital of its climate control activities and compressor production.
- Valeo increased its holdings in two Thai companies, Siam Zexel Co. Ltd and Zexel Sales Thailand Co. Ltd, specializing in climate control, to 74.9%.
- Creation of a joint venture with FAWER, the automotive supply branch of FAW, in China. The new entity, 60% owned by Valeo, develops and manufactures compressors for climate control systems aimed at the Chinese market and at export. Its plant is located in Changchun in the northeast of China.

1
2
3
4
5
6
7

< Contents >

- Creation of a joint venture with Hangsheng Electronics, a Chinese tier one automotive supplier, for the production of ultrasonic park assist systems. Valeo owns a 75% share in this joint venture.
- Valeo increased its stake in Ichikoh, the Japanese manufacturer of automotive lighting systems and mirrors, to 28.2%.

2006

- Sale of the Electric Motors & Actuators business to the Japanese group Nidec; sale of the stake in bluetooth specialist Parrot, and of Logitec, a logistics business in Japan.
- Acquisition of a 50% stake in Threestar, a leading South Korean radiator manufacturer. This new entity, of which the other 50% is held by Samsung Climate Control Group, is called Valeo Samsung Thermal Systems.
- Valeo created a new joint venture in China, with Ichikoh, and increased its shareholding in Hubei Valeo to 100%.

2007

- Sale of the Wiring harness business to Leoni.
- Acquisition of Connaught Electronics Ltd (CEL), an Irish manufacturer of automotive electronics.
- Creation of two joint ventures in India: Valeo Minda Security Systems and Valeo Minda Electrical Systems India Private Limited.

2008

- Sale of its truck engine cooling division to EQT, a Northern European investment fund.
- Creation of a joint venture with the Russian company Itelma, which supplies automotive parts to Russian manufacturers, in which Valeo holds a 95% stake.
- Creation of a joint venture in India with the Anand group to produce lighting systems. The new company, called Valeo Lighting Systems India Private Limited, is majority owned by Valeo.
- The strategic links with Ichikoh, one of the leaders in automotive lighting in Japan, were strengthened with the signing of a new agreement on operational management and corporate governance.

2009

- On March 20, 2009, Pascal Colombani became Chairman of the Board of Directors, while Jacques Aschenbroich was appointed Chief Executive Officer.
- An extensive reorganization was implemented to make the Group more profitable and efficient in the face of the increasing globalization of its markets and its customers. The new, simpler structure is based on four Business Groups and places more emphasis on the role of the National Directorates.
- The four new Business Groups are: Comfort and Driving Assistance Systems, Powertrain Systems, Thermal Systems, Visibility Systems.
- Valeo's stake in the compressors joint venture in China was increased from 60% to 100%. The new company, which produces compressors for the Chinese market and Asia, is called Valeo Compressor (Changchun) Co. Ltd.

1
2
3
4
5
6
7

< Contents >

2.B. The Group

2.B.1. Description and organization

2.B.1.1. Group profile and structure

Valeo is an independent Group fully focused on the design, manufacture and sale of components, integrated systems and modules for the automotive industry, mainly for CO_2 emissions reduction. Valeo ranks among the world's top automotive suppliers.

The Group has 120 plants, 21 Research centers, 40 Development centers, 10 distribution platforms and employs 52,200 people in 27 countries worldwide.

2.B.1.2. The Group's operational structure

In July 2009, the Group put in place a new organizational structure designed to boost its growth, while ensuring profitability and efficiency in the face of the increasing globalization of its markets and customers. This will ensure the Group is better placed to rise to the challenges of the automotive industry by identifying strong synergies with more effective management and a closer partnership with its customers in markets with strong potential for growth. The new, simpler structure is based on four Business Groups and a more important role for the National Directorates. The reorganization aims to speed up the growth of the Group's Product Families in all its markets and to make it more efficient.

Valeo's operational organization is based on a three-tier structure: Group, Business Group/Product Families, and operational Divisions. The Group defines the strategic directions, decides on the allocation of resources among the Business Groups and Product Families, develops synergies between Business Groups through functional networks and National Directorates, and analyzes and controls the activities of its Business Groups and Product Families. The latter are responsible for the operational control of the performance of the Divisions, and play, with the support of the National Directorates, a coordinating role between the operating Divisions, particularly in terms of pooling resources, allocating R&D efforts and optimizing production among industrial sites. The operational Divisions manage their activity within their own regions. They can draw on all resources in terms of development, production and marketing as necessary to fulfill their objectives. The Group has also put in place operational principles and rules, with the appropriate delegation of authority from the Chief Executive Officer, precisely defining the scope and level of decisions that can be made by each operational manager.

This new organizational structure will continue to evolve throughout 2010.

The Group is also generating synergies through functional networks and central functions.

2.B.1.3. Functional networks

The main functional networks are as follows:

- Sales & Business Development, structured around customers, with a Customer Director dedicated to each major automaker, and in regions, with a National Director for each major region;
- Human Resources, responsible for skills management (recruitment, remuneration, internal mobility, etc.), training and adherence to the Group's code of ethics;
- Financial Control, within the Finance Department, responsible for the reliability of financial reporting and certain physical indicators;
- R&D and Product Marketing;
- Industrial and Logistics, Quality and Purchasing, responsible for Operational Excellence;
- Information Systems;
- Risk, Insurance, Environment, Health and Safety, which coordinates all actions in these domains.

1
2
3
4
5
6
7

< Contents >

2.B.1.4. Central functions

These central functions are:

- Treasury, which defines and applies rules relating to the risk management of external financing and of market risks relating to changes in interest rates, currency values and raw material costs;
- Financial Affairs and Strategic Operations, within the Finance Department, in charge of managing divestitures, acquisitions, the creation of joint ventures and financial communications;
- Strategy;
- Legal Affairs;
- Communications.

2.B.1.5. Group legal structure

The Group is legally structured around three holding companies which are positioned between the parent company, Valeo, and the operational subsidiaries: **Valeo Finance,** whose purpose is to hold shares in French companies and manage research projects, **Valeo Bayen,** which holds shares in international companies in the wake of **V.I.H.B.V.,** registered in the Netherlands, which previously played this role of investor in overseas companies and which still has significant shareholdings. Two other holding companies exist for historical reasons: Société de Participations Valeo, and Valeo Thermique Habitacle.

At an intermediate level, in some countries (Germany, Spain, United States, Italy, Czech Republic, UK), holdings are organized around one or several companies established in the country itself, which also play the role of holding company and hold shares in other operational companies, forming a local sub-group. This structure allows the centralization and optimization of the financial management of the members of the sub-group and, where legally possible, the forming of a fiscally consolidated grouping.

To break into new markets or consolidate its systems offer for customers, or to develop new product offers, Valeo has formed jointly owned companies with industrial or technological partners in various countries.

1
2
3
4
5
6
7

2.B.2. Business Groups and Product Families

The Business Groups are responsible for encouraging the growth and profitability of the Group's Product Families across all its markets.

2.B.2.1. Comfort and Driving Assistance Systems

The Comfort and Driving Assistance Business Group covers the Interior Controls and Security Systems Product Families. These Product Families are designed to improve the interface between the driver, the driver's environment and the vehicle, and contribute to improving comfort and safety.

2.B.2.1.1. Interior Controls

This Product Family develops and manufactures systems and products dedicated to comfort and driving assistance.

Valeo recently consolidated its strategic positioning in driver interfaces by becoming a member of the GENIVI Alliance, alongside several automakers. By joining this consortium, Valeo resolutely affirms its ambition to develop interfaces and architectures for the future that are perfectly in line with major developments in the field of connectivity and in-vehicle infotainment.

Products related to cabin comfort are:

- top column modules.

  These represent the electronic communication hub between the safety features and the cabin's central electronics system. Valeo was the first supplier to integrate, in 2009, a flexray system in a top column module to optimize data communication between these functions;
- switching and driver interface modules (HMI or Human-Machine Interface).

  The new interfaces manage air-conditioning systems and multimedia applications and are ergonomically designed for ease of use while ensuring optimal safety;
- steering angle sensors (angle and torque sensors);
- electronic control units for the cabin and battery management.

< Contents >

In terms of driving assistance systems, Valeo is the only global supplier offering the mass production of all three technologies for detection around the vehicle: ultrasonics, cameras and radars. This makes Valeo a partner of choice for automakers, with the development of future systems that will incorporate several types of sensor in order to offer new features. As well as making urban driving safer, driving assistance systems also enhance the flow of traffic, thereby reducing CO_2 emissions.

Products related to detection are:

- ultrasonic and infrared sensors.

  These are used in the **Park4U™** system for semi-automatic parking and also activate the rain/light/humidity detection system with its multifunctional sensors. Combined with a camera, the **ParkVue™** system provides the driver with perfect visibility behind the vehicle and a precise indication of distances;
- radars.

  These form part of the blind spot detection system for safer lane changes, and the system that detects vehicles when reversing out of a parking place with limited visibility. These systems warn the driver when a vehicle is present in one of the blind spots on either side of the vehicle;
- cameras.

  The **360Vue™** multi-camera system offers total vision around the vehicle. Cameras are also used in the **LaneGuide™** surveillance system to detect unintentional lane departures.

2.B.2.1.2. Security Systems

This Product Family develops and manufactures components and systems that guarantee secure and comfortable access to vehicles while ensuring maximum protection against theft. The end user can enjoy practical and comfortable solutions with a personalized, innovative style.

With its extensive expertise in electronics and mechanics, Valeo Security Systems develops the following innovations:

- the smart car key: a new generation of hands-free keys that allow users to send information to their vehicle over a considerable distance (several hundred meters). They display information such as whether the doors are locked and the alarm is activated, tire pressure, and fuel level. The key can be used to pre-program the seat position or radio station, to pre-ventilate the cabin or pre-heat the seats, or for many other functions requiring communication between the user and the vehicle. In 2009 the Security Systems Product Family added to its range of intelligent keys, particularly with the integration of features for electric vehicles (charge indicator, pre-heating and pre-conditioning);
- the Optimum lock: this door lock, standardized worldwide, improves both ease of use and robustness. No awkward mechanical resistance is felt during use, and the system offers a constant effort level throughout the lifetime of the vehicle. It is also cheaper to produce and reduces the weight of the locking system;
- keyless entry and ignition systems;
- automatic tailgate closure with movement detection;
- radio-frequency remote access controls and receivers;
- assisted closing of side doors;
- transponder-based immobilizer systems;
- mechanical and electrical steering column locks;
- handles (including mechatronic handles for hands-free access systems);
- mechanical keys and locks.

2.B.2.2. Powertrain Systems

This Business Group covers the Engine and Electrical Systems Product Family and the Transmissions Product Family. These Product Families play a key role in the reduction of energy consumption and CO_2 emissions.

2.B.2.2.1. Engine and Electrical Systems

This Product Family offers a wide range of components incorporating high-performance electronics, as well as systems and sub-systems. Electrical Systems covers key vehicle functions such as electrical energy generation and management. They optimize engine start-up in order to provide greater driving comfort and reduce fuel consumption and pollutant emissions. By improving specific engine performance, electronic control systems help reduce the environmental impact of vehicles while increasing driving pleasure.

In the field of micro-hybrid systems, Valeo is the only supplier to offer two stop-start systems, based either on the StARS starter-alternator (Starter Alternator Reversible System) or on a reinforced starter. The second-generation "i-StARS" is externally different due to the integration of control electronics on the electrical machine, reducing the volume and facilitating installation.

Since 2009, Valeo has been developing a second-generation electric drive-train with enhanced energy performance, aimed at a greater number of potential buyers. Producing an electric drive-train with a limited cost is a major objective for Valeo as it is an essential condition for the mass distribution of second-generation electric cars in an economically viable way, without government aid for purchases. This development is part of a consortium pooling the

1
2
3
4
5
6
7

< Contents >

skills and expertise of several companies in order to encourage the emergence of an electric drive-train industry for vehicles. One of the goals of this joint project is to select the best technological compromises between the different specialties in order to supply the best final product.

The products in this Product Family are:

- starters, alternators and starter-alternators;
- electric motor drives;
- power electronics for hybrid and electric vehicles;
- complete engine control systems for gasoline and VNG (vehicle natural gas) engines;
- engine control units for direct and indirect injection gasoline applications or those adapted to alternative energies (VNG, Flex Fuel);
- engine components: ignition coils, injectors, sensors and canister valves;
- electromagnetic retarders for trucks and buses.

2.B.2.2.2. Transmissions

Valeo Transmissions develops and produces systems that transfer and control engine power to the transmissions of passenger cars and industrial vehicles. The solutions it offers incorporate innovative systems that dampen noise, vibrations and harshness. This Product Family is present in all major markets in both the original equipment and aftermarket segments, and covers all types of transmission: manual, automatic, dual clutch and hybrid.

Among the technologies developed by Valeo Transmissions, the dual dry clutch is one of its key innovations, representing a viable alternative to hydraulic automatic transmissions. With two clutches (one for even gears and one for odd gears), this system allows the driver to change gears with no interruption to torque and no jolting, just like an automatic transmission. Without a hydraulic circuit, it also improves efficiency, cutting consumption by 4-6%.

The other products in this Product Family are:

- clutches with and without self-adjusting technology;
- clutch discs with a new generation of multi-louver dampers offering effective protection from vibrations;
- environmentally friendly clutch facings with no heavy metals, manufactured using a water-based process;
- release bearings with built-in automatic self-centering;
- hydraulic clutch actuators;
- flexible flywheels that provide effective reduction of the axial vibrations generated by the engine;
- dual mass flywheels, with rigid or flexible primary flywheel and the option to add an internal damper to improve filtration efficiency. These technologies cover front- and rear-wheel drive vehicles with either manual gearboxes, dual clutches or hybrids;
- torque converters, including a lock-up function, wide clearance damper and an optimized hydraulic circuit, for automatic and continuous variation transmissions.

2.B.2.3. Thermal Systems

The Thermal Systems Business Group covers the Engine Cooling, Climate Control and Compressors Product Families. These Product Families contribute to comfort for vehicle occupants while limiting energy consumption.

2.B.2.3.1. Engine Cooling

This Product Family develops and manufactures components and modules for a full range of engine cooling functions for internal combustion, hybrid and electric powertrains, with a view to reducing pollution and fuel consumption, and enhancing passenger comfort.

Innovative products and systems from this Product Family include:

- **UltimateCooling™**, which can reduce the number of exchangers needed in the front end, by using a single thermal fluid. This innovative architecture generates fuel savings of up to 9% for vehicles using air-conditioning and also saves space in the front end;
- the water-cooled charge air cooler, which reduces consumption and pollutant emissions through enhanced efficiency in cooling intake air. The traditional frontal air-to-air heat exchanger has been replaced by a new air-to-water heat exchanger. This solution reinforces the trend towards engine downsizing, one of the most promising sources of fuel savings;

1 2 3 4 5 6 7

< Contents >

- the **EGR (exhaust gas recirculation)** system, which takes some of the exhaust gases at the cylinder head outlet and re-injects them into the air intake, reducing nitrogen oxide emissions during combustion and complying with Euro V and VI standards;
- **THEMIS™,** an electronic valve that improves engine yield with smart temperature control. The major advantages are fuel savings and enhanced cabin comfort;
- **Safe4U™,** an active pedestrian detection system using a radar on the upper crosspiece and cameras along the radiator grill. Safe4U™ temporarily separates the upper crosspiece from the front end, allowing it to tip. The system complies with, and even surpasses, current pedestrian protection regulations.

Other Valeo Engine Cooling products include:

- mono- and multi-temperature radiators;
- condensers;
- oil exchangers;
- fan/motor systems;
- thermal management systems;
- charge air cooler modules and charge air coolers;
- exhaust gas coolers;
- cooling modules;
- front end modules.

2.B.2.3.2. Climate Control

This Product Family offers intelligent heating, ventilation and air conditioning (HVAC) systems that enhance individual comfort for vehicle occupants, in all circumstances, while limiting energy consumption, through:

- multi-zone HVAC units for personalized cabin comfort;
- a complete range of electric radiators for instant cabin heating;
- a new generation of heat exchangers using new cooling fluids that are more environmentally friendly;
- specific air conditioning systems for new drive-trains:
  - storage evaporators that keep AC systems in operation with stop-start systems,
  - electric air-conditioning systems for hybrid vehicles,
  - powerful yet low energy consumption heating systems for electric vehicles (the key technologies developed are heat pumps, heat recovery systems *via* secondary circuits, and dehumidifying systems);
- a full range of filters and air quality products to protect and ensure the well-being of occupants.

The Valeo Climate Control range is based on four product lines:

- air conditioning systems and modules (air conditioning loop and modules, including evaporators and heater cores);
- heating and cooling products (battery thermal management, rear air conditioning, booster);
- air quality products (particle, gas and odor filters, fragrance diffusers, ionizers);
- derivative products for the aftermarket.

This Product Family also offers battery cooling systems. With the development of new hybrid and electric drive-trains, high-power and high-capacity batteries are being used in vehicles. In order to guarantee the availability of electrical power and to optimize the lifetime of this costly component, Valeo Climate Control makes thermal management systems that ensure optimal battery temperature throughout all phases of use. A variety of technologies has been developed to cover all applications on the market: the cooling system can be direct, or using air, water or the Peltier effect.

2.B.2.3.3. Compressors

Valeo Compressors develops and produces compressors for automotive air conditioning systems. The solutions it offers include controlled air conditioning compressors with reduced energy requirements.

Valeo Compressors' contribution to the Thermal Systems Business Group covers both its technologies for hybrid and electric vehicles and its solutions for new more environmentally friendly coolant standards.

This Product Family also develops and produces:

- pallet compressors;
- fixed-cylinder compressors;
- variable-cylinder compressors;
- electric compressors.

2.B.2.4. Visibility Systems

The Visibility Systems Business Group covers the Lighting Systems and Wiper Systems Product Families. These Product Families enhance safety by improving visibility of the vehicle and for the driver, while helping to generate energy savings.

1
2
3
4
5
6
7

< Contents >

2.B.2.4.1. Lighting Systems

The role of the Lighting Systems Product Family is to improve driver visibility at night and clearly indicate vehicle position in all situations. In addition to performance, the distinctive styles of headlamps and rear lamps are also key design features, playing an important role in automakers' efforts to differentiate the styling of their new models.

The main technologies developed by this Product Family, which focus on performance, safety and style, are:

- camera-assisted adaptive headlamps, allowing motorists to enjoy ideal night-time lighting without dazzling oncoming traffic. **BeamAtic® Premium** avoids dazzle by gradually adapting the beam according to the presence of other vehicles;
- Xenon systems provide double the light of traditional headlamps in tones similar to daylight. With a range of more than 100 meters, they offer a 30% improvement on traditional headlamps, or up to 44% with bending light.
- LED lighting, which significantly reduces the energy consumption of headlamps and therefore CO_2 emissions. LEDs also offer radically new opportunities in terms of style, and enable automakers to distinguish their vehicles from others and convey their innovative values.

The Valeo Lighting Systems range also covers:

- main headlamps with LED, xenon or halogen technology;
- daytime running lights (DRLs) with LEDs or traditional bulbs;
- rear lights and high-mounted stop lamps with LEDs or traditional bulbs;
- fog lights and auxiliary lights;
- leveling devices and lamp wipers;
- lighting and signaling controllers;
- cigar lighters, multifunction sockets and USB ports.

2.B.2.4.2. Wiper Systems

Valeo Wiper Systems offers windshield and rear window wiping solutions for both the original equipment sector and the aftermarket. They provide perfect visibility in all conditions, thereby improving driving safety. This Product Family also helps reduce vehicles' CO_2 emissions through its commitment to innovation and weight reduction.

The latest innovations include:

- the **AquaBlade®** system, which ensures perfect road visibility in all driving conditions and a significant reduction in the weight of the windshield wiper system;
- a new line of electronic wiper motors deployed worldwide, offering a range of solutions adapted to the latest vehicle architectures. These new motors have met with great commercial success in North America and Europe;
- a windshield de-icing system offering additional comfort and safety to drivers in wintry conditions.

The Valeo Wiper Systems range includes:

- arm and flat/traditional blade sets;
- motors and wiping systems with mechanisms or electronics;
- washing systems;
- rear wiping systems integrating other functions such as stop lights, washing, etc.

1
2
3
4
5
6
7

< Contents >

2.B.3. Aftermarket products and services

Valeo Service is under the responsibility of the Group's Chief Operating Officer. In cooperation with the Business Groups/Product Families, it supplies original equipment spares to automakers and replacement parts to the independent aftermarket.

Its role is to offer to all aftermarket channels worldwide a wide range of products and services to help make repairs easier and to provide greater safety, comfort and pleasure to drivers and passengers. Valeo Service also offers support and services that are constantly being enhanced and developed, in areas such as diagnostics, training, sales and marketing, and technical support.

Valeo Service offers 176 product ranges covering 12 product functions for light, commercial and industrial vehicles and trucks: wiper systems (under the brand names Valeo, Marchal, PJ, and SWF), transmissions, lighting systems, climate control, engine cooling, electrical systems, electrical accessories, security systems, switches, braking and engine management. Its range of spare products and related services include the following innovations:

- Climtest+ and ClimFill: tools and software dedicated to the diagnostics and maintenance of climate control systems;
- **beep&park/vision™** (new version of **beep&park™**) which combines rear camera and radar features in order to simplify parking with obstacle detection, warning and display systems;
- **guideo™**, a driving assistance product with four features: lane departure and line crossing alerts, video recording in case of impact, and the detection of movement of the vehicle ahead at traffic lights;
- **speed/visio™**, which projects the vehicle speed on the windshield and emits an audible alert when the speed limit set by the driver is exceeded. This system allows the driver to control the vehicle speed without having to look away from the road ahead;
- **parkorigin™**, the first rear brake kit for light utility vehicles;
- Full AFS headlamps, a complete, adaptive front lighting system that adjusts the beam according to driving conditions: in rain and on urban roads or highways;
- the StARS reversible starter-alternator system for the aftermarket, offering substantial reductions in fuel consumption and pollutant emissions.

2.B.4. Functions: key activities

2.B.4.1. Human Resources

Human Resources is responsible for skills management (recruitment, remuneration, internal mobility, etc.), training and adherence to the Group's code of ethics.

It pursues a strategy to support the Group's international development by devising a global policy that is deployed in accordance with the characteristics of local employment markets.

Valeo encourages employee engagement and is particularly attentive to factors that help motivate employees at every level and in every region. The Group formed a working group to consider how to maintain team motivation and strengthen the sense of belonging among employees. On the recommendations of this group, Valeo has reinforced local management action by cascading information on its financial position while stepping up internal communications and efforts to strengthen links between teams, at every level of the organization.

These various actions help to improve the sense of belonging to the Valeo Group and to develop pride in "being Valeo" at every hierarchical level.

2.B.4.1.1. Management development

The competency management system is a comprehensive range of procedures and tools available to managers to drive the effective development of Valeo employees.

This system is used to recruit, develop and motivate the necessary human resources, not just in their day-to-day work but also to achieve the Group's strategic objectives.

1
2
3
4
5
6
7

< Contents >

The three major constituents of the management development strategy are external recruitment, which also includes relations with educational establishments, internal mobility and personal development, and remuneration and benefits.

Recruitment and relations with schools and universities

Recruiting the best talent in the fast growing emerging markets in order to support its innovation strategy is a key factor of success for Valeo. Qualified teams ensure Valeo can offer its customers around the world value-added services in terms of innovation, total quality and competitive solutions and services.

To ensure that recruitment, both internal and external, is managed coherently and professionally, all managers are trained using a recruitment kit. This kit brings together in a single document all existing tools such as the Employer Brand, fully revised in 2008 with a new visual identity, the Internal Mobility Charter and the Valeo Competences System, launched in 2004. A Recruitment Guide, explaining the Group's operating culture and the key messages to communicate to applicants, is the core element of the recruitment kit. By offering a standard recruitment policy based on objective selection criteria, the Recruitment Guide helps to promote diversity at Valeo and to eliminate all forms of discrimination.

In order to ensure the efficient management of external applicants, the Group has also improved the functionalities of its recruitment website **valeocareers.com** and has completely reviewed its graphic charter for press and web communication in order to improve the visibility of its brand on the employment markets. In 2009, Valeo recruited 6,520 employees throughout the world (of whom 3,884 are on fixed-term contracts) including 786 engineers and managers, bringing to the Group new skills that will support its international development.

Despite the unfavorable economic climate, Valeo has pursued its relations with higher education institutes, in particular by developing **specific partnerships with universities and schools outside France** recognized at an international level, while promoting diversity among its employees. In 2009, the Group took part in many events targeting future graduates: Arts et Métiers Paristech forum, Audencia, Centrale Paris, EDHEC ESEO, ESO Reims MS, Supélec, Sup'Optique and UTC (France), V.I.E. organized by UbiFrance, a training forum with CEFIPA (France) and events held at 11 universities in China (Shanghai, Wuhan, Changchun, etc.) and India.

Valeo also strengthened relations with many partner schools including ESEO (on-board electronics) and Audencia Nantes (engineering).

In addition, Valeo sponsors the Elles Bougent association which promotes careers in the transport sector among female students and actively participates in the campaign to promote training led by FIEV (French Automotive Equipment Industries Association), which produced a film on this subject featuring Valeo tutors and apprentices.

Finally, Valeo sponsors the student association ShARE, for students from the most prestigious Asian universities, and played an active role in organizing the association's international seminar held in Indore (India) in December 2009.

Internal mobility and personal development

To offer attractive career prospects to the **10,834 engineers and managers** employed by Valeo, the Group's policy requires that at least three out of four positions are filled internally. Internal promotions were particularly encouraged in 2009. A career development plan is drawn up every year in order identify the future steps in the career paths of individual engineers and managers. The plan is implemented by each Group entity *via* a committee responsible for making decisions regarding internal job applications. In order to prepare employees for success in the next stage of their career, Valeo has a standard "individual development plan" form comparing skills acquired with skills required for the next stage, allowing very detailed individual development plans to be drawn up. The plan is based on the "3 E" approach (Education, Exposure, Experience), which favors structured experience and first-hand knowledge in addition to more traditional training and education. The Group has also developed a career appraisal form to help identify potential career developments for each engineer and manager, based on an analysis of their personal and professional interests.

Using these tools, **1,972 engineers and managers** benefited from career development actions in 2009.

To encourage the transfer of working cultures, technologies and methods, and to offer international career opportunities, the Group must be able to send some 50 experienced managers abroad every year. In order to be effective, Valeo's international mobility policy must be both competitive on the employment market and contribute to cutting costs.

The system of recognizing Experts (product or process) introduced in 1997 led to the appointment in 2009 of 70 new Experts, the promotion of 9 Experts to a higher status, and the renewal of 137 Expert positions. Being an Expert at Valeo means following a parallel career path with the same status as a manager, but without the wider managerial responsibilities.

1 2 3 4 5 6 7

< Contents >

Remuneration and benefits

The Group constantly monitors the employment market in order to remain competitive so that it can motivate and retain its talent. It must also adapt its practices by offering appropriate remuneration to its employees throughout the world. The Group maintains competitive salaries in particularly volatile employment markets such as China, Egypt, India, Poland, the Czech Republic, Romania, Russia and Slovakia, while also adapting its employee benefits in countries like India. Valeo's human resources rules are constantly reviewed and updated to adapt to countries in which the Group is newly established.

2.B.4.1.2. Training and employee involvement

In a highly competitive environment, training is an essential means of improving employee skills. The training policy and system are designed to reflect the needs of operational activities, functional networks and the career development aspirations expressed during employees' annual appraisals.

Training is essential for improving employability. It is seen as a shared investment: it is up to individual employees to be proactive and to commit to their own training programs by discussing them with their managers and the Human Resources team.

Training is also a key means of mobilizing everyone through the dissemination of values, methods and a common language in all sites through Valeo's 5 Axes schools based in Europe and Asia.

Valeo Experts transfer their product and process expertise through technical institutes to all employees as well as external customers.

The Group's functional networks train their members at internal Academies led by the business managers.

The sites design and organize all training related to their operational needs for a flexible, multi-skilled workforce, by offering the support of local management while constantly working to improve employee professionalism.

To achieve the greatest flexibility and efficiency, educational tools are designed in the form of training programs. The Group aims to alternate theory and practice so that employees learn to implement the skills acquired in their day-to-day work. Extending and improving skills, particularly through a dynamic training policy based on innovative resources and e-learning, means that Valeo is better placed to succeed in a highly competitive environment, and that its employees can benefit from career development opportunities.

E-learning covers all areas: languages, office skills, management, technical knowledge, personal development and communication. It is regularly enhanced with new modules, mainly designed in-house. For example, for its "well-being and efficiency at the workstation" project, in support of safety training, the Group deployed an e-learning program on ergonomics in 11 languages to help prevent muscular-skeletal disorders and work-related illnesses.

2.B.4.1.3. Code of Ethics

Valeo has long been aware of its social and environmental responsibilities, and is committed to upholding them while respecting national legislation and international treaties and agreements.

To this end, the Group has made a number of commitments, both internally and externally, including adhering to the **UN's Global Compact**. Valeo has also undertaken to promote the fundamental rights expressed in the Universal Declaration of Human Rights, human dignity and value, to respect the private lives of employees and equality of rights between men and women.

As part of its commitment, each year Valeo informs the Global Compact (Communication of Progress – COP) about advances made by the Group in these areas.

In 2005, these commitments led to the drawing up and international distribution of a Code of Ethics aimed at all Group employees, which sets out the rules applicable in all Group legal entities and in every country without exception.

The new Code of Ethics covers issues such as child labor, disabled workers, discrimination, harassment and health and safety in the workplace. It also demonstrates the Group's commitment to sustainable development: the environment, human resources, social dialogue and freedom of expression, as well as each employee's individual development. It covers the Group's commitments to society (professional training, new employment assistance, reindustrialization), business conduct and professional conduct. Finally, the Code states that Valeo service providers, consultants and subcontractors are obliged to act in accordance with the ethical rules outlined by the Group.

1
2
3
4
5
6
7

< Contents >

The Code of Ethics is an essential element of Valeo's values and a manager who does not respect it automatically receives the lowest evaluation rating. In such cases, an improvement plan must be implemented in order to demonstrate significant progress within a given timescale. This "manager assessment procedure" was chosen as a best practice by La Halde, France's anti-discrimination and equal opportunities body.

2.B.4.1.4. Well-being at work

In October 2009, the French Minister of Employment launched an urgent plan to prevent stress and psychosocial risks.

Valeo reached an agreement on a method with French unions on March 9, 2010 and is going to launch a social climate survey among all French employees and set up "Well-being at work" committees within each establishment.

Training for all employees as well as the negotiation of a Group agreement on Well-being at Work are planned, starting in the second quarter 2010.

These initiatives enabled Valeo to obtain the "green flag" from the French Ministry of Employment.

2.B.4.1.5. Labor Relations

Valeo strives to reconcile economic, social and environmental developments in each of the Group's legal entities, and to achieve the best possible social climate. Valeo is firmly committed to a forward-looking policy of employment and skills management.

In view of the ongoing necessity to rationalize its industrial base, the Group actively seeks solutions that will provide alternative jobs for employees affected: transfers within the Group, qualifying training, individual and collective external redeployment, the search for new employers to take over sites in question, the reindustrialization of employment regions and local economic development initiatives.

Employee representatives are regularly informed and consulted on these operations.

In 2009, Valeo implemented plans to adapt its workforce, particularly through short-time work and voluntary redundancies.

The Group's social indicators can be consulted in section 3.Q., "Social indicators", in Chapter 3.

2.B.4.2. Risk, Insurance, Environment, Health and Safety

2.B.4.2.1. Risk management and Insurance

Valeo's risk management policy is founded on a network of representatives, rigorous procedures, management systems for improving performance, and regular external audits.

The Risk, Insurance and Environment Department has put in place a dedicated structure based on Coordinators assigned to each Product Family. Each coordinator provides technical support to the Health, Safety, Security, Environment (HSSE) managers at each site. **The Risk Management Committee,** composed of Coordinators and the Director, is the central steering body of the Group's Risk, Insurance and Environment department.

Valeo's risk management policy, applied systematically at all sites, can be summarized as follows: respecting obligations imposed by national legislation as well as those defined by Group policy (which exceeds the requirements of national regulations in many fields), as well as identifying risks, evaluating their impact, setting objectives and implementing action plans to reduce – or where possible to eliminate – risks, and finally, regularly checking progress achieved through external audits.

All procedures regarding health and safety, building security, the environment and the protection of knowledge and expertise are detailed in the **Risk Management Manual,** which is updated on a regular basis. The Group also produces an **Insurance Manual,** updated yearly, providing comprehensive information on risk coverage and managing insurance programs.

For each site, the risks have been clearly identified. To achieve its objectives and bring risk levels down to zero, continuous visibility is necessary. Each site is subject to a full audit at least every three years, covering the environment and sustainable development, health and safety at work, and the protection and security of buildings. This audit is carried out by external consultants in accordance with local obligations, Group policy and good practice. It provides useful, detailed information, especially with regard to environmental concerns, on site activity, the surrounding area and the natural environment: geology, seismic risks, flood risk areas, etc. Actions to be implemented and associated action plans are established on the basis of these audits.

1
2
3
4
5
6
7

< Contents >

This provides the Risk, Insurance and Environment department with precise and comprehensive information for evaluating the performance of individual sites, which receive an annual score based on factual, objective criteria. Risks that might impact Valeo's business are set out in Chapter 3, section 3.I "Risks and uncertainties".

2.B.4.2.2. Environment

Environmental protection demands a number of initiatives which are, by definition, long term. Valeo has been committed to this effort for nearly 20 years in terms of both product innovation and the management of its industrial sites.

The objective is of course to prevent environmental pollution, but also to protect the environment through a consistent policy of sustainable development, notably by reducing consumption of energy and natural resources (water, raw materials), reducing or even eliminating the consumption of dangerous products, reducing waste and achieving maximum recyclability of all products, and offering an industrial environment that is both safe and pleasant to work in.

- Valeo systematically adopts an environmental approach at every stage in the life of its products and procedures: from design to production and use, right up to the management of the product at the end of its life. Since 1998, a group of experts in environmental matters and research and development from different Valeo Product Families have been working together to reduce the environmental impact of processes and products over their entire lifecycle. This research group meets regularly to discuss specific topics such as the elimination of banned and restricted substances or the use of recycled plastic, for example. In 2009, this research group pursued its mission to comply with REACH regulations (on the registering, evaluation and authorization of chemicals): this requires the reporting of chemical products bought or produced by the Group, the assessment of the toxicological risk associated with their use, and if necessary, the granting of authorization to market the product.
- Valeo has also created a reference database of substances that are banned or restricted in the automotive industry. Updated again in 2009, this database details the regulations applicable in the different countries where Valeo operates and the requirements of its automaker customers concerning over 600 substances used in the composition of parts and in manufacturing and repair processes.
- To fulfill its progress objectives, Valeo bases its environmental policy on performance and also on the establishment of a management system leading to regularly renewed external certification. This is the case with ISO 14001 certification, the international standard in terms of environmental management systems. **89% of sites were ISO 14001 certified at the end of 2009** compared with 88% at the end of 2008 and 84% at the end of 2007. The principle is to oblige Valeo's industrial sites to be certified, so that a newly acquired site is immediately included in the certification system.

2.B.4.2.3. Health and Safety

Health and safety at work is a priority for Valeo, which is constantly striving for "zero accidents". This policy is based on rigorous procedures using indicators to measure the effectiveness of actions taken, feedback through QRQC (Quick Response Quality Control) applied to health and safety at work, and finally, an OHSAS 18001 certification process for all industrial sites.

At the end of 2009, 81% of sites were certified, compared with 76% at the end of 2008 and 74% at the end of 2007. Like the ISO system, this health and safety management system is based on continuous improvement.

The Group's environmental indicators can be consulted in section 3.P., "Environment and sustainable development: management and performance", in Chapter 3.

2.B.4.3. Operational excellence

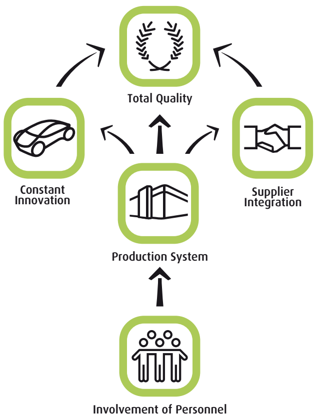
Operational excellence is of critical importance to Valeo. The controlled expansion of the Group's business requires the daily implementation of a basic principle: obtaining cost-effective total quality first time, whether this involves process engineering, manufacturing, projects or purchasing.

The 5 Axes methodology is applied around the world, by all Group employees, in order to deliver "zero defects" to the customer. The 5 Axes are:

- **Involvement of Personnel:** this implies recognizing skills, enhancing them through training and giving people the means to carry out their responsibilities. Employees are particularly encouraged to make suggestions for improvement and participate actively in the work of autonomous teams;

1
2
3
4
5
6
7

- **Valeo Production System (VPS):** VPS is designed to improve the productivity and quality of products and systems. It involves the following approaches: pull flow organization, flexible production resources, the elimination of all non-productive operations and stopping production at the first non-quality incident.
- **Constant Innovation:** to design innovative, easy-to-manufacture, high-quality and cost-effective products while reducing development time, Valeo has set up an organization based on project teams and the simultaneous engineering of products and processes;
- **Supplier Integration:** this allows Valeo to benefit from suppliers' ability to innovate and to develop productivity and quality improvement plans with them. Valeo sets up close and mutually beneficial relationships with a limited number of world-class suppliers and sustains these relationships in the long term;
- **Total Quality:** in order to meet customer demands in terms of product and service quality, Total Quality is required throughout the Group and from its suppliers.



FOR CUSTOMER SATISFACTION

In 2009, Group Quality focused on 9 key points to deploy across all Group sites in terms of operational excellence.

Three of these nine points are based on the **QRQC (Quick Response Quality Control) approach: safety, plants and suppliers.** Any problem that arises is immediately identified and analyzed on the spot by the parties involved. Corrective action is defined and implemented within 24 hours. This approach is now applied to all areas: Production, Quality, Projects, Purchasing, Warranty, Logistics and Safety.

The six other essential points are:

- **standard certification of operators:** this ensures that each workstation has clear instructions and that all operators are trained and capable of producing the right parts with the right quality at the right speed;
- **compliant project management:** The Project Management Committees hold regular meetings, in line with Valeo's project management processes, in order to ensure "zero defect" launches take place on the scheduled date and with the projected gross margin;
- **identification of project risks:** all analyses of fault modes, their effect and their critical nature are carried out and the critical characteristics are incorporated into control plans to ensure perfect quality. In 2009, as part of a plan to improve product development and in order to obtain built-in quality, a standard process of identifying and determining critical characteristics was developed and put in place in all project teams. In addition, the testing of these characteristics, known as SPPC (Special Product and Process Characteristics), was implemented internally by Valeo, but also at its suppliers, by making Valeo teams available along with communication, assessment and measurement standards;
- **an appropriate supply base:** suppliers are selected according to several criteria, including their ability to supply Valeo with the highest quality components, as well as their financial health and capacity for ongoing improvement. The requirements of supplier audits were raised in 2009 so that only the most active suppliers are selected to reach the highest level;
- **the development of these suppliers:** a plan has been implemented to improve the quality systems of suppliers (Supplier Quality Step Up, part of the aforementioned Built-in Quality strategy). A new Supplier Quality Assurance Manual has been developed and deployed to reinforce among our Supplier Quality teams the definition of the Group's quality requirements in development processes. In addition, all specifications and the associated checks, and more particularly in relation to "critical" characteristics, are now included in the new VRF (Valeo Requirement File). Valeo also continued to deploy tools to help its suppliers improve their own quality processes. The Group's QRQC approach continues to be implemented to assist suppliers in achieving zero defects;
- **San Gen Shugi:** all sites adhere to the principle of analyzing the facts based on the three "reals" (real place, real part, real data) in order to conduct flawless analyses of all problems encountered and to eliminate them once and for all. Feedback, gathered *via* "Lessons Learned Cards", is then made available to all parties in a database accessed *via* the Intranet.

< Contents >

For the past 10 years, internal audits have been used to evaluate the results of the 5 Axes approach, and Valeo has developed its own standards to analyze and improve the application of each of the 5 Axes. At the end of 2009, a new reference standard was developed to refocus teams on the basics of the 5 Axes strategy and ensure the ongoing improvement of processes, even in the difficult economic context of that year.

2.B.4.3.1. Purchasing

The role of Valeo's Purchasing team is to reduce costs by sourcing from only the most globally competitive suppliers, implementing extremely rigorous selection processes for new suppliers, applying the total quality and innovation approach to suppliers and sub-contractors, and establishing close partnerships with the most innovative and best performing suppliers.

The Purchasing network covers all activities linked to supplier integration. Suppliers are categorized by purchase family, from raw materials to electronic, mechanical or plastics components, etc. Each Valeo Product Family has its own Purchasing network and each Group site in the world has its own Purchasing team. The coordination within Product Families is the responsibility of the Group Commodity Leaders. They define the strategy and the target supplier panel for each Product Family. The Lead Buyers are based at production sites, and their job is to coordinate and create coherence between the buying policies of all Valeo Divisions for which each supplier works.

- Valeo deploys resources to help its suppliers improve their own quality processes. The Group's QRQC approach continues to be implemented to assist suppliers in achieving zero defects. In 2009, 360 suppliers were trained in this method.
- Supplier Relationship Management (SRM) is an essential tool in the relationship between Valeo and its suppliers. Modules such as the Incident Management System, Product Quality Assurance and the Supplier Scorecard can be accessed on a secure extranet, enabling Valeo and its suppliers to work closely together and share standardized processes, for example to share project schedules and to exchange and approve component qualification documents.
- By working with fewer suppliers and retaining only the best in terms of quality, technology and productivity, Valeo is better able to support them in their quality strategies and to include them in its projects. In 2009, the Group streamlined its supplier panel by 169, bringing their total number to 2,404.
- In line with its Code of Ethics, Valeo further tightened the requirements imposed on its suppliers in terms of labor rights and environmental protection. 1,325 suppliers signed the Code of Ethics in 2009.
- Innovating and designing products using different materials and new technologies can also help improve quality and further reduce costs. Conventions are held regularly to showcase supplier innovations and consider together how to incorporate them into new projects.
- Valeo has increased its sourcing from competitive-cost regions. In 2009, these purchases represented 45% of total purchases, up by 7% compared with 2008. This result has been achieved through the presence of the Purchasing network at Valeo's sites in the various regions of the world where its customers are based.

2.B.4.3.2. Industrial and Logistics functions

The role of the Industrial department is to improve the quality of Valeo's products and customer service, while reducing production costs and fixed assets. At the heart of this strategy lie the optimization of the industrial footprint and the deployment of a Total Quality culture.

- In 2009, Valeo continued to implement its plan to standardize processes and equipment, using the Kosu approach to measure the resources required to manufacture a part, and also its investment optimization strategy: TPM (Total Productive Maintenance). These operational standards make it possible to capitalize on experience, cut product development lead times, stabilize new production lines quickly while avoiding start-up problems, and cut costs at every stage of the process. All activities are now carried out using standards that supervisors must ensure are respected and improved. On the shop floor, performance is monitored in real time through a concrete analysis of what really happens on the production line. Problems are identified, immediately processed and turned into opportunities for improvement. Each operation is assessed for its contribution

1 2 3 4 5 6 7

< Contents >

to the added-value of products, and operations lacking in this respect are eliminated.

- The ergonomic design of workstations continues to be improved. Each workstation is organized around the needs of operators, who have made significant contributions to improving their comfort and safety at work. This approach is also part of Valeo's Occupational Health and Safety policy (see also paragraph 2.B.4.2.3."Health & Safety"). It helps reduce the number of accidents at the Group's production sites.
- The specific features of the aftermarket are also taken into account at Valeo. This market imposes certain limitations on industrial operations. Products are mainly manufactured using the same production machines as for original equipment parts. If necessary, simplified lines designed for small volumes with low levels of automation can meet the requirements of this market. Servicing and maintenance of these specific machines are already in place.
- In terms of the supply chain, 2009 saw the continued introduction of pull flow lines in order to reduce inventory. By the end of the year, net inventory excluding tooling stood at 4.9% of sales, despite the crisis which had a major impact on the automotive sector.
- This result was achieved through the use of tools and processes such as Visual ReOrder (VRO) for components, Kanban for managing parts in production and truck image for managing stocks of finished products.
- The goal of extending the use of VRO to 70% of volumes purchased was achieved. However, efforts must be maintained at some sites in 2010 in order to continue to roll out this method.
- The continued introduction of assembly to order and truck image enabled plant service rates to be maintained at more than 99%.

2.B.4.3.3 Quality

Quality is a key demand from consumers and automakers. It is a daily obsession of all Group employees: it is the cornerstone of Valeo's 5 Axes methodology and an integral part of the Group's culture.

Total Quality is not just a question of methodology; above all, it is a state of mind. It therefore requires the involvement of everyone at all times and in all circumstances. At Valeo, this approach is the responsibility of all 52,200 employees.

- The role of the Quality network is to ensure that everyone is aware of and understands their individual responsibilities. It also consists of evaluating problems and requirements in terms of training support, and of training, supporting and validating lessons to be retained and shared to avoid any recurrence. In addition to this systematic approach, the Quality network specifically ensures that the organization responds quickly to problems affecting customers, and promotes and contributes to the support actions required to deploy tools within the Quality anticipation strategy, in order to pre-empt customer issues.
- The Valeo Quality network operates as a decentralized network and involves each of the 5 Axes:
  - the Quality System Manager validates internal procedures, checks that they are applied properly, and updates them to ensure that they are in line with both internal and external quality standards;
  - the Project Quality Manager ensures that the quality methodology is duly applied to projects and checks that it covers projects for their entire duration, in accordance with Valeo standards;
  - the Supplier Quality Manager manages the quality of components delivered, from the project phase right through the product's lifecycle, and assists supplier progress through the implementation of improvement plans;
  - the Production Quality Manager ensures that quality-specific tools are properly implemented within the manufacturing process and coordinates the deployment of control plans as well as work instructions. They also act as the "voice of the customer" for all quality incidents to ensure the customer's total satisfaction;
  - the Quality Managers build the Quality network, develop its skills and abilities by instilling the QRQC spirit into the teams making up all the networks. To do this, QRQC Stage 3, a coaching method, was developed and will be deployed in 2010.
- Valeo has also implemented a program of resident engineers, to provide optimal customer support. Engineers are no longer simply assigned to a given customer; they actually go and work at the customer's premises. As soon as a problem is detected, the engineer communicates it to the appropriate people at Valeo, so that actions can be defined immediately to protect the customer. At the end of 2009, the Group had 79 resident engineers: 52 in Europe, 11 in North America, 12 in Asia and 4 in South America. Among these 79, a team of 12 project and warranty resident engineers have also joined customer teams either at the head offices or in their warranty management centers.

1
2
3
4
5
6
7

< Contents >

Reinforcing the Valeo culture involves the mobilization of all employees at all levels, and is based on:

- the **San Gen Shugi** approach, inspired by Japanese best practices and based on a concrete analysis of what actually happens on the shop floor. San Gen Shugi is based on reality: Gen-ba (where and when a problem arises), Gen-butsu (using the actual parts involved, whether above or below standard), Gen-jitsu (with measurable facts). This attitude is founded on both individual responsibility and teamwork;
- the **QRQC (Quick Response Quality Control)** approach, whereby each problem is immediately identified and analyzed by the parties involved. Corrective action is defined immediately and implemented within 24 hours. In the event of a quality incident, meetings are held on the spot to identify the root cause of the incident and eliminate it definitively. These meetings involve employees from various functions as required: production, logistics, maintenance, etc.

2.B.4.4. R&D and Product Marketing

Designing the automobile of tomorrow, creating technologies and products in line with the market while anticipating its expectations and driving the market through innovation: these are the fundamental principles of Valeo's Research & Development strategy.

Innovation is at the heart of the Group's development strategy. Valeo engineers seek to anticipate automakers' demand for solutions that offer real added-value for drivers: increased comfort, performance and respect for the environment. In 2009, research and development expenses, net of those rebilled to customers, represented 6.3% of sales, and 411 new patents were filed. Less than 4% of the Group's sales were based on third-party patents or licenses.

- Faced with an ever more demanding market in terms of new products, Valeo has developed the processes necessary for reducing design lead times for new products. Thus, the Group works upstream to improve the in-house efficiency of projects, ensuring the appropriateness of actions scheduled and checking that existing competences correspond to those required. Major efforts are made to reduce the cost of research and development, in order to satisfy market expectations.
- Since an innovation's success is closely linked to its value in terms of drivers' expectations, Valeo deploys a large range of tools, market research, forecasts and testing. Surveys are carried out to gain a better understanding of driver requirements and tests evaluate how new products are perceived. These tools enable Valeo to measure the extent to which innovations are accepted. The ultimate goal is to quickly develop and implement innovations that are useful to the driver and generate growth for Valeo.
- Valeo maintained its partnerships with a number of leading universities and colleges such as L'École des Mines – Paris Tech and ESIGELEC, in France, for electronics.
- Valeo has teamed up with five partners – Michelin, Leroy Somer, Johnson Controls-Saft, GKN and Leoni – to develop systems for rechargeable electric and hybrid vehicles in order to accelerate their introduction in France and internationally.
- In 2009, Valeo launched two research programs for which the Group received funding of 6 million euros from ADEME. One concerns mild hybrid technology which will increase the quantity of vehicles meeting the European regulation of 120g CO_2 per km in 2012 and 95g CO_2 per km in 2020. Valeo's partners in this project are PSA Peugeot Citroen, Freescale, Alter and Ceitecs, as well as five public research bodies. The second program relates to the thermal management of electric vehicles, in order to improve the autonomy of electric and hybrid vehicles. Valeo is working with Renault, Saint Gobain, Hutchinson and two research institutes, CETHIL-INSA and LINC, on this project.
- The European Investment Bank recognized the usefulness and quality of the research led by Valeo and granted 300 million euros in funding for efforts to reduce fuel consumption and CO_2 emissions and to improve active safety. So far, 225 million euros of this funding has been used.
- Finally, Valeo proposed projects for "competitive clusters" on themes relating to energy, powertrains, mechatronics, software and complex systems, but also invested in the governance of some of these centers (MOVEO, MTA, System@tic Paris-Region), which enables Valeo to help bring universities, industry and research closer together.
- **Valeo's R&D centers are located throughout the world.** At the end of 2009, the Group had 21 research centers and 40 development centers, employing a total workforce of more than 5,770. Two top-level development centers were opened in 2009, in Changchun and Wenling in China. Teams working at these centers contribute to projects for both the local market and Group-wide projects.

1
2
3
4
5
6
7

< Contents >

2.B.4.5. Sales and business development

Valeo develops, produces and sells original equipment and aftermarket products and systems for all car and truck manufacturers. The Group's commercial policy extends well beyond everyday commercial relations and involves forging very close partnerships and accompanying their customers in developing their markets, throughout the world.

2.B.4.5.1. Automaker customers

In 2009, the Group's German customers were its leading customers, with 28% of sales. French customers (excluding Nissan) represented 25% of Group sales. Asian and American customers represented respectively 20% and 16% of Group sales.

The Group's biggest customer represented 18% of Valeo's sales.

Valeo's main original equipment customers are (in alphabetical order):

- BMW;
- Chery;
- Chrysler;
- Daimler;
- FAW;
- Fiat;
- Ford Motor Company;
- General Motors;
- Honda;
- Hyundai;
- MAN;
- Mitsubishi;
- Navistar;
- Paccar;
- Porsche;
- PSA Peugeot Citroen;
- Renault Nissan;
- Scania;
- SAIC Group;
- Tata Motors;
- Toyota;
- Volkswagen Group;
- Volvo Trucks.

2.B.4.5.2. Organization

In 2009, the Sales and Business Development strategy focused on:

- **generating new orders:** the crisis led to delays in many new sourcing programs in the first half 2009. However, Valeo received a significant number of orders from customers in the second half 2009. New contracts received from China continued to grow. In North America, the situation improved, with major orders in the second half from GM and Ford as well as international automakers operating in the region;
- **concentrating efforts on growth in emerging countries:** in 2009, the Sales and Business Development network stepped up its efforts among customers in emerging countries, to offset the decline in traditionally strong markets such as Europe and North America. For the first time, Valeo held technology days in India for the Indian automakers Tata Motors and Suzuki Maruti, to present all product lines as well as specific innovations targeted at the Indian market. The appointment of National Directors for Turkey and the ASEAN region should boost customer relations and the development of business in these countries;
- **managing customer defaults and restructuring risks:** the unprecedented crisis in the automotive industry resulted in the collapse or restructuring of many of Valeo's customers. The sales function found itself in the front line, with the objective of protecting the Group from the potential negative financial effects. The team was successful in its mission, by minimizing the risks without affecting customer relations.

In line with this strategy, Sales and Business Development comprises four networks:

- **Group Customer Directors,** who are the Commercial Directors responsible for major automaker customers; there are nine of them. Each represents Valeo in its dealings with a given automaker and coordinates relations with the customer on a Group-wide basis, for all Product Families;
- **National Directorates,** whose aim is to promote the Valeo brand in their regions, establish close relationships with the key customers in these regions and, if necessary, resolve locally any legal or labor issues. There are twelve National Directorates, based in Germany, North America, South America, China, South Korea, Spain, India, Italy, Japan, Poland, Turkey and Thailand for the Association of South-East Asian Nations (ASEAN). The role of these Directorates will be further strengthened in order to optimize the Group's presence among national automakers and increase organizational efficiency;

1 2 3 4 5 6 7

< Contents >

- **the Sales and Business Development network,** consisting of nine Sales Directors each attached to a Product Family, which defines the commercial strategy and is responsible for day-to-day customer relations;
- **the International Development network,** which consists of seven International Development Directors for Valeo's nine Product Families. It identifies market opportunities in emerging countries by setting up structures to respond to customer demand in the countries concerned.

2.C. Geographical presence

1 2 3 4 5 6 7

The Group optimizes its industrial footprint on an ongoing basis in relation to customer demand, markets and labor costs.

In 2009, Valeo continued the deployment of its sites in Asia, as part of its globalization strategy and approach to accompanying its automaker customers around the world. Valeo now has production facilities in each of the world's major vehicle assembly regions and new sites based in countries offering the most competitive production costs or strong growth.

Valeo presence by region at December 31, 2009

	Production plants	Research centers	Development centers	Distribution platforms	Number of employees
Western Europe	49	18	14	5	24,592
Germany, Belgium/Netherlands, Spain, France, Ireland, Italy, United Kingdom					
Eastern Europe	15	-	4	3	8,212
Hungary, Poland, Czech Republic, Romania, Russia, Slovakia, Turkey					
North America	11	1	5	-	4,191
USA, Mexico					
South America	11	-	5	1	4,287
Argentina, Brazil					
Asia	31	2	11	1	9,493
China, South Korea, India, Japan, Thailand					
Africa	3	-	1	-	1,335
South Africa, Egypt, Tunisia					
	120	**21**	**40**	**10**	**52,110**

< Contents >

At December 31, 2009, the Group's real estate portfolio (land and buildings) had a net book value of 527 million euros (see Chapter 4, Notes to the consolidated financial statements, section 4.F.4.3. "Property and Equipment"). It is largely composed of production sites, mostly wholly owned.

The Group's equipment is largely made up of technical facilities, materials and tools. At December 31, 2009, they were stated as having a net value of 864 million euros excluding fixed assets under construction (see Chapter 4, Notes to the consolidated financial statements, section 4.3. "Fixed Assets").

Environmental constraints result from the regulations applicable in this area to all Group establishments (see Chapter 2, section 2.B.4.2.2 "Environment"; Chapter 3, section 3.I.2 "Industrial and environmental risks" and Chapter 3, section 3.P. "Corporate social responsibility – Environment and Sustainable Development: management and performance".

2.D. Competitive situation

The market for automotive components and systems is subject to fierce competition in terms of cost, quality, service and technology.

For some product lines supplied by the Group on the original equipment market, Valeo is consistently one of three to five major suppliers who together represent more than half of the market (in sales), the remainder being made up of a large number of regional suppliers (source: Valeo):

- in several product lines, Valeo competes against the three largest international automotive suppliers (in alphabetical order): Robert Bosch, Continental (Schaeffler group) and Denso;
- for certain product lines such as transmissions, thermal systems and lighting systems, the leading suppliers include companies that are smaller or more geographically concentrated, such as Behr, Hella, Koito, Kostal, LuK (Schaeffler group), Melco (Mitsubishi Electric Corporation), ZF Sachs, etc.;
- the following Product Families are among the world leaders in each segment (in sales): Transmissions, Climate Control, Engine Cooling, Wiper Systems, Lighting Systems, Engine and Electrical Systems, and two product lines from Valeo Interior Controls (ultrasonic sensors and top column modules). In addition, several products from Valeo Interior Controls and Valeo Security Systems enjoy European leadership positions (source: Valeo).

1
2
3
4
5
6
7

2.E. Highlights in 2009

2.E.1. Strategic operations

The acquisitions/disposals strategy is designed to reinforce the four Business Groups and increase the organic growth potential of the Group.

- Valeo consolidated its presence on the Chinese market by acquiring 100% of the Compressors joint venture in China, in which it previously held a 60% stake.

< Contents >

2.E.2. Commercial successes

2009 was marked by a number of commercial successes which helped enrich the content of Valeo products per vehicle. Original equipment order intake amounted to 1.5 time sales, despite the global economic crisis on the automotive market.

Despite the delay in some decisions on new business, Valeo won major new orders totaling 9.2 billion euros.

2.E.2.1. Comfort and Driving Assistance Systems

In 2009, Valeo Interior Controls registered an exceptional order intake. Innovative products represented strong growth, around 40% of the total order intake for recent development projects.

- The year was marked by the launch of the first top column modules using flexray technology, for the BMW 5 and 7 Series. To date, Valeo is the only supplier to offer this technology on the market.
- **Park4U™** saw a number of developments:
  - in Europe, new vehicles in the VW group range now incorporate this system. The technology is also available with a new automaker: the Fiat group (Lancia Delta). By 2014, more than 50 models by some 15 automakers around the world will feature the latest generation **Park4U™**;
  - in the United States, **Park4U™** made its debut on vehicles from the Ford group (Ford Escape & Flex, Lincoln MKS & MKT, Mercury Mariner);
  - in Asia, Valeo won contracts with major Asian automakers (Korean and Japanese). After Europe and the United States, in 2010 **Park4U™** technology will therefore be available on all three continents.
- In addition, for infrared sensors, 2009 was marked by the arrival on the market of the first rain-light-humidity sensor on the Porsche Panamera.
- In 2009, Valeo's multi-camera system was launched on the market. This breakthrough technology (with three or five cameras) equips vehicles from Land Rover (Range Rover, Range Rover Sport, Discovery 4), BMW (7 Series, Gran Turismo 5 Series, X5 and X6) and Rolls-Royce (Ghost).
- The radar product line saw its market introduction in early 2009 in North America, with the cross traffic alert system on the Lincoln MKT and MKZ models, the Ford Fusion and Taurus and the Mercury Milan.
- In 2009, the Product Family also had its first order for a feature based on a new generation of long-range sensors, which will be available from 2012,

Finally, in 2009, Valeo Interior Controls won more than 100 million euros in orders for the Chinese market. Valeo Security Systems registered some major new contracts including:

- an order from the Chinese automaker Chery for the keyless access and ignition system. Chery is the first Chinese automaker to equip its cars with this system. The vehicle segments covered are: high-end, family, SUVs and MPVs;
- the first contract for the Optimum lock with PSA Peugeot Citroen (on three future models).

2.E.2.2. Powertrain Systems

Valeo Engine and Electrical Systems saw the following developments:

- the first vehicle equipped with Valeo's stop-start system, the Volvo DRIVe, equipped with a 1.6l diesel engine, was voted Green car of the year;
- orders for ReStart, which performs very well with diesel engines, from major European, Asian and American automakers, as well as for the StARS starter-alternator;
- on the Chinese market, Valeo registered orders for cars in the mid-range to top-end category from local automakers, strengthening its position on this rapidly expanding market.

Valeo Transmissions continued to expand in 2009, ensuring its ongoing business activities by supplying new technologies to a large number of automakers in Europe, the United States and in emerging countries:

1
2
3
4
5
6
7

< Contents >

- in North America, through the growth of torque converter volumes at two American automakers, which as of February 2010 will be supplied from the new plant at San Luis Potosi in Mexico;
- in Europe, through several orders for dual mass flywheels from German automakers and nominations for SAT clutch mechanisms and on wide clearance NCR (New Clutch Range) discs;
- in Asia and South America with major orders for trucks in Brazil, and with Chinese and Korean automakers.

In 2010 Valeo Transmissions will continue to develop its dual dry clutch following research contracts initiated in 2009, and as of 2012 will supply in Europe a new type of hydraulic control with integrated position sensor.

2.E.2.3. Thermal Systems

- Valeo Climate Control achieved a high volume of orders in particular with the signing of several major contracts for air-conditioning systems. Some orders concern global platforms in Europe and Japan (VW for example) and use innovative technologies aimed at improving energy performance and reducing electricity consumption.
- Moreover, Valeo Climate Control recorded orders for thermal management systems for batteries for hybrid and electric vehicles, in the United States, Europe and Japan. Several Valeo technologies are available on the market, such as air cooling or heating and air-conditioning with secondary water circuit.
- Valeo Engine Cooling signed two major contracts in 2009, one with a Japanese automaker to supply front-end modules in North America, integrating an application for hybrid electric vehicles using the latest thermal exchanger technologies; the other was signed with a German automaker to equip a significant portion of their range of vehicles with a fan/motor system with PWM (Pulse Width Modulation) controller, generating fuel savings. In addition, Valeo Engine Cooling secured contracts for the production of EGR (Exhaust Gas Recirculation) modules and throttle programs related to Euro 6 applications in Europe, contracts for hybrid electric vehicles as well as several contracts on the Chinese market, enabling Valeo Engine Cooling to boost its presence on high growth markets.

2.E.2.4. Visibility Systems

- Valeo Lighting Systems withstood the relatively volatile market well, particularly thanks to its strong position on platforms less affected by the economic crisis. Also, Valeo introduced several innovations on the market during the year, notably in Germany, including tri-xenon headlamps for the new Audi Q7, whose "motorway" beam, automatically activated at speeds above 110 km per hour, doubles the range of the light beam.

  In 2009, Valeo Lighting Systems took firm orders for programs involving LED headlamps (high beam and low beam) and for xenon headlamps equipped with the **BeamAtic®** Premium function.
- The second-generation Flat Blades introduced on the market in 2008 now equip many models in Europe such as the Renault Mégane and Scenic, Alfa Romeo Mito, Citroen C3 and DS3, and the Peugeot 308 RCZ. Applications in Asia and North and South America are also planned.

2.E.2.5. Aftermarket

In 2009, Valeo Service particularly focused its efforts on improving customer satisfaction by:

- increasing the coverage of vehicle models with the launch of more than 4,600 product part numbers, with a particular effort in the lighting, engine cooling and ignition product ranges;
- speeding up the availability of original equipment products aimed at the aftermarket, through the "Time to Market" program;
- developing the innovative range of driving and parking assistance products;
- launching new truck products: the new range of Air Quality products, the new range of liquid-tank caps, **AdBlue®, and parkorigin™**, the first rear brake kit for light utility vehicles;
- the development of innovative original equipment technologies adapted to the aftermarket, such as the reversible starter-alternator system StARS;
- the improvement of its air conditioning diagnostic tools, with the launch of ClimTest+V2, offering more check points and more precision, and covering more vehicles;
- the development of Flat Blade wipers for the aftermarket and accessible in all wiper ranges produced by Valeo for the aftermarket: Silencio X.trm, Compact Revolution, SWF VisioNext, PJ FX;

< Contents >

- new lighting products such as Réglophare and Full AFS headlamps, a complete, adaptive front lighting system that adjusts the beam according to driving conditions: in rain and on urban roads or highways;
- a better service level through improvements to the logistics systems between Valeo's production sites and its warehouses, more flexible delivery options for customers, and the introduction of local logistics centers, the launch of technical support lines for Valeo Service customers;
- the launch of the inventory recommendation and optimization solution that can be adapted to customers' needs, using valeOptistock software;
- the development of additional features on the websites for customers (downloadable price lists and assembly instructions, development of customized extranet sites for each customer and for each market);
- the constant updating of the product catalogs, with 27 new catalogs launched in 2009.

Finally, in 2009, Valeo's network of air-conditioning professionals, Valeo Clim Service, celebrated its tenth anniversary in France.

1
2
3
4
5
6
7

2.E.3. Operational excellence

2.E.3.1. Industrial rationalization

Valeo continued to optimize its industrial facilities in order to support its customers' growth and ensure a competitive cost base.

- Four sites were opened during the year: Sainte Florine in France (Valeo Engine Cooling), Tomilino in Russia (Valeo Climate Control), Foshan in China (Valeo Engine Cooling) and Gemlik in Turkey (Valeo Transmissions).
- Sites were closed in Pamplona (Valeo Engine and Electrical Systems) in Spain, Queretaro in Mexico (Valeo Transmissions), Neuses in Germany (Valeo Lighting Systems) and Ansan in Korea (Valeo Compressors).
- At December 31, 2009, 55% of the Group's sites were located in competitive-cost countries.
- The steep decline in automotive production at the end of 2008 led the Group to announce a plan to adapt its global workforce, involving 5,000 permanent jobs. This plan was carried out in 2009.

2.E.3.2. Quality

At the end of 2009, the Group's Quality level reached a historic record 7,300 PPB (Parts Per Billion), an improvement of almost 50% compared to 2008. 17% of the Group's sites were at 0 PPB. At the same time, total non-quality costs (direct costs, special transport and warranty costs) remained stable compared to 2008.

2.E.3.3. Supplier integration

- By supporting its customers with its 120 sites located in 27 countries across 4 continents, Valeo now has a strong position from which to speed up the process of bringing its supply base into line with the best performances observed among the benchmark suppliers in each purchasing segment, which benefit from global cost bases that are structurally the most competitive.
- Thanks to the results obtained, Valeo is able to integrate a growing number of these suppliers at very early stages in new projects.
- In 2009, many projects were launched in production with more than 70% of purchasing coming from these benchmark suppliers.
- This strategy contributed to the 7% increase in the proportion of purchases from competitive-cost countries, which reached 45% at year-end.
- The widespread implementation of levers to reduce purchasing costs helped lessen the effects of record inflation in raw materials in the first half of the year. The main levers are:
  - product and supplier panel benchmarks at Group level;
  - joint productivity projects between Valeo and suppliers;
  - the dynamic management of quotas and the allocation of new business.
- The Group pursued its program to rationalize its supply base and concentrate on the best suppliers for each technology, at a global level. The panel totaled 2,404 suppliers at the end of December 2009, while purchasing volume stood at around 3.8 billion euros.

< Contents >

- The use of Valeo's online bidding system to stimulate competition and optimize purchasing prices reached a record level of 3 billion euros in 2009 (compared to 2.4 billion euros in 2008).
- A supplier risk plan aimed at preventing the consequences of the economic crisis on sourcing, led by the supplier risk committee under the authority of Group Purchasing, was deployed in all Divisions and Product Families. 2,185 suppliers were assessed by Valeo in order to anticipate and respond as quickly as possible to potentially critical situations in terms of sourcing. The effectiveness of this plan allowed Valeo to protect its customers from defaults that put pressure on most areas of sourcing within the industry.

2.E.4. Awards

The Group's technological innovation potential continued to enjoy widespread recognition among market players. The quality of Valeo's products and services was recognized by its customers and institutional partners, testifying to the Group's operational excellence.

2.E.4.1. Innovation rewarded

- Valeo Interior Controls: At the end of 2009, Ford gave its Henry Ford Technology Award to the members of its US teams that successfully integrated the **Park4U™** system for the first time on Ford Group models (Ford Escape and Flex, Lincoln MKS and MKT, Mercury Mariner).

  For the same technology, Ford received the 2009 Popular Science "Best Of What's New'" Award.
- The Visibility Systems Business Group was a finalist in the prestigious **2009 PACE Awards** in the "manufacturing process and capital equipment" category for its solvent-free reflector varnishing procedure.
- The BeamAtic® Premium lighting technology won the **Grand Prix de l'Innovation at Equip'Auto 2009** (Lighting Systems Product Family).
- Ford gave its Global Body Engineering award to the lighting systems project for the Ford Ranger.
- Valeo Unisia Transmissions received the technical innovation award from Jatco for its torque converter damper.
- On the independent aftermarket, the **guideo™** driving assistance system, which warns the driver if he inadvertently cross a lane line, was named 2009 Product of the Year in France. This recognition from consumers rewards technological innovations that improve driver safety and comfort.

2.E.4.2. Operational excellence recognized

Automaker customers continued to recognize the high standard of the Group's services, particularly in the area of Quality.

- A Supplier Quality Award, the Certificate of Recognition presented by Toyota Europe to Valeo's Engine Cooling site in Saragossa, Spain, the Lighting Systems site in Mazamet, France and the Interior Controls site in Rodach, Germany, recognized the excellent level of quality supplied.
- Valeo Engine and Electrical Systems China was named Supplier of the Year by GM Shanghai.
- Valeo Engine and Electrical Systems China also obtained a Supplier Quality Award from Chery.
- Valeo Compressors China received the award for the Best project management and product validation by the FAW-VW Group.
- The Chinese Division of Valeo Lighting Systems in Wuhan received the Production Safety Award on March 26, 2009 at the annual FAW-Toyota supplier convention.
- Valeo Lighting System's Mexican plant at San Luis Potosi received a Quality award from Chrysler.
- In April 2009, Toyota Peugeot Citroen Automobile (TPCA) gave Supplier Quality awards to Valeo Security Systems Kosice (Slovakia), Valeo Climate Control and Valeo Interior Controls Rakovnik (Czech Republic), Valeo Lighting Systems Mazamet (France), Valeo Engine Cooling Skawina (Poland) and Valeo Engine and Electrical Systems Czechowice (Poland).
- Valeo Transmissions was also recognized, with:
  - a Quality award from Ford for Valeo Unisia Transmissions in Japan;
  - the Best Supplier Award from Chery for Valeo Transmissions China.
- Valeo Compressors Humpolec (Czech Republic) was named Top Supplier by TPCA (joint venture between Toyota and PSA) for its excellent performance in terms of quality and delivery for 2009.

1 2 3 4 5 6 7

< Contents >

2.F. Recent events and outlook

- Valeo joined the GENIVI Alliance which focuses on developing in-vehicle infotainment solutions. This association is formed of automakers, suppliers and other relevant industrial players, promoting the adoption and development of an open-source, benchmark in-vehicle infotainment (IVI) platform.
- On February 25, 2010 Valeo announced its plan to sell its lighting modules business, mainly comprising headlamp leveling actuators, to a group of investors supported by the European investment fund Syntegra Capital, and the regional development fund Picardie Investissements. This transaction covers an R&D center currently based in Bobigny, France, a production site at Hirson, also in France, and new businesses in China. These operations employ around 250 people, including 200 in France. They generated sales of 46 million euros for 2009.
- At an investors' day held on March 10, 2010 in Paris, Valeo presented its new strategic plan focused on the reduction of CO_2 emissions and its medium-term financial objectives:
  - organic growth higher than that of automotive production in each region thanks to innovation and accelerated development in emerging markets. Valeo expects to double its sales for technologies linked to CO_2 emissions reduction by 2013, to 1 billion euros, and over 5 billion euros in 2020. Valeo plans to devote 60% of its investments to emerging countries in order to reinforce its historical positions, notably in China, India, Brazil, Thailand and Turkey, and progressively develop its presence in Russia. The Group's sales in China and India should amount to 1 billion euros in 2013 and 3 billion euros in 2020. Valeo forecasts organic growth higher than that of global automotive output in each region of production, thereby achieving sales of 10 billion euros in 2013 and 15 billion euros in 2020;
  - determination to be a major player in the consolidation of the sector;
  - implementation of a new Group organization centered around 4 Business Groups and the strengthening of the National Directorates to respond to new market and customer demands. The search for business synergies and global Purchasing will enable accelerated growth and improved efficiency. The implementation of this new organization will result in the elimination of 600 jobs worldwide;
  - a return on capital employed (ROCE)(1) objective for 2013 among the best in the industry. With sales of around 10 billion euros in 2013 and an operating margin level of 6 to 7%, the Group's ROCE should be close to 30%.

In addition to the lowering of its break-even point to around 7 billion euros in sales and its negative working capital, Valeo has three other levers which will contribute to improving its operating margin by 3 points as of 2013:

- reduced administrative expenses from around the end of the first half 2011;
- investment limited to 80% of depreciation in 2010 and 2011;
- return to Group-average profitability for the Visibility Systems Business Group.

- On March 19, 2010 the Group announced a project to sell its Telma speed controller activity, which manufactures electromagnetic retarders, to the current management team.

The operation includes the activity's headquarters and main plant based in Saint Ouen l'Aumône, France, a joint venture plant in China and two distribution centers based in the U.K. and the U.S. The business employs 195 people, of which 123 are based in France. It generated sales of 39.4 million euros in 2009.

(1) Before restructuring, taxes and goodwill.

< Contents >

1
2
3
4
5
6
7

Management report

3

< Contents >

3.A. Accounting methods

The consolidated financial statements for the Valeo Group were prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as approved by the European Union. The accounting principles are explained in detail in the Notes to the consolidated financial statements in Chapter 4. section 4.F.

3.B. Statement of income

3.B.1. Review of operations

Consolidated full-year net sales declined by 13.6%, from 8,677 million euros in 2008 to 7,499 million euros in 2009. Changes in the scope of consolidation had a negative impact of 0.8%. Exchange rate fluctuations made a positive contribution of 0.9%. On a like-for-like basis, with constant Group structure and exchange rates, full-year net sales declined by 13.7% in 2009. At the same time, the Group's automotive production benchmark declined by an estimated 18%, with a 30.4% drop in the first half and a 1.3% drop in the second.

The original equipment segment accounted for 6,029 million euros of full-year net sales, or 80% of the total, and the aftermarket accounted for 1,470 million euros, or 20% of the total, compared with 7,045 million euros (81%) and 1,632 million euros (19%) in 2008. Aftermarket sales, excluding miscellaneous sales and tooling, were down by 11% in 2009, and miscellaneous sales and tooling declined by 6%.

Europe and Africa account for the largest proportion of Valeo's sales (65%), followed by Asia, the Middle East and the Pacific (17%), North America (10%) and South America (8%).

Sales in Europe and Africa stood at 4,912 million euros, down by 14.6% from 2008. Like-for-like sales declined by 13.9%, with changes in exchange rates and Group structure making a negative contribution of 0.7%. Like-for-like original equipment private passenger car sales for the European market alone were down by 12.9%, whereas light vehicle automotive production in Europe declined by 20.7% (source: JD Power).

Sales in Asia, the Middle East and the Pacific stood at 1,260 million euros, down by 1.9% from 2008. Like-for-like sales declined by 6.2%, with changes in exchange rates and Group structure making a positive contribution of 4.3%. Like-for-like OE private passenger car sales for the Asian market alone were down by 0.4%, whereas light vehicle production in Asia increased by 1.9% (source: JD Power), with growth rates exceeding 50% in China and 19% in India offsetting declines of 30% in Japan and 8% in Korea.

Sales in North America stood at 752 million euros, down by 27.9% from 2008. Like-for-like sales declined by 29.2%, with changes in exchange rates and Group structure making a positive contribution of 1.3%. Like-for-like OE private passenger car sales for the North American market were down by 31.4%, whereas light vehicle automotive production in North America declined by 32.5% (source: JD Power).

Sales in South America stood at 575 million euros, down by 4.2% from 2008. Like-for-like sales declined by 0.4%, with changes in exchange rates and Group structure making a negative contribution of 3.8%. Like-for-like OE private passenger car sales for the South American market were up by 5.2%, whereas light vehicle automotive production in South America declined by 2.3% (source: JD Power).

Valeo's sales can also be broken down into four Business Groups: Comfort and Driving Aid Systems, Powertrain Systems, Thermal Systems, Visibility Systems.

1
2
3
4
5
6
7

< Contents >

Sales of Comfort and Driving Aid Systems stood at 1,344 million euros, down by 13.2% from 2008. Like-for-like sales declined by 13.4%, with changes in exchange rates making a positive contribution of 0.2%.

Sales of Powertrain Systems stood at 2,011 million euros, down by 9.7% from 2008. Like-for-like sales declined by 9.1%, with changes in exchange rates making a negative contribution of 0.6%.

Sales of Thermal Systems stood at 2,258 million euros, down by 17.3% from 2008. Like-for-like sales declined by 19.9%, with changes in exchange rates making a positive contribution of 2.6%.

Sales of Visibility Systems stood at 1,938 million euros, down by 9.1% from 2008. Like-for-like sales declined by 9.7%, with changes in exchange rates making a positive contribution of 0.6%.

The sales of each Business Group were affected by the crisis to varying degrees, depending on their market positions on each continent. Thermal Systems sales suffered the biggest decline, dropping 17% compared with 2008 as a result of the Business Group's strong presence in North America. Declines in the other Business Group's sales ranged from 9% to 13%, in line with the average decline for the Group as a whole.

1 2 3 4 5 6 7

3.B.2. Results

Consolidated gross margin stood at 1,138 million euros, down by 14% compared with 2008 (1,327 million euros). It represented 15.2% of sales, against 15.3% in 2008. Despite the negative impact of 3.9 percentage points stemming from declining sales, cost saving measures implemented since the beginning of the crisis, such as the plan to reduce headcount by 5,000 and passing on additional costs in selling prices, made it possible to reduce the impact by 3.2 percentage points. Gross margin was also boosted by a one-percentage-point fall in raw material prices in 2009. Despite the steady increase in raw material prices in 2009, the average cost was lower than in 2008.

The presentation of the income statement was changed as of January 1, 2009. Customer financing of Research and Development, which had previously been recognized as Other Operating Revenue, is now primarily reclassified as a deduction from Research and Development expenditure.

Net Research and Development expenditure totaled 473 million euros, or 6.3% of sales, compared with 501 million euros and 5.8% of sales in 2008.

The cost savings measures introduced in 2009 also made it possible to cut selling costs by 11.9% to 156 million euros and administrative costs by 10.3% to 376 million euros. In 2009, selling costs represented 2.1% of sales and administrative costs represented 5%.

The operating margin came to 133 million euros, down by 42.2% from 230 million euros in 2008. The operating margin represented 1.8% of sales, compared with 2.7% in 2008. The recovery of the automotive industry in the second quarter of 2009, combined with the Group's efforts to adjust its cost structure to the current level of activity, enabled Valeo to post a positive operating margin of 15 million euros in the second quarter of 2009, following a negative margin of 66 million euros in the first quarter, and positive margins of 68 million euros and 116 million euros in the third and fourth quarters respectively. Cost savings achieved in 2009 came to 336 million euros altogether.

The Group's EBITDA declined by 122 million euros in 2009 to 670 million euros, as opposed to 792 million euros in 2008. Each Business Group rapidly implemented a cost savings and activity modulation plan in the fourth quarter of 2008 to attenuate the impact of the slump in business. The plans successfully limited the decline of EBITDA to between 0.4 percentage points and 1.2 percentage points for three Business Groups in 2009. In the Visibility Systems Business Group, these actions were combined with other actions to enhance the margin and resulted in an improvement of that Business Group's EBITDA of 0.4 percentage points in 2009.

< Contents >

The balance of other income and expenses resulted in net expenditure of 49 million euros, compared with net expenditure of 282 million euros in 2008, which primarily included expenditure of 239 million euros for social and restructuring costs.

Consolidated operating income was positive at 84 million euros in 2009, or 1.1% of sales, as opposed to a loss of 52 million euros (-0.6% of sales) in 2008.

The cost of net financial debt came to 60 million euros, representing an increase of 15 million euros over 2008. It was affected by the higher cost of borrowing stemming from the sharp rise in the cost of lines of credit and the increase in the liquidity provided by the European Investment Bank, totaling 225 million euros and reinvested at market rates that were significantly lower than in 2008.

Other financial income and expenses showed net expenditure of 57 million euros, compared with net expenditure of 59 million euros in 2008, following recognition of a charge of 17 million euros in 2008 and a charge of 5 million euros in 2009 for commodity hedges that turned out to be oversized in the face of adverse price trends.

The Group's income before taxes showed a loss of 67 million euros (as opposed to a loss of 147 million euros in 2008), including the Group's share of losses of 34 million euros posted by affiliated companies, including a loss of 36.5 million euros reported by the Japanese Group Ichikoh, which corresponds to the operating losses, restructuring costs and asset impairment announced by that group, in which Valeo holds a 31.6% equity interest.

The Group reported tax expense of 79 million euros for the year ended December 31, 2009, as opposed to 51 million euros in 2008, even though it posted a loss before taxes. Tax expense corresponds to taxes recognized in Brazil, Poland and China, where earnings improved in 2009, giving rise to an increase in tax expense compared with 2008. Furthermore, the Group does not recognize deferred tax assets in countries where it reports a loss, such as France and the United States. The Group also set aside a provision of 9 million euros for deferred tax expense relating to the Corporate Value Added Contribution (CVAC).

After taking account of minority interests (7 million euros in 2009, as opposed to 8 million in 2008), net income attributable to equity holders of the company came in at a loss of 153 million euros, compared with 207 million euros in 2008. The loss posted in 2009 stems from the contrasting situations in the first half of the year, when Valeo posted a loss of 213 million euros, and the second half of the year, when it reported net income of 60 million euros.

Basic earnings per share, computed from the net income for the period attributable to equity holders of the company, stood at -2.04 euros, as opposed to -2.73 euros in 2008. Diluted earnings per share were the same at - 2.04 euros in 2009 and - 2.73 euros in 2008.

1
2
3
4
5
6
7

3.C. Investments over the past three years

3.C.1. 2009

Investments in property, plant and equipment stood at 304 million euros, or 4.1% of total operating revenues in 2009. Given the decline in business, investments in capacity was lower than in 2008. However, the Group did make major capacity investments in the Powertrain Systems Business Group to develop its torque converter business in Mexico and China and to develop micro-hybrid systems.

Investments relating to growth plans and our customers' projects were maintained. Investment in emerging countries, such as China

< Contents >

and Brazil, remained high at more than 5% of total operating revenues, in order to take advantage of potential for future growth.

Investments in intangible assets stood at 150 million euros, or 2% of total operating revenues. Capitalized development expenditure was maintained at 147 million euros, rising from 1.7% of sales in 2008 to 2% in 2009.

Valeo does not have any plans for major investments in 2010, but it will continue to invest in projects under way related to our customers' projects and investments in growth markets will be stepped up.

3.C.2 2008

In 2008, the Group invested 468 million euros in property, plant and equipment, or 5.4% of sales. The Group made major investments relating to deployment of production capacity for new products in 2008. The investments concerned several Product Families: Transmissions, with the installation of capacity in torque converters in Mexico and China; Electrical Systems, for future micro-hybrid StARS production; Interior Controls for the production of ultrasonic sensors in Germany; and Security Systems, with the completion of a plan in Slovakia that supplies door closing systems. In Brazil, the Group has extensively upgraded its facilities and increased space for its Thermal, Lighting and Electrical Systems activities.

Investments in intangible assets amounted to 160 million euros, or 1.8% of total operating revenues.

3.C.3 2007

In 2007, investments in property, plant and equipment stood at 435 million euros, or 4.5% of total operating revenues. Investments in intangible assets – mainly capitalized development expenditure – amounted to 138 million euros, or 1.4% of total operating revenues.

Changes in the scope of consolidation (mainly the disposal of the Wiring Harness business) had a net impact of 208 million euros.

3.D. Change in stockholders' equity

3.D.1. Stockholders' equity

At December 31, 2009, stockholders' equity stood at 1,284 million euros, compared with 1,362 million euros at December 31, 2008. The decline of 78 million euros corresponds primarily to the loss of 146 million euros recognized for the year, which was partially offset by favorable conversion rate adjustments of 48 million euros in 2009.

< Contents >

3.D.2. Share capital

3.D.2.1. Changes in share capital

The company's share capital was composed of 78,209,617 shares with a par value of 3 euros each at December 31, 2009, unchanged since December 31, 2008.

At December 31, 2009 a potential maximum of 1,598,323 shares could be issued upon exercise of stock options awarded to the Group's employees and corporate officers. At that date, all of the OCEANE bonds were outstanding and were convertible and/or exchangeable for 10,105,439 shares [(1)].

3.D.2.2. Treasury shares

At December 31, 2009 the Company held, directly and indirectly, 2,652,119 of its own shares (3.39% of the share capital) with a unit value based on their purchase price of 24.06 euros and a par value of 3 euros. At December 31, 2008, Valeo held 3,142,499 of its own shares (4.02% of share capital).

The shares purchased in 2009 were used exclusively for the purpose of implementing the liquidity contract.

The share purchases were made in accordance with authorizations granted by the Stockholders Meetings of June 20, 2008 and June 9, 2009 to the Board of Directors to buy back Company shares. In the sixth resolution of the Stockholders Meeting of June 20, 2008, the Company's stockholders granted the Board of Directors (with the possibility of delegation) the power to purchase or order the purchase of the Company's shares so as to:

- implement any Company stock option plans under the provisions of Articles L.225-177 and the following of the Commercial Code; or
- award or sell shares to employees by way of profit-sharing bonuses and in connection with company savings plans under the provisions of Articles L.443-1 and the following of the Labor Code; or
- allocate free shares under the provisions of Articles L.225-197-1 and the following of the Commercial Code; or
- allocate shares on exercise of rights attaching to securities providing access to equity by redemption, conversion, exchange, presentation of a warrant, or any other method; or
- cancel some or all of the shares bought back; or
- allocate shares in exchange or in payment or otherwise as part of an external growth operation, merger, demerger or capital contribution; or
- ensure liquidity in the secondary market for the Company's shares under a liquidity agreement entered into with an investment services provider that complies with the Code of Conduct approved by the market regulator; or
- enable an investment services provider to carry out share purchases, sales or transfers by any means, including through off-market transactions.

The seventh resolution of the Stockholders Meeting of June 9, 2009 authorized the Board of Directors (with the possibility of delegation) to purchase or order the purchase of the Company's shares with a view to the above operations, except for the last one, and stipulated that the cancellation of shares bought back should be carried out under the terms of the thirteenth resolution of the same meeting.

At December 31, 2009 the number of treasury shares to be allocated upon exercise of stock options stood at 2,606,119, compared with 2,671,869 at December 31, 2008. The change stems from the transfer of ownership of 65,750 free shares to the Group's employees.

The remaining treasury shares (46,000 at December 31, 2009, compared with 470,630 at December 31, 2008) are earmarked for use under a liquidity agreement that complies with the code of ethics issued by the French Association of Investment Firms (Association Française des Entreprises d'Investissement), signed with an investment services provider on April 22, 2004. At December 31, 2009, 46,000 shares and 9,635,328 euros had been allocated to the liquidity contract, compared with 470,630 shares and 1,182,909 euros at December 31, 2008. On the date the liquidity contract was signed, 220,000 Valeo shares and a sum of 6,600,000 euros were allocated for its implementation.

Under the liquidity contract, and via an investment services provider, Valeo acquired 727,135 shares at an average price of 14.65 euros and sold 1,151,765 shares at an average First-In-First-Out price of 15.70 euros. Trading and transaction fees incurred under the liquidity contract totaled 175,000 euros, with no change from 2008. These share were not reallocated to other purposes provided for under the share buyback program.

3.D.2.3. Employee stock ownership

At December 31, 2009, employees held a total of 123,746 shares under Group employee stock ownership plans, directly or through two mutual funds, representing 0.16% of the Company's share capital. At December 31, 2008, they held 940,328 shares, or 1.20% of the share capital.

(1) Following the public share buyback offer and simplified public tender offer, and in accordance with applicable regulations and the contract governing the OCEANE bond issue, the conversion/exchange ratio applicable to the bonds was increased from 1 share per bond to 1.013 share per bond.

< Contents >

3.D.2.4. Senior executives transactions in Company shares falling within the scope of Article L.621-18-2 of the French Monetary and Financial Code *(Code monétaire et financier)*

In 2009, Jacques Aschenbroich, Chief Executive Officer and a Director of the Company, acquired 1,000 Company shares at a price of 11.94 euros each on March 27, 2009 2,000 Company shares at a price of 14.39 euros each and another 2,000 Company shares at a price of 14.43 euros each on May 15, 2009, and 2,000 Company shares at a price of 13.24 euros each on June 18, 2009.

3.D.3. Dividends

Dividends paid out in the past three years are shown in the table below:

Year	Dividend per share (in euros)	Allowance (in euros)	Total (in millions of euros)
2006	1.10	Eligible for the 40% allowance provided for in Article 158-3-2 of the French General Tax Code	85
2007	1.20	Eligible for the 40% allowance provided for in Article 158-3-2 of the French General Tax Code	92
2008	0		0

3.E. Provisions

The balance sheet at December 31, 2008 showed total provisions of 1,113 million euros (including a non-current portion of 749 million euros), compared with 1,227 million euros at the previous year-end (including a non-current portion of 765 million euros).

Total provisions for reorganization expenses fell by 150 million euros in 2009 to 164 million euros. This change partly reflects the cost of the headcount adjustment plan announced on December 17, 2008, which called for cutting 5,000 jobs.

Provisions for pensions and other post-employment benefits totaled 610 million euros at year-end, unchanged from 2008. This item was affected on the upside by actuarial gains of 16 million euros in 2009.

Other provisions increased from 302 million euros at December 31, 2008 to 339 million euros on December 31, 2009. They include 156 million euros for customer warranties and 183 million euros for other risks and, more especially social, for environmental tax and legal risks.

1 2 3 4 5 6 7

< Contents >

3.F. Cash flows and debt

Net cash flow from operating activities amounted to 599 million euros (including 470 million euros in gross operating cash flows), compared with 731 million euros in 2008 (including 623 million euros in gross operating cash flows).

Excluding the impact of changes in the scope of consolidation, net cash used for investment totaled 487 million euros (including 150 million euros in intangible assets and 304 million euros in property, plant and equipment), compared with 623 million euros in 2008 (including 160 million euros in intangible assets and 468 million euros in property, plant and equipment). Changes in the scope of consolidation resulted in a net outflow of 10 million euros, compared to a net inflow of 52 million euros in 2008 (including 73 million euros from the sale of the heavy duty truck engine cooling business to the Swedish company EQT).

Net cash inflows from financing activities came to 176 million euros in 2009. This figure includes 228 million euros in borrowing, including the loan contracted from the European Investment Bank at the end of July 2009. In 2008, financing activities generated net cash outflows of 143 million euros, including 92 million euros paid to the Company's stockholders. It should be noted that Valeo did not pay a dividend for 2009.

In all, including the impact of exchange rate movements, net consolidated cash holdings increased by 292 million euros in 2009, compared to a net decrease of 16 million in 2008.

Net debt (sum of debt, short-term loans and bank overdrafts, minus cash, cash equivalents and lending, along with other long-term financial assets) stood at 722 million euros at the end of 2009, compared with 821 million euros at December 31, 2008. The ratio of net debt to stockholders' equity (minus minority interests) stood at 59% at December 31, 2009, compared with 63% at December 31, 2008. The reduction of 99 million euros in debt in 2009 can primarily be attributed to the cash flow generated during the year.

1
2
3
4
5
6
7

3.G. Commitments

The main commitments given are as follows:

(in millions of euros)	2009	2008	2007
Lease commitments	103	100	71
Guarantees and deposits	2	2	3
Irrevocable commitments to purchase assets	88	93	108
Other commitments given	141	140	124
TOTAL	**334**	**335**	**306**

These commitments are described in Chapter 4, Note 4.F.6.3 to the consolidated financial statements.

< Contents >

3.H. Remuneration of corporate officers, directors and other Group executive managers

3.H.1. Executive corporate officers

At its meeting on March 20, 2009, the Board of Directors decided to separate the functions of Chairman of the Board and Chief Executive Officer, acting on the advice of the Nomination, Remuneration and Corporate Governance Committee and following the resignation of Thierry Morin as Chairman and Chief Executive Officer. The Board then appointed Pascal Colombani to be Chairman of the Board of Directors and Jacques Aschenbroich to be Chief Executive Officer.

3.H.1.1. Remuneration of Pascal Colombani for his responsibilities as Chairman of the Board of Directors

The Board of Directors sets the compensation paid by Valeo to Pascal Colombani, the Chairman of the Board of Directors, based on recommendations made by the Nomination, Remuneration and Corporate Governance Committee.

3.H.1.1.1. Fixed compensation and benefits in kind

The Board of Directors decided that Pascal Colombani would be paid fixed annual compensation of 250,000 euros as Chairman of the Board of Administration. In 2009, Pascal Colombani was paid pro-rated compensation of 195,564 euros as Chairman of the Board of Directors.

3.H.1.1.2. Variable Compensation

Pascal Colombani is not paid any variable compensation.

3.H.1.1.3. Directors' fees

In 2009, Pascal Colombani was paid 11,700 euros in directors' fees for the period in which he was a director, before being Chairman of the Board of Directors. After his appointment as Chairman, the Board of Directors decided at its meeting on April 9, 2009, acting on a suggestion from the Nomination, Remuneration and Corporate Governance Committee, that the Chairman of the Board would not be paid directors' fees. In 2008, Pascal Colombani had been paid 49,000 euros in directors' fees.

3.H.1.1.4. Compensation paid by companies controlled by Valeo

Pascal Colombani was not paid any compensation by companies controlled by Valeo.

3.H.1.1.5. Stock options and free shares

Pascal Colombani was not awarded any stock options or free shares in 2009.

3.H.1.1.6. Pension

Pascal Colombani is not covered by any supplementary pension plan for his responsibilities in the Valeo Group.

3.H.1.1.7. Termination benefits

Pascal Colombani is not entitled to any termination benefits.

1 2 3 4 5 6 7

< Contents >

3.H.1.1.8. Compensation paid to the Chairman of the Board of Directors over the last two years

The following tables show the compensation payments and allocations of options and shares to Pascal Colombani over the last two years.

Summary of compensation payments and allocations of options and shares to Pascal Colombani

	2008	2009
Compensation	€49,000	€207,264
Value of options awarded during the year	€0	€0
Value of free shares awarded during the year	€0	€0
TOTAL	**€49,000**	**€207,264**

Summary of compensation paid to Pascal Colombani

	2008		2009	
	Amount owed	**Amount paid**	**Amount owed**	**Amount paid**
Fixed compensation	€0	€0	€195,564	€195,564
Variable compensation	€0	€0	€0	€0
Exceptional compensation	€0	€0	€0	€0
Directors' fees	€49,000	€49,000	€11,700	€11,700
o/w fees paid by Valeo	€49,000	€49,000	€11,700	€11,700
o/w fees paid by controlled companies	€0	€0	€0	€0
Benefits in kind	€0	€0	€0	€0
TOTAL	**€49,000**	**€49,000**	**€207,264**	**€207,264**

1
2
3
4
5
6
7

< Contents >

Stock options granted to Pascal Colombani during the year

Plan no. and date	Type of option (purchase/ subscription)	Value of options according to the method used for consolidated accounts	Number of options granted during the year	Strike price	Exercise period
Not applicable	Not applicable	Not applicable	0	Not applicable	Not applicable

Stock options exercised by Pascal Colombani during the year

Plan no. and date	Number of options exercised during the year	Strike price
Not applicable	0	Not applicable

Free shares granted to Pascal Colombani

Free shares granted by the Annual General Meeting during the year to Pascal Colombani by Valeo or any Group company	Plan no. and date	Number of shares granted during the year	Value of shares according to method used for consolidated accounts	Acquisition date	Shares available as at	Performance requirements
	Not applicable	0	Not applicable	Not applicable	Not applicable	Not applicable

Free shares that became available to Pascal Colombani

Plan no. and date	Number of shares that became available during the year	Acquisition requirements
Not applicable	0	Not applicable

< Contents >

Allocations of stock options – information concerning stock options

Not applicable.

Employment contract, supplementary pension schemes and benefits

	Employment contract	Supplementary pension schemes	Compensation or benefits owned or likely to be owed on termination or change of functions	Payments relating to non-competition clause
Pascal Colombani **Chairman of the Board of Directors** **First appointed as a Director: 05/21/2005** **Term of office began: 03/20/2009** **Term of office ends: AGM called to approve the financial statements for the period ending 12/31/2010**	No	No	No	No

1 2 3 4 5 6 7

3.H.1.2. Remuneration of Jacques Aschenbroich for his responsibilities as Chief Executive Officer

The Board of Directors sets the compensation paid by Valeo to Jacques Aschenbroich, the Chief Executive Officer, based on recommendations made by the Nomination, Remuneration and Corporate Governance Committee. Jacques Aschenbroich does not an employment contract with the Valeo Group.

3.H.1.2.1. Fixed compensation and benefits in kind

At its meeting on April 9, 2009, the Board of Directors set Jacques Aschenbroich's fixed annual compensation at 850,000 euros. At the same meeting, the Board also decided to grant coverage to Jacques Aschenbroich under the unemployment insurance fund for company managers, the mandatory health, death and disability insurance plan, and insurance in case of death, disability or accidents occurring during business travel. In 2009, Valeo paid Jacques Aschenbroich fixed compensation of 689,550 euros. This amount consists of 664,919 euros in pro-rated gross compensation and 24,631 euros in benefits in kind.

3.H.1.2.2. Variable Compensation

After consulting the Committee of Wise Men (a body set up by the French employers' federation (MEDEF) to contribute to the proper application of the principles of restraint, fairness and consistency in senior executives' pay that can be consulted by corporate boards, remuneration committees and general meetings) and in keeping with the recommendation of the Nomination, Remuneration and Corporate Governance Committee, the Board of Directors, at its meeting on July 29, 2009, decided that the variable compensation to be paid to Jacques Aschenbroich for 2009 shall be pro-rated in consideration of his appointment on March 20, 2009 and that it shall depend on the following criteria:

- quantitative criteria for up to 90% of fixed compensation, including: (i) Group liquidity and renewal of lines of credit, (ii) Group free cash flow before restructuring costs and financial expenses, (iii) positive Group operating margin in the second half of the year, (iv) EBITDA and (v) amounts invested (property, plant and equipment and R&D) during the year;

< Contents >

- qualitative criteria for up to 30% of fixed compensation, including: (i) simplification and strengthening of the organizational structure and (ii) the new strategy for Valeo up to 2015.

The cap on variable compensation was set at 120% of Jacques Aschenbroich's fixed compensation. However, given the economic circumstances, the Board decided that, if the application of these criteria resulted in variable compensation greater than 60% of fixed compensation, the variable component would be capped at 60% of fixed compensation.

At its meeting on February 24, 2010, the Board of Directors noted that Jacques Aschenbroich's variable compensation would exceed 60% of his fixed compensation according to the criteria. Therefore, the Board decided, in keeping with the advice of the Nomination, Remuneration and Corporate Governance Committee and the rules on pay caps cited above, that Jacques Aschenbroich's variable compensation for 2009 would be capped at 60% of his fixed compensation. Consequently, it stood at 398,952 euros.

At the same meeting, the Board of Directors decided that the variable compensation to be paid to Jacques Aschenbroich for 2010 would depend on:

- quantitative criteria, including: (i) operating margin, (ii) operating cash flow, (iii) orders booked by the Group, and (iv) net income;
- qualitative criteria, including: (i) quality of financial communications and (ii) implementation of a strategy for Valeo.

The amounts of variable compensation expressed as percentages of basic fixed compensation are as follows:

- operating margin: 0% to 30%;
- operating cash flow: 0% to 15%;
- orders booked: 0% to 20%;
- net income: 0% to 15%.

The amounts for the qualitative criteria are 0% to 15% for the quality of financial communications and 0% to 25% for implementation of a strategy.

The maximum amount of variable compensation is 120% of Jacques Aschenbroich's fixed compensation.

3.H.1.2.3. Directors' fees

In 2009, no directors' fees were paid to Jacques Aschenbroich for his directorship at Valeo. At its meeting of April 9, 2009, the Board of Directors, acting on a proposal from the Nomination, Remuneration and Corporate Governance Committee, decided that the Chief Executive Officer would not be paid directors' fees.

3.H.1.2.4. Compensation paid by companies controlled by Valeo

In 2009, Jacques Aschenbroich did not receive any remuneration from companies controlled by Valeo. At its meeting of April 9, 2009, the Board of Directors, acting on a proposal from the Nomination, Remuneration and Corporate Governance Committee, decided that the Chief Executive Officer would not be paid directors' fees.

3.H.1.2.5. Stock options and free shares

Jacques Aschenbroich was not awarded any stock options or free shares in 2009.

3.H.1.2.6. Pension

At its meeting on April 9, 2009, the Board of Directors discussed the total compensation of Jacques Aschenbroich and agreed to the principle that he would be covered by the existing defined-benefit supplementary retirement scheme that applies to the senior executives of Valeo and its French subsidiaries (or the new scheme under consideration to replace the existing scheme), and that he would be credited with five additional years of service in view of his age and the fact that he is not covered by any other supplementary retirement scheme at present. This decision was taken out of concern for retaining and motivating the new Chief Executive Office with regard to the Company's objectives, protecting its corporate interest and following market practices.

However, in view of ongoing changes in laws and regulations, the Board decided to defer the implementation of a supplementary retirement scheme until a later meeting. However, the Board did take into consideration the benefit of a supplementary retirement scheme when it determined the total compensation of Jacques Aschenbroich.

At its meeting on October 20, 2009, the Board of Directors decided to admit Jacques Aschenbroich to the new "add-on" defined-benefit retirement scheme for the Group's senior executives. The main characteristics of this scheme are described in section 3.H.4. below.

In view of Jacques Aschenbroich's age and the fact that he is not covered by any other supplementary retirement scheme, the decision was made to credit Jacques Aschenbroich with an additional five years of pensionable service when he took up his new responsibilities.

The new retirement scheme has been in force since January 1, 2010.

1 2 3 4 5 6 7

< Contents >

3.H.1.2.7. Termination benefits and non-competition payments

At its meeting on April 9, 2009, the Board of Directors, acting on a proposal from the Nomination, Remuneration and Corporate Governance Committee and with the agreement of Jacques Aschenbroich, decided that the Chief Executive Officer would not be entitled to any termination benefits in 2009 and that this matter would be reconsidered in 2010.

At its meeting on February 24, 2010, the Board of Directors, acting on a proposal from the Nomination, Remuneration and Corporate Governance Committee and after consulting the Committee of Wise Men, decided to make Jacques Aschenbroich eligible for termination benefits that would be paid in the event of termination related to a change in control or strategy (except on the grounds of gross misconduct in the performance of his duties).

The amount of the benefits will depend on the termination date:

- 6 months' compensation (fixed and variable) if the termination date is in 2010;
- 12 months if the termination date is in 2011;
- 18 months if the termination date is in 2012; and
- 24 months if the termination date is in 2013.

The termination benefits will be subject to the following performance criteria:

- some or all of the exceptional bonus for reaching objectives was paid at least twice in the last three years (or the last year if terminated after one year and the last two years if terminated after two years);
- positive net income was posted in the most recent full financial year;
- the operating margin in the most recent full financial year was greater than 3.6%;
- the gross margin in the most recent full financial year was greater than 16%;
- the ratio of new orders to OE sales is greater than 1.3 on average over the previous two years (or the last year if terminated after one year).

The compensation used to calculate the termination benefits will be average compensation (fixed and variable) paid for the two full financial years preceding termination (or the previous year if terminated in 2010). For the purposes of this calculation, compensation paid for 2009 shall be deemed to be the compensation that would have been paid for a full year.

The total amount of termination benefits to be paid will be calculated according to the following scale:

- if 5 criteria are met: Jacques Aschenbroich will be paid 100% of the termination benefits;
- if 4 criteria are met: Jacques Aschenbroich will be paid 80% of the termination benefits;
- if 3 criteria are met: Jacques Aschenbroich will be paid 60% of the termination benefits;
- if 2 criteria are met: Jacques Aschenbroich will be paid 40% of the termination benefits;
- if fewer than 2 criteria are met: Jacques Aschenbroich will be paid 0% of the termination benefits.

The Board will reduce the termination benefits calculated above by 20% if a plan for significant job cuts is introduced in the year preceding the termination of Jacques Aschenbroich's employment.

The termination benefits owed will be paid in a single payment within a month of the Board of Directors' assessment of the fulfillment of the criteria for receiving the termination benefits.

The Board of Directors also reserved the right to require Jacques Aschenbroich to abide by a non-competition clause. If the Company invokes this clause, Jacques Aschenbroich shall be prohibited from working in any way for an automotive equipment manufacturer or, more generally for any of Valeo's competitors. The clause shall apply for twelve months after the termination of his employment as the Chief Executive Officer of Valeo for any reason.

If this clause is invoked, Jacques Aschenbroich will be given a non-competition payment equal to twelve months of compensation (the same compensation used to calculate the termination benefits). The payment will be made in equal monthly installments over the entire period to which the non-competition clause applies.

The Company retains the right to waive the non-competition clause, in which case no payment will be owed.

If the Company invokes the non-competition clause, the amount owed will be offset against the termination benefits. For example, the maximum amounts to be paid to Jacques Aschenbroich in the form of a non-competition payment and/or termination benefits would be as follows:

1 2 3 4 5 6 7

< Contents >

	Termination with non-competition clause invoked	Termination with non-competition clause waived
Termination in 2010	12 months	6 months
Termination in 2011	12 months	12 months
Termination in 2012	18 months	18 months
Termination in 2013	24 months	24 months

If the non-competition clause is invoked, Jacques Aschenbroich will receive the non-competition payment at least, and the amount due under the non-competition clause and the termination benefits will be paid: (i) up to the amount owed under the non-competition clause, in accordance with the relevant payment rules, (ii) plus any surplus owed under the payment rules for the termination benefits.

3.H.1.2.8. Compensation paid to the Chief Executive Officer over the last two years

The following tables show the compensation payments and allocations of options and shares to Jacques Aschenbroich over the last two years.

Summary of compensation payments and allocations of options and shares to Jacques Aschenbroich

(in euros)	2008	2009
Compensation	0	1,088,502
Value of options awarded during the year	0	0
Value of free shares awarded during the year	0	0
TOTAL	**0**	**1,088,502**

Summary of compensation paid to Jacques Aschenbroich

	2008		2009	
(in euros)	Amount owed	Amount paid	Amount owed	Amount paid
Fixed compensation	Not applicable	Not applicable	664,919	664,919
Variable compensation	Not applicable	Not applicable	398,952	0
Exceptional compensation	Not applicable	Not applicable	0	0
Directors' fees	Not applicable	Not applicable	0	0
o/w fees paid by Valeo	Not applicable	Not applicable	0	0
o/w fees paid by controlled companies	Not applicable	Not applicable	0	0
Benefits in kind*	**Not applicable**	**Not applicable**	**24,631**	**24,631**
TOTAL	**Not applicable**	**Not applicable**	**1,088,502**	**689,550**

* *Company car, annual contribution to the unemployment insurance fund for company managers and annual contribution to pension fund.*

< Contents >

Stock options granted to Jacques Aschenbroich during the year

Plan no. and date	Type of option (purchase/ subscription)	Value of options according to the method used for consolidated accounts	Number of options granted during the year	Strike price	Exercise period
Not applicable	Not applicable	Not applicable	0	Not applicable	Not applicable

Stock options exercised by Jacques Aschenbroich during the year

Plan no. and date	Number of options exercised during the year	Strike price
Not applicable	0	Not applicable

Free shares allocated to Jacques Aschenbroich

Free shares granted by the Annual General Meeting during the year to Jacques Aschenbroich by Valeo or any Group company	Plan no. and date	Number of shares granted during the year	Value of shares according to method used for consolidated accounts	Acquisition date	Shares available as at	Performance requirements
	Not applicable	0	Not applicable	Not applicable	Not applicable	Not applicable

Free shares that became available to Jacques Aschenbroich

Plan no. and date	Number of shares that became available during the year	Acquisition requirements
Not applicable	0	Not applicable

1
2
3
4
5
6
7

< Contents >

Allocations of stock options – information concerning stock options

Not applicable.

Employment contract, supplementary pension schemes and benefits

	Employment contract	Supplementary pension schemes	Compensation or benefits owned or likely to be owed on termination or change of functions	Payments relating to non-competition clause
	No	Yes	Yes	Yes
Jacques Aschenbroich **Chief Executive Officer** **First appointed: March 20, 2009** **Term of office began: March 20, 2009** **Term of office ends: AGM called to approve the financial statements for the period ending December 31, 2010**		The pension scheme covering Jacques Aschenbroich is detailed in sections 3.H.1.2.6 and 3.H.4	See section 3.H.1.2.7 for a description of these benefits	See section 3.H.1.2.7 for a description of these payments

3.H.1.3. Remuneration of Thierry Morin for his responsibilities as Chairman and Chief Executive Officer

Thierry Morin stepped down as Chairman and Chief Executive Officer on March 20, 2009 as a result of differences regarding strategy and the Board's determination to change the governance structure of the Group.

3.H.1.3.1. Fixed compensation and benefits in kind

In 2009, Valeo paid gross compensation of 252,796 euros to Thierry Morin for the performance of his duties until March 20, 2009, compared with 1,597,440 euros in 2008. This amount consists of 242,473 euros in gross compensation (compared with 1,577,590 euros in 2008) and 1,577 euros in benefits in kind (compared with 19,850 euros in 2008).

3.H.1.3.2. Variable Compensation

At its meeting on April 12, 2009, the Board of Directors, acting on a recommendation of the Nomination, Remuneration and Corporate Governance Committee, decided to calculate the variable component of Thierry Morin's compensation for 2009 on the basis of quantitative criteria to be assessed half yearly (net operating cash flow of the group, excluding restructuring costs and EBITDA) and annually (share price changes compared to a basket of other shares in the sector), and qualitative criteria to be assessed annually (including successful implementation of the crisis plan), subject to the cap set at 100% of annual fixed compensation by the Board, acting on a proposal from the Nomination, Remuneration and Corporate Governance Committee.

No variable compensation was paid to Thierry Morin for 2009. No variable compensation was paid to Thierry Morin for 2008.

3.H.1.3.3. Directors' fees

In 2009, Valeo did not pay Thierry Morin any directors' fees. Valeo had paid him 49,000 in directors' fees in 2008.

3.H.1.3.4. Compensation paid by companies controlled by Valeo

In 2009, Thierry Morin was not paid any compensation by companies controlled by Valeo.

In 2008, the gross compensation paid to Thierry Morin by companies controlled by Valeo (within the meaning of Article L.233-16 of the

1 2 3 4 5 6 7

< Contents >

Commercial Code) came to 45,750 euros in directors' fees from Valeo (UK) Limited.

3.H.1.3.5. Stock options and free shares

The Board of Directors did not allocate any stock options or free shares to Thierry Morin in 2008 or 2009.

Thierry Morin did not exercise any options allocated in earlier years in 2008 or 2009. In 2008, he received ownership of 20,000 free shares under the program of March 3, 2006.

3.H.1.3.6. Pension

Thierry Morin was covered by the supplementary pension plan for Valeo Group senior executives and by the supplementary pension scheme for senior executives who are former members of the Management board, which was established by a decision of the Supervisory Board on October 17, 2002. These pension schemes are described in section 3.H.4.

As at December 31, 2009, the total provisions that Valeo set aside for payment came to 2,380,000 euros.

3.H.1.3.7. Termination benefits

At its meeting on February 12, 2009, the Board of Directors, acting on a recommendation from the Nomination, Remuneration and Corporate Governance Committee, decided to review the compensation and benefits to be paid to Thierry Morin in certain cases of termination to bring them into line with the AFEP/MEDEF recommendations. The original arrangements had been approved by the Annual General Meeting on June 20, 2008. The Board of Directors decided to set a lump sum termination benefit for Thierry Morin consisting of two years' fixed and variable compensation, to be calculated from the average fixed and variable compensation paid over the three full years preceding his termination. It was stipulated that this benefit could be paid to Thierry Morin in the event that his termination followed (i) a change in the control of the company or (ii) a change in strategy decided by the Board of Directors. In either of these two cases, regardless of the legal terms of a non-voluntary departure of the Chairman & CEO; that is to say whether the Board decides to terminate the Chairman & CEO's tenure or should the Chairman & CEO have no other choice than to resign after noting a significant modification of the conditions for exercising his function. The payment of these benefits and the setting of their final amount are subject to validation by the Board of Directors that the performance criteria set by the Board of Directors on March 20, 2008 have been met, to wit:

- all or part of the exceptional target-based bonus has been paid at least once in the last three years;
- Valeo's attributable net income for the last full year is positive;
- the operating margin in the most recent full financial year is greater than 3%;
- the gross margin in the most recent full financial year is greater than 15%;
- the ratio of new orders to OE sales is greater than 1 on average over the previous two years.

The total sum to be paid to Thierry Morin on termination or after termination may be reduced according to the scale presented below:

- if 4 or five criteria are met: Thierry Morin would be paid 100% of the termination benefits;
- if 3 criteria are met: Thierry Morin would be paid 70% of the termination benefits;
- if 2 criteria are met: Thierry Morin would be paid 40% of the termination benefits;
- if fewer than 2 criteria are met: Thierry Morin would be paid 0% of the termination benefits.

Thierry Morin also had an employment contract (which had been suspended) and was entitled to severance pay under the terms of that contract. Thierry Morin had agreed (as noted by the Board of Directors Meeting of October 20, 2008) not to combine the benefits to be paid for the termination of his corporate duties and the severance pay owed under the terms of his employment contract and to waive his non-competition payment so that in the event of the termination of his corporate duties and is employment contract, he would be treated as follows: (i) if he was paid some or all benefits relating to the termination of his corporate duties, he would not be paid any benefits relating to the termination of his employment contract; (ii) if he was not paid any benefits relating to the termination of his corporate duties, the severance pay clause in his employment contract would apply and he would receive a payment equal to two years of his last salary as an employee, or 960,000 euros.

At its meeting of March 20, 2009, the Board of Directors noted the resignation of Thierry Morin from his positions as Chairman and CEO due to differences with respect strategy that opposed him to the Board of Directors. The Board unanimously voted in accordance with the advice of the Nomination, Remuneration and Corporate

1 2 3 4 5 6 7

< Contents >

Governance Committee to terminate Thierry Morin's tenure as Chairman and CEO in accordance with the following conditions set out in a memorandum of understanding signed with Thierry Morin:

(i) payment upon this termination of a lump sum equal to two years of compensation, or a gross sum of 3,261,405 euros, which represents the average fixed and variable compensation paid to Thierry Morin for his corporate duties during the three full years preceding his termination. The Board of Directors found that, according to the letter of the agreement, only three of the five performance criteria set by the Board Meeting on March 20, 2008 and approved by the Annual General Meeting on June 20, 2008 had been met (payment of all or part of the exceptional target-based bonus at least once in the last three years; an operating margin in the most recent full financial year greater than 3%; a ratio of new orders to OE sales greater than 1 on average over the previous two years), which should have led to a 30% reduction in the severance payment. The Board of Directors found that the criterion based on Valeo's income attributable to its stockholders for one year should be assessed without considering exceptional items. The Board deemed that, without counting the exceptional provisions set aside in 2008 as a result of a decision passed by the Board of Directors before the end of 2008, the criterion had been met. Therefore the Board found that four of the five performance criteria determining Thierry Morin's termination benefits had been met and that, consequently, no reduction was to be applied. The Board of Directors decided that the termination benefit would be paid on March 23, 2009;

(ii) at the request of Thierry Morin, the Board of Directors agreed to waive the attendance requirement in every stock option plan that he was in, after deciding that this waiver would be subject to the same performance requirements as the termination benefits mentioned above. The Board found that 4 of the 5 performance criteria had been met.

Furthermore, the Board meeting of March 20, 2009 decided to terminate Thierry Morin's employment contract on June 30, 2009. This contract had been suspended while he was performing his corporate duties. The Board decided that Thierry Morin would be paid only for a six-month notice period and his holiday pay, since he had waived any other payment under his employment contract.

Following the discovery, after Thierry Morin's departure, of clandestine recordings of Board of Directors meetings and certain directors meetings, the Company conducted an internal investigation. In view of the information gathered, the Board of Directors decided to take the matter before the courts. Considering that the decisions made on March 20, 2009 would not have been made if the Board of Directors had been aware of these facts, the Board decided, at its meeting on May 15, 2009, to recommend that the stockholders reject the agreements signed between Thierry Morin and the Company at the end of his tenure, which were authorized by the Board of Directors meeting on March 20, 2009. The Annual General Meeting of June 9, 2009 rejected these agreements (Resolution A).

Consequently, legal proceedings were initiated to reclaim the sums paid to Thierry Morin upon his departure and his employment contract was terminated before the June 30, 2009 termination date set out in the Memorandum of Understanding. Thierry Morin was paid the gross sum of 98,194 euros under the terms of his employment contract. He was also paid the gross sum of 284,148 euros for his six-month notice period and holiday pay, along with 8,816 euros for benefits in kind.

State of the proceedings

On June 16, 2009, Valeo filed a complaint against Thierry Morin with the Nanterre Commercial Court and petitioned to have the Memorandum of Understanding voided for misrepresentation or fraud. In a subsidiary petition, Valeo asked for repayment of 30% of the termination payment made to Thierry Morin and the reintroduction of the attendance requirement for the exercise of his stock options, as a result of the rejection of the Memorandum of Agreement by the Valeo Annual General Meeting. Thierry Morin has cited Pascal Colombani, Behdad Alizadeh, Gérard Blanc, Jérôme Contamine, Michael Jay, Philippe Guedon, Georges Pauget, Erich Spitz and Daniel Camus in the case, along with Helle Kristoffersen. The proceedings are still under way.

Furthermore, Valeo dismissed Thierry Morin before the agreed date on real and serious grounds. On October 30, 2009, Thierry Morin filed a complaint against Valeo with the Paris Labor Tribunal and asked for termination benefits totaling 2,441,000 euros. The proceedings are still under way.

3.H.1.3.8. Compensation paid to the Chairman and Chief Executive Officer over the last two years

The following tables show the compensation payments and allocations of options and shares to Thierry Morin over the last two years, linked to the office of Chairman and CEO.

1 2 3 4 5 6 7

< Contents >

Summary of compensation payments and allocations of options and shares to Thierry Morin

	2008	2009
Compensation	€1,692,190	€3,514,201
Value of options awarded during the year	€0	€0
Value of free shares awarded during the year	€0	€0
TOTAL	**€1,692,190**	**€3,514, 201**

Summary of Thierry Morin's compensation

	2008		2009	
	Amount owed	Amount paid	Amount owed	Amount paid
Fixed compensation	€1,577,590	€1,577,590	€242,473	€242,473
Variable compensation	€0	€236,640	€0	€0
Exceptional compensation	€0	€0	€3,261,405	€3,261,405
Directors' fees	€94,750	€94,750	€0	€0
o/w fees paid by Valeo	€49,000	€49,000	€0	€0
o/w fees paid by controlled companies	€45,750	€45,750	€0	€0
Benefits in kind*	€19,850	€19,850	€10,323	€10,323
TOTAL	**€1,692,190**	**€1,928,830**	**€3,514,201**	**€3,514,201**

* *Company car, annual contribution to the unemployment insurance fund for company managers.*

Stock options granted to Thierry Morin during the year

Plan no. and date	Type of option (purchase/ subscription)	Value of options according to the method used for consolidated accounts	Number of options granted during the year	Strike price	Exercise period
Not applicable	Not applicable	Not applicable	0	Not applicable	Not applicable

< Contents >

Stock options exercised by Thierry Morin during the year

	Plan no. and date	Number of options exercised during the year	Strike price
	Not applicable	0	Not applicable

Free shares allocated to Thierry Morin

Free shares granted by the Annual General Meeting during the year to Thierry Morin by Valeo or any Group company	Plan no. and date	Number of shares granted during the year	Value of shares according to method used for consolidated accounts	Acquisition date	Shares available as at	Performance requirements
	Not applicable	0	Not applicable	Not applicable	Not applicable	Not applicable

Free shares that became available to Thierry Morin

	Plan no. and date	Number of shares that became available during the year	Acquisition requirements
	Not applicable	0	Not applicable
TOTAL		0	

1 2 3 4 5 6 7

< Contents >

Allocations of stock options to Thierry Morin – information concerning stock options

AGM date	05/25/2000	05/09/2001	06/10/2002	03/31/2003	04/05/2004	05/03/2005	05/03/2005	05/03/2005
Date of Board of Directors or Management board meeting, as applicable	03/21/2001	12/07/2001	03/31/2003	11/06/2003	11/08/2004	03/03/2006	03/07/2007	11/15/2007
Total number of shares available for purchase or subscription, o/w the number made available for purchase or subscription to:	80,000	600,000	700,000	1,280,000	1,404,000	187,000	250,000	1,677,000
Thierry Morin	50,000	200,000 (o/w 50% condit.)	100,000	100,000	200,000	150,000	200,000	150,000 (o/w 50% condit.)
Exercise period start date	03/21/2001	12/07/2001	03/31/2005 03/31/2006	11/06/2005 11/06/2006	11/08/2006 11/08/2007	03/03/2008 03/03/2009	03/07/2009 03/07/2010	11/15/2010
Expiry date	03/20/2009	12/06/2009	03/30/2011	11/05/2011	11/07/2012	03/02/2014	03/06/2015	11/14/2015
Subscription or purchase price	€55.82	€42.48	€23.51	€32.91	€28.46 and €32.74	€33.75	€36.97	€36.82
Exercise procedures (if plan has several parts)	100% imm.	50% imm. 50% condit	50% - 2; 100% - 3	50% - 2; 100% - 3	50% - 2; 100% - 3	50% - 2; 100% - 3	50% - 2; 100% - 3	50% - 3; 50% condit
Number of shares purchased or subscribed at 12/31/2009	0	0	0	0	0	0	0	0
Total number of options that have been cancelled or become null and void	50,000	200,000	0	0	0	0	0	75,000 (condit.)
Outstanding options at year-end	0	0	100,000 + 1,000 (public share buyback offer/ simplified public tender offer)	100,000 + 1,000 (public share buyback offer/ simplified public tender offer)	200,000 + 2,000 (public share buyback offer/ simplified public tender offer)	150,000	200,000	75,000

1 2 3 4 5 6 7

< Contents >

Employment contract, supplementary pension schemes and benefits

	Employment contract	Supplementary pension schemes	Compensation or benefits owned or likely to be owed on termination or change of functions	Payments relating to non-competition clause
	Yes	Yes	Yes	No
Thierry Morin Chairman and CEO First appointed: March 21, 2001 -Term of office began: May 21, 2007 -Term of office ended: March 20, 2009	Thierry Morin had been covered by an employment contract since he joined the Group in 1989. This contract had been suspended since March 21, 2001 and resumed on March 20, 2009 when his tenure as Chairman and CEO ended. This contract was terminated on June 3, 2009*.	The pension schemes covering Thierry Morin are detailed in sections 3.H.1.3.6 and 3.H.4.	See section 3.H.1.3.7 for a description of these benefits.	

* *With effect after the six-month notice period.*

3.H.2. Non-executive directors

Non-executive directors are paid directors' fees. In 2009, the Board of Directors allocated directors' fees as follows: each director was paid a fixed annual portion of 17,000 euros plus a variable portion of 1,900 euros per meeting attended, with an overall cap of 30,300 euros per year. Directors who also sit on a Board Committee, except for the Committee Chairmen, were paid an additional variable portion of 1,900 euros per meeting attended, with an overall cap of 17,100 euros per year. Each director who chaired a Committee was paid a fixed portion of 7,000 per year and a variable portion of 1,900 euros per meeting attended, with an overall cap of 24,100 euros per year.

Directors' fees are paid every six months, according to the following attendance rules:

- the variable portion is paid based on the number of meetings that the director has actually attended; and
- the fixed portion is paid if the director's average attendance rate at Board meetings or, where applicable, at Committee meetings is equal to or greater than 50% during the preceding half-year, otherwise directors receive no directors' fees.

The Annual General Meeting on June 20, 2008 set the total directors' fees budget at 600,000 euros.

Apart from Pascal Colombani, Jacques Aschenbroich and Thierry Morin, no Board member was paid any other compensation or benefits by the Company during the year. No directors were awarded stock options or free shares. None of the directors, except for Thierry Morin, holds stock options.

1 2 3 4 5 6 7

< Contents >

3.H.3. Summary of directors' fees and other compensation paid to directors

Directors' fees paid to Board members amounted to 363,550 euros in 2009, compared with 582,000 euros in 2008. Directors' fees were distributed as follows:

	Directors' fees		Other compensation (fixed, variable or exceptional, compensation, benefits in kind)	
	2008	**2009**	**2008**	**2009**
Executive directors				
Pascal Colombani	€49,000	€11,700	€0	€195,564
Jacques Aschenbroich	€0	€0	€0	€689,550
Thierry Morin*	€49,000	€0	€1,879,830	€3,514,201
Non-executive directors				
Behdad Alizadeh**	€0	€0	€0	€0
Gérard Blanc	€58,000	€37,900	€0	€0
Daniel Camus	€56,000	€45,050	€0	€0
Jérôme Contamine	€58,000	€52,500	€0	€0
Michel de Fabiani***	€0	€8,050	€0	€0
Pierre-Alain De Smedt****	€58,000	€9,350	€0	€0
Philippe Guédon	€58,000	€41,700	€0	€0
Lord Jay of Ewelme	€47,000	€43,600	€0	€0
Helle Kristoffersen	€49,000	€36,000	€0	€0
Georges Pauget	€51,000	€41,700	€0	€0
Erich Spitz*****	€49,000	€36,000	€0	€0
TOTAL	**€582,000**	**€363,550**	**€1,879,830**	**€4,399,315**

Thierry Morin resigned from his position as Chairman and CEO on March 20, 2009.
** *Behdad Alizadeh waived his directors' fees.*
*** *Michel de Fabiani was co-opted to be a director on October 20, 2009.*
**** *Pierre-Alain De Smedt resigned his directorship on February 12, 2009.*
***** *Erich Spitz resigned his directorship on October 20, 2009.*

1 2 3 4 5 6 7

< Contents >

3.H.4. Total compensation paid to other Group senior executives

The other senior executives are members of the Operations Committee, which is made up of 14 members and the Chief Executive Officer. The Management Committee, which had been the executive body in 2008, was made up of 26 members and the Chief Executive Officer. Total gross compensation paid to the members of the Operations Committee (excluding the CEO) came to 6,550,955 euros in 2009 (compared with 12,455,517 euros in 2008 paid to members of the Management Committee, excluding the Chairman and CEO), consisting of 5,740,957 euros in fixed compensation, 625,612 in variable compensation, 110,029 euros in benefits in kind, 45,735 euros in directors' fees and 28,621 euros in profit-sharing payments.

None of the members of the Valeo Operations Committee, other than directors, were given stock options or free shares.

Up until December 31, 2009, Group executives could be covered by two supplementary retirement schemes:

- a "top-up"-style defined-benefit scheme covering all senior executives, including Mr. Morin. This scheme provides an annuity equal to 150% of vested rights under mandatory or optional pension schemes up to 55% of the employee's final salary (excluding exceptional items). The final salary is the higher of the following: (i) the last gross annual compensation, calculated at a specific date, paid in respect of service within the Group, or (ii) the average gross annual salary, not counting exceptional items, over the last 36 months of service with the Group.

  If the beneficiary's entire career was not with the Group, the pension is weighted by the coefficient N/T where (i) N is the number of quarters of service with the Group; and (T) is the number of quarters required to obtain a full pension under the French social security scheme.

  For this scheme to apply, the employee must end his/her career with the Group;
- an "add-on"-style pension scheme that covers Group employees who are or were formerly members of the Management board. This scheme provides beneficiaries with an annuity of 2% per year of service and is capped such that beneficiaries may not receive a combined pension (mandatory and optional schemes) of more than 60% of their final salary, which is the sum of their last gross basic annual compensation earned in the Group plus their average annual bonus over the last five years. For the scheme to apply, the person in question must have at least 15 years of service with the Group upon taking retirement, and Valeo, or one of its subsidiaries, must have been the beneficiary's last employer before settlement of pension entitlements.

  The second scheme is based solely on years of service within the Group.

  It applies to four Group executives, including Mr. Morin.

At the recommendation of the Nomination, Remuneration and Corporate Governance Committee, the Board of Directors decided, at its meeting on October 20, 2009, to implement a new supplementary pension scheme for Group executives in place at the date the new scheme is implemented, including Jacques Aschenbroich. At the recommendation of the Nomination, Remuneration and Corporate Governance Committee, the Board of Directors decided, at its meeting on October 20, 2009, to implement a new supplementary pension scheme to replace the existing schemes for Group executives in place at the date the new scheme is implemented, including Jacques Aschenbroich. Entitlements under the old scheme were frozen on December 31, 2009.

The main characteristics of the new supplementary pension scheme are as follows:

- the supplementary pension is capped by the nature of the scheme at 1% of the reference salary per year of service starting on January 1, 2010, up to a limit of 20%;
- the supplementary pension is capped with regard to the base used to calculate the entitlements: the supplementary pension from all schemes together is capped at 55% of the reference salary, based exclusively on the fixed salary.

The reference salary is the average of the last 36 months of basic fixed compensation and excludes the variable component and exceptional compensation. Valeo, or one of its subsidiaries must be the beneficiary's last employer before settlement of the pension entitlements, but the beneficiary does not need to be present in the Group at the time of the settlement. Jacques Aschenbroich was credited with five years of service upon taking up his tenure, (see section 3.H.1.2.6).

1 2 3 4 5 6 7

< Contents >

3.H.5. Information about stock options and free shares

The policies for awarding stock options and free shares are detailed in the report by the Chairman of the Board of Directors on corporate governance, internal control and risk management in Chapter 6, section 6.A.2.12.

3.H.5.1. Stock options granted and exercised during the year

Options granted to the ten employees receiving the highest number of options and options exercised by the ten employees exercising the highest number of options, not including directors	Number of options granted / exercised	Weighted average strike price	Expiration date	Date of Board meeting
Options granted in 2009 by Valeo and/or other Group companies to the ten employees of the issuer or other Group companies receiving the highest number of options.	0	Not applicable		Not applicable
Options exercised in 2009 by the ten employees of the issuer or other Group companies holding the highest number of options	0	Not applicable		Not applicable

3.H.5.2. Free shares

Free shares granted to the ten employees receiving the highest number of free shares, excluding directors	Number of free shares granted	Date of Board meeting
Shares granted free of consideration in 2009 by Valeo to the ten employees of Valeo or related entities, as defined in Article L.225-197-2 of the French Commercial Code, who received the highest number of such shares	0	Not applicable

1
2
3
4
5
6
7

< Contents >

3.H.6. Pensions and other post-employment benefits

At December 31, 2009, the total amount of provisions set aside by Valeo and its subsidiaries for the payment of pensions and other post-employment benefits to members of the Board of Directors and Group's senior executives came to 10 million euros, as opposed to 18 million euros at December 31, 2008.

At December 31, 2009 total provisions set aside and the total amount paid by Valeo and its subsidiaries for these benefits to former Board members and other senior executives came to 3.9 million euros (as opposed to 2 million euros at December 31, 2008) and 93,000 euros (as opposed to 89,000 euros at December 31, 2008) respectively.

3.I. Risks and uncertainties

3.I.1. Risks in relation to the current economic environment

Like all of its competitors and clients, Valeo had to cope with the crisis that hit the automotive industry particularly hard in 2009.

The Group's sales fell by 33% in the first quarter of 2009, compared with the same period in 2008, but Valeo benefited from a significant improvement in the automotive market in the other three quarters of 2009. Sales received an extra boost from the auto scrappage incentive scheme in Europe and the improvement in production in Asia.

Valeo was able to post a significant improvement in its earnings in the second quarter of 2009 on the strength of the recovery of the automotive market, the effectiveness of its cost-cutting plan and the improvement in its industrial performance. These produced positive net earnings in the third quarter of 2009, following three quarters of losses in a row.

The current cost-cutting plan has enabled Valeo to adapt its industrial capacity to the current level of sales. A further decline in the automotive market, dipping below this level of activity, could affect Valeo's earnings again, if it were to occur in 2010.

3.I.2. Industrial and environmental risks

3.I.2.1. Risks associated with the automotive equipment industry

The Group's sales are dependent on the level of automotive production, especially in Europe, Asia and North America. Production itself is affected by a number of factors, including consumer confidence, employment trends, disposable income, vehicle inventory levels, interest rates and consumers' access to credit. The volume of production is also influenced by government initiatives, especially those designed to encourage vehicle acquisition, trade agreements, new regulations and industrial action such as strikes and walkouts. The industry benefited greatly from the auto scrappage incentive scheme in 2009, which contributed to the recovery in automotive production in Europe. The outlook for automotive

< Contents >

production in Europe is uncertain as many of these schemes reach the end of their term.

Valeo was confronted with the economic and financial crisis, which hit the automotive industry particularly hard, starting in the second half of 2008. The big decline in production was particularly pronounced in North America, where it was down by 33% compared with 2008. This led to the Chapter 11 bankruptcy of the American automakers General Motors and Chrysler on June 1 and April 30, 2009 respectively. Valeo did not post any losses on its trade receivables from these two customers in 2009. However, if the crisis persists, it could trigger further bankruptcies of Valeo's automaker customers that would affect the Group's financial situation.

The automotive industry is concentrated on the world's leading automakers. The financial problems of some of Valeo's automotive customers have led or could lead to greater concentration of the industry, which would mean the disappearance of some marques that are the Group's customers. This would reduce the diversification of Valeo's customer base, which could increase the Group's exposure to the risk of default by these customers and reduce its bargaining power. At the end of 2009, the Group had a diversified customer base of more than 100 OE customers in more than 50 countries, including virtually all of the world's leading automakers. The Group's five biggest customers, accounting for 68% of its OE private passenger car sales, were (by sales in descending order): Renault-Nissan, Volkswagen, PSA Peugeot-Citroën, Ford and BMW. Each of these customers accounted for between 5% and 18% of the Group's sales.

Valeo is exposed to warranty claims by customers with respect to the products and services it sells. Sales of products and services are covered by statistical provisions that are regularly reviewed to reflect past return rates and to cover the expected cost of customer returns. From time to time, the Group may have to address larger quality or safety issues necessitating a major recall campaign with respect to a given production period. To protect itself against this risk, the Group has an insurance policy that covers recall costs (less the deductible), meaning the cost of returning vehicles to the garage and dealing with the faulty part, with the Group bearing the cost of the parts.

In all, provisions for customer warranty claims came to 156 million euros at December 31, 2009.

3.I.2.2. Risks related to successful sales of vehicle models produced

Supply contracts take the form of open orders for all or part of the equipment needs of a vehicle model, with no volume guarantee. They are granted directly for the vehicle's individual functions and are generally valid for the model's lifespan. Valeo's earnings can therefore be impacted by the worsening economic situation and the decline in auto sales, as well as by the failure of a model to sell well and/or the failure of the Group to be selected to provide equipment for a new range of vehicles. The risks are, however, broadly diversified, with Valeo's wide range of products and services used in the production of a very large number of vehicle models.

3.I.2.3. Risks related to new product development

Valeo's sales and income depend on the ability of the Group to develop new products and to achieve the technological progress needed to stay competitive.

This is because regulatory or technological developments can render Valeo products obsolete or make them less attractive to automakers. The Group's competitiveness and market share growth hinges on its ability to foresee such changes and develop new products. Therefore, the Group maintains an in-depth technology watch and conducts a systematic technological review of modules and systems in each Product Family ten years out.

Despite the Group's efforts to stay at the cutting edge of technology, it is not possible to give assurances regarding the Group's ability to respond satisfactorily to technological and regulatory change by developing competitive new products.

The Group is exposed to the risks inherent in developing and manufacturing new products and, more particularly, the absence of positive market response, development delays, and product malfunction.

1
2
3
4
5
6
7

< Contents >

3.I.2.4. Supplier risk

Valeo is highly integrated with its suppliers, as part of the drive to continually improve the quality of products delivered to automakers. This does not mean, however, that there are ownership links between Valeo and its suppliers.

Valeo is exposed to the risk of a default by one of its suppliers that could cause an interruption of supply that prevents the Group from delivering to its customers. The Group ensures the dependability of its supplies through continual financial monitoring of its suppliers using multiple criteria. The Group keeps a watch list of suppliers at risk. These suppliers are constantly monitored and emergency stockpiles are built up as needed and/or a policy of not relying on a single supplier for any given product is instituted to prevent any interruption of supply.

In response to the current crisis affecting the automotive industry, Valeo has instituted a systematic audit of its suppliers (some 2,400 companies) with the development of a new assessment scorecard and a specific organizational structure to identify suppliers at risk, anticipate the negative impact for Valeo and its customers, and draw up an appropriate action plan.

3.I.2.5. Environmental, technical and natural risks

In the various countries in which Valeo operates, its business is subject to diverse and evolving environmental regulations that require compliance with increasingly strict environmental protection standards. Problems and accidents in the Group's plants, human error, failure to comply with standards or a tightening of these standards could all generate additional costs and/or investment expense for the Group in order to correct problems, achieve compliance and/or pay any fines.

The Group's policy has banned the use of asbestos in products and processes at all production plants for many years now, even in countries that still allow its use. Some of the companies in the Group have been sued about asbestos use. For example, some suits have been initiated by former employees, primarily in France. Even though the outcome of the current lawsuits dealing with asbestos cannot be foreseen, Valeo's view today is that they will not have a significant negative impact on the Group's net income (subject to section 3.I.4).

Valeo's environmental policy is described in section 3.P of this Chapter, "Corporate Social Responsibility – Environment and Sustainable Development: Management and Performance". This policy is designed to control and minimize environmental risks as far as possible. The Group Risk Insurance Environment Department is in charge of managing environmental risks. To carry out its duties, the Department has set up a dedicated Healthy, Safety, Security, Environment (HSSE) organization involving all Group departments. The Group Risk Insurance Environment Department is assisted by Coordinators from each Product Family. HSSE managers are appointed at each Valeo site to ensure that procedures are properly applied. These managers lend their expertise to site management and verify compliance with regulations and Valeo standards.

A self-assessment tool enables each site to assess its management of environment, health and workplace safety risks.

Furthermore, independent external consultants carry out regular inspections to verify application of the risk management policy, at the request of the Group Risk Insurance Environment Department. A major feature of the risk management policy is the Valeo audit program, introduced 20 years ago, which involves audits of all sites at least once every three years to assess performance and track progress in a number of areas, including the environment.

The Group's policy has always been to ensure the best protection for its sites against natural disasters and technological risks:

- the vast majority of Valeo's sites are classified HPR (Highly Protected against Risk) and equipped with automatic sprinkler systems to fight fire, as well as highly-trained teams to deal with all kinds of risk situations;
- all sites in seismic risk zones have been built or upgraded to comply with the most recent seismic regulations;
- Valeo sites are not located in flood zones or are equipped with systems for protecting against flood risks;
- new Valeo sites are located far from sites posing potentially significant risk (Seveso sites, etc.), which could have a domino effect that endangers Valeo sites;

< Contents >

- the Valeo Risk Management Manual contains a specific directive on the prevention of emergencies and on situation-specific contingency plans. This directive requires each site to draw up an emergency plan for dealing with potential incidents.

As at December 31, 2009, provisions of 22 million euros had been set aside for site upgrades or for environment-related issues. Of this amount, 2.3 million euros was earmarked for work to bring facilities into compliance with environmental regulations. No individual provision constituted a significant material amount.

3.I.3. Market risks

The Group is exposed to market risks because it does business on an international scale. It uses financial derivatives to manage and reduce its exposure to changes in foreign exchange rates, raw materials prices and interest rates. In general, these risks are managed centrally by Valeo on behalf of all Group companies.

In 2008, Valeo tightened its liquidity management and counterparty monitoring requirements in response to the economic environment. Within the Group, the Cash Management function of the Finance Department establishes and enforces rules on external financing risk management and market risk management relating to changes in interest rates, currency values and raw material prices. The function relies, among other things, on a cash management system monitors the main liquidity indicators and all of the financial derivatives used at central level to hedge interest rate and currency risks. Valeo's General Management receives periodic reports about market trends and their impact on the Group's liquidity, the value of the derivatives portfolio, and details of hedging transactions and their consequences for the fixed rate/variable rate debt mix, along with a monthly report on credit risk relating to customer receivables.

3.I.3.1. Foreign currency risk

Group entities may be exposed to transaction risk in respect of purchases or sales transacted in currencies other than their accounting currency. Subsidiaries' current and future business transactions and investments are generally hedged for periods of less than six months. Subsidiaries principally hedge their transactions with Valeo, the parent company, which then hedges net Group positions with external counterparties. Hedge accounting as defined by IAS 39 is not applicable in this case, and the Group's foreign currency derivatives are therefore treated as trading instruments under the financial instruments standard. However, on an exceptional basis, the Group establishes specific hedges for major individual transactions and applies the hedge accounting rules. Based on the net foreign currency exposure at year-end, a movement in exchange rates would have only a minor impact on the Group's financial statements.

The Group is also exposed to foreign currency risk through its investments in foreign subsidiaries, in the event of exchange rate movements against the accounting currency. The Group's policy is to hedge this risk on a case-by-case basis. No derivative instrument of this sort was recognized in the Group balance sheet at December 31, 2009.

The Group is also exposed to foreign currency risk when it provides financing to subsidiaries where the accounting currency is not the euro. This exposure consists mainly of Valeo's uncollateralized euro loans to subsidiaries located in Eastern Europe (see an analysis of this risk in Chapter 4, section 4.F.6.2.1.1).

3.I.3.2. Raw materials risk

The Group uses a wide range of raw materials in its manufacturing activity, including steel, non-ferrous metals and resins, worth a total of 800 million euros in 2009. Supplies of some raw materials, such as steel and plastics, are not hedged because they are not traded on an official market. In such cases, the Group negotiates contracts with its suppliers, typically on an annual basis, to ensure that selling prices are indexed as far as possible to the changes in purchase prices for these materials.

1 2 3 4 5 6 7

< Contents >

Exposure to non-ferrous metals, such as aluminum, processed aluminum, copper and zinc, is hedged with leading banks using conventional hedging instruments that usually have maturities of six months or less. The Group hedges volumes not covered by a matching price escalation clause in agreements with customers. The Group favors hedging instruments that do not involve the physical delivery of the underlying commodity. These transactions are recognized as cash flow hedges in accordance with IAS 39. For the year ended December 31, 2009, an unrealized gain of 10 million euros from this hedging has been recognized directly as stockholders' equity. At December 31, 2008, the balance sheet showed an unrealized loss of 13 million euros.

Sharp reductions in Valeo's production volumes at the end of 2008 and the beginning of 2009 led to losses on raw materials hedges established before the sharp decline in prices. The existing hedges turned out to be too big when production was lower than originally anticipated. Some of the hedges had to be unwound at selling prices that were lower than their purchase prices. Hedges arranged in the second half of the year turned out to be adapted to the Group's needs.

Inventory values are not greatly affected by the rise in raw materials prices because of the rapid turnover and optimization of logistical flows to reduce inventories.

Exposure to raw materials risk and an analysis of sensitivity to this risk are dealt with in Chapter 4, section 4.F.6.2.1.2 in the Notes to the consolidated financial statements.

3.1.3.3. Interest rate risk

The Group uses swaps to convert interest rates on its new or existing debt to either a variable or a fixed rate.

At year-end, 72% of long-term debt carried a fixed rate, as opposed to 83% in 2008 (a swap that was deferred until August 2010 should increase the ratio to 85%). The Group's financing rate was 6%, compared with 4.9% in 2008. The increase stemmed from the rise in the cost of the lines of credit and additional liquidity injections (EIB loan, in particular). The additional liquidity was reinvested at market rates, which were much lower than in 2008.

Exposure to interest rate risk and an analysis of sensitivity to this risk are discussed in Chapter 4, section 4.F.6.2.1.3 in the Notes to the consolidated financial statements.

3.1.3.4. Equity risk

3.1.3.4.1 Treasury shares

Under IAS 32, treasury stock is deducted from stockholders' equity at the date of acquisition and changes in value are not recognized. When treasury stock is acquired or sold, stockholders' equity is adjusted to reflect the fair value of the shares purchased or sold. The acquisition of 727,135 treasury shares and the disposal of 1,217,515 treasury shares in 2009 led to an increase of 8 million euros in stockholders' equity at December 31, 2009 compared with December 31, 2008.

3.1.3.4.2 Equity investments for pension funds

The pension fund assets comprise 162 million euros in equities at December 31, 2009, or 60% of the assets invested. The fall in equity markets in 2008 decreased the value of this class of assets. In 2009, the market recovery led to an increase in the value of the equity assets (see the Notes to the consolidated financial statements, Chapter 4, section 4.F.4.9.2). The diversification of the funds among different asset classes is decided by the Investment Committees or, where appropriate, on the advice of the trustees, acting on proposals from external advisers. The funds are managed by specialized asset management companies. A Valeo oversight committee, relying on the same advisers, meets periodically to assess the relevance and performance of the various investments.

1 2 3 4 5 6 7

< Contents >

3.I.4. Legal risks

In the day-to-day management of the Group's business, some companies may be involved in legal proceedings and, more specifically, lawsuits brought by some of its current or former employees for asbestos-related damages.

Each of the known cases involving Valeo or a Group company is examined at the end of the year and the provisions deemed necessary after seeking advice from legal counsel are set aside to cover the estimated risks.

Even though the outcome of the current lawsuits cannot be foreseen, Valeo's view today is that they will not have a material impact on the Group's financial situation. However, Valeo cannot rule out new lawsuits stemming from events or facts that are unknown at present, or where the associated risk cannot be determined and/or quantified yet. Such lawsuits could have a significant harmful impact on the Group's net earnings or on its image.

3.I.4.1. Intellectual property risks (patents)

Valeo's Research and Development policy means that it is the source of its own innovations, giving it control over the patents that it needs to do business. Less than 4% of the Group's sales rely on external patents or licenses.

The main intellectual property risk that Valeo faces is counterfeiting. As far as possible and where warranted, Valeo's industrial expertise and the innovations generated by the Group's research are covered by patents to protect its intellectual property. Valeo files a large number of patents in its field, which constitute an effective weapon in the fight against counterfeiting. The Group has instituted customs surveillance of imports and exports in China to protect its intellectual property. It also has a trademark protection unit in France that monitors products in its business sector.

As part of its normal business, Valeo is paid royalties for licenses and patents granted to other companies.

3.I.4.2. Product and service liability

Valeo is also exposed to the risk of liability claims for damages caused by defective products or services sold by the Group. To protect itself from this risk, Valeo has taken out an insurance policy to cover the financial impact of these claims. However, it is uncertain whether this insurance policy would be adequate to cover the full financial impact of such claims. It is Valeo's policy to strive for excellence in quality control, but if a quality problem were to trigger a major recall, it could have a substantial impact on the Group's financial situation and on its image.

1 2 3 4 5 6 7

3.I.5. Other risks

3.I.5.1. Credit and counterparty risk

3.I.5.1.1 Customer credit risk

Valeo is exposed to credit risk and, more specifically, the risk of default by its automotive customers.

Valeo works with all automakers in the sector. At December 31, 2009 Valeo's largest customer accounted for around 16% of the Group's customer receivables. Approximately 6% of customer receivables are related to the global activity of the American automakers, Chrysler and General Motors, with one-third related to their North American activity. The downturn in the automotive industry in 2008 and 2009 led the Group to strengthen surveillance of customer risks and settlement periods, which may, on a case-by-case basis, be

< Contents >

subject to bilateral negotiations with customers. Valeo collected all of its claims on GM and Chrysler in the course of the bankruptcy proceedings in 2009. The American government's takeover of these automakers in 2009 reduced the credit risk associated with them.

The average settlement period at December 31, 2009 was 61 days, compared with 69 days at December 31, 2008.

Valeo also generates more than 17% of its net sales in the aftermarket, with automakers representing 8% and independent dealer networks 9%. The Group's highly diversified customer base of independent dealer networks is constantly monitored and the risk of default is covered by a credit insurance policy. These customers accounted for less than 8% of the Group's customer receivables at December 31, 2009.

3.I.5.1.2 Credit risk on financial investment instruments

Cash equivalents comprise transferable investment securities (633 million euros) in money market funds invested in money market securities issued by the best-rated banks, companies and governments in the euro area with very short maturities. These money market funds incur very little capital risk, in keeping with the Group's cash management policy. Under the accounting rules in force, these instruments are valued at their market value, which is very close to their carrying amount.

Furthermore, at the end of 2009, pension fund assets allocated for financing pension liabilities in the medium and long term are primarily invested in equities (see section 3.I.3.4.2) and bonds. The bonds comprise government securities (12% of the total pension fund assets) issued primarily by the American, British and Japanese governments, and corporate bonds (24% of the total pension fund assets) issued primarily by European and American corporations. These securities are managed by leading asset management companies, but they are still sensitive to trends in the credit market.

3.I.5.1.3 Counterparty risk

The Group is exposed to counterparty risk on transactions conducted on financial markets for the purposes of financial risk and cash management. Limits have been set by counterparty according to their credit ratings. These limits also avoid excessive concentration of market transactions with a limited number of banks. Dedicated reporting also makes it possible to track counterparty risks very closely on each market (foreign exchange, interest rates and commodities).

The Group invests its surplus liquidity, according to the objectives set out in section 3.I.5.2, with asset management companies that are in many cases subsidiaries of the leading banks from the Group's bank loan consortium. The securities are held separately by custodians to ensure that Valeo retains ownership in the event that the parent bank or management company defaults.

3.I.5.2. Liquidity risk

The Group takes care to maintain broad access to liquidity so that it can meet its commitments and investment needs.

At December 31, 2009, Valeo had 860 million euros in cash (compared with 661 million euros at December 31, 2008). Bank deposits account for 227 million euros of the Group's cash holdings. Cash equivalents comprise 633 million euros in securities issued by money market funds.

Additional sources of access to liquidity were as follows:

- confirmed bank credit lines totaling 1 billion euros, with an average maturity of 2.4 years. These credit lines, none of which had been drawn down as at December 31, 2009, have been negotiated with ten international banks rated AA- on average by S&P and Aa3 on average by Moody's. Under covenants negotiated with these banks, previous drawings may be called and/or credit lines may be cancelled if the ratio of the Group's net financial debt to EBITDA is greater than 3.5 in 2009 and 3.25 in 2010 and thereafter. In this case, EBITDA is equal to the Group's operating margin before depreciation and amortization. Consequently, it excludes other income and expenses, except for restructuring costs in excess of 75 million euros in 2010 and then 50 million euros in subsequent years. The ratio for the twelve months to December 31, 2009 stood at 1.1;
- a short-term commercial paper financing program capped at 1.2 billion euros. For Valeo, however, access to the commercial paper market has been restricted since Moody's downgraded its credit rating to speculative (i.e. non-investment grade) on January 7, 2009 (see section 3.I.5.3 below).

Group gross debt stood at 1,639 million euros at December 31, 2009, including short-term debt of 73 million euros and long-term debt of 1,566 million euros (95% of the total). The average

1 2 3 4 5 6 7

< Contents >

weighted maturity of long-term debt was 2.8 years at December 31, 2009. Financial debt with a maturity of over one year included the following:

- 463 million euros worth of bonds convertible for new shares and/or exchangeable for existing shares, maturing on January 1, 2011. The available cash holdings and the confirmed bank credit lines will enable the Group to redeem these bonds on maturity;
- two syndicated loans worth a total 225 million euros maturing on July 29, 2012. These two loans have been subject to the Group debt ratio covenant that has applied to the credit lines since the end of June 2009. Under the new covenant, the ratio of the Group's net financial debt to EBITDA must be less than 3.5 in 2009 and less than 3.25 in 2010;
- 600 million euros worth of notes, maturing on June 24, 2013 and issued as part of a medium and long-term Euro *Medium Term Notes* financing program capped at 2 billion euros. The Euro Medium Term Notes include an option allowing bondholders to request early redemption of their bonds in the event of a change of control of Valeo that leads to the bond's rating being downgraded to below investment grade, assuming it was previously rated in that category, or, if the previous rating was below investment grade, to a downgrade of one rating category (e.g. from Ba1 to Ba2);
- a 7-year loan from the European Investment Bank of 225 million euros, redeemable in 4 equal annuities starting in August 2013. This loan is covered by the same financial covenant regarding the ratio of net financial debt to EBITDA as the credit lines. The loan was granted to support the Group's expenditure on its current research projects on reducing fuel consumption, cutting CO_2 emissions and improving active safety features.

The Groups bank credit lines and long-term debt covenants include "cross default" clauses. This means that if a given amount of financial debt is deemed to be in default, then the other financial debt amounts may also be deemed to be in default. Some of the covenants provide for a grace period before triggering the default clause, which would give Valeo between 20 and 30 days to remedy the situation.

As at December 31, 2009, the Group expects to comply with the covenants governing its debt over the next twelve months.

3.I.5.3. Credit rating

Valeo's long-term and short-term debt ratings were downgraded on January 7, 2009 from Baa3 (negative outlook) to Ba1 (negative outlook) and from Prime 3 to Not Prime respectively. On August 12, 2009, Moody's downgraded the Group's long-term debt further to Ba2 (stable outlook). Valeo's access to the commercial paper market has been restricted since the Group's debt rating was downgraded to non-investment grade. This downgrade also raises the Group's cost of financing and could impact refinancing for maturing debt.

1
2
3
4
5
6
7

< Contents >

3.I.6. Insurance and risk coverage

The Group's insurance strategy is combined with a strong risk prevention and protection approach, and aimed at covering the major risks to which the Group is exposed. The Group self-insures its recurring risks with a view to optimizing insurance costs.

All Group companies have taken out insurance policies with first-rate insurance companies for all major risks that could have a material impact on their business, results, or assets and liabilities.

The risks covered include:

- property damage and business interruption;
- merchandise and equipment transportation and business interruption following transportation incidents;
- liability towards customers and third parties;
- liability towards employees for occupational illnesses and accidents;
- liability for workplace risks.

The table below shows the coverage limits:

Type of insurance	Coverage limit (in euros)
Property damage/business interruption	**750 million**
General liability and product and environmental liability	**200 million**
Merchandise and equipment transportation	**Value of the goods transported**
Directors' and officers' liability	**130 million**
Employee-related liability claims	**50 million**

Property damage cover is based on replacement value and business interruption cover on the margin lost over one year.

The Group paid a total of 10 million euros in premiums for its insurance coverage in 2009.

1 2 3 4 5 6 7

< Contents >

3.J. Factors likely to be material in the event of a public tender offer

3.J.1. Direct or indirect stockholdings in the Company brought to the Company's attention (Articles L.233-7 and 233-12 of the French Commercial Code)

As far as the Company is aware, the following details of the number of shares and voting rights, presented below, were prepared based on data brought to the attention of the Company in accordance with Articles L.233-7 and L.233-12 of the French Commercial Code, and where applicable, on information voluntarily provided by Company stockholders concerning the number of shares and voting rights per stockholder, based on the Company's share capital and voting rights at December 31 of each year under consideration and at February 19, 2010. The Company's share capital at December 31, 2009 was divided into 78,209,617 shares, representing 80,543,525 voting rights, including 2,652,119 shares held as treasury stock.

	12/31/2007				12/31/2008			
	Number of shares	**%**	**Number of voting rights***	**%**	**Number of shares**	**%**	**Number of voting rights***	**%**
Pardus(1)	14,500,000	18.54	14,500,000	18.36	15,450,000	19.75	15,450,000	18.99
Caisse des dépôts et consignations	4,681,559	5.99	6,748,860	8.54	4,681,559	5.99	6,748,860	8.29
M&G Investment Management Limited	1,631,438	2.09	1,631,438	2.07	1,780,731	2.28	1,780,731	2.19
AQR Capital Management, LLC					1,582,308	2.02	1,582,308	1.94
Morgan Stanley	8,685,926	11.11	8,685,926	11.00	2,949,810	3.77	2,949,810	3.63
Brandes Investment Partners LP	3,572,038	4.57	3,572,038	4.52	3,572,038	4.57	3,572,038	4.39
The Goldman Sachs Group, Inc.					3,468,372	4.43	3,468,372	4.26
Franklin Resources, Inc.	3,752,183	4.80	3,752,183	4.75	1,527,313	1.95	1,527,313	1.88
Employee stockholdings**	962,270	1.23	962,270	1.22	940,328	1.20	940,328	1.16
Treasury stock***	1,432,804	1.83	0	0.00	3,142,499	4.02	3,142,499	3.86
Others	38,991,399	49.84	39,130,222	49.54	39,114,659	50.02	40,199,776	49.41
TOTAL	**78,209,617**	**100**	**78,982,937**	**100**	**78,209,617**	**100**	**81,362,035**	**100**

(1) *As part of its reorganization of its equity holdings, Pardus Special Opportunities Master Fund L.P. transferred its Valeo stock to its subsidiary, Pardus Investments Sarl (filing dated June 30, 2008).*

* *Registered shares held by the same stockholder for four or more years carry double voting rights (see section 7.A.1.13).*

** *For more information about employee stockholdings, see section 3.D.2.3.*

*** *For more information about treasury stock, see section 3.D.2.2.*

< Contents >

	12/31/2009				02/19/2010			
	Number of shares	%	Number of voting rights*	%	Number of shares	%	Number of voting rights*	%
Pardus	15,450,000	19.75	15,450,000	19.18	15,450,000	19.75	15,450,000	19.18
Fonds Stratégique d'Investissement	4,620,567	5.91	4,620,567	5.74	4,620,567	5.91	4,620,567	5.74
Caisse des dépôts et consignations	2,410,992	3.08	4,478,293	5.56	2,410,992	3.08	4,478,293	5.56
Barclays Global Investors UK Holding Limited	3,798,812	4.86	3,798,812	4.72	3,798,812	4.86	3,798,812	4.72
Crédit Suisse Group AG					1,561,121	1.99	1,561,121	1.94
AQR Capital Management, LLC	1,533,743	1.96	1,533,743	1.90	1,533,743	1.96	1,533,743	1.90
UBS	2,422,556	3.10	2,422,556	3.01	1,478,534	1.89	1,478,534	1.84
M&G Investment Management Limited	1,416,450	1.81	1,416,450	1.76	1,416,450	1.81	1,416,450	1.76
Morgan Stanley**	**				**			
The Goldman Sachs Group, Inc.**	**				**			
Employee stockholdings***	123,746	0.16	247,492	0.31	122,596	0.16	245,192	0.30
Treasury stock****	2,652,119	3.39	2,652,119	3.29	2,901,119	3.71	2,901,119	3.60
Others	43,128,297	55.15	43,271,158	53.72	42,263,348	54.05	42,406,288	52.65
TOTAL	**78,209,617**	**100**	**80,543,525**	**100**	**78,209,617**	**100**	**80,542,454**	**100**

* *Registered shares held by the same stockholder for four or more years carry double voting rights (see section 7.A.1.13).*
** *Stockholdings at December 31, 2009 and February 19, 2010 were below the thresholds for mandatory reporting set by company bylaws and legislation.*
*** *For more information about employee stockholdings, see section 3.D.2.3.*
**** *For more information about treasury stock, see section 3.D.2.2.*

As far as the Company is aware, there were not any stockholders other than Pardus Investments Sarl, *Fonds Stratégique d'Investissement* (FSI) and *Caisse des dépôts et consignations* with direct or indirect holdings of 5% or more of the Company's share capital and voting rights at December 31, 2009.

As far as the Company is aware, there were not any stockholders than other Pardus Investments Sarl, *Fonds Stratégique d'Investissement* (FSI), *Caisse des dépôts et consignations,* Barclays Global Investors UK Holding Limited and UBS with direct or indirect holdings of 2% or more of the Company's share capital and voting rights at December 31, 2009.

As far as the Company is aware, there were not any stockholders other than Pardus Investments Sarl, *Fonds Stratégique d'Investissement* (FSI), *Caisse des dépôts et consignations* and Barclays Global Investors UK Holding Limited with direct or indirect holdings of 2% or more of the Company's share capital and voting rights at February 19, 2010.

On February 25, 2009, *Caisse des dépôts et consignations* (CDC) reported that it had acquired a reportable holding of more than 10% of the voting rights on February 20, 2009 through *Fonds Stratégique d'Investissement* (FSI), which it controls. Its holding on that date represented 7.88% of the share capital and 10.11% of the voting rights. CDC also reported that it had increased its direct and indirect holding through FSI to 8.33% of share capital and 10.55% of voting rights on February 24, 2009. In the same filing, *Caisse des dépôts et consignations* stated that it was acting on its own, that FSI, and consequently the Caisse des Dépôts Group, planned to increase its holding in the Company as opportunities arose and that it did not plan to take over control of the Company, and that FSI is considering the possibility of asking for a representative to be appointed to the Board of Directors. In a filing dated July 21, 2009, following the transfer of 2,270,567 Valeo shares from CDC to its subsidiary FSI on July 15, 2009, CDC reported that its direct holding had fallen below the 4% threshold set in the Company by-laws for share capital and below the 8% and 6% thresholds set in the by-laws for voting rights in the Company. It also reported that FSI, on its own, had increased its holding above the legal threshold of 5% of the share capital and voting rights in the Company and the threshold of 4% of the share capital and voting rights set in the Company by-laws. CDC's direct and indirect holding through FSI now represents 8.99% of the share capital and 11.19% of the voting rights in the Company.

In a filing dated May 18, 2009, Barclays Global Investors UK Holding Ltd reported on behalf of the asset management companies in the Barclays Group that the latter had increased their holding of Valeo shares beyond the 5% threshold of share capital and held 5.07% of the share capital and 4.88% of the voting rights on May 12, 2009. In a filing dated May 22, 2009, Barclays Global Investors UK Holding Ltd reported on behalf of the asset management companies in the Barclays Group that the latter had increased their holding of Valeo shares beyond the 5% threshold of share capital and held 5.29% of the share capital and 5.09% of the voting rights on May 18, 2009. In a filing dated June 3, 2009, Barclays Global Investors UK Holding

1 2 3 4 5 6 7

< Contents >

Ltd reported on behalf of the asset management companies in the Barclays Group that the latter had decreased their holding of Valeo shares below the 5% threshold of share capital and held 4.20% of the share capital and 4.04% of the voting rights on May 29, 2009. In a filing dated June 19, 2009, Barclays Global Investors UK Holding Ltd reported on behalf of the asset management companies in the Barclays Group that the latter had increased their holding of Valeo shares beyond the 5% threshold of share capital and held 5.03% of the share capital and 4.83% of the voting rights on June 16, 2009. In a filing dated August 20, 2009, Barclays Global Investors UK Holding Ltd reported on behalf of the asset management companies in the Barclays Group that the latter had increased their holding of Valeo shares beyond the 5% threshold of share capital and held 5.82% of the share capital and 5.60% of the voting rights on August 14, 2009. In a filing dated September 24, 2009, Barclays Global Investors UK Holding Ltd reported on behalf of the asset management companies in the Barclays Group that the latter had decreased their holding of Valeo shares below the 5% threshold of share capital and held 4.86% of the share capital and 4.67% of the voting rights on September 18, 2009.

In a filing dated January 15, 2010, Crédit Suisse Group AG reported that it had increased its holding of Valeo shares beyond the 2% threshold of share capital and voting rights, and that it held 2.0792% of the share capital. In a filing dated January 28, 2010, Crédit Suisse Group AG reported that it had decreased its holding of Valeo shares below the 2% threshold of share capital and voting rights, and that it held 1.9961% of the share capital.

In a filing dated January 23, 2009, AQR Capital Management LLC reported that it had decreased its holding of Valeo shares below the 2% threshold of share capital and voting rights, and that it held 1.98% of the share capital and 1.98% of the voting rights on January 22, 2009. In a filing dated June 17, 2009, AQR Capital Management LLC reported that it had increased its holding of Valeo shares beyond the 2% threshold of share capital and voting rights, and that it held 2.01% of the share capital and 2.01% of the voting rights on June 12, 2009. In a filing dated November 9, 2009, AQR Capital Management LLC reported that it had decreased its holding of Valeo shares below the 2% threshold of share capital and voting rights, and that it held 1.96% of the share capital and 1.96% of the voting rights on November 6, 2009.

In a filing dated April 21, 2009, UBS Investment Bank Wealth Management and Corporate Centre reported that it had increased its holding of Valeo shares beyond the 2% threshold of share capital and voting rights, and that it held 3.10% of the share capital and 2.98% of the voting rights. In a filing dated January 20, 2010, UBS Investment Bank Wealth Management and Corporate Centre reported that it had decreased its holding of Valeo shares below the 2% threshold of share capital and voting rights, and that it held 1.89% of the share capital and 1.84% of the voting rights.

In a filing dated March 2, 2009, Morgan Stanley reported that it had increased its indirect holding of Valeo shares beyond the 5% threshold of share capital and voting rights, and that it held 7.69% of the share capital and 7.39% of the voting rights indirectly through its subsidiaries on February 23, 2009. Morgan Stanley also reported that it held 20,000 convertible bonds that could be redeemed for 20,260 shares. In a filing dated July 7, 2009, Morgan Stanley reported that it had decreased its indirect holding of Valeo shares below the 5% threshold of share capital and voting rights, and that it held 4,82% of the share capital and 4.64% of the voting rights indirectly through its subsidiaries on July 3, 2009. At December 31, 2009, Morgan Stanley's holdings of Valeo shares were below the mandatory reporting thresholds set by legislation and the Company's by-laws.

In a filing dated February 17, 2009, The Goldman Sachs Group, Inc., acting on behalf of its subsidiaries, reported that it had increased its holding of Valeo shares beyond the 5% threshold of share capital and voting rights, and that it held 5.53% of the share capital and 5.32% of the voting rights on February 10, 2009. In a filing dated February 19, 2009, The Goldman Sachs Group, Inc., acting on behalf of its subsidiaries, reported that it had decreased its holding of Valeo shares below the 5% threshold of share capital and voting rights, and that it held 4.93% of the share capital and 4.74% of the voting rights on February 13, 2009. In a filing dated April 6, 2009 (1), The Goldman Sachs Group, Inc., acting on behalf of its subsidiaries, reported that it had increased its holding of Valeo shares beyond the 5% threshold of share capital and voting rights, and that it held 7.63% of the share capital and 7.33% of the voting rights on April 1, 2009. The Group reported that it held 3,379 convertible bonds that could be redeemed for 3,422 Valeo shares. In a filing dated April 23, 2009, The Goldman Sachs Group, Inc., acting on behalf of its subsidiaries, reported that it had decreased its holding of Valeo shares below the 5% threshold of share capital and voting rights, and that it held 5.05% of the share capital and 4.85% of the voting rights on April 16, 2009. It also reported that it had increased its holding of Valeo shares beyond the 5% threshold of voting rights, and that it held 5.42% of the share capital and 5.21% of the voting rights on April 17, 2009. The Group reported that it held 879 convertible bonds on April 16 and 17, 2009 that could be redeemed for 890 Valeo shares. In a filing dated July 6, 2009 (2), The Goldman Sachs Group, Inc., acting on behalf of its subsidiaries, reported that the significant stockholding report dated April 23, 2009 included intragroup loans between Goldman Sachs International and Goldman Sachs & Co. The April 2009 filing was unnecessary, if the intragroup loans were excluded. Under this approach, The Goldman Sachs Group, Inc increased its holding of

(1) Completed by a filing dated April 9, 2009.
(2) Completed by a filing dated July 10, 2009.

1
2
3
4
5
6
7

< Contents >

Valeo shares beyond the 5% threshold of share capital and voting rights on April 20, 2009 and held 5.17% of the share capital and 5.38% of the voting rights. In the same filing dated July 6, 2009, The Goldman Sachs Group, Inc also filed an amended report stating that that it had decreased its holding of Valeo shares below the 5% threshold of share capital and voting rights, and that it held 3.78% of the share capital and 3.64% of the voting rights on May 5, 2009. The Goldman Sachs Group, Inc also reported on behalf of its subsidiaries that it held 2.23% of the share capital and 2.32% of the voting rights in Valeo on July 9, 2009. At December 31, 2009, The Goldman Sachs Group, Inc's holdings of Valeo shares were below the mandatory reporting thresholds provided for by legislation and the Company's by-laws.

3.J.2. Agreements entered into by the Company that would change or terminate if there were a change in control of the Company, with the exception of those agreements whose disclosure would seriously harm its interests (except in the event of a legal obligation to disclose)

- As specified above in "Risks and uncertainties", section 3.I.5.2. "Liquidity risk", the 2013 euro Medium Term Notes, in an amount of 600 million euros, include an option allowing bondholders to request early redemption of their bonds in the event of a change of control of Valeo that leads to the bond's rating being downgraded to below investment grade, assuming it was previously rated in that category, or, if the previous rating was below investment grade, to a downgrade of one rating category (e.g. from Ba1 to Ba2).
- Some of Valeo's customers have a clause in their general purchasing conditions allowing them to terminate their contract with Valeo in the event of a change in control.
- One joint venture of minor importance in terms of the Group's overall operations (Valeo Systems South Africa) is subject to a change of control clause that could be activated in the event of a takeover by one of the other partners' competitors.
- The agreement concluded with Pardus on May 21, 2008 contains a clause whereby Pardus may choose to terminate the agreement in the event that a third party not acting in concert with Pardus makes a tender offer for the shares of the Company, where this bid is approved by the *Autorité des Marchés Financiers*, and provided Pardus's representative, Behdad Alizadeh, resigns from the Board of Directors. This agreement is detailed in section 3.J.4.2. below.

1 2 3 4 5 6 7

3.J.3. Agreements providing for indemnities payable to employees or members of the Board of Directors if they resign or are dismissed without real or serious cause or if their employment contract is terminated as a result of a public tender offer

As explained in section 3.H.1.2.7 above, Jacques Aschenbroich, the Chief Executive Officer, is eligible for termination benefits that would equal to between 6 months and 24 months of his annual fixed and variable compensation. These benefits would be paid in the event of termination related to a change in control or strategy (except on the grounds of gross misconduct in the performance of his duties). The payment of these benefits depends on achieving performance criteria and the amount of the benefits owed will be offset against the amount owed under the non-competition clause.

The Board reserved the right to subject Jacques Aschenbroich to a non-competition clause that would prohibit him from working in any way or for any reason for an automotive equipment manufacturer or, more generally for any of Valeo's competitors for 12 months after termination of his employment as Chief Executive Officer. In this case, Jacques Aschenbroich would be paid a non-competition payment equal to 12 months of compensation (calculated using the same compensation used to calculate the termination benefits). The Company retains the right to waive the non-competition clause, in which case no payment will be owed. For more details, see section 3.H.1.2.7 above.

< Contents >

3.J.4. Agreements that could restrict the transfer of shares and the exercise of voting rights

3.J.4.1. Relations with FSI

The Board Meeting of October 20, 2009 decided to co-opt Michel de Fabiani, whose name was put forward by FSI, to be a director, replacing Erich Spitz. On this occasion, and after considering the specific current ownership structure of Valeo, FSI, which is a 51% owned subsidiary of *Caisse des dépôts et consignations* (CDC) and included in the consolidated CDC financial statements, sent a letter dated October 19, 2009 confirming that all of the shares that the CDC group holds in Valeo will vote the same way at the General Meetings and the group would support the resolutions approved by the Board of Directors and that FSI would not increase its holding beyond 15% of the share capital without the consent of the Valeo Board. FSI also confirmed that it was now an insider, as understood under the applicable regulations, as was Michel de Fabiani, in the context of monitoring FSI's equity holding in Valeo and preserving the Group's interest.

3.J.4.2. Agreement with Pardus

On May 21, 2008, the Company signed an agreement with Pardus Capital Management L.P. (hereafter, "Pardus") and Mr. Behdad Alizadeh, which was submitted to and approved by the AGM of June 20, 2008. The entire agreement is posted on the Company's website (www.valeo.com). Its main provisions are summarized below.

3.J.4.2.1. Appointment of a Pardus representative to the Board of Directors

Under the agreement, the Company shall recommend to the AGM of June 20, 2008 that Behdad Alizadeh, representing Pardus, be appointed as a director for a four-year term. The Company shall ensure that the Board appoints the Pardus representative to the Nomination, Remuneration and Corporate Governance Committee no later than October 31, 2008. Also, in the event that the Board of Directors creates a new committee, the Company shall use its best effort to appoint the representative to such committee.

In accordance with the agreement, the Board recommended to the AGM of June 20, 2008 that Mr. Alizadeh be appointed as a director of the Company. The AGM of June 20, 2008 elected Mr. Alizadeh as a director. On July 28, 2008, the Board appointed him to the Nomination and Remuneration Committee, which became the Nomination, Remuneration and Corporate Governance Committee on October 20, 2008. Mr. Alizadeh was also made a member of the new Strategy Committee created by the Board on October 20, 2008.

Under the agreement, if the office of the Pardus representative becomes vacant as a result of death or resignation due to the termination of his employment at Pardus (other than in the case of the termination of the agreement), the Company shall cause the Board of Directors to appoint an individual proposed by Pardus, it being understood that (i) the proposed candidate must satisfy the reasonable criteria relating to the election of directors set by the Nomination, Remuneration and Corporate Governance Committee of the Company, and (ii) that this candidate may be an employee or manager of Pardus. If the Board of Directors does not approve the proposed candidate, the agreement provides that Pardus shall propose another candidate.

Furthermore, it is agreed that the Pardus representative shall resign from the Board of Directors if Pardus's interest in the Company decreases to less than 8% of the Company's share capital.

3.J.4.2.2. Loyalty of the Pardus representative and Pardus towards Valeo and its Board of Directors

Pardus and its representative on the Board agree to comply with certain rules of conduct. In particular, they undertake to:

- refrain from publicly criticizing Company strategy;
- comply with the operating rules of the Board of Directors;
- support the resolutions proposed by the Board of Directors to be voted on by Ordinary General Stockholders' Meetings that do not affect the election and the duties of the Pardus representative on the Board as well as the resolutions that are proposed by the Board of Directors to be voted on by Extraordinary General Stockholders' Meetings and that are of the same type as the following resolutions presented to the Extraordinary General Stockholders' Meeting of May 21, 2007:
  - the 18th resolution, namely a resolution delegating authority to the Board of Directors to increase the Company's share capital by issuing, with pre-emptive subscription rights, shares and/or share equivalents and/or securities giving the right to be allocated debt securities (up to a maximum nominal capital increase of 40 million euros),

< Contents >

- the 21st resolution, namely a resolution delegating authority to the Board of Directors to increase the Company's share capital by capitalizing income, retained earnings or additional paid-in capital, and
- the 22nd resolution, namely a resolution delegating authority to the Board of Directors to increase the number of securities for issuance in the event of a capital increase with or without pre-emptive subscription rights, as well as, more generally, resolutions relating to the incentive policy for Group corporate officers and employees (consistent with those applied in the last five years);
- refrain from requesting, in their capacity as stockholder, the addition of resolutions to the agenda of General Shareholders' Meetings without first receiving the approval of the majority of the Board members.

Pardus shall refrain from interfering in any way in relationships between the Company on the one hand, and its customers, suppliers, or employee constituencies and representatives on the other, without the prior consent of the Company's management, without prejudice to Pardus's right to carry on discussions with such persons in a manner consistent with the principle that Company management has responsibility in this area.

Pardus also undertakes not to act in concert with a third party with regards to the Company, nor to solicit a third party or conclude any agreement relating to the Company or its securities.

The Company shall refrain, and shall cause any member of the Board of Directors and any employee of the Company or of a company controlled by it to refrain, from criticizing or denigrating Pardus outside of the Board of Directors.

3.J.4.2.3. Relations between Pardus and the Company's competitors

Pardus shall not seek the appointment of individuals to the management or administrative bodies of 32 companies that are listed in a schedule attached to the agreement and that exercise an activity that is similar to or competes with that of the Company, or any entity controlled by or that controls those companies, and specifically Visteon and Delphi.

Pardus shall not acquire more than a 10% interest in the share capital or the voting rights of companies that are in competition with the Company (listed in a schedule attached to the agreement), Visteon being excepted given Pardus's interest in its share capital.

Pardus shall cause its Board representative to refrain from participating in the deliberations and votes of the Board of Directors relating to the relationship between the Company and Visteon and to refrain from participating in the votes of the Board of Directors concerning relations between the Company and any company in which Pardus holds or comes to hold more than 5% of the share capital or voting rights.

3.J.4.2.4. Pardus's interest in the Company

Pardus shall limit its interest, individually or in concert, to 20% of the share capital and voting rights of the Company, unless a third party not acting in concert with Pardus acquires an interest in the Company in excess of 15% of the share capital or voting rights. In this case, Pardus shall have the right to increase its interest above 20% by the same number of percentage points above 15% held by such third party.

Accordingly, Pardus shall refrain from, individually or in concert, (i) subscribing or acquiring, directly or indirectly or through an intermediary, any share or other security or instrument that may grant access, immediately or in the future, to the share capital or voting rights of the Company ("Company Securities") or (ii) concluding any agreement (including through any derivative instrument) relating to the purchase or the subscription of Company Securities, if in each case these transactions are likely to cause Pardus's interest in the Company to exceed 20% of the share capital and voting rights.

Pardus shall also refrain from acquiring any new financial instrument that is not issued by the Company but which has a Company Security underlying it without the prior approval of the Board of Directors. In this regard, Pardus has provided a list to the Company disclosing all agreements concluded by it relating to financial instruments with underlying Company Securities. Pardus shall have the right to renew or modify the provisions of such agreements, notably the term of such agreements, provided that (i) the payment of these financial instruments be in cash only, (ii) that these financial instruments do not apply to a number of underlying Company Securities greater than the number stipulated in the current agreements and (iii) that Pardus first consult with the Company and take into account its legitimate observations relating to the maintenance of its stock price and the collective interests of its stockholders.

Pardus shall have the ability to acquire double voting rights for its shares in accordance with the Company's by-laws. However, Pardus may not exercise the voting rights corresponding to the portion that is above 20% during Company General Shareholders' Meetings.

In the event that Pardus acquires over 20% of the Company's share capital or voting rights following a capital reduction, a repurchase by the Company of its own shares or a stockholder's loss of double voting rights, Pardus shall not be deemed to have violated its obligations under the agreement. Nonetheless, it shall not be able to exercise its voting rights corresponding to the portion that is above 20% during Company General Shareholders' Meetings.

1 2 3 4 5 6 7

< Contents >

Pardus shall not be involved in or favor a transaction that is not recommended by the Board of Directors.

3.J.4.2.5. Voting in General Shareholders' Meetings

Pardus shall participate in every General Shareholders' Meeting or cast a mail-in vote. It undertakes to vote in favor of all of the ordinary and extraordinary resolutions described in section 3.J.4.2.2 above presented by the Board of Directors and included in the AGM agenda. Under the agreement, Pardus shall vote at every meeting against any resolution that is not recommended by the Board of Directors.

3.J.4.2.6. Sale of Valeo shares

Pardus may freely sell Valeo shares, on- or off-market, provided that (i) these sales relate to a number of shares that does not exceed 3% of the Company's share capital, (ii) these sales are not reasonably likely to significantly negatively impact the price of Valeo shares, and (iii) the securities sold in this manner below the 3% threshold do not represent more than 10% of the Company's share capital over a period of six consecutive months.

Pardus shall inform the Company prior to any proposed sale relating to a number of shares exceeding 3% of the Company's share capital:

1) In the event that Pardus wishes to sell a block of shares exceeding 3% of the Company's share capital other than through an organized offer of Valeo shares:

- the Company shall have seven trading days from the notification of this proposed sale to offer to acquire or cause to be acquired by a third party, for a set price, all or a reasonable portion of such shares. In the event of an exercise of this right of first offer, Pardus shall have the option, upon notification to the Company within five trading days of the receipt by Pardus of the notice of the Company's exercise of its right of first offer, either:

i. to sell the relevant securities to the Company or a third party designated by the Company for the price proposed by the Company (in this case the Company shall have three trading days from the notification by Pardus of its acceptance of the offer, to acquire or cause to be acquired by a third party, the relevant securities under the same terms as the offer notified to Pardus), or

ii. to sell them to one or several third parties, provided that this sale be for a price that exceeds the one offered by the Company and be made within 60 days of the notification of the proposed transaction;

- otherwise, Pardus will be required to recommence the procedure described in this paragraph and in the following paragraph. Should the Company fail to exercise its right of first offer in accordance with the terms set forth in this paragraph, Pardus shall be free to sell the Valeo shares referred to in the notification without any price restrictions within the 60-day period mentioned above.

2) In the case of an organized offering of Valeo shares by Pardus (e.g. an accelerated book building procedure) representing more than 3% of the Company's share capital, Pardus shall inform the Company of the proposed offering. The Company shall use its best effort to contribute to the success of this transaction. This sale must take place either through a financial intermediary of international repute designated jointly with the Company or through two financial intermediaries, one of which shall be designated by the Company and will act as a joint-bookrunner under the same commitment terms (including financial) as the one designated by Pardus.

If a competitor of the Company listed in the schedule attached to the agreement offers to acquire a block of shares from Pardus representing more than 3% of the Company's share capital, Pardus must inform the Company of the proposed transaction, including the sale price as well as the identity of the purchaser or purchasers. The Company shall then have twelve trading days from its notification of the proposed transaction to notify Pardus of its decision to cause the acquisition of the shares referred to in the notice of sale by a third party or the Company for the price indicated by Pardus. If the Company has not provided notice of its decision at the expiration of a period of twelve trading days or has not repurchased or caused to be repurchased the shares for the proposed sale price at the expiration of a period of five trading days from the notification of the exercise of its pre-emptive right, Pardus may conduct the sale for the price mentioned above (or for a higher price). Pardus may not sell such Valeo shares for a price that is less than the one notified to the Company without recommencing the procedure described in this paragraph. In any event, if no sale of Valeo shares has occurred within a period of 45 days from the notification of the proposed transaction, Pardus must recommence the procedure described in this section 3.J.4.6 (except the first paragraph). This pre-emption procedure may not be combined with the right of first offer, and prevails over the latter.

1 2 3 4 5 6 7

< Contents >

3.J.4.2.7. Scope of commitments

Pardus shall cause the provisions of the agreement to be respected (i) by any and all companies that it controls or comes to control, (ii) by any and all funds managed by Pardus Capital Management L.P. or by any entity the majority of whose partners are those of Pardus Capital Management L.P., (iii) by any and all entities or persons controlling it or under common control with it and (iv) by any and all persons related to it (in particular its employees or managers).

The Company shall cause the provisions of the agreement to be complied with by any company under its control or that it should come to control and by its employees and managers.

It is specified that any breach of the provisions of the agreement by any of the persons mentioned above shall be deemed to be a direct breach of such provisions by Pardus and/or its representative or by the Company, respectively.

3.J.4.2.8. Term of the agreement and case of a public tender offer by a third party not acting in concert with Pardus

The agreement will expire at the close of the AGM called to approve the financial statements for the period ending December 31, 2011.

Pardus may terminate the agreement at any time by providing at least four months' prior notice. If Pardus or its representative breaches any obligations under the agreement, the Company may terminate the agreement if Pardus fails to meet its obligations within eight days of receiving notice from the Company. If Pardus or the Company terminates the agreement, the Pardus representative must resign from his office as director.

During the notice period, regardless of which Party terminates the agreement, Pardus shall be required to comply with all of its obligations under this agreement. However, it is allowed to organize a proxy fight against the adoption of any resolution presented to the Extraordinary General Meeting other than the type of resolution mentioned in section 3.J.4.2. above.

In the event that a third party not acting in concert with Pardus makes a public tender offer, and if the offer is approved by the *Autorité des Marchés Financiers*, the provisions of the agreement shall cease to apply and Pardus may submit a competing offer as soon as the offer initiated by such third party opens, provided the Pardus representative resigns from his office as director.

1
2
3
4
5
6
7

3.K. Claims, litigation, governmental, legal and arbitration proceedings

Each of the known cases involving Valeo or a Group company is examined at the end of the year and the provisions deemed necessary are set aside to cover the estimated risks. The amount of these provisions is disclosed in the Notes to the consolidated financial statements, Chapter 4, section 4.F.4.9. To the best of Valeo's knowledge, and excluding the asbestos-related proceedings mentioned in section 3.I.2.5., during the past twelve months there were no governmental, legal or arbitration proceedings, including proceedings in process, pending or expected, that may have, or have had in the recent past, a significant impact on the financial position or profitability of the Company or the Group.

< Contents >

3.L. Outlook

In comparison to 2009, Valeo expects the recovery in global automotive production to continue in 2010, with more sustained growth in the first half of the year and situations that vary depending on the region, with:

- a slight decline in production in Europe, where the environment is still uncertain, primarily because the auto scrappage incentives are ending;
- a further improvement in Asia;
- a recovery in North America.

Consequently, Valeo still does not expect the crisis to end before 2011. On the basis of this scenario, and with the continuing implementation of its new organizational structure based on 4 Business Groups, which was announced in July 2009 with the objective of making the Group more profitable and efficient, Valeo's target for 2010 is an operating margin that is nearly double that of 2009.

1
2
3
4
5
6
7

3.M. Subsequent events

To the best of Valeo's knowledge, no other event has occurred since December 31, 2009 that is likely to have a material impact on the business, financial position, earnings or assets and liabilities of the Group.

< Contents >

3.N. Annual financial statements

Having incorporated its activities as operating subsidiaries in 2002, Valeo SA is now the Group's holding and cash management company only.

The 2009 operating loss was identical to the loss in 2008 at 11 million euros.

The 2009 financial income was negative, with a loss of 32 million euros, compared with a profit of 62 million in 2008. The primary reason for this large variation is a decline of 173 million euros in dividends received, which was partially offset by writebacks of provisions set aside for treasury stock. Major losses in the value of this stock were recognized in 2008. Net exceptional items in 2009 were negative, with a loss of 6 million euros, compared with a loss of 12 million euros in 2008. This loss includes the termination cost for the former Chairman and Chief Executive Officer, Thierry Morin, who left the Group in March 2009.

Income tax in 2009 yielded a net tax benefit of 19 million euros, compared with a benefit of 1 million euros in 2008. In 2009, Valeo wrote back 11 million euros in provisions set aside to cover the risk of having to pay tax benefits over to tax-consolidated entities and recognized a tax consolidation benefit of 8 million euros.

Valeo's net income was negative, with a loss 30 million euros in 2009. In 2008, Valeo posted a profit of 40 million euros.

Valeo SA stockholders' equity stood at 3,180 million euros at December 31, 2009, down by 30 million euros compared with December 31, 2008. Valeo did not pay a dividend in 2009.

Starting on January 1, 2009, Valeo applied the new payment terms in its dealings with suppliers, as required under the Economic Modernization Act. Suppliers are paid 45 days after the end of the month of the invoice date for all new orders issued after January 1, 2009, and for open orders on that date. If the payment terms applied before the Act came into force called for shorter settlement periods, no changes were made. Net trade payables at December 31, 2009 stood at 6.4 million euros, including 0.1 million euros that was payable before December 2009 and 6.3 million euros that was payable in January 2010.

1
2
3
4
5
6
7

< Contents >

3.0. Composition of the Board of Directors during the year ending December 31, 2009

At December 31, 2009 and February 24, 2010, the members of the Board of Directors were:

- Pascal Colombani;
- Jacques Aschenbroich;
- Behdad Alizadeh;
- Gérard Blanc;
- Daniel Camus;
- Jérôme Contamine;
- Michel de Fabiani;
- Philippe Guédon;
- Lord Jay of Ewelme;
- Helle Kristoffersen;
- Georges Pauget.

The table below provides information about directors holding office during 2009:

Name and business address of the director	Number of Valeo shares held	First appointed	Start of current term of office	End of current term of office	Main position with the Company	Main position(s) outside the Company	Other directorships and positions held in companies other than Valeo subsidiaries during the past five years
Pascal Colombani 64 Valeo 43, rue Bayen 75017 Paris France	100	05/21/2007	05/21/2007	General Stockholders' Meeting to be called to approve the 2010 financial statements	Chairman of the Board of Directors	Senior Adviser, AT Kearney	■ Director: British Energy Group Plc*, Alstom SA*, Rhodia SA*, Technip SA*, Energy Solutions Inc.*, EDF, IFP, Cogéma, Fondation C-Génial*, Fondation Pour le Partage du Savoir *, Fondation partenariale UPMC* ■ Member, Académie des Technologies* ■ Chairman of the Supervisory Board, Areva ■ Chairman of the Board of Directors, ENS Cachan ■ Chairman, Association française pour l'Avancement des Sciences ■ Senior Adviser, Detroyat et Associés, Arjil Banque

* *Current directorships and positions.*

< Contents >

Name and business address of the director	Number of Valeo shares held	First appointed	Start of current term of office	End of current term of office	Main position with the Company	Main position(s) outside the Company	Other directorships and positions held in companies other than Valeo subsidiaries during the past five years
Jacques Aschenbroich 55 Valeo 43, rue Bayen 75017 Paris France	7,000	03/20/2009	03/20/2009	General Stockholders' Meeting to be called to approve the 2010 financial statements	Chief Executive Officer	■ Chairman, Valeo Finance, Valeo Service, Valeo Thermique Habitacle, Valeo SpA, Valeo Japan co. Ltd, Valeo (UK) Limited ■ Manager, Valeo Management Services ■ Director, Valeo Service Espana, S.A.	■ Chairman, CEO and Director, SEPR-Société Européenne des Produits Réfractaires – France ■ Chairman and CEO, Saint-Gobain Glass France ■ Chairman, Saint-Gobain Sekurit France ■ Vice-Chairman, Chairman, CEO and Director, Saint-Gobain Corporation (United States) ■ Chairman and CEO, Saint-Gobain Advanced Ceramics Corp.(United States) ■ Chairman, Saint-Gobain Abrasives Inc. (United States), Saint-Gobain Advanced Ceramics Corp. (United States) and Saint-Gobain Ceramics & Plastics Inc. (United States) ■ Chairman, Saint-Gobain Corporation Foundation Inc. (United States) and Saint-Gobain Ceramics & Plastics Inc. (United States) ■ Director, Saint-Gobain Corporation (United States), Saint-Gobain Corporation Foundation Inc. (United States), Saint-Gobain Performance Plastics Corp. (United States), Saint-Gobain Containers Inc.(United States) Solaglas Ltd (United Kingdom), Saint-Gobain Sekurit Hanglas Polska (Poland), Saint-Gobain Sekurit Benelux SA (Belgium), Saint-Gobain Sekurit Italia (Italy), Grindwell Norton Ltd.(India), Saint-Gobain Glass India Ltd. (India) and Saint-Gobain Sekurit India (India), Saint-Gobain K.K. (Japan), Hankuk Glass Industries Inc. (Korea), Saint-Gobain Glass Mexico, Saint-Gobain Sekurit Mexico, ESSO S.A.F. ■ Member of the Supervisory Board, Saint-Gobain Autoglas GmbH (Germany) and Saint-Gobain Glass Deutschland GmbH (Germany) ■ Member of the Advisory Board, AvanCis GmbH & Co. KG (Germany)
Behdad Alizadeh 48 Pardus Europe S.A.S. 21, avenue George V 75008 Paris France	100	06/20/2008	06/20/2008	General Stockholders' Meeting to be called to approve the 2011 financial statements		President, Pardus Europe SAS	■ Partner, Pardus Capital Management LP ■ Member of the Supervisory Board of Atos Origin* ■ Member of the Board of Directors, Governor's Committee on Scholastic Achievement * ■ Head of Merchant Banking, Bank of New York ■ Member of the Board of Directors, Caliber Collision Centers ■ Member of the Board of Directors, Mid West Wholesale Distribution

* *Current directorships and positions.*

< Contents >

Name and business address of the director	Number of Valeo shares held	First appointed	Start of current term of office	End of current term of office	Main position with the Company	Main position(s) outside the Company	Other directorships and positions held in companies other than Valeo subsidiaries during the past five years
Gérard Blanc 67 Marignac Gestion S.A.S. 17, rue Joseph Marignac 31300 Toulouse France	150	05/21/2007	05/21/2007	General Stockholders' Meeting to be called to approve the 2010 financial statements		Chairman and CEO, Marignac Gestion S.A.S.	■ Director, Sogeclair* ■ Executive Vice President, Operations, Airbus
Daniel Camus 57 **EDF** 22-30, avenue Wagram 75008 Paris France	200	05/17/2006	05/17/2006	General Stockholders' Meeting to be called to approve the 2009 financial statements		Chief Executive Officer in charge of International Business and Strategy, EDF Group (starting on February 4, 2010) previously Chief Operating Officer in charge of finance and international development, EDF Group (until March 29, 2010)	**EDF Group** ■ Chairman of the Board of Directors, EDF International* ■ Director, EDF Energy (United Kingdom)*, Edison (Italy) and Transalpina di Energia (Italy) ■ Member of the Supervisory Board of EnBW (Germany)* **Outside the EDF Group** ■ Member of the Supervisory Board of Dalkia SA*, Morphosys (Germany)*, and SGL Carbon (Germany)*

* *Current directorships and positions.*

1 2 3 4 5 6 7

< Contents >

Name and business address of the director	Number of Valeo shares held	First appointed	Start of current term of office	End of current term of office	Main position with the Company	Main position(s) outside the Company	Other directorships and positions held in companies other than Valeo subsidiaries during the past five years
Jérôme Contamine 52 Sanofi-Aventis 174, avenue de France 75635 Paris Cedex 13 France	2,000	05/17/2006	05/17/2006	General Stockholders' Meeting to be called to approve the 2009 financial statements		Senior Executive Vice-President and CFO, Sanofi-Aventis	**Sanofi-Aventis Group** ▪ President, SECIPE* and Sanofi 1* ▪ Manager, Sanofi 4* and Sanofi-Aventis North America* ▪ CEO, Sanofi-Aventis Europe* and Sanofi-Aventis Participations* ▪ Director, Sanofi Pasteur Holding*, Merial Ltd. (United Kingdom)* et Zentiva N.V. (Netherlands)* **Outside Sanofi-Aventis Group** ▪ Executive General Manager of Veolia Environnement (until January 16, 2009) ▪ Chairman of the Board of Directors, VE Services-Ré ▪ Chairman, VE Europe Services (Belgium) ▪ Director, Veolia Transport, Veolia Propreté, VE Services-Ré, Veolia UK (United Kingdom), Veolia Environmental Services Plc (United Kingdom), Veolia ES Holdings Plc (United Kingdom), Veetra, Venac (United States) ▪ President, Venao (United States) ▪ Chairman, Venao (United States) ▪ Managing Director, Veolia UK (United Kingdom) ▪ Chairman, VE IT ▪ Member of the Management Board, Vivendi Environnement ▪ Member of the Supervisory Board of Veolia Eau and Dalkia France ▪ Member of Dalkia's A and B Supervisory Boards ▪ Director, Rhodia, FCC Spain, and Cementos Portland Spain
Michel de Fabiani 64 CCI Franco-Britannique 31, rue Boissy d'Anglas 75008 Paris France	100	10/20/2009	10/20/2009	General Stockholders' Meeting to be called to approve the 2010 financial statements		President, Franco-British Chamber of Commerce	▪ Chairman and CEO, BP France ▪ President Europe, BP Group ▪ Vice-President, Europia (European Oil Industry Association) in Brussels ▪ Chairman of the Board of Directors, British Hertford Hospital Corporation (Levallois)* ▪ Founding President, Cercle Economique Sully and Association pour la Promotion des Véhicules Ecologiques* ▪ Director, BP France*, Groupe Rhodia*, Groupe Vallourec*, EB Trans S.A. (Luxembourg)*, Star Oil Mali, SEMS (Morocco)

* *Current directorships and positions.*

1 2 3 4 5 6 7

< Contents >

Name and business address of the director	Number of Valeo shares held	First appointed	Start of current term of office	End of current term of office	Main position with the Company	Main position(s) outside the Company	Other directorships and positions held in companies other than Valeo subsidiaries during the past five years
Philippe Guédon 76 Espace Développement 16, rue Troyon 92316 Sèvres France	100	03/31/2003	05/21/2007	General Stockholders' Meeting to be called to approve the 2010 financial statements		Managing Partner, Espace Développement	■ Chairman and Chief Executive Officer, Matra ■ Chairman of the Supervisory Board, Matra Automobile
Lord Jay of Ewelme 63 House of Lords Westminster London SW1A 0PW United Kingdom	100	05/21/2007	05/21/2007	General Stockholders' Meeting to be called to approve the 2010 financial statements		Member of the House of Lords	■ Director, Crédit Agricole* and EDF* ■ Non-executive Director, Associated British Foods (ABF)*, Candover Investments Plc* ■ Independent member of the House of Lords* ■ Chairman, House of Lords Appointments Commission* ■ Vice-Chairman, Business for New Europe* ■ Chairman, Merlin (international medical charity)* ■ Permanent Under Secretary, Foreign & Commonwealth Office ■ Trustee, British Council
Helle Kristoffersen 45 Alcatel-Lucent 54, rue La Boétie 75008 Paris France	100	03/22/2007	05/21/2007	General Stockholders' Meeting to be called to approve the 2010 financial statements		Senior Vice President Vertical Markets, Alcatel-Lucent	■ Vice President, Economic Analysis, Alcatel group ■ Vice President Corporate Strategy, Alcatel-Lucent
Thierry Morin 58 (Director until 03/20/2009)	31,295	03/21/2001	05/21/2007	03/20/2009			■ Chairman of the Board of Directors, INPI* ■ Director, Arkema* ■ Permanent representative of Valeo on the Board of CEDEP

* *Current directorships and positions.*

1 2 3 4 5 6 7

< Contents >

Name and business address of the director	Number of Valeo shares held	First appointed	Start of current term of office	End of current term of office	Main position with the Company	Main position(s) outside the Company	Other directorships and positions held in companies other than Valeo subsidiaries during the past five years
Georges Pauget 62 Crédit Agricole S.A. 91-93, boulevard Pasteur 75710 Paris Cedex 15 France	100	04/10/2007	05/21/2007	General Shareholders' Meeting to be called to approve the 2010 financial statements		Chief Executive Officer, Crédit Agricole SA (until February 28, 2010)	**Crédit Agricole Group** ■ Chairman of the Board of Directors and of the Remuneration Committee of Calyon* ■ Chairman of the Executive Committee, Crédit Agricole SA* ■ Chairman of the Board of Directors, LCL – Le Crédit Lyonnais* ■ Chairman of Group Amundi* **Outside the Crédit Agricole Group** ■ Chairman, French Banking Federation (Fédération Bancaire Française)* ■ Member of the Board, Danone Communities Sicav*, Paris-Europlace* ■ Representative of Crédit Agricole SA, Member of the Partners Club, TSE*
Pierre-Alain De Smedt 65 (Director until 02/12/2009) 46, boulevard de la Woluwe 1200 Brussels Belgium	10,000	03/07/2005	05/21/2007	03/20/2009		Chairman, FEBIAC (Belgian Federation of the Car and Two-wheeler Industries) and director of various companies	■ Director, Belgacom*, CNP (Compagnie Nationale à Portefeuille/Albert Frère Group)*, Deceuninck Plastics*, Alcopa*, and Avis Europe Plc* ■ Member of the Executive Committee and Director, FEBIAC (Belgian Federation of the Car and Two-wheeler Industries)* ■ Member of the Management Committee, FEB (the Belgian Business Federation)
Erich Spitz 78 (Director until 10/20/2009) 87, boulevard de Port-Royal 75013 Paris France	144	06/24/1987	05/21/2007	10/20/2009		Advisor	**Thales Group** ■ Chairman, Thales Avionics Lcd ■ Director, Thales Corporate Ventures* **Outside the Thales Group** ■ Chairman of the Supervisory Board, Novaled and Riber ■ Member of the Management Board, ERA ■ Member of the Supervisory Board of Riber* ■ Correspondent member of the Académie des Sciences* ■ Member of the Académie des Technologies* ■ Honorary Chairman of the European Industrial Research Management Association (EIRMA)*

* *Current directorships and positions.*

< Contents >

3.P. Corporate Social Responsibility – Environment and Sustainable Development: management and performance

In the first years of the new millennium, a clearer understanding of the major environmental challenges facing our planet developed across all stakeholder groups. The Copenhagen summit in 2009 also promoted greater general awareness of the need to combat greenhouse gas emissions. However, 2009 was also marked by a financial crisis and worldwide economic downturn that affected the automotive sector in particular.

Against this backdrop, Valeo has continued to make corporate social responsibility one of its main priorities. The Group is more determined than ever to implement an active environmental, health and safety policy, while pursuing its commitment to address the challenges of climate change.

Despite the economic and financial crisis, Valeo continued in 2009 to invest in research projects focused on the development of electric vehicles. The Group set up a specific electric vehicle unit, reflecting its determination to invest over the long term not just in electric vehicles but also in the development of more energy-efficient combustion engines and hybrid engines. Through this investment, Valeo has risen from fourth to second place in France for the number of patents filed.

One of the Group's main ambitions is to encourage technological innovation and the development of eco-friendly solutions and systems.

Towards Zero Emission Vehicles

In September 2009, Valeo published *The Zero Emission Vehicle* http://www.valeo.com/fr/publications.html, a http://www.valeo.com/fr/publications.html, a summary document that sets out Valeo's vision on the development of alternatives to the combustion engine. The document explains that more progress and innovation will be necessary before Zero Emission Vehicles come into widespread use. All avenues of research must be explored and developed between now and then. This will mean:

- continue improving the efficiency of combustion engines, still installed on 90% of vehicles;
- further develop hybrid drivetrains, a high-performance alternative to the combustion engine;
- continue research on electric vehicles in order to change fundamental relations to the car and the way it is used in the city.

The Group continues to develop and deploy procedures and programs aimed at promoting environmental protection at its plants. This chapter sets out Valeo's commitments on the environment and sustainable development. These are illustrated by the results the Group has achieved in protecting the environment and managing natural resources in a sustainable way. Valeo has set the same targets for its subsidiaries both in France and outside France. To measure its environmental performance, Valeo focuses on its production sites and looks at performance from a product life cycle standpoint, covering all phases from design to manufacturing, use, and end-of-life. The environmental indicators presented below were established on the basis of the provisions of Articles L. 225-102-1 and R. 225-105 of France's Commercial Code.

1
2
3
4
5
6
7

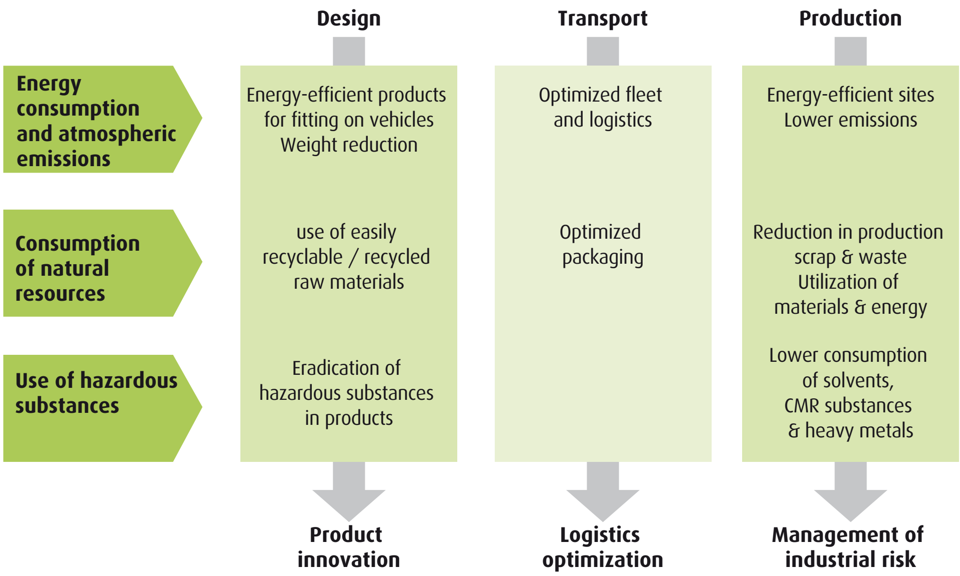
< Contents >

3.P.1. Corporate Social Responsibility (CSR) – Strategy and Coordination

3.P.1.1. Valeo actively involved in meeting CSR challenges

Like other automotive parts suppliers, Valeo is seeking to reduce its consumption of raw materials, natural resources, hazardous substances and energy, as well as to decrease its emissions of CO_2.

Valeo must rise to the challenge of making its products, processes and premises more energy-efficient and seek to use renewable energy sources more widely during all phases, including the transport phase. These challenges apply as much to the product design phase to the production and transport phases.



The Group is continuously improving risk management through the development and deployment of environmental, health and safety management systems.

Valeo has always invested in product Research & Development. Despite the necessary time periods between Research & Development, industrial production and market launch, Valeo is always able to deliver products that meet current market demands and market maturity.

3.P.1.2. An overall corporate social responsibility strategy

Valeo has an overall corporate social responsibility requirement covering all environmental and social impacts of the Group's activity and products.

This requirement is expressed in a corporate social responsibility strategy that reflects the Group's overall commitment to implementing a policy of responsibility in relation its economic, human and natural environment.

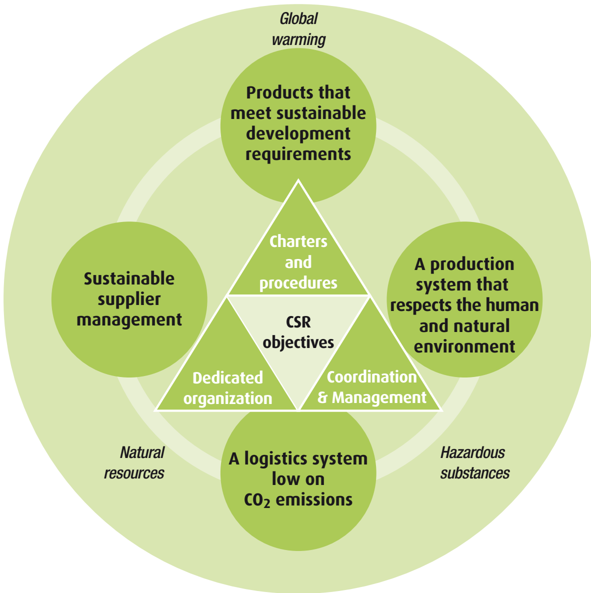
< Contents >

This strategy covers four key aspects of Group operation:

- a production system that respects people and natural environment;
- products that meet sustainable development requirements;
- a logistics system low on CO_2 emissions;
- sustainable supplier management.

The strategy is based on four pillars that support the operational implementation of the policy:

- **charters and procedures** that set out the Group's commitments and methods;
- **objectives** that formulate the priorities and indicate continuous improvement;
- a **dedicated organizational structure** that ensures the policy is effectively deployed and monitored;
- **tools for the coordination and management** of the policy.



For more than 20 years, the Group has been working on the environmental and social management of its products and processes (the Group's social performance is detailed in Chapter 3.Q "Social indicators" of this report). Valeo is now considering extending its policy more systematically to societal aspects, in particular with respect to stakeholders such as its suppliers and local communities.

Confirming its long-standing commitment to CSR, Valeo signed the UN Global Compact in 2003.

3.P.1.3. Valeo's corporate social responsibility: commitments, objectives, organization and coordination tools

A CSR commitment based on framework documents

Valeo bases its CSR policy on a body of documents, each with a different scope:

The Sustainable Development Charter

The Sustainable Development Charter was drawn up in 2008 to respond to the human, environmental and economic issues involving the Group's stakeholders: employees, customers, shareholders, suppliers, local communities and public authorities.

This Sustainable Development Charter sets out Valeo's commitments on fifteen points, in particular: improving its environmental performance, disseminating and observing its code of ethics, deploying management systems and promoting the same approach among all stakeholders. It lists the general commitments on the themes detailed in specific documents:

- an environmental charter;
- an occupational health and safety charter;
- a facilities safety charter;
- a security charter.

These **Charters** were drawn up as part of an **integrated risk management system** covering the environment, health and safety at work, personnel security, and security of assets, information, buildings and facilities.

Code of Ethics

Revised in 2005, Valeo's Code of Ethics has been deployed across the Group and with all suppliers. The Code of Ethics aims to ensure that Valeo operates in accordance with national and international ethics and rules of law. It describes the body of rules and practices that the Valeo Group and its subsidiaries agree to observe during the exercise of their activities, in addition to the laws and regulations applicable in the countries where they exercise such activities, whether national or international.

< Contents >

This Code of Ethics covers fundamental rights (prohibition of child labor, the use of disabled workers, discrimination, sexual and moral harassment, health and safety in the workplace), support for sustainable development (environment, human resources, society), business ethics (relations with customers, service providers and suppliers, competition law), professional ethics (confidentiality, protection of the Group's assets, loyalty and conflicts of interest).

The **Risk Management Manual** covers all Valeo directives on risk management, applied with the same attention to detail at all Group sites. For more than 20 years, the Group has tracked its performance in continuous improvement through regular inspections performed by outside consultants. The Group started revising this manual in 2009 and the process will continue in 2010. The objective of the revision is to unify management systems in such a way as to achieve multi-site certification. Multi-site certification applies more stringent requirements to sites and also contributes to better risk control as well as the sharing of expertise and best practice.

A regulatory watch tool is also under development to enable each site, whatever its activity and context, to identify applicable statutory regulations.

The CSR policy also has a formal definition in product design, through application of the **"Eco-design standard"** directive, a document that aims to ensure that environmental impact is taken into account in the design phase of new products (see description in following chapter).

Valeo's CSR objectives and results

Valeo has set ambitious mid-term targets to achieve concrete, operational implementation of its commitment to sustainable development:

Valeo's objectives and results for the period 2008-2009

Performance targets were set for each site at the beginning of 2008 after comparing the results of each site by Product Family. Each site was asked to reach the performance level of the site with the best result for its product family within two years. The best site is required to improve its performance level with respect to the benchmark by 3% each year.

As shown in the table below, this method has achieved good results. However it has its limitations insofar as it fails to take sufficient account of the specific operational constraints of each site. A new method for assigning performance targets has therefore been defined for the period 2010–2012.

Valeo results for the period 2008–2009

Topic	Indicators used	Results 2008 vs. 2007	Result 2009 vs 2008	Result 2009 vs 2007
Energy consumption	Energy consumption/sales	-1.5%	-3.5%	-5%
Water consumption	Water consumption/sales	0%	-14.4%	-14.4%
Consumption of packaging materials	Packaging consumption/sales	-4.3%	-16.1%	-20.4%
Waste production	Waste reuse rate	+4.1%	+6.5%	+10.6%

Valeo objectives for the period 2010-2012

In view of the results achieved for the period 2008-2009, and the limitations of the method, as mentioned above, the targets for 2010-2012 have been re-adjusted, while remaining equally ambitious, so that they can be reached by the sites through comprehensive actions on their part.

New objectives have been set, in particular with respect to the energy efficiency and the carbon footprint of each site.

1 2 3 4 5 6 7

< Contents >

Topic	Objective	Target	Unit	Term
Risk control and sustainable development performance control	Certification ISO 14001 and OHSAS 18001	100%	Nbr of sites	2012
	Each site scores ≥ 3 on each theme evaluated (environment, health and safety in the workplace, ethics) (1)	100%	Nbr of sites	Continuous
Low carbon emissions of infrastructures and logistics	Reduction of Valeo Group's carbon footprint (2)	-10%	t CO_2/M€	2012
	Improved average energy efficiency of buildings	-12%	kWh/m²	2012
Environmental performance of production sites	Reduction in energy intensity	-10%	MWh/M€	2012
	Reduction in intensity of water use	-7%	m3/M€	2012
	Reduction in intensity of use of packaging materials	-15%	kg/M€	2012
	Reduction in intensity of waste production	-15%	t/M€	2012
	Waste recovery rate (%)	+15%	%	2012

These objectives have been set with reference to the performance measured for 2009.

(1) All Valeo sites are audited by independent assessors once every three years. Following these audits, each site is awarded a score from 1 to 5 on each of the three topics according to the Valeo rating system (available on request from the Risk Insurance Environment Department). The scores are reviewed once a year in conjunction with the site concerned. A score of 2 generally means the site is in compliance with regulatory requirements and Valeo standards, however the score could be improved by better management of non-critical risks.

(2) The Valeo Group's carbon footprint was initially evaluated in 2009 and will be re-evaluated more accurately in 2010. See page 10 for a description of the scope of the carbon footprint evaluation.

A dedicated organization for implementing and tracking the CSR policy

Responsibility for the three constituents of the sustainable development policy is assigned to the functions concerned:

- Environment and Health and Safety in the Workplace: Risk Insurance Environment Department;
- Social and Societal: Human Resources Department.

All corporate functions are also involved in the policy.

At **each Valeo site**, a **Health, Safety, Security, Environment (HSSE) manager** is responsible for the practical implementation of the Group's HSSE procedures. The HSSE manager shares his or her expertise with the managers of the site and checks that the site is in compliance with regulations and Valeo standards by means of internal audits.

At the **Product Family level**, the Risk Insurance Environment Department is supported by a network of **Coordinators**. These Coordinators provide technical assistance to the HSSE managers at the sites where their Product Families are produced and ensure feedback to the **Risk Management Committee**. They contribute to ensuring that the improvement process constantly moves forward and conduct fundamental groundwork in support of the sites:

- they contribute to ensuring that the procedures and objectives are coherent in accordance with the Group's guidelines;
- they report and circulate best practice and the expenditure requirements identified during on-site inspections;
- they pass on the conclusions, lessons and action plans resulting from the internal on-site audits.

The **Risk Management Committee** is the central steering body of the Risk Insurance Environment Department. It consists of the Product Family Coordinators and the Group's Director. It meets up every two months in order to share feedback and further develop the Group's CSR policy.

Quarterly tracking of CSR performance and dedicated coordination tools

In 2006 the Group switched from annual indicator reporting to quarterly indicator reporting, an environmental management tool that indicates the real performance of the sites.

Regular checks on compliance with regulations and Valeo standards

Valeo's risk management policy is set out in the Group's Risk Management Manual. Risk management procedures focus on ensuring that operations comply with the Group's standards and with the regulations in force in each country.

1 2 3 4 5 6 7

< Contents >

This **entails regular inspections by independent external consultants**, at the request of the Risk Insurance Environment department. Valeo's audit program has been in existence for nearly 30 years, and is a major component of its risk reduction policy. Every site is audited at least once every three years.

The purpose of these on-site audits is to evaluate the site's performance and progress in the following four areas:

- environment;
- workplace health and safety;
- safety of buildings and facilities;
- security of facilities and data.

Based on audit findings and a ranking of risks, **sites draw up action plans to improve their performance**. Progress on action plans is reported to the Group's Risk Insurance Environment Department.

After every external audit, the external consultant grades each site on the areas indicated according to objective criteria. The four scores are then aggregated to give a rating for each site.

Once a year, the scores per site and per Product Family are submitted to General Management.

A **self-diagnostic tool** in the form of a roadmap, implemented in 2008, enables the Health, Safety, Security, Environment (HSSE) manager to track his or her performance as action plans move forward. This tool is now in place to evaluate environmental and safety/security monitoring in the workplace and is currently being developed for the safety of buildings and facilities. It will be deployed at a later stage for the security of facilities and information.

In 2009, the Risk Insurance Environment Department issued a **Sustainable Development Audit Reference Standard**, which extends the scope of current HSE audits to include ethical, social and societal issues. This tool is used to evaluate the extent to which the sites are aware of the challenges of sustainable development and to ensure effective implementation of the Sustainable Development Charter.

3.P.1.4. Life cycle environmental management

Valeo's comprehensive environmental approach covers the entire product life cycle, from the design phase up to and including end-of-life disposal.

Product innovation: priority given to CO_2 reduction and lightweight design

Valeo's research and development programs include two main lines:

- anticipating technological breakthroughs, in particular with work on electric vehicles;
- continuously enhancing the performance of combustion-engined vehicles. To this end, Valeo develops innovative products to optimize flows of electric current, heat and mechanical energy within the vehicle.

Improving the environmental performance of products over the various stages of their life cycle, especially during the in-service phase, has to begin with the design phase. For this reason, Valeo has included energy consumption, weight, choice of materials (recycled/recyclable) and elimination of undesirable substances among its project evaluation criteria.

Since 2007 Valeo has gone even further by adopting a **written Eco-design Standard** drawn up by a cross-functional eco-design committee. This directive guides designers in assessing the full range of environmental impacts during the full life cycle of the product being designed: type, number and quantity of raw materials, production, packaging, transport and distribution, use and maintenance, disassembly, recycling, reuse, reclamation, elimination. The designers are provided with a checklist-type tool to help them include all these dimensions in a new product development project.

In 2008 this Directive was incorporated as a recommended guide for product development. All projects at the development phase are now conducted according to the recommendations of this Directive.

Alongside internal programs, Valeo is involved in joint European Research & Development programs. Among these 47 projects, 30 are devoted to developing all-electric vehicles and associated electronics.

The EIB provides up to €300 million in financing for Valeo Research & Development programs devoted to projects with high environmental added value.

< Contents >

Close-up on Valeo low CO_2 emission projects

Valeo submitted two R&D projects to the Ministry of Sustainable Development at end-2009:

MYGHALE (Mild HYbride GénérALisablE): This project aims to develop an affordable hybrid solution that will have a significant impact on CO_2 emissions worldwide. Based on the principle of a high-power electrical system, the MYGHALE will feature Start/Stop, regenerative braking and torque assistance (boost) functions. This "Hybrid for everybody" offers a potential CO_2 reduction of between 25% and 30%.

VEGA/THOP: The VEGA/THOP project aims to develop a new thermal management system for electric vehicles, providing heating on a par with that of combustion-engined vehicles, all year round, with minimum impact on vehicle travel range. The objective is to reduce average heating consumption by 75% and average air conditioning consumption by 35%.

Research is also under way on other projects, such as an inverter charger. This new electrical and electronic architecture will be installed on electric vehicles instead of a heavier and more costly charger. Now at the technical feasibility stage, its incorporation should be possible on second generation vehicles.

Optimized logistics: low-carbon solutions

Actions to achieve a low-carbon logistics system and lower packaging consumption

Valeo's business operations require inbound supplies of raw materials and parts from suppliers, the transfer of parts between sites, and outbound deliveries to automaker customer sites and dealer networks. All of this generates a multitude of transport lines and a high consumption of packaging.

On the transport front, Valeo has initiated a fundamental study aimed at identifying new solutions for logistic and environmental optimization: managing the (inbound) subcontracting chain, optimizing flows between sites, coordinating with order givers. A vast action plan was undertaken in 2009 to cover all logistic stages having an impact on the environment. A few examples:

- optimization of trailer load factors and adjustment of trailer sizes for the delivery of all inbound products is underway, the objective being to achieve a volume saving of between 15 and 20%. Optimization requires traceability, scheduling and accurate planning at the workshops;
- cutting the number of external warehouses by storing stock in plant warehouses has already reduced part flow;
- scheduling of truck deliveries has been optimized so that trucks do not return empty;
- use of recyclable containers has been developed. The objective is to apply this policy to all suppliers. At present, 65% of deliveries are sent in recyclable containers.

This general action program is combined with local pilot experiments such as:

- a test on the use of hybrid vehicles in the United States;
- the use of truck-train transport instead ships for transport between China and Europe. As yet, this system has not been validated due to insufficient volume.

In order to evaluate the environmental impact of its logistics system, a **transport study**, initiated in 2007, compiled the results from 30% of sites. Valeo noted that 50% of its CO_2 emissions are transport related.

A more in-depth study was subsequently conducted by sending out an environmental information questionnaire to the carriers. These questionnaires provided more accurate information, which was then processed to calculate the carbon footprint (see below).

Buildings and plants that are more environmentally friendly

Energy-efficient buildings and processes

Responding to the need to optimize the energy efficiency of its buildings and manufacturing processes, Valeo plans to optimize coordination of this issue by launching a major campaign on the theme in 2010. The aim of the campaign is to improve energy efficiency by accurately identifying best practice and opportunities for optimization, and then to pass on the information obtained to the sites for implementation.

The campaign, organized in conjunction with an outside consultancy group specialized in energy management and efficiency, is broken down as follows:

- in-depth audits on the energy efficiency of a sample of the Group's sites;
- identification of operations/processes/equipment offering energy saving opportunities both in the short term and in the long term, by means of further investment;

1 2 3 4 5 6 7

< Contents >

- formal definition of a code of practice for the sites in order to support the process, identify potential action plans and highlight advantages and disadvantages;
- training of "energy efficiency" correspondents, responsible for circulating information, providing assistance to the plants and coordinating the policy.

In rolling out this campaign, Valeo is confident it will be able to reduce its energy consumption and achieve the ambitious objective it has set for 2015.

For 2010 the Group is also considering implementing an ISO 50001 energy efficiency management system.

The Valeo generic plant: sustainable development applied to the production site

The life cycle of a site consists in finding a suitable location, building the site, operating the site, and ultimately closing or selling it. Since 1996 Valeo has been developing and extending its **generic plant** concept. It has issued the **Valeo Factory Design** guide setting out precise design rules.

Some of these rules are:

- **plants are usually located** close to customer sites. Plants are sited in existing industrial zones or ones that are under construction, to benefit from local infrastructure and skilled subcontractors;
- when choosing plant locations, the Group systematically performs audits to determine (i) whether there are any potential environmental liabilities such as soil or groundwater pollution; (ii) whether the surrounding area is hazardous or particularly sensitive; and (iii) whether there are risks of natural disasters such as floods or earthquakes;
- **construction** or rehabilitation of plant facilities is carried out according to the specifications set out in the Valeo Factory Design guide. These specifications include sustainable development criteria relating to factory construction, working conditions for employees, plant operating conditions, compliance with regulations, Valeo risk prevention standards, optimization of resource consumption, and reduction of emissions and solid waste.

Over and above the constraints and specifications set out in this guide (architectural, environmental, organizational, etc.), the key requirement is formation of a "project team", which from the outset includes consultants in environmental and equipment safety matters. The project team is tasked with applying the best possible sustainable development solutions at each stage in the life cycle of the site (construction, operation, expansion, closure).

- **The operational phase** of each site is governed by Group directives concerning employee health and safety, the environment, safety of facilities and general security. If soil or groundwater pollution is suspected during this phase, it is investigated and appropriate action is taken.
- **When a business is sold or shut down**, Valeo systematically performs an audit, usually along with an investigation of the soil and groundwater, to determine whether any pollution has occurred during the operational phase. If pollution is discovered, it is treated. If a site is closed permanently without being transferred to another owner, all waste, raw materials, products and equipment are removed, and site maintenance continues.

A new approach based on the carbon footprint

To obtain an overall evaluation of how its activities impact the environment, Valeo has decided to use the carbon footprint principle. This approach aims to evaluate the quantity of greenhouse gas emissions generated directly or indirectly by Valeo activities and products from a life cycle standpoint.

In 2009 an initial evaluation carried out on the basis of information already available in the Group provided an preliminary estimate of the CO_2 emission rate per contributing item. The items covered by this initial evaluation are as follows:

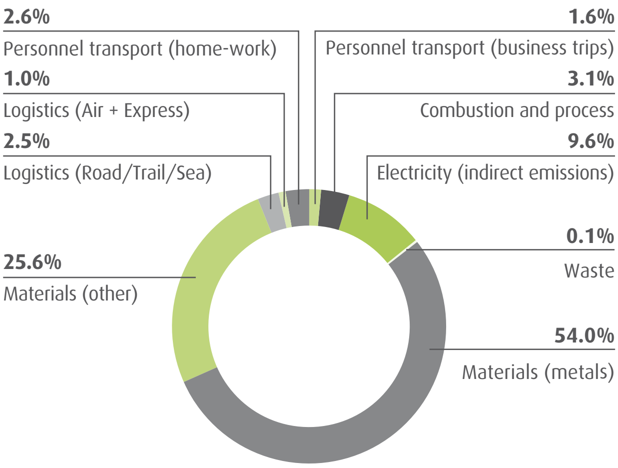
- **raw materials**: CO_2 emissions generated by the production of raw materials and components mainly used by Valeo: metals (steel, aluminum, copper, zinc), plastics, electronic components;
- **manufacturing**: fossil fuel consumption, electricity consumption, packaging material consumption, waste generated;
- **transport**: inbound and outbound logistics, home-work travel, business trips, vehicle fleet.

At present, only a rough estimation can be obtained from the information available. According to the method, the Valeo Group's carbon footprint is evaluated at approximately 3.5 millions tonnes of CO_2 equivalent. These emissions can be broken down as follows by contributing item:

1 2 3 4 5 6 7

< Contents >

Estimation of Valeo's carbon footprint – information for 2009



These initial figures highlight the significant extent to which materials contribute to the Group's carbon footprint. Raw materials account for around 80% of the greenhouse gas emissions generated directly or indirectly by the Valeo Group. Among the materials consumed, metals (chiefly steel and aluminum) make up 55% of the footprint. Emissions generated indirectly through electrical consumption at the Valeo sites make up around 10%. In total, indirect emissions represent around 90% of the overall carbon footprint of the Group.

Direct emissions, accounting for around 10% of the Group's overall carbon footprint, can be divided into three items of similar proportion (3% approx. of overall footprint): CO_2 emissions generated by fossil fuel consumption at industrial sites, emissions generated by logistics, and finally emissions generated by human transport.

In 2010, Valeo plans to implement a new methodology to obtain a more accurate estimation of its carbon footprint.

Continuous improvement at all plants

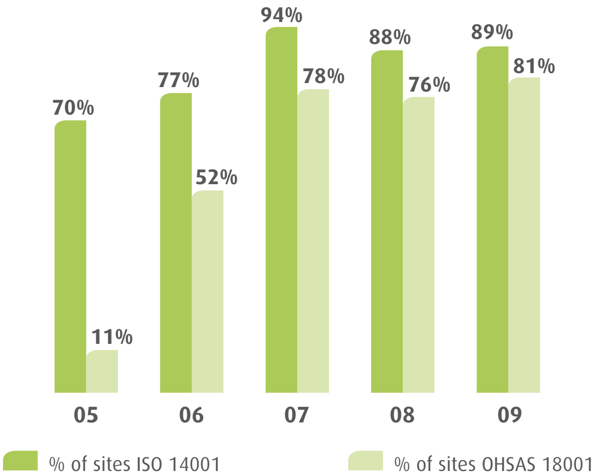
To demonstrate its commitment to do better every year on reducing its environmental impact and improving the health and safety of its employees, Valeo has introduced a number of **independently certified management systems**.

Since 1998 Valeo has been expanding ISO 14001 certification to all of its majority-owned sites as well its R&D and distribution facilities. At year-end 2009 114 sites, or 89% of all Valeo sites, were ISO 14001 certified.

The deployment process for OHSAS 18001 certification was begun during 2005. Since 2007 the extension of this certification to all sites has been one of the Group's objectives. In 2009 104 sites, or 80%, were OHSAS 18001, an indication of the progress Valeo has made in terms of health and safety management.

In 2009 the Group started revising its ISO 14001 and OHSAS 18001 management systems in order to standardize the Groups management systems and procedures and thus allow for multi-site certification. This revision contributes to better risk control and better exchange of expertise and best practices, while applying more stringent requirements to sites.

Percentage of ISO 14001 and OHSAS 18001 certified sites



* *Production, distribution and R&D sites. Excluding solely administrative sites.*

At the same time, the Group supplies tools that can be accessed by the sites on the intranet. In 2007 and 2008, a **risk management self-evaluation tool** was deployed enabling each site to evaluate its level of management of environmental, health and safety risks.

In 2009 Valeo extended this tool beyond the issues of environment, human health and safety, in particular for the purposes of self-assessment in terms of the security of facilities. This self-evaluation tool is incorporated in the Group's overall risk management process and enhances the risk mapping already carried out by Valeo.

Safety Awareness Days are organized every year in every country at selected Group sites. At these one-day events, HSSE managers from all sites in the country are brought together to find out more about issues relating to the environment, workplace health and

< Contents >

safety, and the safety and security of buildings and facilities. The content focuses mainly on practical tasks at the production sites, to show how to apply Group directives on these matters from a concrete standpoint.

A new safety awareness and communication theme will be introduced in 20010 as part of the safety awareness week, whereby facilitators will educate site employees, through on-site simulations, on the correct behavior in matters of safety, i.e. on how to approach and identify risks in the working environment.

The Group's employees will continue to be trained this year on sustainable development and environmental issues. They will follow a total number of training hours of up to 37,291, slightly less than in 2008 (41,313), but significantly more than in 2007 (33,458).

Ensuring operational safety and the security of installations

Group policy has always been to assure the highest possible levels of protection at its sites against natural disasters and technological risks. This is why:

- the majority of Valeo's sites are classified HPR (Highly Protected Risk) and have an automatic sprinkler system for fires and regular staff training in dealing with all kinds of risk situations;
- all sites in seismic risk zones have been built or retrofitted to comply with the most recent **seismic regulations**;
- Valeo sites are not located in **flood zones**, or are equipped with systems for protecting against flood risks;
- new Valeo sites are located far from sites representing a significant potential risk (Seveso sites, etc.) that could have a domino effect on them;
- the Risk Management Manual contains a **specific directive** on crisis prevention and emergency plans for different situations; This Group directive requires each site to have drawn up an emergency plan for dealing with foreseeable disasters.

As part of its comprehensive risk management policy, Valeo in 2007 issued the finalized version of the Valeo Emergency and Recovery Management (VERM) tool devoted to preventing emergency situations. This is a framework tool to help design and implement emergency, crisis management and recovery plans as an integral part of any Valeo site's risk management system.

The VERM approach unifies procedures for managing the emergency situations anticipated in the Group's reference lists and thereby bolsters the site's ability to act in any kind of crisis. Deployment was continued in 2009.

At the end of December 2008, a fire broke out at a Valeo site in Spain. The fire, which started in a temporary structure not equipped with an automatic fire extinguisher system, did not spread to the main building as this was equipped with a sprinkler system in accordance with Valeo building standards. The incident highlighted the efficiency of automatic fire extinguisher systems and resulted in the elimination of temporary structures with a fire risk.

On the security front, Valeo is continuing to reinforce security measures relating to facilities (access control, video-surveillance, intrusion detection) to improve the quality of its security systems. It also conducts physical and virtual intrusion tests to verify effectiveness.

The fundamental aspects of health, safety and security performance at the sites are tested on an ongoing basis in order to pursue improvements.

Numerous site initiatives with active and daily involvement in the CSR policy

Health, prevention and education

- The Sunderland site (Valeo Engine Cooling) installed anti-fatigue mats to prevent musculoskeletal disorders by cushioning the repetitive movements of production line workers.
- In 2009 the Mondovi site (Valeo Transmissions), in conjunction with the Turin Public Hospital, developed the "Check list of Turin", a method which provides a simplified description of the risks of handling excessively heavy loads and the remedial action to be taken. This list, which has been tested by different companies, has proven its applicability to different functions.
- In September 2009 the Nogent-le-Rotrou site (Valeo Climate Control) put in place a robotic arm system to reduce work-related injury caused by carrying heavy loads.
- Since 2009 at the La Suze sur Sarthe site (Valeo Climate Control), physiotherapists have been called in to train personnel to carry out stretching exercises once every two hours. As a result, pain and injury-related complaints have dropped by 63% in one year.

< Contents >

- The La Verrière site (R&D) has put in place a test to evaluate employee stress and to respond to any abnormal situation. This measure has increased awareness of psychological-social risks and provides an objective indication of stress variations in the workplace. In December 2009, the Nogent-le-Rotrou site (Valeo Climate Control) introduced confidential counseling for employees.

Safety

Many of the Group's sites have set up safety training programs:

- The Isle d'Abeau site (Valeo Engine Electrical Systems) has set up a complete reinforced safety system: construction of a safety terminal, comprehensive personnel training and regular tracking of near-accidents on the shopfloor. With this measure, the severity rate has dropped from 0.34 (number of days lost per thousand of hours worked) in 2008 to 0.007 in 2009 with a fall in the frequency rate from 9.7 (number of lost-time accidents per million hours worked) in 2008 to 1.32 in 2009.
- The Saragossa site (Valeo Engine Cooling) has extended its safety training programs to non-Valeo employees, a measure that has been conducive to mutual satisfaction in the workplace.
- In order to achieve an optimally responsive safety management system, the Sunderland site (Valeo Engine Cooling) conducts daily audits on safety and health issues. Immediate action is taken where necessary. The uniform to be worn on site is also displayed at the entrance, as a reminder on appropriate clothing to employees and visitors to the site.
- The Sablé sur Sarthe site (Valeo Engine Electrical Systems) is carrying on the work of the road safety association by distributing high-visibility safety vests to all its personnel for their own vehicles.

Involvement in the life of the local community

- The Kyungju site (Valeo Engine Electrical Systems) participates in the life of the local community through twice-monthly operations to clean up local rivers and the surrounding areas as part of a "Save the Environment" scheme.
- The Cergy site (R&D) sponsors the insertion in the workplace of young people in difficulty in conjunction with the local government office. At year-end 2008, 50% of recruitments proved to be long-term since they led to employment contracts of more than 6 months.
- As part of its diversity initiative, the Gravatai site (Valeo Engine Cooling) has recruited four deaf and dumb people since 2009. Training on sign language has been organized for employees involved in the project.
- Even during the current economic downturn, Valeo upholds its commitment to social and societal responsibility. For example, for the past 20 years, Valeo has been a partner and a provider of technological expertise to the Garches Foundation's Centre for Wheelchair Testing and Selection. An obstacle detection system originally developed for cars is currently being adapted for an electrical wheelchair, mainly at the Bietigheim site (Valeo Interior Controls).

Sustainable development awareness

- The Sunderland site (Valeo Engine Cooling) has set up an employee training program to promote awareness and ensure implementation of the equality policies and to highlight the repercussions of non-compliance with the Code of Ethics.

The best environmental practices implemented by the sites are presented in the following pages relative to the environmental performance of the Valeo Group.

1 2 3 4 5 6 7

< Contents >

3.P.2. Environmental Performance

3.P.2.1. Reporting on environmental performance

Reporting scope

The environmental data published in this report is for all Valeo Group production and distribution sites worldwide, excepting those of the minority-owned affiliates. The financial data reported by the Group (sales, research and development expenditure, etc.) is checked for consistency against the data reported by the sites.

The environmental indicators for 2009 cover a total of 118 sites, including eight Valeo Service sites and one storage site:

- centers dedicated only to Research & Development, offices and sites that have been acquired, sold or closed during 2009 are not covered by the reporting scope;
- companies 50% controlled by Valeo are included proportionately, for 50%. Companies in which Valeo has a stake of more than 50% are included in full, for 100%.

Presentation of indicators

Most indicators are expressed in terms of total quantity as well as quantity consumed or emitted per million euros. Quantity per million euros is calculated by dividing total quantity by total sales for the relevant sites.

The unusual pattern of **activity** in 2009 (with business and sales down 14% on 2008) is liable to influence the environmental indicators in various ways:

- decreases in "gross" indicators (total quantities) more or less in proportion to the decrease in activity;
- deterioration of environmental performance ratios: in terms of equivalent absolute performance (constant total consumption of water, energy, etc.), the sharp contraction in sales does not reduce environmental impacts in the same proportions (continued operation of industrial production systems), resulting in a negative impact on the «absolute performance/sales» ratio.

The representativeness of each indicator is measured by a response rate. This rate is expressed as total sales of sites responding for that indicator divided by total sales of all sites in the reporting scope. The quality of the response rates in 2009 was excellent: 100% for all indicators except for the indicators relative to packaging materials, for which the response rate was 99,2%.

As in previous years, the responses from the sites were consolidated and checked for consistency by an external body in order to ensure quality and representativeness.

The Valeo Group's environmental performance in 2009 is presented subject by subject in the following pages. In each subject area, the strategy adopted by Valeo on product design and site management is outlined. Charts with comments are presented to give an at-a-glance view of Group performance and trends over the past five years. Details are also given for the resources applied at Group level and local level. Lastly, text boxes outline the forthcoming measures that Valeo has chosen in order to keep making progress on its environmental endeavors.

3.P.2.2. Energy consumption and global warming

Carbon dioxide (CO_2) is one of the six greenhouse gases (GHGs) that are building up in the atmosphere and causing global warming. The transport sector accounts for about one-quarter of GHG emissions worldwide, with road transport contributing 18%. This figure is for vehicle usage alone and does not include emissions arising from energy consumed in producing components and assembling vehicles at the factory. With the population growth and economic growth expected over the coming decades, strong demand for individual mobility will have to be balanced against increasing scarcity of fossil fuels and the ever more pressing need to combat global warming.

Valeo contributes in two ways: (i) by developing products and technologies to reduce vehicle fuel consumption, and thereby CO_2 emissions; and (ii) by implementing cleaner, energy-saving manufacturing processes at its production sites.

Developing products to reduce vehicle fuel consumption

One expression of Valeo's long-standing commitment to environmental protection and the fight against global warming is its decision to develop environmentally friendly products and systems. Taken together, recent Valeo innovations can reduce vehicle fuel consumption, and thus CO_2 emissions, by up to 20%.

1 2 3 4 5 6 7

< Contents >

Up to 20% reduction in fuel consumption

	Technology	Reduction (not necessarily cumulative)
Power on demand	High-performance air-conditioning system	3%
	LED headlamp	1%
Thermal management	UltimateCooling™	3 to 5%
	THEMIS™ valve	2 to 4%
Transmission automation	Dual-clutch transmission with electromagnetic actuators	4 to 6%
Air intake	Exhaust gas recirculation (EGR) cooler	5 to 7%
Hybridization	StARS micro-hybrid system (stop-start with regenerative braking)	6 to 15%
	High output alternator	1 to 2%
	Reinforced starter	4 to 5%
Engine control	e-Valve system	Up to 20%

The Valeo **e-Valve technology** is based on a variable electromagnetic valve control system that replaces the conventional mechanical system. It delivers fuel savings of up to 20%, improved engine performance and enhanced driving comfort.

The principle of the **StARS starter-alternator** is the system's ability to stop and restart the engine instantly and silently. StARS saves fuel (from 6% to as much as 15%) and significantly reduces pollutant emissions when the vehicle stops at a red light or in a traffic jam.

Carrying on from the starter-alternator, **the "high output" alternator** (under development) will be more efficient than the starter-alternator and therefore more fuel efficient.

Likewise, **the reinforced starter**, which carries out the same function as the starter-alternator, but at a lower cost, which means it can be installed on mid-range vehicles.

The main function of **EGR cooling systems** is to reduce the formation of nitrogen oxides in diesel engines. Recently, EGR cooling systems have been developed for gasoline engines to achieve fuel savings of between 5% and 7% through higher compression ratios.

Providing an alternative to hydraulic automatic transmissions, **the dual dry clutch** has separate clutches for odd and even gears. This solution combines the comfort of an automatic transmission with the lower fuel consumption of a manual transmission (4% to 6% reduction in CO_2 emissions).

The **THEMIS™ valve**, part of the engine cooling system, manages the flow of coolant through the engine, the radiator and the passenger compartment heating system. Fuel savings of between 2% and 4%, reduced pollutant emissions and improved performance of climate control systems are a few of the many advantages of the **THEMIS™ valve**.

UltimateCooling™ is a new cooling system that optimizes thermal energy management by having all fluids transit through a single cooling circuit. Alongside fuel savings of between 3% and 5%, the **UltimateCooling™** system also improves vehicle body design by reducing front overhang (by 20% to 40% compared with conventional cooling systems).

Valeo's **high-efficiency air-conditioning system** features innovative lightweight components with a computerized control algorithm for optimum efficiency at all times. This reduces energy consumption by around 3% and leads to significant fuel savings.

The new generation of Valeo **LED headlamps** will reduce consumption by two-thirds compared to bulbs. The color and performance of the white LEDs are similar to daylight, providing excellent visual comfort, increased visibility, a longer service life and a lower energy consumption rate.

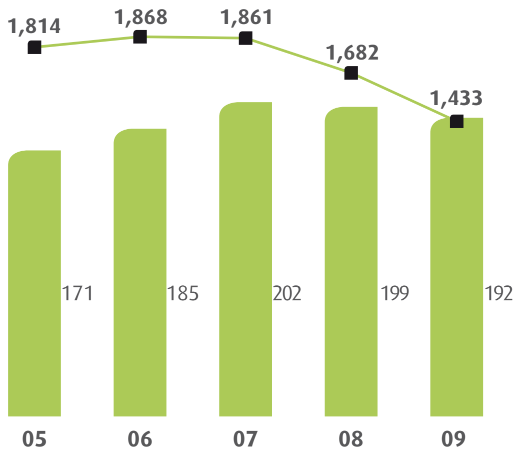
In the years ahead, the Valeo Group will continue to pursue product innovation of the kind favored by the European environment. Automotive components that can reduce vehicles' CO_2 emissions are set to become increasingly widely adopted.

1 2 3 4 5 6 7

< Contents >

Energy consumption/Distribution

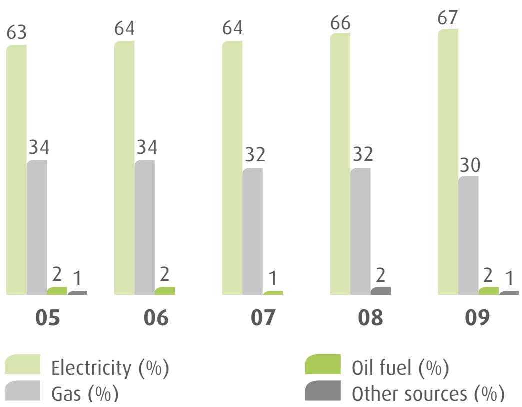
Energy consumption



Response rate

2005	2006	2007	2008	2009
98.7%	96.2%	99.7%	98.9%	100%

Energy consumption distribution



Response rate

	2005	2006	2007	2008	2009
Ele.	99.7%	97.8%	99.7%	98.9%	100%
Gas	99.6%	96.8%	99.7%	98.9%	100%
Fuel oil	99.8%	98.1%	99.6%	98.9%	100%

Following the trend seen in 2008, 2009 showed a fall in energy consumption, in both absolute (GWh) and relative (MWh/M€) terms, despite a drop in sales owing to the economic downturn. These results reflect the Group's strong commitment to curbing energy consumption, as set out in the annual targets set for the sites and the action plans implemented at site level to cut CO_2 emissions.

The energy mix is relatively steady, with electricity accounting for around 67% and gas for around 30%. This reflects the Group's policy of using primarily these two energy sources, with marginal use of fuel oil.

Actions to reduce greenhouse gas emissions are taken at Group level and by each site. Valeo started measuring fossil fuel combustion emissions in 2001. Energy optimization is specifically included in the Valeo Group generic plant concept. Building climate control, ventilation, lighting and process energy requirements are planned from the initial plant design stage to control energy expenditure in operations.

All sites are seeking to cut energy consumption by adopting specific initiatives, a few examples of which are given below:

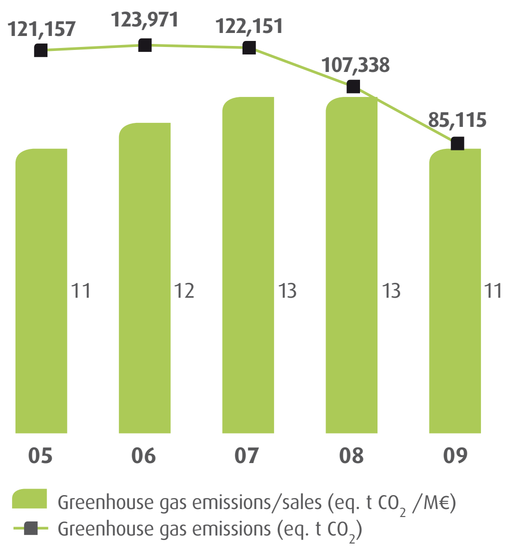
- In November 2009, the Isle d'Abeau site (Valeo Engine Electrical Systems) installed a forced warm air duct over the production lines in order to recover energy from its compressors. The resulting reduction in gas consumption should bring about saving of 10k€/year and prevent the emission of 255t of CO_2 per year.
- The Annemasse site (Valeo Interior Controls) replaced an air compressor with two models that are more efficient and tailored to the air requirements of the site. This measure brought about a significant reduction in electrical consumption at the site (15%) and a reduction in heating costs by reusing the heat emitted by the compressors.
- The Sainte Florine site (Valeo Engine Cooling) installed timers in order to start key machines before 5am on Mondays and thus avoid leaving them on during the weekend. The expenditure (4,000€ for 9 timers) should reduce the site's electrical consumption and bring savings of 20k€/year.

The Group plans to conduct audits on several sites during 2010 to obtain an overall view of their practices in terms of energy consumption. With these audits, it should be possible to determine potential energy savings, highlight best practices and pass them on to other sites.

1 2 3 4 5 6 7

< Contents >

CO_2 Emissions (direct emissions only)



Response rate

2005	2006	2007	2008	2009
100%	96.9%	99.7%	98.9%	100%

Direct emissions are emissions generated by combustion of gas and fuel oil at Valeo sites (as opposed to indirect emissions, generated elsewhere by the production of the electricity consumed at Group sites).

In line with 2008, the year 2009 saw a significant drop in the level of direct emissions of CO_2 equivalent (- 21%). This result is the fruit of the Group's efforts to manage energy consumption, in particular by making processes more energy efficient. Whenever a new process is designed, an energy audit is carried out to optimize its operation.

At all Valeo sites, employees are made aware of everyday, common sense things they can do to save energy.

Reducing transport-related energy consumption and emissions

The evaluation of the Group's carbon footprint, conducted in 2009, reveals that logistics-related emissions – estimated at some 125 kt of CO_2 equivalent – are roughly equal to those generated by fossil fuel combustion at the Group's industrial sites. Overland and sea transport account for around three-quarters of emissions (mostly from truck transport). Air freight, although not used as regularly, has a high carbon impact and accounts for around one-quarter of logistics emissions.

Monitoring consumption: working in coordination with the suppliers

In 2009, Valeo continued carrying out surveys on its main carriers. **Qualitative information** was obtained on fleet quality and on the current rate of CO_2 emissions resulting from logistics transport. The results show, for example, that quality has improved on the fleets of major carriers equipped with trucks in compliance with the Euro 4, 5 and 6 standards. However, additional resources will be necessary to obtain **more accurate and quantitative information** on the consumption of all carriers.

In 2010 Valeo will work on developing a more reliable method for evaluating the carbon footprint of its logistics system. The Group will then be able to obtain a more accurate indication of which items contribute most to carbon emissions and, accordingly, which items should be addressed as a priority.

3.P.2.3. Use of natural resources

Consumption of natural resources such as water, minerals and oil increases with human activity in general. However, given that some of these resources are limited and non-renewable, global economic development could deplete supply and threaten the capacity of future generations to enjoy an environment as diverse as today's. The soaring prices of raw materials (metals, oil, and thus plastics) on world markets also show that the use of natural resources has become a major economic challenge as well as an environmental challenge.

Because of the products it makes and the packaging and industrial processes it uses, Valeo uses natural resources such as metals, plastics and water. In order to limit its impact on the environment, Valeo is taking action along two lines: limiting consumption of raw materials and making greater use of recyclable and recycled materials.

1 2 3 4 5 6 7

< Contents >

Designing product while minimizing their environmental impact

Valeo is pursuing its efforts to minimize the impact of its products and processes on the environment, in particular their impact on the biological balance, the natural environment and on protected animal and plant species. It is particularly keen to reduce the amount of raw materials it uses for developing its products and to implement innovative processes that will have less impact on the environment during the manufacturing stage.

Incorporation of StARS electronics on the rear of vehicles will bring about significant weight reduction and a reduction in the consumption of raw materials.

Valeo has developed a windscreen washing system that distributes the window washing fluid uniformly over the whole length of the wiper blade. The **AquaBlade®** system thus improves driving safety with a more uniform wiper action. There is no break in visibility since the fluid is transparent and instantly wiped off the windscreen. Optimum use of the cleaning fluid considerably reduces the regulatory on-board quantity (-2kg per vehicle), which in turn contributes a reduction in vehicle weight and in CO_2 emissions.

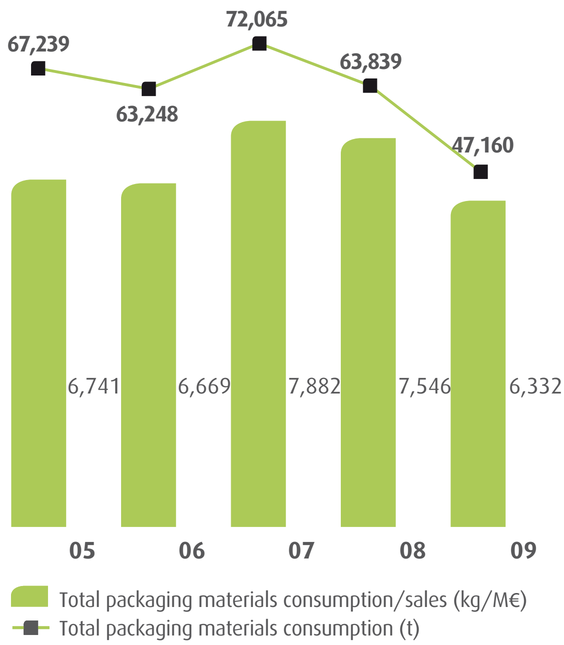
The Kyungju site (Valeo Engine Electrical Systems) has replaced its phosphate-based lubricant with a cold machining lubricant that generates practically no airborne emissions (SOx, NOx, dust) and reduces wastewater emissions by 90%.

Limiting the quantity of packaging materials

Packaging is essential to the handling of Valeo products. Packaging is required for transport. It facilitates storage, protects products, and in the case of aftermarket products, helps to sell them. To serve all these various functions, Valeo uses many different kinds of packaging materials, mainly paper and paperboard, wood, plastic and metal.

Packaging materials consumption/ Distribution of packaging materials consumption

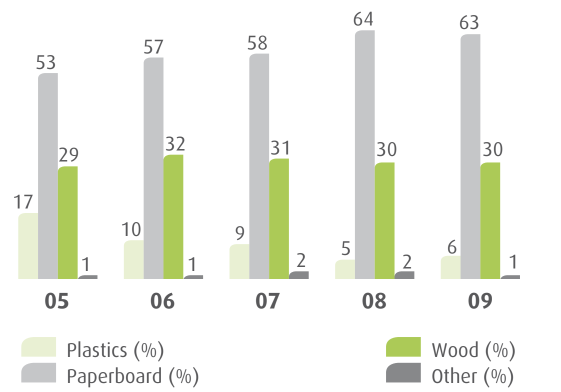
Packaging materials consumption



Response rate

2005	2006	2007	2008	2009
92.5%	90.4%	99.1%	98.9%	100%

Distribution of packaging materials consumption



Response rate

	2005	2006	2007	2008	2009
Plastic.	93.1%	92.1%	99.1%	98.9%	100%
Paperboard	92.6%	92.9%	99.1%	98.9%	100%
Wood	94.3%	94.4%	99.1%	98.9%	100%

2009 was marked by a significant reduction in packaging material consumption. The efforts made by sites have already brought a cut of more than 20% in packaging consumption. Efforts to reduce consumption cover all product families and are the result of joint actions on the part of the sites, their customers and suppliers.

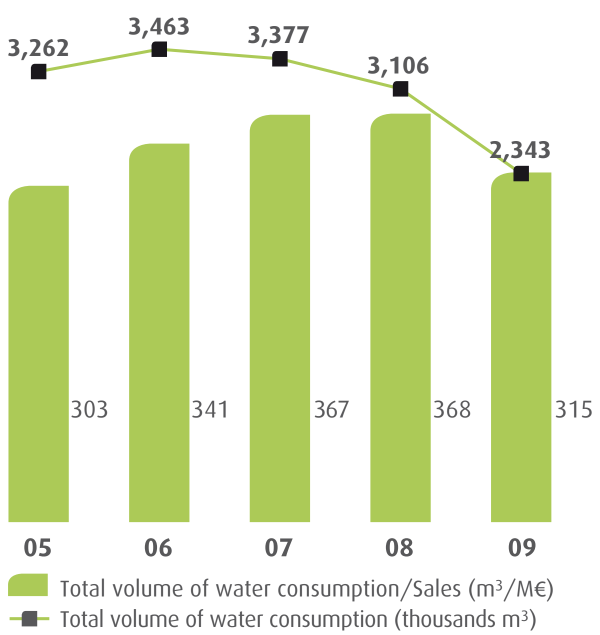
Valeo promotes the use of reusable packaging (through the use of reusable crates, now widespread at Valeo sites), recyclable materials (plastics, paperboard) and recycled materials (plastics, paper and paperboard). In 2009 Valeo sites took a number of actions to reduce their use of packaging and increase reuse of materials.

The Nanhui site (Valeo Engine Electrical Systems) has decided to replace wooden containers with recycled paperboard boxes, thus saving 76,000kg of wood per year and reducing packaging weight and logistics costs accordingly.

Many sites turn to businesses providing work for the disabled and disadvantaged to restore their wooden pallets for reuse. The sites send pallets in unusable condition to these businesses, which undertake to repair them. The repaired pallets are either sold or taken back into service. Extending pallet service life helps to conserve timber resources.

Valeo will continue its efforts in 2010 with a view to reducing its use of packaging materials and increasing reuse and recovery at its sites.

Water consumption



Response rate

2005	2006	2007	2008	2009
99.7%	96.9%	99.7%	98.7%	100%

The three-year environmental objectives set for the sites include a target for controlling water consumption. The implementation of actions to reach these targets at a number of sites has brought about a significant drop in water consumption since 2006. In 2009 a significant drop in water consumption was recorded, in particular as a result of the closure of the Kronach-Neuses site (Valeo Lighting Systems), which had been a significant consumer over the previous years because of its open cooling system. However, this good result also reflects the efforts made by other sites on reducing water consumption. The results were nonetheless significantly offset by increased water consumption in certain countries because of the H1N1 flu epidemic and the associated health recommendations.

Cutting water consumption is a particular concern in countries where water resources are scarce. For example, the Campinas site in Brazil has been treating its wastewater since June 2008 and recycling 45% of the total. The rest is used for a roof cooling system.

In addition, the general introduction of closed cooling systems to limit water consumption remains one of Valeo's objectives as some sites still use open systems, a situation that contributes significantly to the water consumption of the Group.

In line with the objectives pursued through the generic plant concept, each Group site is encouraged to implement techniques to reduce water consumption further in the years ahead: controlling leaks, changing individual behavior, replacing open-flow cooling systems. The recovery of stormwater and wastewater is another avenue to be explored on a case by case basis.

< Contents >

3.P.2.4. Waste production and reuse

An effective waste management policy has four components: **waste reduction at source** (the best way to manage waste is by not producing any), **sorting** (essential for recycling), **recycling**, and **disposal** using environmentally sound processes. Valeo addresses all four issues, both in managing its sites and in designing products, which will inevitably become end-of-life waste. The Group implements the objectives set by the EU directive on end-of-life vehicles (Directive 2000/53/EC), which sets a rate of 95% for recovery and 85% for re-use-recycling by January 1, 2015.

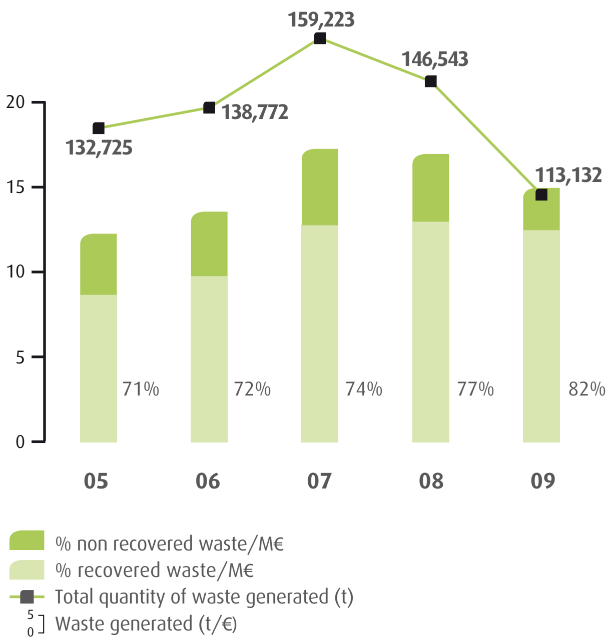
Designing products to limit waste

The "Eco-design Standard" seeks to minimize the environmental impact of products throughout their life cycle. It sets out requirements on three aspects of end-of-life impact: **heavy metal content, recyclability** and **reusability**. Thus, in the initial product design stage, the Valeo Group aims to minimize the number of parts, use fewer different metals, facilitate disassembly and favor products that are reusable.

Reducing waste production at the sites

The Group's main waste products are, in descending order of volume, metal, wood and plastics. Almost all metal waste is sold for recycling. Some 75% of wood scrap is recycled, and the remainder is used for heating. Two-thirds of the plastic is sold for recycling.

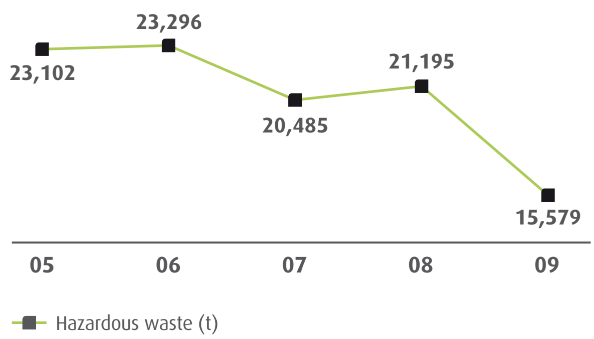
Waste production and recovery rate



Response rate

2005	2006	2007	2008	2009
99.9%	97.4%	99.7%	98.9%	100%
99.4%	96.8%	94.7%	98.9%	100%

Hazardous waste production



Response rate

2005	2006	2007	2008	2009
100%	97.4%	100%	98.9%	100%

1 2 3 4 5 6 7

This year shows a significant decrease in total waste production, as confirmed by the CSR performance monitoring audits: many sites taken decisive action in this area with forceful action plans.

The recycling rate has increased steadily since 2005. In 2009 the recycling rate rose 6.5 points on 2008. The production of hazardous waste has dropped significantly to under 20,000 tonnes, down 25% on 2008.

The amount of waste recovered has risen 10% since 2006, owing to the continuous efforts made by sites to sort and re-use waste. At year-end 2009, a general improvement across the Group was observed. This progress reflects Group targets in this area. Most of the audits conducted during 2009 reported that the sites had made progress on this subject.

In June 2009 the Itatiba site (Valeo Climate Control and Valeo Engine Cooling) launched an environmental and sorting awareness campaign to sort collected waste more effectively in the future, and to facilitate reuse and recycling.

In 2009 the Sainte Florine site (Valeo Engine Cooling) started recovering cardboard boxes from suppliers for internal use, thus reducing its own paperboard consumption. As a result, a saving of 25,505 cardboard boxes (57%) was achieved between 2008 and 2009.

The Group's objective for the years ahead is to continue efforts to cut waste production, improve processes and increase material recycling and re-use.

3.P.2.5. Hazardous substances

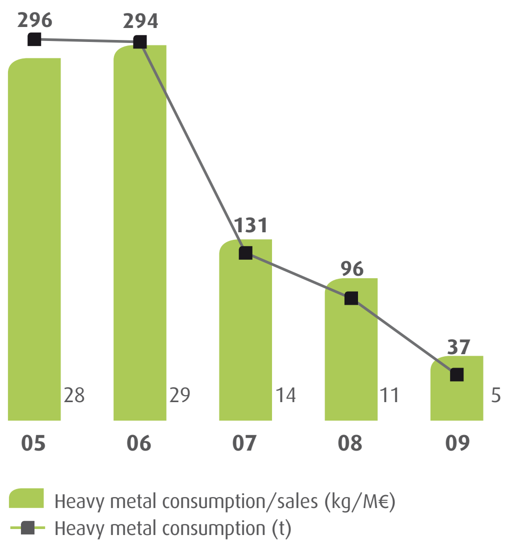
Exposure to hazardous substances is an issue in terms of products as well as production processes. Elimination of such substances is a challenge on two counts, both for the environment and for human health:

- when products are being serviced or dismantled at the end of their life, environmentally toxic substances may be released into the air, soil or water, causing local pollution;
- hazardous substances generally have toxic properties (carcinogenic, mutagenic, etc.) that can harm the health of any person exposed to them: factory workers, vehicle repairmen, etc.

Compliance with the EU Directive on end-of-life vehicles: products without heavy metals

The European Directive of 2000 on the processing of end-of-life vehicles includes provisions relating to vehicle design and thereby applies to parts suppliers such as Valeo. The Directive aims to prohibit, except where technically infeasible, the use of heavy metals such as mercury, lead, cadmium and hexavalent chromium and to favor recycling when these metals are used. A government order of December 24, 2004 sets out the conditions on which such substances may still be used.

The ELV Directive will be updated in 2010. Discussions underway point to the incorporation of more stringent requirements and a possible ban on the use of lead soldering on electronic products **for all vehicles** from 2015 (except special cases).



Response rate

2005	2006	2007	2008	2009
99.6%	97.5%	100%	98.9%	100%

Figures have fallen continuously since 2005 and dropped significantly again in 2009 (-54% between 2008 and 2009 in proportion to sales). This major fall can be attributed primarily to the removal of the Queretaro site (Valeo Transmissions) from the reporting scope.

< Contents >

To achieve results like these, the Product Families have taken action in a number of areas over the years:

- eliminating lead in soldered electronic components;
- changing the surface treatment process from chromium 6 to chromium 3;
- eliminating cadmium as a coloring agent.

In the years to come, the Group will continue to go beyond the initial scope of the Directive, with the goal of reaching zero heavy-metal content in its products. This goal will drive ongoing technological efforts by the Product Families' R&D departments.

Compliance with the REACH Regulation

The European Regulation of December 18, 2006, commonly known as REACH, established a single system of Registration, Evaluation and Authorization of CHemicals. It came into force on June 1, 2007, replacing more than forty directives and regulations.

REACH is aimed at increasing knowledge of the properties of chemical substances manufactured or marketed in the European Union so as to contain the risks of using them and, where necessary, restrict or ban their use.

For the purposes of the REACH Regulation, the Valeo Group is considered primarily a downstream user of the chemicals employed in its operations. As such, Valeo must take steps to ensure safety along its supply chain and businesses. It must make an inventory of the substances used to make its products or needed to keep its industrial plants working.

To meet the requirements of the REACH Regulation, Valeo actively participates in projects conducted by professional associations, at both European and International level, and respects the recommendations of the Automotive Industry Guide published in 2007.

In 2009, the Group focused on security of supply and on the implementation of a management system for chemicals identified as "substances of very high concern" in the list published by the European Chemicals Agency on October 28, 2008.

Implementation of the REACH organization

The organization implemented in 2008 was officially established in 2009 and will remain so for the coming years. A REACH correspondent has been designated in each Valeo entity and at each Valeo factory. The Valeo Group has thus set up a network of 242 REACH Managers. The R&D, Procurement and Quality departments have been given responsibility for ensuring full product knowledge and for communicating on the subject with outside players (suppliers, customers and authorities).

Tools for training in REACH requirements have been made available to all those involved within the Group and are regularly updated to incorporate successive amendments.

A process for updating the Group's procedures is underway to incorporate REACH requirements, in particular for the R&D, Procurement and HSE functions.

Security of Valeo Group supplies - Pre-registration and registration

Pre-registration which ended in accordance with regulations on November 30, 2008, was the responsibility of the importers of substances and preparations. Following this stage, Valeo carried out all necessary compliance verifications. The findings are as follows:

- all suppliers outside the European Union providing one or more of the 13 **substances or preparations imported** by Valeo into Europe have appointed an exclusive representative based in the European Union;
- Valeo has identified 13 substances or preparations qualified as "**critical**" with respect to its activities and has checked that each one has been correctly pre-registered with the European Chemicals Agency.

Valeo is therefore in compliance with regulatory requirements.

For the suppliers, the next stage, which ended on November 30, 2009, was to identify the uses of their products in order to prepare registration files with the European Agency. During this phase, Valeo took measures to identify any non-generic use of the substances and preparations at its production sites and to inform the suppliers.

Managing Substances of Very High Concern (SVHC)

Valeo's objective is to be able to trace the presence of these substances in any products bought or sold by the Group. Following the publication of the initial list in October 2008, Valeo conducted a Group-wide procedure to identify the items containing such substances.

In 2009 using the IMDS tool (International Material Data System), specific to the automotive industry and used by all players in the sector, the Group identified 1,589 items containing at least one of the so-called "Substances of Very High Concern" indicated on the list.

The Group subsequently identified the part suppliers concerned to query them on their strategy relative to the use of such substances, and to establish a strategy for Valeo based on their replies. Valeo's objective remains to market only those products that meet its customers' requirements, that is to say products that do not contain any substances of very high concern or that have the necessary regulatory exemptions.

At year-end 2009, eight of the ten Valeo Product Families had been through this identification process. The Group has now entered a

1 2 3 4 5 6 7

< Contents >

product-by-product strategic analysis phase whereby priority will be given to those suppliers offering alternative products that do not contain any SVHC.

In 2010 Valeo is preparing to deploy the provisions necessary to incorporate the second list from the European Chemicals Agency published in January 2009. Valeo has already identified 69 products impacted by this second list.

All measures taken to meet the requirements of the REACH regulation are combined with those established by the Group over the years in order to meet its customers' requirements in terms of substance identification and compliance with thresholds of use.

Eradication of hazardous substances used at the sites

Alongside actions taken to bring products into compliance with the REACH Regulation, the Group is continuing to eradicate all substances used at its industrial sites that are deemed hazardous.

In 2008, a new European regulation called CLP (Classification Labeling and Packaging), following on from GHS (Global Harmonized System), required new safety data sheets to include information on the evaluation of chemical risks (based on REACH registration).

To this end, sites follow a procedure that involves identifying prohibited substances, looking for replacement substances (at an acceptable price), testing them, and having them approved by customers. Most of the hazardous products still in use at Valeo sites are either products undergoing an approval process or products for which substitutes are currently available only at excessively high cost.

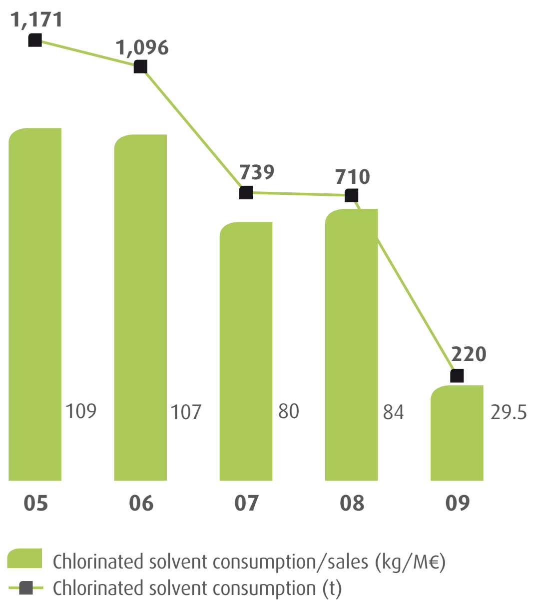
With the REACH regulation, the sites must comply with utilization requirements for the substances concerned as indicated by the manufacturers and vendors.

Initiatives have been taken by the sites to adapt their processes to eliminate the use of hazardous substances.

The Ora site (Valeo Compressors) has changed its washing system, switching to a machine that uses ionized alkaline water instead of organic solvents. Other machine changes are planned for May 2010.

The solvent-free headlamp reflector lacquering process, initially launched by the Krakow site (Valeo Lighting Systems), is now the benchmark for this Product Family and has been nominated as a finalist in the "manufacturing process" category of the PACE Awards. This process uses an environmentally-friendly lacquer.

Consumption of chlorinated solvents

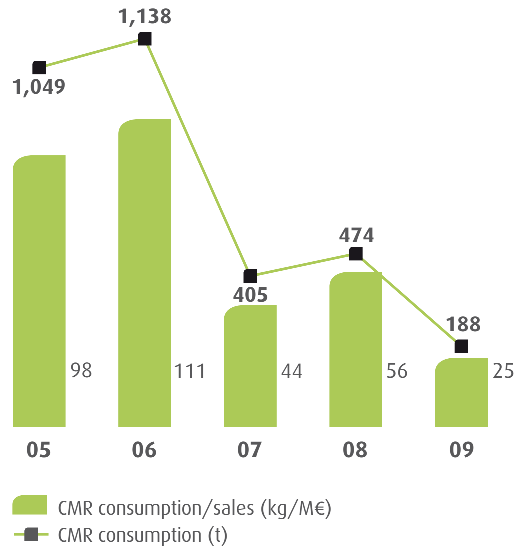


Response rate

2005	2006	2007	2008	2009
99.3%	98.2%	100%	98.9%	100%

< Contents >

Consumption of Carcinogenic, Mutagenic and Reprotoxic (CMR) substances



Response rate

2005	2006	2007	2008	2009
98.8%	98.2%	99.4%	98.9%	100%

Consumption of CMRs and chlorinated solvents dropped sharply in 2009 compared to 2008. This significant fall is explained mainly by the closure of the Queretaro site (Valeo Transmissions), a major consumer during 2008. Twelve sites still use chlorinated solvents, however only two do so at a high rate (more than 20 t/year). In addition, efforts to reduce chlorinated solvent consumption have been made at the Rayong site and Ora site (Valeo Compressors) and consumption has dropped significantly as a result.

The number of listed chemicals has fallen at all sites, and limitations have been set on the quantities of chemicals used.

Actions have already been undertaken to reduce reliance on hazardous substances and chlorinated products such as paints.

In the years to come, Valeo will pursue efforts to eradicate all hazardous substances from its production sites. In addition, the sites will continue efforts to come into compliance with the REACH directive.

3.P.2.6. Reducing noise and other forms of pollution

Minimizing all forms of pollution, to ensure that its industrial activities are properly integrated into their environment, is another of the Group's ongoing environmental objectives. This objective applies as much to the performance of products developed by the Group as to the processes used to make them.

Operations at Valeo sites are not particularly noisy, and the Group is careful to locate new sites far from residential areas. Valeo has issued a Group directive describing practices and processes to limit noise inside the factories.

For several years, the Valeo Group has pursued a policy promoting the use of collective protection systems (noisy machines are insulated from their surroundings) while continuing to educate employees on the need to wear individual protection equipment.

The visual impact of sites is taken into account at the time of their construction, by following the Valeo Factory Design guide. A large portion of each site is given over to green spaces.

Odor pollution, usually associated with emissions of volatile organic compounds (VOCs), can be particularly unpleasant for residents. Processes have been implemented to reduce the use or emission of these compounds, such as replacing solvent paints with water-based paints or eliminating trichlorethylene in the manufacture of clutch facings.

The Valeo sites concerned are equipped with treatment systems to keep emissions below the threshold of perceptibility: bio-filtration, absorption, condensation and incineration, the last-mentioned being the most widely used.

As part of its policy on corporate citizenship, the Group has decided to work with the Ministry of Sustainable Development on the safety of former sites that have not belonged to Valeo for more than 30 years.

1
2
3
4
5
6
7

< Contents >

3.P.3. Table of environmental indicators

	2005	2006	2007	2008	2009
Total sales across all sites in reporting scope (gross)	10,786	10,486	9,222	8,555	7,448
Number of sites in reporting scope	137	138	119	119	118
ISO 14001 certified sites (%)	70	77	94	88	89
OHSAS 18001 certified sites (%)	11	52	74	76	81
Total volume of water consumption (thousand m^3)	3,262	3,463	3,377	3,106	2,343
Total volume of water consumption/sales (m^3/€m)	303	341	367	368	315
Total energy consumption (GWh)	1,814	1,868	1,861	1,682	1,433
Total energy consumption/sales (MWh/€m)	171	185	202	199	192
Electricity (%)	63	64	64	66	67
Gas (%)	34	34	32	32	30
Fuel oil (%)	2	2	1	2	2
Other energy sources (%)	1	0	0	0	1
Consumption of chlorinated solvents (tonnes)	1,171	1,096	739	710	220
Consumption of chlorinated solvents/sales (kg/€m)	109	107	80	84	29,5
Consumption of heavy metals (tonnes)	296	294	131	96	37
Consumption of heavy metals/sales (kg/€m)	28	29	14	11	5
Consumption of CMR substances (tonnes)	1,049	1,138	406	474	188
Consumption of CMR substances/sales (kg/€m)	98	111	44	56	25
Consumption of packaging materials (tonnes)	67,239	63,248	72,065	63,839	47,160
Consumption of packaging materials/sales (kg/€m)	6,741	6,669	7,882	7,546	6,332
Proportion of plastic packaging (%)	17	10	10	5	6
Proportion of paperboard packaging (%)	53	57	58	64	63
Proportion of wood packaging (%)	29	32	31	30	30
Proportion of other packaging materials (%)	1	1	2	2%	1
Consumption of recycled plastics (tonnes)	5,020	6,150	7,184	6,751	7,490
Volume of industrial effluents (thousands of m^3)	695	748	918	809	642
Volume of industrial effluent emissions/sales (m^3/€m)	65	76	103	96	86.3
Heavy metal content in effluents (kg)	208	278	242	142	278
Heavy metal content in effluents/sales (kg/€m)	0	0	0	0	0
VOC atmospheric emissions (tonnes)	1,708	1,489	1,296	1,107	1,001
VOC atmospheric emissions/sales (kg/€m)	162	153	141	132	134
TCE atmospheric emissions (tonnes)	465	327	51	89	42
TCE atmospheric emissions/sales (kg/€m)	44	32	6	10,5	5,6
Lead atmospheric emissions (kg)	72	52	173	137	11
Lead atmospheric emissions/sales (g/€m)	7	5	20	16,5	1,5
Greenhouse gas emissions (tonnes CO_2 equivalent)	121,157	123,971	122,151	107,338	85,115
Greenhouse gas emissions/sales (tonnes CO_2 equivalent/€m)	11	12	13	13	11
Total waste generated (tonnes)	132,725	138,772	159,223	146,543	113,133
Total waste generated/sales (tonnes/€m)	12	14	17	17	15
Hazardous waste (tonnes)	23,102	23,296	20,485	21,195	15,579
Non-hazardous waste (tonnes)	109,628	115,498	138,738	125,347	97,554
Waste reuse rate (%)	71	72	74	77	82
Number of fines and compensation awards	5	3	1	10	4
Amount of fines and compensation awards (€ thousands)	16	4	1	4,1	112.7
Provisions and guarantees for environmental risks (€ thousands)	8,054	3,091	4,289	1,386	2,358
Functional expenditure to prevent environmental consequences of operations (€ thousands)	13,861	16,417	19,789	19,930	11,740
Capital expenditure excluding decontamination costs to prevent environmental consequences of operations (€ thousands)	7,205	4,244	3,552	4,898	2,080
Decontamination costs (€ thousands)	1,467	1,240	1,427	1,217	1,358

1 2 3 4 5 6 7

< Contents >

3.Q. Social indicators

The social indicators below are based on the provisions of Articles L. 225-102-1 and R. 225-104 of France's Commercial Code.

The Valeo Group has chosen to base its social indicators on data from all its companies worldwide. There are some exceptions to this, which are listed on a case-by-case basis.

Valeo continued the step-by-step improvement of its indicator system in 2009 across all ten of its product families, its Service activity and the Group's holding companies. The reporting scope covers a total of 120 production sites, 61 R&D centers and 10 distribution platforms across 27 countries.

1 2 3 4 5 6 7

3.Q.1. Employment

3.Q.1.1. Number of employees

3.Q.1.1.1. Change in employment over three years

	2007	2008	2009
Engineers and managers	11,294	11,468	10,834
Administrative staff, technicians and supervisors	9,307	8,243	7,433
Operators	34,303	29,898	28,789
Registered headcount	**54,904**	**49,609**	**47,056**
Temporary staff	6,148	1,531	5,054
Total headcount	**61,052**	**51,140**	**52,110**
o/w:			
Permanent staff	51,791	48,631	44,705
Temporary staff	9,261	2,509	7,405

At December 31, 2009 the Group employed 52,110 people worldwide, an increase of 1.9% on 2008 but down 14.6% from 2007. The virtual stability in headcount compared with 2008 can be attributed to a significant 195% increase in temporary staff (fixed-term contracts and agency personnel), whereas the number of permanent staff continued to slip, falling 8% on 2008.

The rise in temporary staffing at end-2009 follows an upturn in activity owing to the temporary impact of scrappage programs in Europe, and the strong recovery in vehicle production in emerging countries, primarily in Asia. The number of permanent staff fell, as part of a program introduced at end-2008 to adjust permanent staffing levels in response to the crisis.

The reduction in headcount compared with 2007 results primarily from the sale of the wiring harness business (Valeo Connective Systems Product Family) in late 2007, and the disposal of the truck engine cooling business.

< Contents >

On a consolidated basis, temporary staffing accounted for no more than 4.9% of the total headcount in 2008, as a result of the first measures taken by Valeo during the crisis in December 2008.

At end-December 2009, temporary staffing had risen back up to 14.2% of the total headcount, in response to the workload stimulated by scrappage bonuses.

The percentage of engineers and managers remains stable. At end-2009, it stood at 23.0% of the registered headcount, compared with 23.1% in 2008 and 20.6% in 2007.

3.Q.1.1.2. International composition of Group workforce

The Group's growing worldwide presence is reflected in the increasingly international face of its workforce. Today, 70% of employees are based in a country other than France, compared with 47.8% in 1995. However, this percentage has remained fairly stable in recent years (70.8% in 2008, 71.2% in 2007, 71.5% in 2005).

Total headcount outside France

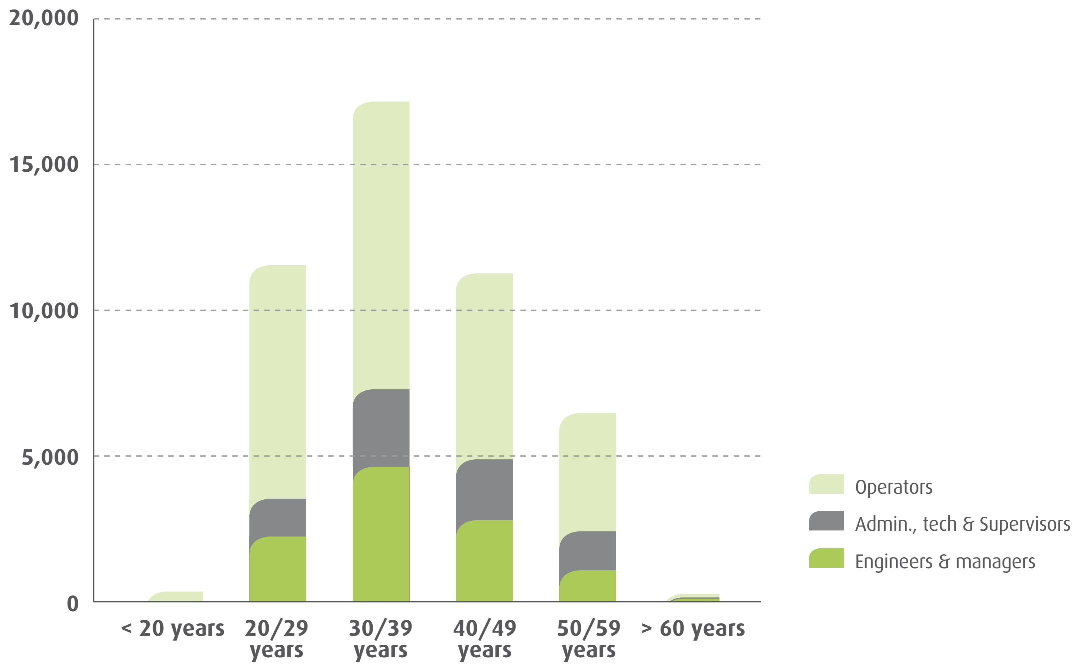
1995	2000	2005	2008	2009
14,125	50,002	50,273	36,220	36,492

	Western Europe	Eastern Europe	Africa	North America	South America	Asia
Total headcount at December 31, 2009	24,592	8,212	1,335	4,191	4,287	9,493
as a% of the total workforce in 2009	47.2%	15.8%	2.6%	8.0%	8.2%	18.2%

Compared with 2008, headcount fell by 0.4% in Western Europe, 10.3% in North America, and 1.2% in Eastern Europe, but rose by 22.8% in Africa, 9.8% in South America, and 11.9% in Asia. This can be explained in part by the recovery in vehicle production in emerging countries, primarily in Asia.

3.Q.1.1.3. Generational turnover

Registered headcount by age bracket



1
2
3
4
5
6
7

< Contents >

At December 31, 2009 the breakdown of the Group's permanent workforce was as follows:

- 0.7% aged under 20;
- 24.5% aged between 20 and 29;
- 36.5% aged between 30 and 39;
- 23.9% aged between 40 and 49;
- 13.8% aged between 50 and 59;
- 0.6% aged 60 or over.

A total 42.7% of engineers and managers are in the 30-39 age bracket, compared with just 35.8% of administrative staff, technicians and supervisors and 34.3% of operators. A total 27.8% of operators are in the 20-29 age bracket.

Because of the large numbers of new staff recruited each year, generational turnover is significant.

3.Q.1.2. New hires

With its strong corporate image and experience, the Group did not encounter any particular problems with recruitment during the year, apart from certain highly localized difficulties concerning positions requiring advanced specialization or specific language skills and in catchment areas where competition for skilled labor is fierce.

3.Q.1.2.1. Permanent contracts

Number of hires on permanent contracts

	2007	2008	2009
Engineers and managers	1,207	1,724	713
Administrative staff, technicians and supervisors	484	540	194
Operators	5,360	3,430	1,729
TOTAL	7,051	5,694	2,636

In the last quarter of 2009, in response to the crisis and in coherence with the measures introduced to adjust workforce size, Valeo put in place a system to filter new hires on permanent contracts, in order to promote internal mobility. As a result, the number of new hires on permanent contracts fell by 54% on 2008 across all socioprofessional categories, and by 63% on 2007.

Nevertheless, the proportion of new hires in engineering and management dipped only slightly in 2009, accounting for 27% of new hires, compared with 30% in 2008 et 17% in 2007.

In contrast, new hires of production operators were up, despite the impact of falling production volumes in first-quarter 2009. Production operators accounted for 65% of new hires in 2009 compared with 60% in 2008, following the pick-up in automotive production in the second part of the year.

Breakdown of hires on permanent contracts by geographic area

	Western Europe	Eastern Europe	Africa	North America	South America	Asia
Total permanent hires, 2009	134	347	69	258	831	997
as a % of hires on permanent contracts, 2009	5.1%	13.2%	2.6%	9.8%	31.5%	37.8%

The primary focus of the Group's recruitment efforts was in high-growth areas: South America and Asia.

< Contents >

3.Q.1.2.2. Fixed-term contracts

Number of hires on fixed-term contracts

	2007	2008	2009
Engineers and managers	73	131	73
Administrative staff, technicians and supervisors	82	93	65
Operators	3,980	1,616	3,746
TOTAL	4,135	1,840	3,884

A total of 3,884 new hires on fixed-term contracts were made during the year, an increase of 111% on 2008 in response to the sudden temporary surge in activity following the introduction of vehicle scrappage schemes, and the pick-up in automotive production in emerging countries.

A total 2,350 employees were on fixed-term contracts at December 31, 2009, compared with 978 in 2008 and 3,112 in 2007.

Breakdown of hires on fixed-term contracts by geographic area

	Western Europe	Eastern Europe	Africa	North America	South America	Asia
Total fixed-term hires, 2009	1,203	731	387	685	41	837
as a % of fixed-term hires, 2009	31%	18.8%	10%	17.6%	1.1%	21.5%

Compared with 2008, the number of new hires on fixed-term contracts increased by 3.2 points in Eastern Europe, 9 points in Asia, 8.3 points in Africa, 9.2 points in North America and 1 point in South America. Only Western Europe saw a fall in the number of new hires on fixed-term contracts, with a drop of 30.7 points.

3.Q.1.3. Departures

	2007	2008	2009
Contract terminations	2,007	4,167	3,806
■ o/w layoffs	607	2,238	2,619
Resignations	4,029	3,937	2,038
Early retirement	160	191	225
Retirement	668	417	285

Valeo terminated 3,806 contracts in 2009, or 8.5% of permanent staff (8.6% in 2008 and 3.9% in 2007).

Layoffs for economic reasons accounted for almost 69% of total contract terminations, compared with just over half in 2008 and less than one-third in 2007, 2006 and 2005.

The rise in layoffs reflects the measures taken by Valeo to adjust workforce size, in response to the global automotive industry crisis.

Early retirements and retirements amounted to 1.1% of the permanent headcount (1.2% in 2008 and 1.6% in 2007).

In 2009 the number of resignations was down 48% on 2008, but still remains one of the main reasons for departures, after

< Contents >

contract terminations. Resignations represented 4.6% of the permanent workforce in 2009 (8.1% in 2008 and 7.8% in 2007). By socioprofessional category, resignations represented 5.6% of the permanent headcount of engineers and managers, 3.9% of the permanent headcount of administrative staff, technicians and supervisors, and 4.3% of the permanent headcount of operators.

Breakdown of departures in 2009 by geographic area

	Western Europe	Eastern Europe	Africa	North America	South America	Asia
Layoffs	962	410	91	736	147	273
	36.7%	*15.7%*	*3.5%*	*28.1%*	*5.6%*	*10.4%*
Dismissals	276	197	5	125	351	233
	23.3%	*16.6%*	*0.4%*	*10.5%*	*29.6%*	*19.6%*
Resignations	466	404	64	255	122	727
	22.9%	*19.8%*	*3.1%*	*12.5%*	*6%*	*35.7%*
Early retirement	196	0	0	1	0	28
	87.1%	*0%*	*0%*	*0.4%*	*0%*	*12.5%*
Retirement	171	19	1	32	4	58
	60.1%	*6.7%*	*0.4%*	*11.2%*	*1.4%*	*20.2%*

Information on headcount reduction, employment protection plans, redeployments, rehiring and support measures

Valeo is firmly committed to a forward-looking employment and skills management policy. The Group implements measures to delay or even avoid layoffs, such as holiday-taking, cuts in overtime, reductions in temporary staffing and sub-contracting, or short-time working. When there is a clear need to optimize industrial facilities, Valeo undertakes restructuring operations. In this case, the Group works in concert with labor organizations and uses all available mechanisms to find alternative employment, including internal redeployment, outplacement, takeover of the plant by another owner, or reindustrialization of local labor pools.

The headcount reduction plans launched in 2009 involved all Product Families, including the Service activity and holding companies (compared with seven in 2008), for a total of 2,775 people (compared with 1,248 in 2008).

Under the restructuring plans completed in 2009, a solution was found for 1,680 people out of a total of 1,729, a success rate of 97.2%, compared with 94.8% in 2008: 9.3% of the total were internal redeployments, 13.1% were outplacements, 9.7% were retirements or early retirements, 51.4% were voluntary departures and 13.7% fell into other redeployment categories.

3.Q.2. Work time organization

3.Q.2.1. Length of work time

Working week of full-time employees

The work of employees at the Group's 120 production sites, 61 R&D centers and ten distribution platforms is organized on the basis of statutory working time, which varies between countries and ranges from 35 to 48 hours per week.

The most frequent statutory working week is 40 hours.

< Contents >

In France, the agreement on the reduction of work time, signed with trade unions on April 20, 2000, establishes the following number of hours for the working week:

Engineers and managers	215 days/year
Administrative staff, technicians and supervisors	35 hrs
Employees without paid overtime hours	37.5 hrs
Operators	35 hrs

Working week of part-time employees

Part-time work is considered to be any work schedule with fewer hours than the standard work week at the entity in question. Average work hours for part-time employees consequently vary from 16 to 36 hours per week, depending on the country and the socioprofessional category.

3.Q.2.2. Work schedules

Breakdown of personnel by work schedule as a %

(in %)	2007	2008	2009
Day workers	44%	48%	48%
2x8 hour shifts	24%	23%	21%
3x8 hour shifts	24%	23%	23%
Night workers	6%	5%	6%
Weekend workers	2%	0%	1%

Most production employees work as part of 2x8, 3x8, or night shifts in order to optimize plant utilization. In 2009 the Group had 24,420 shift workers, representing 52% of the total headcount.

3.Q.2.3. Overtime

In 2009 4,393,339 hours of overtime were paid (versus 4,897,136 in 2008, and 5,596,662 in 2007), o/w 87.7% to production workers (82.5% in 2008, 84% in 2007).

This paid overtime corresponds to 4.7% of total possible work hours (i.e. the number of hours that could be worked by all Group employees).

3.Q.2.4. Part-time

A total 1,036 employees were working part-time in the Group in 2009, or 2.2% of the registered headcount (versus 2.4% in 2008, 2.5% in 2007 and 1.9% in 2006 and 2005).

Women accounted for 76.9% of this number (versus 79.1% in 2008 and 73.8% in 2007).

The breakdown of part-time workers by category was as follows: engineers and managers: 8%; administrative staff, technicians and supervisors: 17.3%; and operators: 74.7%.

3.Q.2.5. Absenteeism

In 2009, the Group-wide absenteeism rate (ratio of hours of absence to possible work hours) was 2.55%. The reasons for absence were broken down as follows: illness, 82.3% (versus 82.9% in 2008), unauthorized absence, 2.9% (versus 4% in 2008), authorized absence such as unpaid leave, 4.2% (versus 4% in 2008), accidents in the workplace or on the home-work journey, 4% (versus 3.7% in 2008), strikes, 4.2% (versus 2.7% in 2008), suspensions, 0.2% (versus 0.3% in 2008), and other reasons, 2.2%.

Absenteeism is higher in France than for the Group as a whole, at a rate of 3.1%.

1 2 3 4 5 6 7

< Contents >

3.Q.3. Gender equality and diversity

3.Q.3.1. Male – female breakdown

Valeo is keen to promote equality between men and women, on a comparable basis, in terms of career development, training possibilities, wages, and rank within the company.

Valeo draws up a comparative gender status report for the Group's French companies every year. This report serves as a basis for annual negotiations between labor and management on targets for gender equality in the workplace and on measures to achieve these targets.

The proportion of female engineers and managers in the Group is rising. In 2009, it rose 0.2 points on 2008 and 1.1 points on 2007.

Breakdown of women by socioprofessional category

(As a % of the registered workforce in 2009)	2007	2008	2009
Engineers and managers	17.4%	18.3%	18.5%
Administrative staff. technicians and supervisors	26.3%	25.5%	24.6%
Operators	39.2%	38.9%	38.1%

Through partnerships with leading French business schools and associations such as *Elles Bougent*, Valeo is striving to increase the percentage of female employees. As the table below shows, however, the proportion of women among new hires on permanent contracts declined in 2009 for all socioprofessional categories.

Proportion of women among new hires on permanent contracts over three years

	Engineers and managers		Administrative staff, technicians and supervisors		Operators		Total	
	Women	%	Women	%	Women	%	Women	%
2007	337	27.9%	146	30.1%	2,298	42.9%	2,781	39.4%
2008	419	24.2%	179	33.2%	1,205	35.1%	1,803	31.7%
2009	144	20.2%	44	22.7%	419	24.2%	607	23%

3.Q.3.2. Diversity

The presence of the Valeo Group in 27 countries promotes diversity.

In 2009 the Group's workforce comprised employees of 91 different nationalities.

The ten most prevalent nationalities in Valeo divisions are: French, Chinese, Brazilian, Polish, German, Mexican, Spanish, Korean, American and Czech.

The countries where Valeo has the largest number of nationalities are: France (59 nationalities), Germany (36 nationalities), United States (23 nationalities), Czech Republic (22 nationalities), and Italy (20 nationalities).

The two most diversified divisions are the Product Families Valeo Engine and Electrical Systems in France, with 21 nationalities in a workforce of 324 employees, and Valeo Audit Qualité, with 20 nationalities in a workforce of 85 employees.

1 2 3 4 5 6 7

< Contents >

3.Q.4. Labor relations and collective bargaining agreements

Valeo has developed an active contract-based labor relations policy. In 2009 315 agreements were signed (compared with 267 in 2008 and 213 in 2007) in 19 countries. These agreements covered a range of subjects and were based on national laws.

Among these agreements, 126 (40%) concerned work time, 90 (28.6%) wages, nine (2.9%) profit-sharing and incentive plans, and 35 (11.1%) premiums or bonuses.

In response to the difficulties facing automotive production in 2009, a number of agreements were signed on cutting workforce size in several countries, with redeployment measures and encouragement for voluntary departures.

These agreements on adjusting workforce size were part of a large, total number of agreements, examples of which are given below:

Western Europe:

- France: 2009 wage agreements, agreements on profit-sharing and incentive plans, agreements on forward careers and employment planning, agreements on the organization of work time and leave, agreements on pensions, health, insurance benefits and labor provisions in the corporate articles of association;
- Italy: agreements on the organization of work time and leave, unemployment benefits and long-distance mobility;
- Germany: agreements on the organization of work time and leave, agreements on the payment of bonuses;
- Spain: collective bargaining agreements, agreements on the organization of work time and leave.

Eastern Europe

- Czech Republic: collective bargaining agreements, wage agreements;
- Romania: collective labor agreement;
- Hungary: wage agreements and agreements on the organization of work time and leave.

North America

- Mexico: wage agreements, agreements on the organization of work time and leave.

South America

- Brazil: wage agreements, collective bargaining agreements, agreements on profit-sharing and incentives;
- Argentina: wage agreements, collective bargaining agreements.

Asia

- Japan: wage agreements, agreements on the payment of bonuses, agreements on the organization of work time and leave;
- China: agreement on employment contracts;
- Korea and Thailand: wage agreements.

Africa

- Tunisia: agreements on the organization of work time and leave, agreements on the payment of bonuses.

The European Works Council includes representatives from the following countries: Belgium, Czech Republic, France, Germany, Hungary, Ireland, Italy, Poland, Romania, Slovakia, Spain and the United Kingdom. The enterprise agreement on the European Works Council was revised in July 2008.

The Council met seven times in 2009.

The countries in which employees are fully or partially covered by a collective bargaining agreement are the following: Argentina, Belgium, Brazil, Czech Republic, France, Germany, Hungary, India, Italy, Japan, Mexico, Romania, South Africa, South Korea, Spain, Thailand, Tunisia, Turkey, and the United States.

3.Q.5. Health and safety in the workplace

In the field of safety and working conditions, the objective is to move towards “zero accidents”.

Valeo considers health and safety in the workplace as a key priority. Systematic audits are performed by external consultants to better assess and control risks and improve the quality of Valeo’s Group-wide standards.

In 2009, in keeping with its principles of continuous improvement, Valeo continued the deployment of tools for analyzing each occupational accident or incident. These tools were implemented in 2007 and fine-tuned in 2008, with real involvement by management, leading to a significant fall in the number of accidents.

Valeo continued its prevention program for musculoskeletal disorders and other occupational illnesses, initiated in 2007, with a project

1 2 3 4 5 6 7

< Contents >

entitled "Well-being and efficiency at the workstation", covering both production and administrative jobs. The method formally defined in 2007 to identify, rank and address risks at the workstation, is being deployed across all Group sites.

Independently of the systematic audits, Valeo uses two indicators to gauge the efficiency of measures taken:

- frequency (number of lost-time accidents per million hours worked);
- severity (number of days lost owing to an occupational accident per thousand hours worked).

In 2009 the number of occupational accidents, involving lost-time or not, totaled 1,924 compared with 3,225 in 2008, a drop of 40% on 2008. The number of lost-time occupational accidents totaled 348 (compared with 515 in 2008 and 555 in 2007), a fall of 32%.

Generally speaking, the main causes of lost-time accidents concern machines or processes (50.1%) or ergonomics (18%).

Group

	2007	2008	2009
Frequency*	5.47	5.24	4.08
Severity**	0.14	0.13	0.10

* *Frequency: number of lost-time accidents per million hours worked.*
** *Severity: number of days lost owing to occupational accidents per thousand hours worked.*

France

	2007	2008	2009
Frequency	8.94	9.72	7.28
Severity	0.21	0.21	0.20

In France, frequency and severity rates for 2009 were respectively 17.4 points and 1.1 points lower than the industry average (source CNAMTS – 2008 – latest survey).

In 2009 18.4% of training hours provided within the Group were devoted to safety, up 3.8 points on 2008.

At the same time, the percentage of employees who have followed at least one training session on safety was 51.5% in 2009.

3.Q.6. Remuneration

3.Q.6.1. Changes in remuneration and social charges

(In millions of euros)	2007	2008	2009
Payroll excluding social charges and temporary staff	1,517	1,496	1,354
Social charges	399	367	358
Pension charges for defined benefit plans	31	26	25
Pension charges for defined contribution plans	96	88	79
Total loaded payroll costs	2,043	1,977	1,816
Loading rate	32.6%	30.4%	32.3%

< Contents >

(In millions of euros)	2007	2008	2009
Loaded personnel costs (including temporary staff)	2,212	2,106	1,888
% of sales	23.1%	24.3%	25.2%

Breakdown by geographic area in 2009

(In millions of euros)	France	Europe (excluding France)	Excluding Europe
Payroll excluding social charges	587	437	330
Social charges	205	90	63
Total loaded payroll cost	792	527	393
Loading rate	34.9%	20.6%	19.1%

The highest registered headcount is in France, with 13,108 employees at end-December 2009.

3.Q.6.2. Profit-sharing, incentives and employee savings plans

3.Q.6.2.1. Profit-sharing

In 2009 just one of the Group's 15 French companies set aside a special profit-sharing reserve, of €1,058,000.

3.Q.6.2.2. Incentives

Employees at three of the Group's 15 French companies received a total of €3,714,433 as part of incentive plans for 2009.

3.Q.6.2.3. Employee savings plans

Group savings plan

The Group savings plan (PEG) was set up on November 13, 2001 under a collective agreement signed by Group Management and four trade unions. A rider to this agreement was added on September 17, 2008.

The PERCO (collective pension savings plan) was put in place on September 17, 2008, under a collective agreement signed by Group Management and four trade unions.

French employees can invest sums received through profit-sharing and incentives, and make voluntary payments into the Group Savings Plan or, as of January 1, 2009, the collective pension savings plan. PERCO assets are invested in the same funds as the Group savings plan. Employees can also transfer assets from the PEG to the PERCO. Voluntary contributions are matched by Valeo for amounts of up to €275 for the PEG and €750 for the PERCO per year and per employee, based on payments made.

These agreements concern only French companies in the Group.

At December 31, 2009 en France, 10,828 employees were part of the Valeo PEG (down 4.1% on December 31, 2008). Over the same period, the headcount in France fell by 11.5%, from 14, 815 at December 31, 2008 to 13,108 at December 31, 2009. At December 31, 2009, 13,108 employees had joined the Valeo PEG, 82.6% of the registered headcount in France compared with 76.2% in 2008.

Total assets invested by employees in the PEG amounted to €42,733,539, spread across seven mutual funds.

At December 2009, 694 employees had joined the Valeo PERCO, 5.3% of the registered headcount in France. Total assets invested by employees in the PERCO amounted to €1,222,820, spread across five mutual funds.

In 2008, the management of these mutual funds was placed in the hands of Crédit Agricole Asset Management and BNP Paribas Asset Management.

Employee share ownership

At end-2004, the Group introduced an employee share ownership plan called Valeorizon. A total 14% of employees have subscribed in 16 of the countries where Valeo operates.

As of December 16, 2009, assets invested by employees in Valeorizon can be withdrawn after a five-year lock-up period.

At December 31, 2009, the Valeorizon fund held 123,746 shares, and the Valeorizon+ fund was wound up.

In 2008, Valeo chose a single service provider, CREELIA, a subsidiary of Crédit Agricole Asset Management, to manage employee savings accounts. Accounts for the Group savings plan and the Valeorizon and Valeorizon+ funds was previously managed by Natixis Interépargne and Société Générale respectively.

1 2 3 4 5 6 7

< Contents >

3.Q.7. Training

Training over the past three years

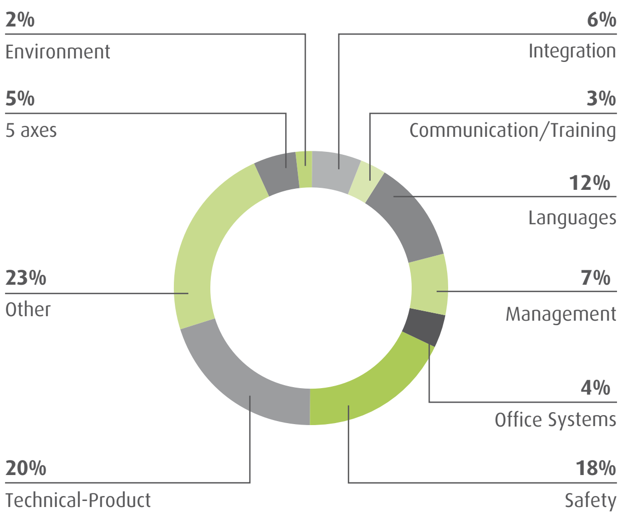
In 2009, the Group spent €20,180,632 on training, down 20% on 2008 in absolute terms, but stable in relative terms at 1.49% of the payroll, excluding social charges.

As part of its training policy, the Group maintained investments in training to benefit the greatest number of employees, while seeking to cut the cost of training operations. A total 77% of employees took part in at least one training program during the year (82% in 2008), for an average of 22 hours per person. The average investment per person trained has fallen by 10.2% (from €619 to €556 per person trained).

The breakdown of training for new hires and job instruction training (65%), the development of new cross-cutting skills (paving the way for internal mobility) or progress within one of the Group's business areas (35%) remained stable in 2009.

	2007	2008	2009
Number of hours of training provided	1,172,356	1,065,792	780,413
Training spend	€24,922,581	€25,223,395	€20,180,632
Number of persons trained	44,523	40,730	36,285
% of persons trained, total	81.1%	82.1%	77.1%
■ Engineers and managers	87%	87.6%	86.9%
■ Administrative staff, Technicians and Supervisors	78.5%	85.7%	82.5%
■ Operators	79.9%	79%	72%

Breakdown of training hours per subject category in 2009



1 2 3 4 5 6 7

< Contents >

Average number of hours of training per socioprofessional category

	2007	2008	2009
Engineers and managers	41	38	33
Administrative staff, Technicians and Supervisors	37	38	29
Operators	18	18	14
TOTAL	**26**	**26**	**22**

The Group's training strategy involves developing the skills of employees through a range of educational methods. This strategy makes it possible to accommodate varying requirements in terms of time and geographical mobility, and to provide resources suited to the subjects addressed, the method used and the individual pace of learning, with:

- face-to-face or remote sessions (by videoconferencing, telephone, etc.) conducted by outside specialists or Valeo experts, encouraging sharing of experience and good practices between participants;
- field training-initiatives, involving local management to increase operator flexibility or multi-skilling, or the 5 Axes Schools to develop expertise in Valeo methods and tools;
- online self-training modules (Valeo C@mpus), with or without tutoring, either to acquire theoretical basics before a session in the classroom or in the field or as part of an individual training program, carried out in stages and alternating theory with periods of supervised practice.

Training requirements are analyzed on the basis of skills assessments for given jobs, business development or internal mobility. Individual Career Development Plans in three stages are drafted to support the improvement in skills: theory, practical application and experience-sharing, supervised presentation and feedback.

To support the Group's policy of innovation and technological development, programs relating to materials, products, production systems and manufacturing processes continue to rank highest in terms of the number of training hours, accounting for 20% of the total. These programs, led by Group technical experts or outside specialists, are constantly evolving under the guidance of the R&D department and the Valeo Technical Institutes.

In 2009, as in 2008, the Group placed the emphasis on training in safety (18% of total hours for 51% of registered employees), with the "Play Safe" module. The Group also continued training in ergonomics with a program entitled "Well-being and efficiency at the workstation". Deployed as an e-learning course and available in eleven languages, this program includes practical exercises to be carried out at the workstation. Co-managed by line managers and safety managers, with real personnel involvement, these sessions aim to prevent musculoskeletal disorders and the risk of accidents.

The Group also gave priority to training in quality assurance methods and tools, including "QRQC" (Quick Response Quality Control). QRQC is a technique for detecting, analyzing, and processing quality deficiencies of all kinds. The "other business training" category totaled 23% of training hours in 2009.

Training in the 5 Axes, induction programs and the corporate culture continue to account for a significant proportion of training (11%), as do language training and intercultural relations (12%), owing to the Group's worldwide presence and the development of international activities in all business lines.

The Group is also devoting considerable efforts (7%) to the development of managerial skills, particularly through active cooperation with the CEDEP (European Center for Continuing Education). It is developing e-learning and on-site programs designed to simulate real-life situations and to promote the personal development of managers.

1 2 3 4 5 6 7

< Contents >

3.Q.8. Employment and insertion of workers with disabilities

When it revised its Code of Ethics in 2004, Valeo reaffirmed its commitment to promoting respect for human dignity and value in the workplace as well as equal rights for all workers. Accordingly, the Valeo Group participates in programs to foster the employment and insertion of workers with disabilities.

A total 716 employees with disabilities were working for the Group at end-December 2009. The percentage of disabled employees remains stable at 1.5% of the registered workforce between 2008 and 2009.

In France, the workforce at end-December 2009 included 414 employees with disabilities (428 at year-end 2007 and 466 at year-end 2007), making up 3.2% of the registered headcount. The total value of subcontracting and service contracts with sheltered workshops and special employment centers was close to €1.5 million in 2009 (€1.4 million in 2007).

1
2
3
4
5
6
7

3.Q.9. Social and cultural activities

In most of the countries in which it operates, the Group makes financial contributions to sports, educational, cultural and charity organizations. In 2009 €32 million, or 2.4% of the payroll excluding social charges, was channeled into social programs.

In France in 2009, Valeo devoted €11.1 million, or 0.8% of the payroll excluding social charges, to social programs (€10.3 million in 2008 and €11.8 million in 2007). These amounts break down as follows: 25.1% on cafeteria facilities and restaurant vouchers, 12.3% on cultural outings, 6.5% on transport subsidies, 4% on sports clubs and recreational activities, 4.5% on medical services and vaccination campaigns, 6.7% on daycare and holiday camps for employees' children, 2.3% on charity organizations, 0.9% on libraries, and 37.7% on other kinds of activities.

In addition, Valeo has a culture of sustainable development, through which it is involved in a number of corporate, social, and environmental initiatives.

To measure the progress and the reach of these efforts, the Group put in place a special reporting process in 2008, covering relevant local, national and international initiatives. The first reports show that Valeo is a major player in the life of local communities, especially in providing institutional support, promoting culture and education, organizing transport, contributing to employee health and providing housing aid.

As part of its investment in sustainable development, each Group site may interact directly with the local population.

Most of the people employed at Valeo sites are drawn from the surrounding labor pools.

The plants forge relationships with local authorities and government departments in order to integrate and become part of the regional economic fabric. Ties are also developed with educational institutions, universities and professional schools with a view to fostering the insertion, training and recruitment of future employees.

< Contents >

3.Q.10. Subcontracting

Valeo engages subcontractors to perform specific services at its sites, such as cleaning, maintenance, IT and administrative support, and security services.

Subcontracting expenditure amounted to €148.9 million in 2009 or 11% of Group payroll excluding social charges. In France, this item amounted to €65.5 million, or 4.8% of the payroll excluding social charges.

The Group is vigilant in ensuring that its subsidiaries comply with fundamental principles of national and international labor law in their dealings with subcontractors and, in particular, that subcontractors and suppliers respect the provisions of the Valeo Code of Ethics concerning fundamental human rights.

Valeo requires all its suppliers around the world to adopt the commitments made by the Group to sustainable development. To this end, a document titled "Valeo Requirements for Suppliers" was drawn up and translated into 15 languages in 2007. This document has been sent to 2,750 Valeo suppliers throughout the world, who are required to accept its content and to agree to be audited by Valeo in this area.

1
2
3
4
5
6
7

3.Q.11. Role of the company in youth training and employment

The Group is also continuing to contribute to the basic training of young people with 1,281 interns, of whom 39.1% are women, 743 apprentices, of whom 29.5% are women, and 183 international corporate volunteers, of whom 32.2% are women.

3.Q.11.1. International perspective

Valeo is maintaining and strengthening a policy of relations with higher education, in particular, by developing partnerships with universities and schools of international renown, and fostering diversity within its workforce.

In 2009 the Group participated in a large number of events where it was able to make contact with future graduates, particularly in universities in China and India, and the international corporate volunteers forum organized by UbiFrance in Paris.

Valeo also sponsors ShARE, an association of students from Asia's top universities. It took an active part in organizing the association's global seminar in India last December.

3.Q.11.2. In France

To meet its recruitment requirements in France, Valeo has strengthened its relations with a number of partners including:

- Supélec, in connection with the PERCI program for teaching and research in cooperation with industry;
- UTC (Compiègne) and ENS (Cachan), through the development of scientific cooperation programs;
- ESTACA, by sponsoring the activities of the *Elles Bougent* association;
- Audencia Nantes, through a partnership set up to create and develop an engineering program;
- ESEO, as part of research into onboard systems;
- ESIGELEC, as part of a partnership agreement signed with the school.

Valeo also played an active role in many school forums, including those organized by Arts et Métiers Paristech, Centrale Paris, ESEO Angers, ESO, Supélec, UTC Compiègne, Audencia Nantes, EDHEC and Reims MS.

Valeo also sponsors the *Elles Bougent* association, through which it promotes careers in transport among female high school students. It contributed actively to the promotional campaign on apprenticeships conducted by FIEV (the French trade association of vehicle component suppliers) and the apprenticeship forum organized by the CEFIPA engineering training center in Bagneux.

2009 Consolidated financial statements

4

< Contents >

4.A. Consolidated statements of income

(In millions of euros)	Notes	2009	2008 (1)
CONTINUING OPERATIONS			
NET SALES	3.1	**7,499**	**8,677**
Cost of sales	3.2	(6,361)	(7,350)
GROSS MARGIN		**1,138**	**1,327**
% of net sales		15.2%	15.3%
Research and development expenditure, net	3.4	(473)	(501)
Selling expenses		(156)	(177)
Administrative expenses		(376)	(419)
OPERATING MARGIN		**133**	**230**
% of net sales		1.8%	2.7%
Other income and expenses	3.5	(49)	(282)
OPERATING INCOME (LOSS)		**84**	**(52)**
Interest expense	3.6	(69)	(68)
Interest income	3.6	9	23
Other financial income and expenses	3.7	(57)	(59)
Equity in net earnings (losses) of associates	4.4	(34)	9
INCOME (LOSS) BEFORE INCOME TAXES		**(67)**	**(147)**
Income taxes	3.8	(79)	(51)
INCOME (LOSS) FROM CONTINUING OPERATIONS		**(146)**	**(198)**
DISCONTINUED OPERATIONS			
Income (loss) from discontinued operations, net of tax	3.9.3	-	(1)
NET INCOME (LOSS) FOR THE YEAR		**(146)**	**(199)**
Attributable to:			
■ Owners of the Company		(153)	(207)
■ Minority interests		7	8
Earnings (loss) per share:			
■ Basic earnings (loss) per share (in euros)	3.9.1	(2.04)	(2.73)
■ Diluted earnings (loss) per share (in euros)	3.9.2	(2.04)	(2.73)
Earnings (loss) per share from continuing operations:			
■ Basic earnings (loss) per share (in euros)		(2.04)	(2.73)
■ Diluted earnings (loss) per share (in euros)		(2.04)	(2.73)

(1) The presentation of the statement of income for 2008 is different from that published in February 2009 (see Note 3.1).

The Notes are an integral part of the consolidated financial statements.

1 2 3 4 5 6 7

< Contents >

4.B. Consolidated statements of comprehensive income

(In millions of euros)	2009	2008
NET INCOME (LOSS) FOR THE YEAR	**(146)**	**(199)**
Translation adjustment	48	(28)
o/w income taxes	-	-
Actuarial gains (losses) on defined benefit plans	(13)	(60)
o/w income taxes	*3*	*(4)*
Cash flow hedges:		
■ gains (losses) taken to equity	12	(13)
■ (gains) losses transferred to income (loss) for the period	8	9
o/w income taxes	*(2)*	-
Remeasurement of available-for-sale financial assets	4	-
o/w income taxes	-	-
Other comprehensive income (loss) for the year, net of tax	**59**	**(92)**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**(87)**	**(291)**
Attributable to:		
■ Owners of the Company	**(93)**	**(303)**
■ Minority interests	**6**	**12**

The Notes are an integral part of the consolidated financial statements.

1 2 3 4 5 6 7

< Contents >

4.C. Consolidated statements of financial position

(In millions of euros)	Notes	Dec. 31, 2009	Dec. 31, 2008
ASSETS			
Goodwill	4.1	1,146	1,154
Other intangible assets	4.2	535	525
Property, plant and equipment	4.3	1,665	1,739
Investments in associates	4.4	94	133
Non-current financial assets		74	24
Deferred tax assets	4.5	117	103
Non-current assets		**3,631**	**3,678**
Inventories	4.6	482	543
Accounts and notes receivable	4.7	1,251	1,168
Other current assets		232	248
Taxes recoverable		15	30
Other current financial assets		13	15
Assets held for sale		1	5
Cash and cash equivalents	4.10.4	860	661
Current assets		**2,854**	**2,670**
TOTAL ASSETS		**6,485**	**6,348**
LIABILITIES AND EQUITY			
Share capital	4.8.1	235	235
Additional paid-in capital	4.8.2	1,402	1,402
Retained earnings	4.8.4	(404)	(326)
Stockholders' equity		**1,233**	**1,311**
Minority interests	4.8.7	51	51
Stockholders' equity including minority interests		**1,284**	**1,362**
Provisions - long-term portion (1)	4.9	749	765
Debt - long-term portion	4.10.2	1,526	1,299
Subsidies and grants - long-term portion (1)		25	7
Deferred tax liabilities	4.5	25	16
Non-current liabilities		**2,325**	**2,087**
Accounts and notes payable		1,648	1,454
Provisions - current portion	4.9	364	462
Subsidies and grants - current portion		13	5
Taxes payable		18	50
Other current liabilities		715	698
Current portion of long-term debt	4.10.2	40	26
Other current financial liabilities		5	38
Short-term debt	4.10.3	73	166
Current liabilities		**2,876**	**2,899**
TOTAL LIABILITIES AND EQUITY		**6,485**	**6,348**

(1) The presentation of the statements of financial position at December 31, 2008 is different from those published in February 2009. Subsidies were presented within provisions for a non-material amount. Both subsidies and provisions are now presented separately.

The Notes are an integral part of the consolidated financial statements.

1 2 3 4 5 6 7

< Contents >

4.D. Consolidated statements of cash flows

(In millions of euros)	Notes	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) for the year		(146)	(199)
Equity in net earnings (losses) of associates		34	(9)
Net dividends received from associates		2	3
Expenses (income) with no cash effect	*4.11.1*	445	732
Cost of net debt		60	45
Income taxes (current and deferred)		79	51
Gross operating cash flows		**474**	**623**
Income taxes paid		(89)	(71)
Changes in working capital	*4.11.2*	214	179
Net cash provided by operating activities		**599**	**731**
CASH FLOWS FROM INVESTING ACTIVITIES			
Outflows relating to acquisitions of intangible assets		(150)	(160)
Outflows relating to acquisitions of property, plant and equipment		(304)	(468)
Inflows relating to disposals of property, plant and equipment		10	15
Net change in non-current financial assets		(43)	(10)
Impact of changes in scope of consolidation	*4.11.3*	(10)	52
Net cash from (used in) investing activities		**(497)**	**(571)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		-	(92)
Dividends paid to minority interests in consolidated subsisdiaries		(7)	(7)
Dividend equalization tax (1)		-	27
Issuance of share capital		1	3
Sale (purchase) of treasury stock		8	(39)
Issuance of long-term debt		228	8
Interest paid		(52)	(51)
Interest received		4	17
Repayments of long-term debt		(6)	(9)
Net cash from (used in) financing activities		**176**	**(143)**
Effect of exchange rate changes on cash		**14**	**(33)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**292**	**(16)**
Net cash and cash equivalents at beginning of period		**495**	**511**
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD		**787**	**495**
o/w:			
■ **Cash and cash equivalents**		**860**	**661**
■ **Short-term debt**		**(73)**	**(166)**

(1) Corresponding to the refund by the State of the dividend equalization tax (précompte mobilier) paid by Valeo in 2000, further to the December 2007. administrative court ruling.

The Notes are an integral part of the consolidated financial statements.

< Contents >

4.E. Consolidated statement of changes in stockholders' equity

Number of shares	(In millions of euros)	Share capital	Additional paid-in capital	Translation adjustment	Retained earnings	Stockholders' equity	Minority interests	Stockholders' equity including minority interests
76,776,813	**Stockholders' equity at January 1, 2008**	**235**	**1,402**	**57**	**44**	**1,738**	**44**	**1,782**
	Dividends	-	-	-	(92)	(92)	(7)	(99)
(1,709,695)	Treasury stock	-	-	-	(39)	(39)	-	(39)
	Capital increase	-	-	-	-	-	3	3
	Share-based payment	-	-	-	8	8	-	8
	Other movements	-	-	-	(1)	(1)	(1)	(2)
	Transactions with owners	**-**	**-**	**-**	**(124)**	**(124)**	**(5)**	**(129)**
	Net income (loss) for the year	**-**	**-**	**-**	**(207)**	**(207)**	**8**	**(199)**
	Other comprehensive income (loss), net of tax:							
	Translation adjustment	-	-	(32)	-	(32)	4	(28)
	Actuarial gains and losses	-	-	-	(60)	(60)	-	(60)
	Gain (loss) on cash flow hedges recognized in equity	-	-	-	(13)	(13)	-	(13)
	(Gain) loss on cash flow hedges taken to income (loss) for the year	-	-	-	9	9	-	9
	Remeasurement of available-for-sale financial assets	-	-	-	-	-	-	-
	Total other comprehensive income (loss)	**-**	**-**	**(32)**	**(64)**	**(96)**	**4**	**(92)**
	Total comprehensive income (loss)	**-**	**-**	**(32)**	**(271)**	**(303)**	**12**	**(291)**
75,067,118	**Stockholders' equity at December 31, 2008**	**235**	**1,402**	**25**	**(351)**	**1,311**	**51**	**1,362**

1
2
3
4
5
6
7

< Contents >

Number of shares	(In millions of euros)	Share capital	Additional paid-in capital	Translation adjustment	Retained earnings	Stockholders' equity	Minority interests	Stockholders' equity including minority interests
75,067,118	**Stockholders' equity at January 1, 2009**	**235**	**1,402**	**25**	**(351)**	**1,311**	**51**	**1,362**
	Dividends	-	-	-	-	-	(7)	(7)
490,380	Treasury stock	-	-	-	8	8	-	8
	Capital increase	-	-	-	-	-	1	1
	Share-based payment	-	-	-	7	7	-	7
	Other movements	-	-	-	-	-	-	-
	Transactions with owners	-	-	-	**15**	**15**	**(6)**	**9**
	Net income (loss) for the year	-	-	-	**(153)**	**(153)**	**7**	**(146)**
	Other comprehensive income (loss), net of tax:							
	Translation adjustment	-	-	49	-	49	(1)	48
	Actuarial gains and losses	-	-	-	(13)	(13)	-	(13)
	Gain (loss) on cash flow hedges recognized in equity	-	-	-	12	12	-	12
	(Gain) loss on cash flow hedges taken to income (loss) for the year	-	-	-	8	8	-	8
	Remeasurement of available-for-sale financial assets	-	-	-	4	4	-	4
	Total other comprehensive income (loss)	-	-	**49**	**11**	**60**	**(1)**	**59**
	Total comprehensive income (loss)	-	-	**49**	**(142)**	**(93)**	**6**	**(87)**
75,557,498	**Stockholders' equity at December 31, 2009**	**235**	**1,402**	**74**	**(478)**	**1,233**	**51**	**1,284**

The Notes are an integral part of the consolidated financial statements.

< Contents >

4.F. Notes to the consolidated financial statements

4.F.1. Accounting policies

The consolidated financial statements of the Valeo Group for the year ended December 31, 2009 include the accounts of Valeo, its subsidiaries, and the Group's share of associates and jointly controlled entities.

Valeo is an independent Group fully focused on the design, production and sale of components, integrated systems and modules for the automobile sector. It is one of the world's leading automotive suppliers.

Valeo is a French legal entity listed on the Paris Stock Exchange, whose head office is located at 43, rue Bayen, 75017 Paris.

Valeo's consolidated accounts were authorized for issue by the Board of Directors on February 24, 2010.

They will be submitted for approval to the next Annual General Meeting of shareholders.

4.F.1.1. Accounting standards applied

The financial statements are prepared in accordance with International Financial Reporting Standard (IFRS) published by the International Accounting Standards Board (IASB) and endorsed by the European Union. The IFRS as adopted by the European Union can be consulted on the European Commission website [1].

4.F.1.1.1. Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2009

■ IAS 1 (revised) – "Presentation of Financial Statements"

The consolidated financial statements are presented in accordance with the revised IAS 1. The impact of this revised standard on the presentation of the Group's financial statements is limited, since the main change introduced requires entities to present a statement of comprehensive income separately from equity. Most of these items were already reported by the Group in a "Statement of recognized income and expenses", and are now shown in the aforementioned statement of comprehensive income below the consolidated statements of income.

■ IFRS 8 – "Operating Segments"

This standard, which replaces IAS 14, requires entities to present segment information on the basis of internal reports that are regularly reviewed by the entity's management in order to allocate resources to the segment and assess its performance. In accordance with IFRS 8, the Group has defined four operating segments (compared to one previously) for which it presents the key financial indicators used by management to monitor performance (see Note 5). The application of IFRS 8 has no impact on the Group's income or financial position.

■ IAS 23 (revised) – "Borrowing Costs"

The revised IAS 23 requires entities to recognize borrowing costs as part of the carrying amount of the qualifying assets to which they relate. The application of this standard did not have a material impact on the Group's financial statements at December 31, 2009, as very few items were identified as "qualifying assets" and their value was not material.

■ IFRIC 14 – IAS 19: "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

This interpretation has a non-material impact on Group equity, resulting from the remeasurement of pension obligations in Japan to reflect local legislation and the characteristics of the pension plans in terms of minimum funding requirements.

■ Amendments to IFRS 7 – "Financial Instruments: Disclosures"

These amendments introduce enhanced disclosures about fair value measurement for financial instruments and about liquidity risk. Their impact on the Group's financial information is limited, leading only to additional disclosures in Note 6.1.

■ Other amendments effective for reporting periods beginning on or after January 1, 2009 or resulting from the annual improvements to IFRS published in May 2008, do not have a material impact on the Group's financial statements.

(1) http://ec.europa.eu/internal_market/accounting/ias_en.htm#adopted-commission

< Contents >

4.F.1.1.2. Standards, amendments and interpretations published by the International Accounting Standards Board (IASB) but not effective for reporting periods beginning on or after January 1, 2009 and not early adopted by the Group

■ IFRS 3 (revised) – "Business Combinations" and IAS 27 (revised) – "Consolidated and Separate Financial Statements"

These two revised standards, effective for reporting periods beginning on or after July 1, 2009, will be adopted prospectively. They will mainly impact the accounting treatment for acquisitions as from January 1, 2010.

■ Amendments resulting from the annual improvements to IFRS published in April 2009

As the Group's organization may change in 2010, Valeo is currently analyzing the impact on its financial statements of the amendment to IAS 36 regarding the methods for allocating goodwill to cash-generating units (CGUs) in line with the operating segments defined by IFRS 8. This amendment will be applicable on a prospective basis for reporting periods beginning on or after January 1, 2010.

Other standards, amendments and interpretations published by IASB are not yet effective and are not expected to have a material impact on the Group's financial statements.

4.F.1.1.3 Overview of IFRS 1 transition options

On its transition to IFRS in 2005, and in accordance with IFRS 1, the Group chose not to retrospectively restate:

- business combinations carried out prior to January 1, 2004 (IFRS 3);
- pensions and other employee benefits (IAS 19). as a result, the balance of actuarial gains and losses previously recognized under French GAAP was reset to zero as of January 1, 2004;
- the translation of financial statements of foreign operations (IAS 21), leading to the elimination of cumulative translation adjustments as of January 1, 2004;
- equity instruments, with the exception of those granted after November 7, 2002 that had not yet been fully vested at January 1, 2005 (IFRS 2).

4.F.1.2. Basis of preparation

The financial statements are presented in euros and are rounded to the closest million.

They have been prepared in accordance with the principal assumptions of IFRS:

- true and fair view;
- going concern;
- accrual basis of accounting;
- consistency of presentation;
- materiality and aggregation.

Preparation of the financial statements requires Valeo to make estimates and assumptions which could have an impact on the reported amounts of assets, liabilities, income and expenses. These estimates and assumptions concern both risks specific to the automotive supply business such as those relating to quality and safety (see section 3.I.2.1 of the management report in Chapter 3), as well as more general risks to which the Group is exposed on account of its industrial operations across the globe. The international climate has been severely affected by the economic crisis which has hit the automotive industry particularly hard, and in 2009 worldwide automotive production slumped by 12%.

Despite a significant improvement in certain indicators since the second quarter of 2009, the economic environment remains tough.

To counter this situation, Valeo pressed ahead with the cost cutting plans it had launched at the end of 2008. It has also tightened its rein on cash (see Note 6.2.2) and is closely monitoring the financial position of its customers and suppliers. These measures are reinforced by an ongoing analysis of the market risks to which the Group is exposed. Disclosures concerning market risk are provided in Note 6.2.1.

The Group exercises its judgment based on past experience and other factors considered to be decisive given the circumstances, and reviews the resulting estimates and assumptions on a continuous basis. Given the uncertainties inherent in any assessment, particularly in light of the current unstable environment, the amounts reported in Valeo's future financial statements may differ from the amounts resulting from these estimates.

Key estimates and assumptions adopted by the Group to prepare its financial statements for the year ended December 31, 2009 chiefly concern:

- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 3.5.3);
- the amount of provisions (see Note 4.9);
- the measurement of deferred tax assets (see Note 4.5).

At the end of the reporting period, the Group expects to be able to respect its financial commitments over the coming 12 months (see section 6.2.2 on liquidity risk).

< Contents >

4.F.1.3. Consolidation methods

The consolidated financial statements include the accounts of Valeo and companies under its direct and indirect control.

The proportionate consolidation method is used when the contractual arrangements for control of a company specify that it is under the joint control of the two venturers. Companies of this type are called joint ventures. In this case, the Group's share of each asset and liability and each item of income and expenses is aggregated, line-by-line, with similar items in its consolidated financial statements.

All significant inter-company transactions are eliminated (for joint ventures the elimination is made to the extent of the Group's ownership interest in the company), as are gains on inter-company disposals of assets, inter-company profits included in inventories and inter-company dividends.

Companies over which Valeo exercises significant influence (associates) are accounted for by the equity method. Valeo is presumed to exercise significant influence over companies in which it owns more than 20% of the voting rights. The equity method consists of replacing the book value of the investments by the Group's equity in the associate's underlying net assets, including goodwill.

Companies acquired during the period are consolidated as from the date the Group exercises (sole or joint) control or significant influence.

4.F.1.4. Foreign currency translation

Each Group company maintains its accounting records in its functional currency. A company's functional currency is the currency of the principal economic environment in which it operates, and is generally the local currency.

Transactions carried out in a currency other than the company's functional currency are translated using the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the year-end exchange rate. Non-monetary assets and liabilities denominated in foreign currency are recognized at the historical exchange rate prevailing at the transaction date. Differences arising from the translation of foreign currency transactions are recognized in income, with the exception of differences relating to loans and borrowings which are in substance an integral part of the net investment in a foreign subsidiary.

These are recorded under translation reserves in other comprehensive income, within consolidated stockholders' equity, for their net-of-tax amount until the net investment is disposed of, at which time they are recognized in income.

The financial statements of foreign subsidiaries whose functional currency is not the euro are translated into euros as follows:

- statements of financial position items are translated at the year-end exchange rate;
- income statement items are translated into euros at the exchange rates applicable at the transaction dates or, in practice, at the average exchange rate for the period, as long as this is not rendered inappropriate as a basis for translation by major fluctuations in exchange rates during the period;
- unrealized gains or losses arising from the translation of the financial statements of foreign subsidiaries are recorded through other comprehensive income.

4.F.1.5. Net sales

Net sales primarily include sales of finished goods and all tooling revenues. Sales of finished goods and tooling revenues are recognized at the date on which the Group transfers substantially all the risks and rewards of ownership to the buyer and retains neither continuing managerial involvement nor effective control over the goods sold. In cases where the Group retains control of future risks and rewards related to tooling, any customer contributions are recognized over the duration of the project over a maximum period of four years.

4.F.1.6. Gross margin, operating margin and operating income

Gross margin is defined as the difference between net sales and cost of sales. Cost of sales primarily corresponds to the cost of goods sold.

Operating margin is equal to the gross margin less net Research and Development expenditure and selling and administrative expenses. Net Research and Development expenditure is equal to the costs incurred during the period, including amortization charged against capitalized development costs, less contributions received from customers in respect of development costs, sales of prototypes, research tax credits and the portion of Research and Development subsidies granted to the Group and taken to income.

Contributions received from customers are taken to income over the period during which the corresponding products are sold, within a maximum period of four years.

Subsidies and grants received are recognized in income in line with the stage of completion of the projects to which they relate.

1
2
3
4
5
6
7

< Contents >

Operating income includes all income and expenses other than:

- interest income and expense;
- other financial income and expenses;
- equity in net earnings of associates;
- income taxes;
- income/(loss) from discontinued operations.

In order to facilitate interpretation of the statement of income and Group performance, unusual items that are material to the consolidated financial statements are presented separately within operating income under "Other income and expenses".

4.F.1.7. Financial income and expenses

Financial income and expenses comprise interest expense, interest income and other financial income and expenses.

Interest expense corresponds to interest paid on debt and interest income to interest earned on cash and cash equivalents.

Other financial income and expenses notably include:

- gains and losses on currency and interest rate hedges;
- gains and losses on foreign exchange or commodity transactions that do not meet the definition of hedges under IAS 39 – "Financial Instruments: Recognition and Measurement";
- write-downs taken in respect of credit risk as well as the cost of credit insurance;
- the effect of unwinding discounts on provisions to reflect the passage of time, including the discount on provisions for pensions and other employee benefits; and
- the expected return on pension and other employee benefit plan assets.

4.F.1.8. Current and deferred taxes

Income tax expense includes current income taxes and deferred taxes of consolidated companies. Deferred taxes are accounted for using the liability method for all temporary differences between the tax base and the carrying amount of assets and liabilities in the consolidated financial statements and for all tax loss carry forwards. The main temporary differences relate to provisions for pensions and other employee benefits and to other temporarily non-deductible provisions. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the temporary differences reverse, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are only recognized to the extent that it appears probable that the Valeo Group will generate future taxable profits against which these tax assets will be able to be recovered.

The Group reviews the probability of future recovery of deferred tax assets on a periodic basis for each tax entity. This review can, if necessary, lead the Group to no longer recognize deferred tax assets that it had recognized in prior years.

Taxes payable and tax credits receivable on planned dividend distributions by subsidiaries are recorded in the statement of income.

Deferred tax assets and liabilities are offset when a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities concern income taxes levied by the same taxation authority. In France, Valeo elected for tax consolidation. The tax group includes the parent company and its principal French subsidiaries that are eligible for tax consolidation.

Valeo also elected for tax consolidation for its subsidiaries in other countries where this is permitted by local legislation (Germany, Italy, Spain, the United Kingdom and the United States).

In France, the 2010 Finance bill was approved in December 2009, and introduces a new CET tax (*Contribution Économique Territoriale*) to replace the former business tax. There are two components to the CET: the *Contribution Foncière des Entreprises* (CFE) and the *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE). Valeo considers that the CVAE component meets the definition of income tax provided by IAS 12 and the IFRIC, insofar as value added represents the intermediate level of income systematically used as the tax base in calculating the amount of CVAE due in accordance with French tax rules.

4.F.1.9. Earnings per share

Basic earnings per share are (before dilution) calculated by dividing consolidated net income (loss) for the period by the weighted average number of shares outstanding during the year, excluding the average number of shares held in treasury stock.

Diluted earnings per share are calculated by including equity instruments such as stock subscription options and convertible bonds when these have a potentially dilutive impact. This is particularly the case for stock subscription options when their exercise price is below the market price (average Valeo share price over the period).

1 2 3 4 5 6 7

< Contents >

When funds are received on the exercise of these rights (such as on the subscription of shares), they are deemed to be allocated in priority to the purchase of shares at market price. This calculation method – known as the treasury stock method – serves to determine the "unpurchased" shares to be added to the shares of common stock outstanding for the purposes of computing the dilution. When funds are received at the date of issue of dilutive instruments (such as for convertible bonds), net income is adjusted for the net-of-tax interest savings which would result from the conversion of the bonds into shares.

4.F.1.10. Business combinations

All identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at their fair value at the date of transfer of control to the Group (acquisition date), independently of the recognition of any non-controlling interests.

The cost of a business combination is equal to the acquisition price, plus any costs directly attributable to the acquisition. Any excess of the acquisition cost over the fair value of the net assets acquired and liabilities and contingent liabilities recognized, is recorded in assets as goodwill. Goodwill is not amortized but is tested for impairment at least once a year.

Adjustments to the fair value of assets and liabilities acquired or assumed within the scope of business combinations and accounted for on a provisional basis (i.e., pending expert appraisals or complementary analyses) are recognized as a retrospective adjustment to goodwill if they occur within 12 months of the acquisition date. Adjustments made after this initial 12-month-period are taken directly to income unless they correct an accounting error.

4.F.1.11. Intangible assets

Innovation can be analyzed as either Research or Development. Research is planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research findings with a view to creating new products, before the start of commercial production.

Research costs are recognized in expenses in the period in which they are incurred.

Development expenditure is capitalized where the Group can demonstrate:

- that it has the intention, and the technical and financial resources to complete the development;
- that the intangible asset will generate future economic benefits; and
- that the cost of the intangible asset can be measured reliably.

Capitalized development costs therefore correspond to projects for specific customer applications that draw on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization as described above.

They are subsequently amortized over a maximum period of four years as from the start of volume production.

Other intangible assets are carried at cost less any amortization and impairment losses recognized. They are amortized on a straight-line basis over their expected useful lives:

- software — 3 years
- patents and licenses — based on their useful lives
- other intangible assets (excluding customer relationships) — 5 years
- customer relationship intangibles — up to 25 years

Intangible assets are tested for impairment using the methodology described in Note 1.13.

4.F.1.12. Property, plant and equipment

Property, plant and equipment are carried at cost less any depreciation and impairment losses recognized. Material revaluations, recorded in accordance with laws and regulations applicable in countries in which the Group operates have been eliminated in order to ensure that consistent valuation methods are used for all fixed assets in the Group.

Tooling specific to a given project is subjected to an economic analysis of contractual relations with the automaker in order to determine which party has control over the associated future risks and rewards. Tooling is capitalized in the statements of financial position when Valeo has control over these risks and rewards, or carried in inventories (until it is sold) if no such control exists. A provision is made for any resulting loss on the tooling contract (corresponding to the difference between the automaker's contribution and the cost of the tooling) as soon as the amount of the loss is known.

1 2 3 4 5 6 7

< Contents >

When a lease entered into by the Group as lessee transfer substantially all the risks and rewards related to ownership of an asset to the Group by the end of the lease term, the corresponding asset is recognized in property, plant and equipment in the Group's statements of financial position at an amount equal to the lower of its fair value and the present value of future minimum lease payments. This amount is subject to depreciation and, if necessary, impairment. The corresponding obligation is recorded in debt under liabilities.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets concerned:

- buildings 20 years
- fixtures and fittings 8 years
- machinery and tooling 4 to 8 years
- other fixed assets 3 to 8 years

Land is not depreciated.

Any financing received from customers in respect of tooling is recognized in statements of financial position liabilities and taken to income proportionately to the depreciation charged against the related assets.

4.F.1.13. Impairment of assets

At the end of each reporting period, the Group assesses whether there is an indication that an asset (other than a financial asset), a cash-generating unit (CGU – as defined by IAS 36), or a group of CGUs may be impaired.

CGUs are management units generating independent cash flows. In the Group's current organizational structure, they generally correspond to production sites or groups of production sites.

Intangible assets with indefinite useful lives and intangible assets which are not yet ready to be brought into service are systematically tested for impairment at least once a year. If the asset's carrying value is greater than its recoverable amount, it is written down to its recoverable amount.

The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell and its value in use. In practice, since the fair value less costs to sell of Group CGUs can seldom be reliably estimated, Valeo applies value in use (unless otherwise specified) to calculate the recoverable amount of a CGU in accordance with paragraph 20 of IAS 36. Value in use corresponds to the present value of future cash flows expected to derive from the use of an asset or CGU.

The discount rate used is the rate that reflects both the current assessment of the time value of money and risks specific to the asset (or group of assets).

Impairment losses taken against CGU assets are allocated first to reduce the carrying amount of the goodwill related to the CGU if any, and then to the other CGU assets in proportion to their carrying amounts.

Goodwill within the Group are mainly tested at the level of Product Families, which comprise the main groups of CGUs to which goodwill have been allocated. Impairment losses recognized on goodwill balances are never reversed. For other assets, when an indicator shows that the asset may no longer be impaired, the amount of the impairment loss to be reversed is based on the revised recoverable value of the asset but cannot exceed the carrying amount of the asset that would have been determined had no impairment loss been recognized.

4.F.1.14. Financial assets and liabilities

Recognition and measurement principles regarding financial assets and liabilities are defined in IAS 32 and IAS 39.

4.F.1.14.1. Available-for-sale financial assets

This category includes shares in non-consolidated companies.

Available-for-sale financial assets are recognized at fair value upon initial recognition, with any subsequent changes in fair value recognized through other comprehensive income or income for the period in the event of a significant, prolonged decline in fair value.

Unlisted investments whose fair value cannot be estimated reliably are carried at cost, and are classified in non-current financial assets.

4.F.1.14.2. Long-term loans and receivables

This category consists essentially of long-term loans, which are measured on an amortized cost basis using the effective interest rate. They are shown on the statements of financial position as non-current financial assets.

4.F.1.14.3. Other non-current financial assets

Other non-current financial assets are measured at fair value, with changes in fair value recognized in income.

1 2 3 4 5 6 7

< Contents >

4.F.1.14.4. Current financial assets and liabilities

Current financial assets and liabilities include trade receivables and payables, derivative financial instruments, and cash and cash equivalents.

■ Cash and cash equivalents

Cash and cash equivalents are comprised of marketable securities such as money-market funds with a low price volatility risk; deposits and very short-term risk-free securities maturing within three months which can be readily sold or converted into cash; and cash at bank.

These current financial assets are carried at fair value through income and are held with a view to being sold in the short term.

■ Trade receivables and payables

Trade receivables and payables are initially recognized at fair value and subsequently at amortized cost. The fair value of accounts receivable and accounts payable is deemed to be their nominal amount, since periods to payment are generally less than three months.

Accounts receivable may be written down for impairment. If an event triggering a loss is identified during the financial year subsequent to initial recognition of the receivable, the write-down will be calculated by comparing the estimated future cash flows discounted at the original effective interest rate to the carrying amount in the statements of financial position. Impairment is recognized in operating income or other financial expenses if it relates to a risk of insolvency of the debtor.

■ Derivative financial instruments

Derivatives are recognized in the statements of financial position at fair value under other current financial assets or other current financial liabilities. The accounting impact of changes in the fair value of derivatives depends on whether or not hedge accounting is applied.

When hedge accounting is applied:

- for fair value hedges of recognized assets and liabilities, the hedged portion of these items is stated at fair value. So change in fair value is recognized through income and is offset (for the effective portion) by symmetrical changes in the fair value of the hedging instrument;
- for cash flow hedges, the effective portion of the change in fair value of the derivatives is recognized directly in other comprehensive income, while the ineffective portion is taken to other financial income and expenses;
- for hedges of net investments in foreign subsidiaries, the change in fair value of the hedging instrument is recognized in other comprehensive income (for the effective portion) until the disposal of the net investment.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized in other financial income and expenses.

■ Foreign currency derivatives

Although they act as hedges for the Group, foreign currency derivatives do not always meet the criteria for hedge accounting. In these cases, changes in the fair value of derivatives are recognized in other financial income and expenses and are offset, as applicable, by changes in the fair value of the underlying receivables and payables.

The Group applies hedge accounting to a limited number of highly probable future transactions generally considered significant. In these cases, changes in the fair value of the derivatives are recognized in other comprehensive income for the effective portion of the hedge, and subsequently taken to operating income when the hedged item itself affects operating income. The ineffective portion of the hedge is recognized in other financial income and expenses.

■ Metals derivatives

In principle, the Group applies cash flow hedge accounting. The effective portion of the hedge is reclassified from other comprehensive income to operating income when the hedged position itself affects income. The ineffective portion of the hedge is recognized in other financial income and expenses. Where a forecast transaction is no longer highly probable, the cumulative gains and losses carried in other comprehensive income are transferred immediately to financial items.

■ Interest rate derivatives

The Group generally applies fair value hedge accounting when it uses interest rate derivatives swapping fixed-rate debt for variable-rate debt. Changes in the fair value of debt attributable to changes in interest rates, and symmetrical changes in the fair value of the interest rate derivatives, are recognized in other financial income and expenses for the period.

Variable interest rate hedges protect the Group against the impact of fluctuations in interest rates on its interest payments. These hedges are eligible for cash flow hedge accounting. The hedging instrument is measured at fair value and recognized in the statements of financial position. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are recognized in comprehensive income, while changes relating to the ineffective portion are recognized in income. Amounts carried in comprehensive income in respect of the effective portion of the hedge are taken to income as the interest expenses hedged themselves affect income.

1 2 3 4 5 6 7

< Contents >

Certain interest rate derivatives are not designated as hedging instruments within the meaning of IAS 39. Changes in fair value of these derivatives are recognized in other financial income and expenses for the period.

4.F.1.14.5. Debt

■ Bonds and other loans

Bonds and loans are valued at amortized cost. The amount of interest recognized in financial expenses is calculated by applying the loan's effective interest rate to its carrying amount. Any difference between the expense calculated using the effective interest rate and the actual interest payment impacts the value at which the loan is recognized.

Hedge accounting is generally applied to debt hedged by interest rate swaps. The debt is remeasured to fair value, reflecting changes in interest rates.

■ OCEANE bonds

Bonds convertible into new shares and/or exchangeable for existing shares ("OCEANE") grant bearers an option for conversion into common Valeo shares. These bonds constitute a hybrid financial instrument which must be split into its two components in accordance with IAS 32:

- the value of the debt component is calculated by discounting the future contractual cash flows at the market rate applicable at the bond issue date (taking account of credit risk at the issue date) for a similar instrument with the same characteristics but without a conversion option;
- the value of the equity component is calculated as the difference between the proceeds of the bond issue and the amount of the debt component.

■ Short-term debt

This caption mainly includes credit balances with banks and commercial paper issued by Valeo for its short-term financing needs. Commercial paper has a maximum maturity of three months and is valued at amortized cost.

4.F.1.15. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes the cost of raw materials, labor and other direct manufacturing costs on the basis of normal activity levels. These costs are determined by the "First in-First out" (FIFO) method which, due to the rapid inventory turnover rate, approximates the latest cost at the end of the reporting period.

Impairment losses are recognized on the basis of the net realizable value.

4.F.1.16. Share-based payment

Employee stock option and free share plans lead to the recognition of a personnel expense. This expense corresponds to the fair value of the instrument issued, and is recognized over the applicable vesting period. Fair value is estimated on the basis of valuation models adapted to the characteristics of the instruments (Black-Scholes-Merton model for options, etc.).

4.F.1.17. Pensions and other employee benefits

Pensions and other employee benefits cover two categories of employee benefits:

- post-employment benefits which include statutory retirement bonuses, supplementary pension benefits and coverage of certain medical costs for retirees and early retirees;
- other long-term benefits payable (during employment), corresponding primarily to long-service bonuses.

These benefits are broken down into:

- defined contribution plans, under which the employer pays fixed contributions on a regular basis and has no legal or constructive obligation to pay further contributions;
- defined benefit plans, under which the employer guarantees a future level of benefits.

The provision for pensions and other employee benefits (including long-term benefits) is equal to the present value of Valeo's future benefit obligation less, where appropriate, the fair value of plan assets in funds allocated to finance such benefits and any adjustments made in respect of unrecognized past service cost. The provision for long-term benefits is equal to the present value of the benefit obligations.

The calculation of these provisions is based on valuations performed by independent actuaries using the projected unit credit method and final salaries. These valuations incorporate both financial assumptions (discount rate, expected long-term return on plan assets, and increases in salaries and medical costs) and demographic assumptions, including rate of employee turnover, retirement age and life expectancy.

The effects of differences between previous actuarial assumptions and what has actually occurred (experience adjustments) and the effect of changes in actuarial assumptions (assumption adjustments) give rise to actuarial gains and losses. Actuarial gains and losses arising on long-term benefits payable during employment are recognized in full in income in the period in which they were incurred. However, actuarial gains and losses on post-employment benefits are taken directly to other comprehensive income in the year in which they arise.

Past service costs may arise on the adoption of or change in a defined benefit plan. Past service costs relating to long-term employee benefits are recognized immediately in income. Past service costs arising on pension obligations are recognized in income on a straight-line basis over the average period remaining until the corresponding rights are vested by employees. If such rights have already vested at the time of the adoption or change in a defined benefit plan, past service costs are taken immediately to income.

4.F.1.18. Provisions

A provision is recognized when the Group has a legal or constructive obligation resulting from a past event, where it is probable that future outflows of resources embodying economic benefits will be necessary to settle the obligation, and where the obligation can be estimated reliably. Commitments resulting from restructuring plans are recognized when an entity has a detailed formal plan and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features.

A provision for warranties is set aside to cover the estimated cost of returns of goods sold. The corresponding expense is recognized in cost of sales.

When the effect of the time value of money is material, the amount of the provision is discounted using a rate that reflects the market's current assessment of this value and the risks specific to the liability concerned. The increase in the provision related to the passage of time (termed "unwinding") is recognized through income in other financial income and expenses.

4.F.1.19. Subsidies and grants

This caption comprises aid received from public bodies to help finance costs incurred by the Group mainly in its Research and Development and investment projects, and includes benefits in the form of financing granted at reduced interest rates.

These subsidies and grants are initially recognized in statements of financial position liabilities and subsequently taken to income under operating margin as the costs to which they relate materialize.

4.F.1.20. Assets held for sale and discontinued operations

When the Group expects to recover the value of an asset or a group of assets through their sale rather than through continuing use, such assets are presented separately under "Assets held for sale" in the statements of financial position. Any liabilities related to such assets are also presented under a separate caption in statements of financial position liabilities. Assets classified as held for sale are valued at the lower of their carrying amount and their estimated sale price less costs to sell, and are therefore no longer subject to depreciation and amortization. Any impairment losses and proceeds from the disposal of these assets are recognized through operating income.

In accordance with IFRS 5, discontinued operations represent a separate major line of business of the Group; an operation that forms part of a single coordinated plan to dispose of a separate major line of business; or a company acquired solely with a view to resale. Classification as a discontinued operation occurs at the date of sale or at an earlier date if the business meets the criteria to be recognized as an asset held for sale. Income or losses generated by these operations, as well as any capital gains or losses on disposal, are presented net of tax on a separate line of the income statement. To provide a meaningful year-on-year comparison, the same treatment is applied to the previous year.

4.F.1.21. Segment reporting

In accordance with IFRS 8 – "Operating Segments", effective as from January 1, 2009, the Group's segment information is presented in Note 5 on the basis of internal reports that are regularly reviewed by the Group's executive management in order to allocate resources to the segments and assess their performance. Executive management represents the chief operating decision maker within the meaning of IFRS 8.

Four reportable segments (or Business Groups) have been defined, reflecting Valeo's new organization into Business Groups. The segments are issued from the aggregation of several Product Families, based on internal reports used by the Group's management.

The Group's four segments are:

- Comfort and Driving assistance Systems, comprising the Interior Controls and Security Systems Product Families. These focus on the interface between the driver and his/her environment, and contribute to enhanced comfort and safety;
- Powertrain Systems, comprising the Engine and Electrical Systems and Transmissions Product Families. These play an instrumental role in reducing energy consumption and CO_2 emissions;

< Contents >

- Thermal Systems, comprising the Climate Control, Compressors and Engine Cooling Product Families. These contribute to cabin comfort and the reduction of energy consumption;
- Visibility Systems, comprising Lighting Systems and Wiper Systems Product Families. These contribute to safety by improving visibility for the vehicle and the driver.

Each of these Business Groups is also responsible for the manufacture and for part of the distribution of products for the aftermarket. Accordingly, income and expenses for Valeo Service, which sells almost exclusively products manufactured by the Group, have been reallocated among the Business Groups identified.

The "Other" segment refers to holding companies, disposed businesses and eliminations between the four operating segments defined above.

The key performance indicators for each operating segment set out in Note 5.1 are as follows:

- net sales;
- EBITDA, which represents operating income (loss) before depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses recorded in the operating margin (see Note 1.6);
- net Research and Development expenditure;
- investments in property, plant and equipment and intangible assets;
- segment assets, which include property, plant and equipment and intangible assets (including goodwill), inventories, accounts and notes receivable and other miscellaneous receivables.

1
2
3
4
5
6
7

4.F.2. Changes in the scope of consolidation

4.F.2.1. Transactions carried out in 2009

4.F.2.1.1 Acquisition of an interest in Valeo Fawer Compressor (Changchun) Co., Ltd

On November 2, 2009, Valeo acquired an additional interest in Valeo Fawer Compressor (Changchun) Co., Ltd, a company based in Changchun which develops and manufactures compressors, bringing the Group's total interest in this company to 100%. The new company is fully consolidated as from November 2009 and is now known as Valeo Compressor (Changchun) Co., Ltd. Prior to the acquisition, Valeo and Fawer respectively held 60% and 40% of the acquired entity, which was proportionately consolidated in the Group's previous financial statements. This acquisition does not have a material impact on the Group's financial statements for the year ended December 31, 2009.

4.F.2.2. Transactions carried out in 2008

4.F.2.2.1. Acquisition of a controlling interest in Valeo Radar Systems, Inc.

On December 15, 2008, Valeo acquired the entire capital stock of Valeo Radar Systems, Inc. (formerly Valeo Raytheon Systems Inc.). This entity, which was previously 77.8%-owned by the Group and proportionately consolidated in line with the characteristics of the joint venture agreement, has now been fully consolidated. The acquisition of this controlling interest led to the recognition of 6 million euros in goodwill and resulted in a royalties agreement being set up in favor of the seller.

4.F.2.2.2. Incorporation of Valeo Climate Control Tomilino LLC in Russia

On June 18, 2008, Valeo signed an agreement to create a Russian-based entity 95%-held by Valeo and 5%-owned by the Russian firm Itelma. The new entity was named Valeo Climate Control Tomilino LLC, and produces heating, ventilation and air conditioning systems. The full consolidation of this entity did not have a material impact on the Group's financial statements for the year ended December 31, 2008. This company only began deliveries to the Russian market in 2009.

< Contents >

4.F.2.2.3. Sale of the heavy duty truck Engine Cooling business

On May 30, 2008, Valeo sold its heavy duty truck Engine Cooling business to Swedish firm EQT for 77 million euros. This transaction gave rise to a post-tax capital gain of 25 million euros in 2008, recorded under "Other income and expenses". The heavy duty truck Engine Cooling unit contributed 76 million euros to consolidated net sales for the first five months of 2008 (172 million euros for the year ended December 31, 2007).

4.F.2.2.4. Sale of Valeo Armco Engine Cooling Co

On December 20, 2008, Valeo sold its interests in the Iranian joint venture Valeo Armco Engine Cooling Co to the Armco group. The sale did not have a material impact on the 2008 financial statements.

1 2 3 4 5 6 7

4.F.3. Notes to the statement of income

4.F.3.1. Net sales

Group net sales fell 13.6% to 7,499 million euros in 2009 compared with 8,677 million euros in 2008, due primarily to the slump in worldwide automotive production. The decrease includes a negative impact of 0.8% resulting from changes in the scope of consolidation and a positive foreign currency impact of 0.9%.

On a comparable Group structure and exchange rate basis, consolidated net sales for 2009 fell 13.7% year-on-year.

The presentation of the statement of income for the year ended December 31, 2008 is different from that of the income statement published in February 2009. Other operating revenues totaling 151 million euros and consisting mainly of contributions received from customers in respect of development costs have been reclassified as a deduction from Research and Development expenditure in an amount of 138 million euros. The 13 million euro balance relating to external services or royalties received has been included in net sales, lifting the gross margin to 15.3% from 15.2%.

4.F.3.2. Cost of sales

Cost of sales can be analyzed as follows:

(In millions of euros)	2009	2008
Raw materials consumed	(4,115)	(4,815)
Labor	(1,125)	(1,310)
Direct production costs and production overheads	(764)	(846)
Depreciation and amortization (1)	(365)	(387)
Other	8	8
Cost of sales	**(6,361)**	**(7,350)**

(1) This amount does not include amortization charged against capitalized development costs, which is recognized in net Research and Development expenditure.

4.F.3.3. Personnel expenses

	2009	2008
Total employees at December 31 (1)	52,110	51,140

(1) Including temporary staff.

< Contents >

The statement of income presents operating expenses by function. Operating expenses include the following personnel-related expenses:

(In millions of euros)	2009	2008
Wages and salaries (1)	1,451	1,651
Social charges	358	367
Share-based payment	7	8
Pension expenses under defined contribution schemes	79	88

(1) Including temporary staff.

Pension expenses under defined benefit schemes are set out in Note 4.9.2.

1 2 3 4 5 6 7

4.F.3.4 Research and Development expenditure, net

(In millions of euros)	2009	2008
Research and Development expenditure	(655)	(687)
Contributions received and subsidies	182	186
Research and Development expenditure, net	**(473)**	**(501)**

4.F.3.5. Other income and expenses

(In millions of euros)	2009	2008
Claims and litigation	(19)	1
Restructuring costs	(4)	(239)
Impairment of fixed assets	(23)	(58)
Other	(3)	14
Other income and expenses	**(49)**	**(282)**

4.F.3.5.1. Claims and litigation

The amount of 19 million euros recognized on the "Claims and litigation" line for the year ended December 31, 2009 mainly includes additions to provisions for disputes with current or former employees.

4.F.3.5.2. Restructuring costs

In 2008, the Group unveiled its plan to cut around 5,000 jobs worldwide. A total of 225 million euros in restructuring costs were recognized in 2008 in connection with this plan. Negotiations regarding the redundancy plan were finalized in 2009. Severance payments will continue to be paid in 2010.

4.F.3.5.3. Impairment of non-current assets

■ **Property, plant and equipment and intangible assets (excluding goodwill)**

Impairment losses on property, plant and equipment and intangible assets result mainly from impairment tests carried out at the level of Cash-Generating Units (CGUs) for which the Group considered there were indications of impairment. The main impairment indicators used by the Group consist of an estimated negative operating margin for the year to December 31, or an estimated fall of more than 20% in sales between the second half of 2009 and the second half of 2008. The scope of the CGUs to be tested for impairment is defined in October and may be adjusted at the end of the period if events occur that could have an adverse impact on the assets concerned.

< Contents >

The tests are carried out in November and December in accordance with the following methodology:

- the value in use of CGUs is calculated using post-tax cash flow projections covering a period of five years, prepared on the basis of the budgets and medium-term plans drawn up by Group divisions. The projections are based on past experience, macroeconomic data for the automotive market, order books and products under development. In 2009, worldwide automotive production fell 12% on the previous year. A steep fall in the early part of the year was offset by a significant improvement in certain indicators during the second half of 2009. The Group drew up its business plans for the period 2010-2014 amid this still-challenging and uncertain economic environment, using the following assumptions:
  - a 2010 budget that factors in a slight rise in sales volumes compared with 2009;
  - medium-term plans which forecast a return to 2007 volumes at the end of 2012, and in 2014 forecast volumes identical to those of 2013.
- cash flows beyond the five-year period are extrapolated using a growth rate of 1%. This rate is the same as that used in 2008, and is below the average long-term growth rate for the Group's business sector;
- cash flows are discounted based on a post-tax weighted average cost of capital (WACC) of 8.5% at December 31, 2009, unchanged from end-December 2008. The use of a post-tax rate results in recoverable amounts that are similar to those obtained by applying pre-tax rates to pre-tax cash flows. An independent expert was consulted in determining the method to be used to compute WACC. The method introduced in 2007 is based on a sample selection of 20 automotive suppliers.

Year ended December 31, 2009

The Group recorded net write-downs of 16 million euros against CGUs as a result of these impairment tests, concerning mainly:

- property, plant and equipment and intangible assets (excluding goodwill) relating to three CGUs within the Wiper Systems Product Family in Western Europe (11 million euros);
- impairment losses recognized against Lighting Systems and Interior Controls CGUs based in Europe (4 million euros).

Year ended December 31, 2008

The Group recorded net write-downs of 58 million euros as a result of impairment tests, concerning mainly:

- property, plant and equipment and intangible assets (excluding goodwill) relating to a CGU within the Compressors Product Family based in the Czech Republic (20 million euros);
- impairment losses recognized against assets of three CGUs based in the Americas relating to the Wiper Systems, Climate Control and Interior Controls Product Families (20 million euros);
- impairment losses recognized against assets belonging to a Wiper Systems CGU with plants based in France and Spain (10 million euros).

Sensitivity of CGU impairment tests to the discount rate

Year ended December 31, 2009

An increase or decrease of 1% in the discount rate would not have a material impact on the results of these impairment tests.

Year ended December 31, 2008

An increase of 1% in the discount rate would have resulted in an additional impairment loss of 10 million euros being recognized against the Group's intangible assets and property, plant and equipment. A 1% decrease in the discount rate would have led to a reversal of 14 million euros in impairment recognized against non-current assets. These calculations were based on an average euro/dollar exchange rate of 1.5.

Goodwill

Goodwill is allocated to Cash-Generating Units (CGUs) on the basis of the Product Family to which it relates. Goodwill is tested for impairment at least once a year in December, using the same method and assumptions as those used for the CGUs described above. No impairment losses were recognized against goodwill for the year ended December 31, 2009 as a result of these impairment tests.

However, an impairment loss of 7 million euros was recorded against an Engine and Electrical Systems CGU to reflect the market value of this entity, which the Group plans to divest.

At December 31, 2008, these tests had not given rise to any goodwill impairment.

1 2 3 4 5 6 7

< Contents >

Sensitivity of goodwill impairment tests to the discount rate

A 1% increase in the discount rate would have no impact on the results of goodwill impairment tests in the years ended December 31, 2009 or December 31, 2008.

Postponing the end of the crisis by one year would not lead to the recognition of an impairment loss against goodwill.

4.F.3.5.4. Other

In 2008, this item mainly includes capital gains totaling 25 million euros on the disposal of the heavy duty truck Engine Cooling business.

4.F.3.6. Cost of net debt

(In millions of euros)	2009	2008
Interest expense	(69)	(68)
Interest income	9	23
Cost of net debt	**(60)**	**(45)**

The cost of net debt increased during the year, owing to the rise in the borrowing rate from 4.9% in 2008 to 6.0% in 2009. The higher borrowing rate reflects a sharp rise in the cost of credit lines and cash reinvested at much lower market rates than in 2008. The borrowing rate is calculated by dividing interest expenses by average net debt.

4.F.3.7. Other financial income and expenses

(In millions of euros)	2009	2008
Interest expense on unwinding of discount on pension obligations (1)	(48)	(49)
Expected return on pension plan assets (1)	16	21
Currency gains (losses) on cash flow hedges	-	-
Currency gains (losses) on other transactions	(12)	(6)
Gains (losses) on commodity transactions (trading and ineffective portion)	(5)	(17)
Gains (losses) on fair value hedges (interest rate)	-	-
Additions to provisions for credit risk	(3)	(5)
Gains (losses) on disposals of financial assets	-	-
Unwinding of discount on provisions (excluding pension obligations)	(4)	(1)
Miscellaneous	(1)	(2)
Other financial income and expenses	**(57)**	**(59)**

(1) See Note 4.9.2.

The sudden large-volume cutbacks by customers at the end of 2008 and beginning of 2009 led to losses on commodity hedges totaling 17 million euros in 2008 and 5 million euros in 2009. Since hedged volumes were no longer in step with the Group revised commodity requirements, certain hedges were unwound on the market for a lower price than the price at which they had been bought.

1 2 3 4 5 6 7

< Contents >

4.F.3.8. Income taxes

4.F.3.8.1. Income tax expense

(In millions of euros)	2009	2008
Current taxes	(75)	(73)
Deferred taxes	(4)	22
Income taxes	**(79)**	**(51)**

4.F.3.8.2. Effective tax rate

The Group recognized income tax expense of 79 million euros in 2009, while reporting a pre-tax loss.

(In millions of euros)	2009	2008
Net income (loss) before income taxes excluding equity in net earnings (losses) of associates	**(33)**	**(156)**
Standard tax rate in France	(34.4)	(34.4)
Theoretical income taxes	**11**	**54**
Impact of:		
▪ unrecognized deferred tax assets and unused tax losses (current year)	(110)	(112)
▪ income taxed at other rates	22	(3)
▪ utilization of prior-year tax losses	9	1
▪ permanent differences between book income and taxable income	(6)	2
▪ tax credits	4	7
▪ others impact (1)	(9)	-
Group income taxes	**(79)**	**(51)**

(1) Deferred taxes in respect of the new CVAE tax for which a provision was recognized through income in 2009.

No deferred tax assets are recognized in countries where it is probable that they will not be able to be charged against future taxable income (mainly France and the US).

4.F.3.9. Earnings per share

4.F.3.9.1. Basic earnings per share

	2009	2008
Net income (loss) attributable to owners of the Company (in millions of euros)	(153)	(207)
Weighted average number of ordinary shares outstanding (in thousands of shares)	75,312	75,922
Basic earnings (loss) per share (in euros)	**(2.04)**	**(2.73)**

1 2 3 4 5 6 7

< Contents >

4.F.3.9.2. Diluted earnings per share

	2009	2008
Net income (loss) attributable to owners of the Company (in millions of euros)	(153)	(207)
Weighted average number of shares outstanding (in thousands of shares)	75,312	75,922
Stock options (in thousands of options)	-	-
Weighted average number of shares used for the calculation of diluted earnings (loss) per share (in thousands of shares)	75,312	75,922
Diluted earnings (loss) per share (in euros)	**(2.04)**	**(2.73)**

4.F.3.9.3. Income (loss) from discontinued operations

Discontinued operations did not have a material impact on consolidated income in either 2009 or 2008.

4.F.4 Notes to the statements of financial position

4.F.4.1. Goodwill

(In millions of euros)	2009	2008
Net goodwill at January 1	**1,154**	**1,165**
Acquisitions during the year (1)	1	6
Price adjustments in respect of acquisitions made in previous years	-	(1)
Disposals, net	-	(31)
Translation adjustment	(2)	15
Impairment losses	(7)	-
Net goodwill at December 31	**1,146**	**1,154**
Including accumulated impairment losses at December 31	(7)	-

(1) See Note 2.1.1.

Impairment losses recognized in 2009 relate to the plan to dispose of an Engine and Electrical Systems CGU whose carrying amount was seven million euros more than its estimated market value at December 31, 2009.

In the year ended December 31, 2008, changes in goodwill chiefly reflect:

- the sale of the heavy duty truck Engine Cooling business (see Note 2.2.3);
- the acquisition of a controlling interest in Valeo Radar Systems Inc. (see Note 2.2.1).

1 2 3 4 5 6 7

< Contents >

The main goodwill balances are broken down by group of CGUs as follows:

(In millions of euros)	2009	2008
Wiper Systems	210	214
Climate Control	231	238
Interior Controls	175	176
Engine Management Systems	-	181
Security Systems	130	125
Engine and Electrical Systems	260	80
Other	140	140
TOTAL	**1,146**	**1,154**

The Engine Management Systems and Electrical Systems Product Families were combined in 2009 to form the Engine and Electrical Systems Product Family.

1 2 3 4 5 6 7

4.F.4.2. Other intangible assets

	2009			2008
(In millions of euros)	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
Software	177	(156)	21	28
Patents and licenses	63	(39)	24	28
Capitalized development expenditure	865	(505)	360	321
Customer relationship intangibles	141	(28)	113	121
Other	41	(24)	17	27
Other intangible assets	**1,287**	**(752)**	**535**	**525**

Customer relationship intangibles were valued within the context of acquisitions mostly carried out in 2005. Similarly, patents and licenses include assets relating to technology intangibles acquired.

Changes in intangible assets in 2009 and 2008 are analyzed below:

2009

(In millions of euros)	Software	Patents and licenses	Capitalized development expenditure	Other intangible assets	Total
Gross at January 1, 2009	**170**	**62**	**757**	**191**	**1,180**
Accumulated amortization and impairment	(142)	(34)	(436)	(43)	(655)
Net at January 1, 2009	**28**	**28**	**321**	**148**	**525**
Acquisitions	3	-	147	5	155
Disposals	-	-	(2)	-	(2)
Changes in scope of consolidation	-	-	(2)	2	-
Impairment	(1)	-	(14)	-	(15)
Amortization	(14)	(5)	(100)	(10)	(129)
Translation adjustment	-	-	2	(2)	-
Reclassifications	5	1	8	(13)	1
Net at December 31, 2009	**21**	**24**	**360**	**130**	**535**

< Contents >

2008

(In millions of euros)	Software	Patents and licenses	Capitalized development expenditure	Other intangible assets	Total
Gross at January 1, 2008	**146**	**80**	**636**	**179**	**1,041**
Accumulated amortization and impairment	(111)	(59)	(334)	(23)	(527)
Net at January 1, 2008	**35**	**21**	**302**	**156**	**514**
Acquisitions	5	1	147	7	160
Disposals	-	-	-	(1)	(1)
Changes in scope of consolidation	-	-	(4)	-	(4)
Impairment	-	-	(18)	(5)	(23)
Amortization	(16)	(6)	(95)	(10)	(127)
Translation adjustment	-	-	(1)	10	9
Reclassifications	4	12	(10)	(9)	(3)
Net at December 31, 2008	**28**	**28**	**321**	**148**	**525**

4.F.4.3. Property, plant and equipment

	2009			2008
(In millions of euros)	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	151	(14)	137	136
Buildings	1,001	(611)	390	366
Plant and equipment	3,471	(2,760)	711	740
Specific tooling	1,298	(1,145)	153	157
Other	415	(352)	63	73
Fixed assets in progress	214	(3)	211	267
TOTAL	**6,550**	**(4,885)**	**1,665**	**1,739**

No material amounts of property, plant and equipment had been pledged as security at December 31, 2009.

Finance leases included within property, plant and equipment can be analyzed as follows:

Lease commitments

(In millions of euros)	2009	2008
Land	-	-
Buildings	-	1
Plant and equipment	5	3
Specific tooling	-	-
Other	2	3
Fixed assets in progress	-	-
TOTAL	**7**	**7**

1 2 3 4 5 6 7

< Contents >

Changes in property, plant and equipment in 2009 and 2008 are analyzed below:

2009

(In millions of euros)	Land	Buildings	Plant and equipment	Specific tooling	Other	Fixed assets in progress	Total
Gross at January 1, 2009	**151**	**935**	**3,339**	**1,234**	**426**	**267**	**6,352**
Accumulated depreciation and impairment	(15)	(569)	(2,599)	(1,077)	(353)	-	(4,613)
Net at January 1, 2009	**136**	**366**	**740**	**157**	**73**	**267**	**1,739**
Acquisitions	-	7	87	50	12	168	324
Disposals	-	(1)	(3)	(2)	(1)	(3)	(10)
Changes in scope of consolidation	-	-	3	(1)	-	-	2
Impairment	2	-	(18)	(1)	1	(2)	(18)
Depreciation	(1)	(44)	(222)	(91)	(33)	-	(391)
Translation adjustment	(1)	6	11	1	1	2	20
Reclassifications	1	56	113	40	10	(221)	(1)
Net at December 31, 2009	**137**	**390**	**711**	**153**	**63**	**211**	**1,665**

In accordance with IFRS 5, buildings for which the Group is actively seeking buyers are classified in "Assets held for sale".

2008

(In millions of euros)	Land	Buildings	Plant and equipment	Specific tooling	Other	Fixed assets in progress	Total
Gross at January 1, 2008	**149**	**939**	**3,259**	**1,211**	**452**	**215**	**6,225**
Accumulated depreciation and impairment	(13)	(549)	(2,459)	(1,062)	(352)	-	(4,435)
Net at January 1, 2008	**136**	**390**	**800**	**149**	**100**	**215**	**1,790**
Acquisitions	-	19	157	67	27	208	478
Disposals	(3)	(2)	(5)	(5)	(2)	(1)	(18)
Changes in scope of consolidation	(1)	(4)	(15)	(4)	(3)	(2)	(29)
Impairment	(3)	(2)	(27)	(1)	(3)	-	(36)
Depreciation	(1)	(46)	(260)	(89)	(39)	-	(435)
Translation adjustment	8	(9)	(12)	1	(1)	(1)	(14)
Reclassifications	-	20	102	39	(6)	(152)	3
Net at December 31, 2008	**136**	**366**	**740**	**157**	**73**	**267**	**1,739**

1 2 3 4 5 6 7

< Contents >

4.F.4.4. Investments in associates

Changes in the "Investments in associates" caption can be analyzed as follows:

(In millions of euros)	2009	2008
Investments in associates at January 1	**133**	**103**
Share in net earnings (losses) of associates	**(34)**	**9**
Dividend payments	**(3)**	**(3)**
Impact of changes in scope of consolidation	**-**	**-**
Translation adjustment [(1)]	**(6)**	**25**
Other	**4**	**(1)**
Investments in associates at December 31	**94**	**133**

(1) In 2008, translation adjustments were due mainly to the impact of the appreciation in the yen on interests in Ichikoh.

Losses of associates totaling 34 million euros in 2009 mainly concern Ichikoh, which reported operating losses, costs related to restructuring measures which were completed at the end of 2009 and asset write-downs.

	Ownership interest (%)		Carrying amount (In millions of euros)	
	2009	**2008**	**2009**	**2008**
Ichikoh	**31.6**	**31.6**	**63**	**100**
Faw Valeo Climate Control	**36.5**	**36.5**	**25**	**26**
Other	**-**	**-**	**6**	**7**
Investments in associates	**-**	**-**	**94**	**133**

Ichikoh industries Ltd. is listed on the Tokyo Stock Exchange. The market value of Valeo's interest in Ichikoh is 33 million euros at December 31, 2009 (30 million euros at December 31, 2008). The carrying amount of the investment is justified by its value in use for Valeo.

The governance agreement signed in May 2008 and confirmed in 2009 reinforces Valeo's influence in the executive and operational management of the Ichikoh group, but does not give it control over the group.

Summarized financial data in respect of associates are set out below:

(In millions of euros)	2009	2008
Total assets	**618**	**841**
Total liabilities	**495**	**546**
Net sales	**731**	**876**
Net income (loss) for the year	**(109)**	**27**

1
2
3
4
5
6
7

< Contents >

4.F.4.5. Deferred taxes

Deferred taxes broken down by temporary differences are shown below:

(In millions of euros)	2009	2008
Loss carryforwards	846	718
Capitalized development expenditure	(93)	(99)
Pensions and other employee benefits	147	148
Other provisions	87	65
Inventories	25	24
Provisions for reorganization costs	38	88
Tooling	1	1
Non-current assets	(14)	(3)
Other	80	32
Deferred taxes, gross	**1,117**	**974**
Unrecognized deferred tax assets	(1,025)	(887)
Deferred taxes	**92**	**87**
o/w:		
▪ Deferred tax assets	**117**	**103**
▪ Deferred tax liabilities	**(25)**	**(16)**

At December 31, 2009, deferred tax assets not recognized by the Group can be analyzed as follows:

(In millions of euros)	Tax basis	Potential tax saving
Tax losses available for carryforward through 2010 to 2013	138	33
Tax losses available for carryforward in 2014 and thereafter	996	367
Tax losses available for carryforward indefinitely	1,207	415
Current tax loss carryforwards	**2,341**	**815**
Unrecognized deferred tax assets on temporary differences	-	210
Total unrecognized deferred tax assets	**-**	**1,025**

1 2 3 4 5 6 7

< Contents >

4.F.4.6. Inventories

At December 31, 2009, inventories break down as follows:

(In millions of euros)	2009 Gross carrying amount	2009 Impairment	2009 Net carrying amount	2008 Net carrying amount
Raw materials	206	(44)	162	181
Work-in-progress	56	(7)	49	50
Finished goods, supplies and specific tooling	325	(54)	271	312
Inventories, net	**587**	**(105)**	**482**	**543**

Impairment losses taken against inventories amounted to 105 million euros at December 31, 2009 (101 million euros at December 31, 2008), including an allowance (net of reversals) of 14 million euros during the year.

Allowances to provisions for impairment of inventories net of reversals in 2008 amounted to 8 million euros.

4.F.4.7. Accounts and notes receivable

(In millions of euros)	2009	2008
Accounts and notes receivable, gross	1,277	1,200
Impairment	(26)	(32)
Accounts and notes receivable, net	**1,251**	**1,168**

At December 31, 2009, gross trade receivables not yet due and less than one month past due amounted to 1,208 million euros and 39 million euros, respectively, and represent 98 % of total gross trade receivables (see Note 6.2.2).

4.F.4.8. Stockholders' equity

4.F.4.8.1. Share capital

At December 31, 2009, Valeo's share capital, totaled 235 million euros, comprising 78,209,617 shares of fully paid-up common stock with a par value of 3 euros (see Note 4.8.6). Shares that have been registered in the name of the same holder for at least four years carry double voting rights (2,333,908 shares at December 31, 2009).

Valeo's share capital would rise to 270 million euros (89,913,379 shares) in the event of:

- the exercise of stock subscription options granted to Valeo Group employees;
- the conversion of bonds issued as part of the OCEANE program into new shares (see Note 4.10.2).

The Group seeks to maintain a solid capital base in order to retain the confidence of investors, creditors and the market, and to secure its future development. Its objective is to strike a balance between levels of debt and equity, and in particular to prevent net debt from exceeding 100% of stockholders' equity for any prolonged period of time.

The Group buys back treasury stock on the market to cover its obligations with regard to stock option plans and free share awards, as well as company savings plans and the liquidity contract (see section 3.D.2.2 of the management report in Chapter 3).

< Contents >

- The following employee stock subscription, stock purchase and free share plans approved by the Annual General Meeting were outstanding at December 31, 2009:

Terms and conditions of stock subscription option plans

Year in which plan was set up	Number of shares subject to options	Exercise price of options (1) (in euros)	Number of shares outstanding at December 31, 2009 (2)	Expiration date
2002	420,000	43.84	173,922	2010
2002	600,000	28.30	101,969	2010
2003	700,000	23.51	218,002	2011
2003	780,000	32.91	394,983	2011
2004	1,123,200	28.46	709,447	2012
TOTAL	**3,623,200**		**1,598,323**	

(1) Exercise price equal to 100% of the average Valeo share price over the 20 trading days preceding the meeting of the Board of Directors or Management Board granting the stock subscription options.

(2) The number of shares includes the impact of the public share buyback offer and simplified public tender offer in 2005, which increased the share allocation ratio to 1.01 Valeo share from 1 Valeo share.

Terms and conditions of stock purchase option plans

Year in which plan was set up	Number of shares subject to options	Exercise price of options (1) (in euros)	Number of shares outstanding at December 31, 2009 (2)	Expiration date
2003	500,000	32.91	253,342	2011
2004	280,800	32.74	178,388	2012
2005	650,000	32.32	422,750	2013
2006	187,000	33.75	187,000	2014
2006	1,309,250	32.63	928,500	2014
2007	250,000	36.97	250,000	2015
2007	1,677,000	36.82	1,270,750	2015
2008	426,750	31.41	366,000	2016
TOTAL	**5,280,800**		**3,856,730**	

(1) Exercise price equal to 100% of the average Valeo share price over the 20 trading days preceding the meeting of the Board of Directors or Management Board, or 100% of the average purchase price of treasury stock held if higher than the quoted price for Valeo shares.

(2) The number of shares includes the impact of the public share buyback offer and simplified public tender offer, applicable to grants prior to 2005, which increased the share allocation ratio to 1.01 Valeo share from 1 Valeo share.

Terms and conditions of free share awards

Year in which plan was set up	Number of free shares granted	Number of shares not yet issued at December 31, 2009	Year of vesting
2007	100,000	79,000	2010
TOTAL	**100,000**	**79,000**	

1 2 3 4 5 6 7

< Contents >

■ Movements in these plans can be analyzed as follows:

2009

	Number of options and free shares	Weighted average exercise price
Options not exercised at January 1, 2009	**6,634,464**	**33.43**
Options granted/Free shares to be issued	-	-
Options cancelled	(416,445)	32.12
Options expired	(638,850)	44.24
Options exercised	(65,750)	-
Options not exercised/Free shares not issued at December 31 (1)	**5,513,419**	**32.68**
Options which can be exercised at December 31, 2009	**3,672,669**	**31.93**

(1) The number of shares does not include the impact of the public share buyback offer and simplified public tender offer in 2005.

2008

	Number of options and free shares	Weighted average exercise price
Options not exercised at January 1, 2008	**7,526,508**	**33.13**
Options granted/Free shares to be issued	426,750	31.41
Options cancelled	(1,068,719)	38.36
Options expired	-	-
Options exercised	(250,075)	-
Options not exercised/Free shares not issued at December 31	**6,634,464**	**33.43**
Options which can be exercised at December 31, 2008	**3,851,714**	**33.67**

■ The principal data and assumptions underlying the valuation of equity instruments at fair value are provided below for 2008 only, since no new plan was awarded in 2009:

Stock option	2008
Share price at grant date (euros)	22.6
Expected volatility (%)	39.7
Risk-free rate (%)	4.0
Dividend rate (%)	3.9
Duration of the option (years)	8.0
Fair value of equity instruments (euros)	4.0

Expected volatility is determined as being the implicit volatility at the grant date. The maturity of four years used for stock option and stock subscription plans corresponds to the period during which the availability of options is restricted by tax legislation, and is considered to represent the life of the option.

An expense of 7 million euros was booked in 2009 in respect of stock options plans and free share awards (8 million euros in 2008).

4.F.4.8.2. Additional paid-in capital

Additional paid-in capital represents the net amount received by Valeo, either in cash or in assets, in excess of the par value on issuance of Valeo shares.

4.F.4.8.3. Translation adjustment

At December 31, 2009, this caption primarily includes gains and losses arising from the translation of the net assets of Valeo's Brazilian and Asian subsidiaries.

1 2 3 4 5 6 7

< Contents >

4.F.4.8.4. Retained earnings

Retained earnings include the (153) million loss for the year prior to allocation.

4.F.4.8.5. Dividends per share

The balance of the parent company's distributable retained earnings amounts to 1,514 million euros in 2009, before allocation of the 2009 net loss. Distributable retained earnings amounted to 1,544 million euros in 2008.

No dividends were paid in 2009.

Dividends paid in 2008 totaled 92 million euros, representing 1.20 euro per share.

4.F.4.8.6. Treasury stock

At December 31, 2009, Valeo owns 2,652,119 of its own shares, representing 3.39% of share capital (December 31, 2008: 3,142,499 shares, representing 4.02% of share capital).

4.F.4.8.7. Minority interests

Changes in minority interests can be analyzed as follows:

(In millions of euros)	2009	2008
Minority interests at January 1	**51**	**44**
Equity in net earnings	7	8
Dividends paid	(7)	(7)
Capital increase	1	3
Translation adjustment	(1)	4
Changes in scope of consolidation	-	(1)
Minority interests at December 31	**51**	**51**

4.F.4.9. Provisions

Changes in provisions can be analyzed as follows:

(In millions of euros)	Provisions for reorganization costs	Provisions for pensions and other employee benefits	Other provisions	Total
Provisions at January 1, 2008	**127**	**608**	**358**	**1,093**
Amounts used during the year	(50)	(65)	(60)	(175)
Impact of changes in scope of consolidation	-	(12)	(5)	(17)
Translation adjustment	4	2	-	6
Reclassification	(1)	(9)	5	(5)
Additions	240	30	73	343
Unwinding of discount	1	28	-	29
Reversals	(7)	(27)	(69)	(103)
Actuarial gains and losses recognized through equity	-	56	-	56
Provisions at December 31, 2008	**314**	**611**	**302**	**1,227**
Amounts used during the year	(151)	(61)	(68)	(280)
Impact of changes in scope of consolidation	-	-	-	-
Translation adjustment	(2)	(3)	4	(1)
Reclassification	-	2	4	6
Additions	31	22	126	179
Unwinding of discount	3	32	-	35
Reversals	(31)	(9)	(29)	(69)
Actuarial gains and losses recognized through equity	-	16	-	16
Provisions at December 31, 2009	**164**	**610**	**339**	**1,113**
Of which current portion (less than 1 year)	122	51	191	364

1 2 3 4 5 6 7

< Contents >

4.F.4.9.1. Provisions for reorganization costs

Provisions for reorganization costs and other employee-related expenses amount to 164 million at December 31, 2009 and 314 million euros at December 31, 2008. The sharp decrease in this caption over the period reflects the significant expenses incurred in connection with the announced plan to cut 5,000 jobs worldwide, for which a provision had been set aside in full at the end of 2008.

4.F.4.9.2. Provisions for pensions and other employee benefits

Description of the plans in force within the Group

The Group's commitments in relation to pensions and other employee benefits primarily concern the following defined benefit plans:

- termination benefits (France, Italy, South Korea);
- supplementary pension benefits (Germany, France, Japan, United Kingdom, United States) which top up the statutory pension schemes in force in those countries;
- the payment of certain medical and life insurance costs for retired employees (United States);
- certain of the above-mentioned benefits granted specifically under early retirement schemes (France, Germany, United States);
- other long-term benefits (long-service bonuses in France, Germany, Japan and South Korea).

Costs relating to all of these benefits are recognized in accordance with the accounting policy described in Note 1.17.

Actuarial assumptions

The actuarial assumptions used by the Group to calculate its obligations relating to pensions and other employee benefits take into account the specific demographic and financial conditions of each Group company and each country in which the Group operates.

Discount rates are determined by reference to market yields at the valuation date on high quality corporate bonds with a term consistent with that of the employee benefits concerned.

To calculate discount rates for the year ended December 31, 2009, the Group used the same benchmarks as in previous years. The discount rates used in the countries representing the Group's most significant obligations were as follows:

Benchmark	(%)	2009 Basis	2008 Basis
iBoxx Euro-Corporate AA 10-year+	Euro zone	5.3	6.0
iBoxx £-Corporate AA 15-year+	United Kingdom	5.7	6.5
Citigroup Pension Discount Curve	United States	5.7	6.1
10-year government bonds	Japan	2.0	2.0
10-year government bonds	South Korea	5.3	4.0

The sensitivity of the Group's main obligations to a 0.5% rise or fall in discount rates is set out below.

Expected long-term returns on plan assets were calculated taking into account the structure of the investment portfolio in each country, and are as follows for the Group's principal plans:

(%)	2009	2008
United States	8.0	8.0
United Kingdom	6.7	6.3
Japan	2.7	2.7

The weighted average long-term salary inflation rate was 3.5% at December 31, 2009, unchanged from December 31, 2008.

The rate of increase for medical costs in the United States used to value the Group's obligations at December 31, 2009 was 9.9% up to the end of 2010, gradually reducing to 5% over the following 22 years. This assumption is largely similar to that used in 2008.

< Contents >

Breakdown of obligations

(In millions of euros)	France	Other European countries	North America	Other countries	Total
Present value of unfunded obligations	125	229	91	41	486
Present value of funded obligations	17	56	281	46	400
Market value of plan assets	(2)	(37)	(197)	(33)	(269)
Deficit	**140**	**248**	**175**	**54**	**617**
Unrecognized past service cost	(7)	-	-	-	(7)
Provisions recognized at December 31, 2009	**133**	**248**	**175**	**54**	**610**

(In millions of euros)	France	Other European countries	North America	Other countries	Total
Present value of unfunded obligations	110	203	103	44	460
Present value of funded obligations	18	43	274	48	383
Market value of plan assets	(1)	(29)	(157)	(38)	(225)
Deficit	**127**	**217**	**220**	**54**	**618**
Unrecognized past service cost	(7)	-	-	-	(7)
Provisions recognized at December 31, 2008	**120**	**217**	**220**	**54**	**611**

Movements in provisions

(In millions of euros)	France	Other European countries	North America	Other countries	Total
Provisions at January 1, 2008	**159**	**251**	**155**	**43**	**608**
Actuarial gains and losses recognized through equity	(6)	(26)	74	14	56
Amounts used during the year	(27)	(14)	(16)	(8)	(65)
Impact of changes in scope of consolidation	-	(8)	(4)	-	(12)
Reclassification	(9)	-	-	-	(9)
Translation adjustment	-	(4)	10	(4)	2
Expenses (income) for the year:	**3**	**18**	**1**	**9**	**31**
▪ *Service cost*	*(9)*	*6*	*(3)*	*9*	*3*
▪ *Interest cost*	*9*	*15*	*22*	*3*	*49*
▪ *Past service cost*	*3*	-	-	-	*3*
▪ *Expected return on plan assets*	-	*(3)*	*(17)*	*(1)*	*(21)*
▪ *Other*	-	-	*(1)*	*(2)*	*(3)*
Provisions at December 31, 2008	**120**	**217**	**220**	**54**	**611**
Actuarial gains and losses recognized through equity	11	29	(24)	-	16
Amounts used during the year	(12)	(15)	(24)	(10)	(61)
Impact of changes in scope of consolidation	-	-	-	-	-
Reclassification	2	-	-	-	2
Translation adjustment	-	1	(6)	2	(3)
Expenses (income) for the year:	**12**	**16**	**9**	**8**	**45**
▪ *Service cost*	*4*	*3*	*1*	*7*	*15*
▪ *Interest cost*	*8*	*15*	*22*	*3*	*48*
▪ *Past service cost*	*(1)*	-	-	-	*(1)*
▪ *Expected return on plan assets*	-	*(2)*	*(13)*	*(1)*	*(16)*
▪ *Other*	*1*	-	*(1)*	*(1)*	*(1)*
Provisions at December 31, 2009	**133**	**248**	**175**	**54**	**610**
Of which current portion (less than 1 year)	11	10	27	3	51

1 2 3 4 5 6 7

< Contents >

Expenses booked in respect of pensions and other employee benefit obligations totaled 45 million euros in 2009 versus 31 million euros in 2008.

In 2008, this caption had been reduced by a write-back of 16 million euros regarding pension obligations in France following the announcement of the workforce adjustment plan as employee benefit obligations relating to the redundancies announced had already been included in provisions for reorganization costs.

Movements in obligations

(In millions of euros)	France	Other European countries	North America	Other	Total
Benefit obligations at January 1, 2009	**128**	**246**	**377**	**92**	**843**
Service cost	4	3	1	7	15
Interest cost	8	15	22	3	48
Benefits paid	(11)	(14)	(21)	(15)	(61)
Actuarial gains and losses	11	32	7	1	51
Impact of changes in scope of consolidation	-	-	-	-	-
Reclassification	2	-	-	-	2
Other	-	-	(1)	(1)	(2)
Translation adjustments	-	3	(13)	-	(10)
Benefit obligations at December 31, 2009	**142**	**285**	**372**	**87**	**886**

(In millions of euros)	France	Other European countries	North America	Other	Total
Benefit obligations at January 1, 2008	**190**	**295**	**366**	**82**	**933**
Service cost	(9)	6	(3)	9	3
Interest cost	10	14	22	3	49
Benefits paid	(30)	(14)	(19)	(11)	(74)
Actuarial gains and losses	(8)	(34)	(4)	7	(39)
Impact of changes in scope of consolidation	-	(8)	(4)	-	(12)
Reclassification	(9)	-	-	-	(9)
Other	(16)	-	-	-	(16)
Translation adjustments	-	(13)	19	2	8
Benefit obligations at December 31, 2008	**128**	**246**	**377**	**92**	**843**

1 2 3 4 5 6 7

< Contents >

Movements in plan assets

(In millions of euros)	France	Other European countries	North America	Other	Total
Plan assets at January 1, 2008	**6**	**44**	**211**	**39**	**300**
Expected return on plan assets	-	2	18	1	21
Contributions paid to external funds	2	2	10	3	17
Benefits paid	(5)	(2)	(12)	(6)	(25)
Actuarial gains and losses	(2)	(9)	(78)	(6)	(95)
Translation adjustments	-	(8)	8	7	7
Plan assets at December 31, 2008	**1**	**29**	**157**	**38**	**225**
Expected return on plan assets	-	2	13	1	16
Contributions paid to external funds	2	3	16	4	25
Benefits paid	(1)	(2)	(13)	(9)	(25)
Actuarial gains and losses	-	3	31	1	35
Translation adjustments	-	2	(7)	(2)	(7)
Plan assets at December 31, 2009	**2**	**37**	**197**	**33**	**269**

After the collapse in equity markets in 2008, the fair value of plan assets increased in 2009 in line with the uptrend in equity prices. This explains the 35 million euros in experience adjustments arising on plan assets, corresponding to the difference between actual and expected returns on these assets. These actuarial differences were credited to equity at December 31, 2009.

The actual return on plan assets was 51 million euros in 2009, compared with a negative 74 million in 2008.

Contributions of 25 million euros were paid to external funds in 2009. Contributions in 2010 are estimated at 27 million euros.

Breakdown of plan assets

(In millions of euros)	France	Other European countries	North America	Other	Total
Cash at bank	-	-	11	6	17
Shares	1	29	98	12	140
Government bonds	-	-	35	20	55
Corporate bonds	-	-	13	-	13
Breakdown of plan assets at December 31, 2008	**1**	**29**	**157**	**38**	**225**
Cash at bank	-	-	4	6	10
Shares	2	25	125	10	162
Government bonds	-	6	10	17	33
Corporate bonds	-	6	58	-	64
Breakdown of plan assets at December 31, 2009	**2**	**37**	**197**	**33**	**269**

< Contents >

■ **Data for previous financial years**

Obligations, financial assets and actuarial gains and losses for previous financial years can be analyzed as follows:

(In millions of euros)	2009	2008	2007	2006	2005
Obligations	886	843	933	1,074	1,188
Financial assets	(269)	(225)	(300)	(301)	(294)
Net obligations	**617**	**618**	**633**	**773**	**894**
Actuarial (losses) gains recognized in equity (1)	(16)	(56)	79	27	(50)

(1) Including actuarial gains of 35 million euros resulting from experience adjustments on financial assets, and actuarial losses of 51 million euros resulting from changes in actuarial assumptions.

■ **Sensitivity of obligations to discount rates and the rate of increase in medical costs**

The discount rates applied in each region have a significant impact on the amount of the Group's benefit obligations. Accordingly, a 0.5% rise in discount rates would reduce the projected benefit obligation by 46 million euros and service cost by around 1 million euros. A 0.5% fall in discount rates would have the opposite effect.

A 1% rise or fall in the rate of increase for medical costs in the US would not have a material impact on obligations and expenses for the period.

■ **Sensitivity of plan assets to rates of return**

A decrease of 1% in the expected return on plan assets would reduce annual financial income recognized on these assets by around 3 million euros. An increase of 1% in the expected return on plan assets would have the opposite effect.

4.F.4.9.3. Other provisions

(In millions of euros)	2009	2008
Provisions for product warranties	156	133
Other	183	169
Other provisions	**339**	**302**

In 2009, the "Other" caption includes provisions for tax risks (58 million euros) and provisions for site rehabilitation or environmental obligations (22 million euros). The balance of this caption is intended to cover claims and litigation regarding prices, disputes with current or former employees, and other operational risks.

4.F.4.10. Debt

4.F.4.10.1. Gross debt

At December 31, 2009, the Group's gross debt can be analyzed as follows:

(In millions of euros)	2009	2008
Long-term debt (Note 4.10.2)	1,526	1,299
Current portion of long-term debt (Note 4.10.2)	40	26
Short-term debt (Note 4.10.3)	73	166
Gross debt	**1,639**	**1,491**

< Contents >

4.F.4.10.2. Long-term debt

Analysis of long-term debt

(In millions of euros)	2009	2008
Bonds	597	596
OCEANE bonds	453	444
Syndicated loans	223	222
European Investment Bank loan	197	-
Lease obligations	7	6
Other borrowings	61	32
Accrued interest	28	25
Long-term debt	**1,566**	**1,325**

Long-term debt includes:

- 600 million euros worth of eight-year bonds issued by Valeo on June 24, 2005 and paying a fixed coupon of 3.75%. These bonds were issued in the context of the Euro Medium Term Notes program. The effective interest rate on these bonds is 3.89%;
- 463 million euros worth of bonds convertible for new shares and/or exchangeable for existing shares ("OCEANE") issued on August 4, 2003, representing 9,975,754 bonds with a nominal value of 46.4 euros each. The interest on these bonds is 2.375% per annum payable in arrears on January 1 of each year. Bearers of the bonds may request conversion and/or exchange into common stock at any time, on the basis of 1.013 Valeo share for one bond. In addition, Valeo has a call option that may be exercised if the average share price over 10 consecutive trading days during the 20 trading days preceding the early redemption call exceeds 130% of the conversion price. The effective interest rate of the OCEANE bonds is 4.54% (4.46% excluding the call). This debt will be redeemed in full at par on January 1, 2011;
- two seven-year syndicated loans for a total amount of 225 million euros issued on July 29, 2005. These loans were renegotiated in June 2009. Based on a quantitative and qualitative analysis of the changes in these loans, the Group did not consider that its initial debt had been extinguished and it is therefore maintained in the statements of financial position. These loans and the related hedges have the following characteristics:
  - the first loan is at a variable rate and incorporates a floor and a cap limiting the interest rate to between 5.51% and 7.71% at all times. The loan is hedged by a swap offsetting the optional position on the loan, placing Valeo as a net variable-rate borrower (3-month Euribor + 4%),
  - the second loan is at a fixed rate of 6.5% and incorporates a swap option that enables the Group to opt for a variable rate in 2010. It is hedged by a derivative which has identical characteristics to those of the option included in the loan, placing Valeo as a net variable-rate borrower (3-month Euribor + 4%);
- a 225 million euro loan taken out with the European Investment Bank (EIB) at the end of July 2009. The loan is for a seven-year term, repayable in four equal annual installments as from 2013, and bears variable interest (6-month Euribor + 2.46%). An interest rate swap was taken out in respect of this new loan, exchanging Euribor for a fixed rate of 3.37%. This deferred swap will be effective as from August 5, 2010.

This EIB reduced-rate loan was granted as part of funding for costs incurred by the Group in research projects looking at ways to reduce fuel consumption and CO_2 emissions and improve active safety. In accordance with IAS 20, a subsidy was calculated as the difference between the market interest rate for a similar loan at the date the loan was granted, and the interest rate granted by the EIB. The subsidy was estimated at 28 million euros. It is recognized in statements of financial position liabilities. It will be booked against Research and Development expenditure at the same time as the completion of the projects it is intended to finance. In 2009, the impact on income totaled 3 million euros. The loan was carried at amortized cost for an amount of 197 million euros, and has an effective interest rate of 6.65%.

Covenants related to borrowings and debt are detailed in Note 6.2.2.

1 2 3 4 5 6 7

< Contents >

■ Maturities of long-term debt

(In millions of euros)	2011	2012	2013	2014	2015 and beyond	Total
Bonds	-	-	597	-	-	597
OCEANE bonds	453	-	-	-	-	453
Syndicated loans	-	223	-	-	-	223
EIB loan	-	-	38	53	106	197
Lease obligations	4	1	-	-	-	5
Other borrowings	13	10	-	4	24	51
TOTAL	**470**	**234**	**635**	**57**	**130**	**1,526**

■ Current portion of long term debt

The current portion of long term debt are partly made up of accrued interest for an amount of 28 million euros. These are interest relating to the OCEANE bonds (11 million euros to be paid in January 1, 2010) and to the eight year bonds (12 million euros to be paid in June 2010).

4.F.4.10.3. Short-term debt

(In millions of euros)	2009	2008
Commercial paper	5	34
Short-term loans and overdrafts	68	132
Short-term debt	**73**	**166**

The 68 million euros are mainly overdraft facilities.

4.F.4.10.4. Cash and cash equivalents

(In millions of euros)	2009	2008
Marketable securities	633	365
Cash	227	296
Cash and cash equivalents	**860**	**661**

Marketable securities consist of money market funds (SICAV) for 633 million euros.

1 2 3 4 5 6 7

< Contents >

4.F.4.10.5. Net debt

Net debt is defined as all long-term debt (including the current portion) and short-term debt, less loans, other non-current financial assets and cash and cash equivalents.

Breakdown of net debt

(In millions of euros)	2009	2008
Long-term debt (Note 4.10.2)	1,526	1,299
Current portion of long-term debt (Note 4.10.2)	40	26
Loans and other non-current financial assets	(57)	(9)
Long-term debt	**1,509**	**1,316**
Short-term debt (Note 4.10.3)	73	166
Cash and cash equivalents (Note 4.10.4)	(860)	(661)
Net cash and cash equivalents	**(787)**	**(495)**
Net debt	**722**	**821**

Loans and other long-term financial assets relate mainly to investments in Brazil, consisting of certificates of deposits maturing after three months.

4.F.4.10.6. Analysis of net debt by currency

Net debt can be analyzed as follows by currency:

(In millions of euros)	2009	2008
Euro	876	881
US dollar	(35)	(21)
Yen	4	8
Brazilian real	(67)	(16)
Korean won	(21)	(15)
Chinese yuan	(24)	(31)
Other currencies	(11)	15
TOTAL	**722**	**821**

4.F.4.11. Breakdown of cash flows

4.F.4.11.1. Expenses (income) with no cash effect

(In millions of euros)	2009	2008
Expenses (income) with no cash effect		
Depreciation, amortization and impairment of non-current assets	560	623
Net additions to (reversals from) provisions	(127)	104
Losses (gains) on sales of non-current assets	5	(13)
Expenses related to share-based payment	7	8
Unrealized gains and losses on financial instruments	-	12
Other expenses (income) with no cash effect	-	(2)
TOTAL	**445**	**732**

1 2 3 4 5 6 7

< Contents >

4.F.4.11.2. Changes in working capital

(In millions of euros)	2009	2008
Changes in working capital		
Inventories	69	59
Accounts and notes receivable	(79)	505
Accounts and notes payable	193	(366)
Other receivables and payables	31	(19)
TOTAL	**214**	**179**

The sharp rise in accounts and notes payable reflects the significant upturn in business between the fourth quarter of 2009 and the fourth quarter of 2008. However, the business upturn had a smaller impact on accounts and notes receivable, owing to the reduction in the customer overdues and a greater volume of sales made to auto makers with shorter payment times.

4.F.4.11.3. Impact of changes in the scope of consolidation

At December 31, 2009, changes in the scope of consolidation had a negative impact of 10 million euros. This amount mainly results from:

- additional cash outflows of 7 million euros on the sale of the Wiring Harness activity in December 2007, which had no impact on income (loss) for 2009;
- acquisition of the entire capital stock of Valeo Fawer Compressor (Changchun) Co., Ltd in November 2009. This company was proportionately consolidated in 2008 and is fully consolidated in 2009, resulting in a cash outflow of 4 million euros.

Changes in the scope of consolidation in 2008 had a positive impact of 52 million euros on consolidated cash flows. This amount results mainly from:

- collection of the proceeds on the sale of the heavy duty truck Engine Cooling business from Swedish firm EQT (net of cash and cash equivalents sold and expenses paid in 2008) for 73 million euros;
- cash outflows of 19 million euros on the sale of the Wiring Harness activity in December 2007 pursuant to the sale agreement. A provision had been set aside in 2007 for the full amount of this expense, which therefore had no impact on 2008 income.

4.F.5. Segment reporting

In accordance with IFRS 8 – "Operating Segments" effective as from January 1, 2009, the Group's segment information is presented on the basis of internal reports that are regularly reviewed by the Group's executive management in order to allocate resources to the segments and assess their performance. Executive management represents the chief operating decision maker within the meaning of IFRS 8.

Changes in the Group's management in 2009 prompted modifications to internal reporting, recognized on a retrospective basis in accordance with IFRS 8.29. Four reportable segments (or Business Groups) have been defined, reflecting Valeo's new organization into Business Groups. The segments are issued from the aggregation of several Product Families, based on internal reports used by the Group's management.

The Group's four segments are:

- Comfort and Driving assistance Systems, comprising the Interior Controls and Security Systems Product Families. These focus on the interface between the driver and his/her environment, and contribute to enhanced comfort and safety;
- Powertrain Systems, comprising the Engine and Electrical Systems and Transmissions Product Families. These play an instrumental role in reducing energy consumption and CO_2 emissions;
- Thermal Systems, comprising the Climate Control, Compressors and Engine Cooling Product Families. These contribute to cabin comfort and the reduction of energy consumption;
- Visibility Systems, comprising Lighting Systems and Wiper Systems Product Families. These contribute to safety by improving visibility for the vehicle and the driver.

1 2 3 4 5 6 7

< Contents >

Each of these Business Groups is also responsible for the manufacture and for part of the distribution of products for the aftermarket. Accordingly, income and expenses for Valeo Service, which sells almost exclusively products manufactured by the Group, have been reallocated among the Business Groups identified.

The "Other" segment refers to holding companies, disposed businesses and eliminations between the four operating segments defined above.

4.F.5.1. Key segment performance indicators

The key performance indicators for each segment are shown below:

2009

(In millions of euros)	Comfort and Driving assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Net sales						
■ segment (excluding Group)	1,315	1,999	2,243	1,922	20	7,499
■ intersegment (Group)	29	12	15	16	(72)	-
EBITDA (1)	**106**	**207**	**180**	**146**	**31**	**670**
Research and Development expenditure, net	(118)	(126)	(124)	(110)	5	(473)
Investments in property, plant and equipment and intangible assets for the period	112	167	86	110	4	479
Segment assets (2)	1,007	1,612	1,308	1,260	139	5,326

(1) EBITDA represents operating income (loss) before depreciation, amortization and other income and expenses.
(2) Segment assets include property, plant and equipment and intangible assets (including goodwill), inventories, accounts and notes receivable and other miscellaneous receivables.

2008

(In millions of euros)	Comfort and Driving assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Net sales						
■ segment (excluding Group)	1,520	2,218	2,728	2,113	98	8,677
■ intersegment (Group)	29	10	4	20	(63)	-
EBITDA (1)	**142**	**241**	**229**	**151**	**29**	**792**
Research and Development expenditure, net	(130)	(113)	(143)	(112)	(3)	(501)
Investments in property, plant and equipment and intangible assets for the period	147	211	122	151	7	638
Segment assets (2)	1,006	1,546	1,370	1,392	94	5,408

(1) EBITDA represents operating income (loss) before depreciation, amortization and other income and expenses.
(2) Segment assets include property, plant and equipment and intangible assets (including goodwill), inventories, accounts and notes receivable and other miscellaneous receivables.

1 2 3 4 5 6 7

< Contents >

4.F.5.2. Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating income (loss):

(In millions of euros)	2009	2008
EBITDA	**670**	**792**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses [1]	(537)	(562)
Other income and expenses	(49)	(282)
Operating income (loss)	**84**	**(52)**

(1) Impairment losses recorded in the operating margin.

Total segment assets reconcile to total Group assets as follows:

(In millions of euros)	2009	2008
Segment assets	**5,326**	**5,408**
Assets held for sale	1	5
Financial assets	1,041	832
Deferred tax assets	117	103
TOTAL GROUP ASSETS	**6,485**	**6,348**

4.F.5.3 Reporting by geographic area

2009

(In millions of euros)	External net sales by market	Net sales by production area	Non current assets [1]
France	1,208	2,161	785
Other European countries	3,704	3,046	753
North America	752	675	206
South America	575	554	145
Asia	1,260	1,265	405
Eliminations	-	(202)	-
TOTAL	**7,499**	**7,499**	**2,294**

2008

(In millions of euros)	External net sales by market	Net sales by production area	Non current assets [1]
France	1,475	2,574	855
Other European countries	4,275	3,569	812
North America	1,043	949	212
South America	600	563	114
Asia	1,284	1,284	404
Eliminations	-	(262)	-
TOTAL	**8,677**	**8,677**	**2,397**

(1) Non current assets consist of tangible and intangible assets (excluding goodwill) and investments in associates. Goodwill balances cannot be broken down by geographical area as they are allocated to groups of CGUs which belong to several areas.

< Contents >

4.F.5.4 Breakdown of sales by major customer

Three major auto makers represent 45.5% of the Group's sales, and each of these individually accounts for more than 10% of the Group's sales.

4.F.6. Additional disclosures

4.F.6.1. Financial instruments

4.F.6.1.1. Fair value of financial instruments

Recognition and measurement principles regarding financial assets and liabilities are defined in IAS 32 and IAS 39. The classification of financial instruments into specific categories is described in Note 1.14.

(In millions of euros)	2009 Carrying amount	2009 Carrying amount under IAS 39 Amortized cost	Fair value through equity	Fair value through income	2008 Carrying amount
ASSETS					
Non-current financial assets:					
■ Investments in non-consolidated companies	2	-	2	-	4
■ Loans	57	57	-	-	9
■ Deposits and guarantees	12	-	-	12	8
■ Other non-current financial assets	3	-	-	3	3
Accounts and notes receivable	1,251	1,251	-	-	1,168
Other current financial assets:					
■ Hedging derivatives	10	-	10	-	1
■ Trading derivatives	3	-	-	3	14
■ Other	-	-	-	-	-
Cash and cash equivalents	860	-	-	860	661
LIABILITIES					
Bonds	597	597	-	-	596
OCEANE convertible bonds (debt component)	453	453	-	-	444
Syndicated loans	223	223	-	-	222
EIB loan	197	197	-	-	-
Other long-term debt	96	96	-	-	63
Accounts and notes payable	1,648	1,648	-	-	1,454
Other current financial liabilities:					
■ Hedging derivatives	3	-	3	-	20
■ Trading derivatives	2	-	-	2	18
Short-term debt	73	73	-	-	166

< Contents >

The principal terms and conditions of borrowings (bonds, OCEANE convertible bonds, syndicated loans and EIB loans) are detailed in Note 4.10.2, while the basis for recognition is set out in Note 1.14.

IFRS 7 establishes a hierarchy of valuation techniques used to price financial instruments. The following categories are identified:

- level 1: prices directly based on quoted prices in active markets;
- level 2: prices established using valuation techniques drawing on observable inputs;
- level 3: prices established using valuation techniques drawing on non-observable inputs.

Level 2 is used to measure the fair value of the Group's derivative financial instruments.

The fair value of bonds is calculated on the basis of listed prices in an active bond market, and amounted to 568 million euros at December 31, 2009 and 455 million euros at December 31, 2008.

The fair value of the debt component of the OCEANE convertible bonds, syndicated loans and EIB loan is estimated by discounting future cash flows at the market rate of interest as of the end of the reporting period, taking into account the Group's issuer spread. Issuer spreads were estimated at 1.9% (source: Markit Reuters) for the EIB loan, at 2.8% (source: BNP Paribas) for the OCEANE bonds, and at 1.52% (source: Bloomberg) for syndicated loans. These reflect the spread on Valeo 1.3-year and 7-year credit default swaps, respectively. At December 31, 2009, the fair values of these instruments were estimated at 228 million euros for the EIB loan, 453 million euros for the OCEANE bonds and 240 million euros for the syndicated loan (397 million euros for the OCEANE bonds and 186 million euros for the syndicated loans at end 2008).

The fair value of other debt components is equal to their carrying amount.

4.F.6.1.2. Fair value of derivatives

At December 31

(In millions of euros)	2009	2008
ASSETS		
Hedging derivatives:		
■ Commodity derivatives	10	1
Trading derivatives:		
■ Foreign currency derivatives	2	14
■ Commodity derivatives	1	-
TOTAL OTHER CURRENT FINANCIAL ASSETS	**13**	**15**
LIABILITIES		
Hedging derivatives:		
■ Foreign currency derivatives	-	(3)
■ Interest rate derivatives	(3)	(3)
■ Commodity derivatives	-	(14)
Trading derivatives:		
■ Foreign currency derivatives	(2)	(8)
■ Commodity derivatives	-	(10)
TOTAL OTHER CURRENT FINANCIAL LIABILITIES	**(5)**	**(38)**

The impact of financial instruments on income (loss) for the years ended December 31, 2009 and December 31, 2008 is set out in Note 3.7.

1
2
3
4
5
6
7

< Contents >

4.F.6.1.2.1. Fair value of foreign currency derivatives

At December 31

(In millions of euros)	2009 Nominal	2009 Fair value	2008 Nominal	2008 Fair value
Forward foreign currency purchases	15	1	18	6
Forward foreign currency sales	(28)	-	(48)	4
Currency swaps	128	1	(20)	4
TOTAL ASSETS	**115**	**2**	**(50)**	14
Forward foreign currency purchases	31	(1)	56	(5)
Forward foreign currency sales	(9)	-	(30)	(1)
Currency swaps	69	(1)	(158)	(5)
TOTAL LIABILITIES	**91**	**(2)**	**(132)**	(11)
Net impact		**0**		3

The fair value of currency hedges is computed using the following valuation method: future cash flows are calculated using forward exchange rates at year-end and are discounted using the interest rate of the functional currency. This method corresponds to level 2 in the fair value hierarchy.

4.F.6.1.2.2. Fair value of commodity (metals) derivatives

At December 31

(In millions of euros)	2009 Nominal	2009 Fair value	2008 Nominal	2008 Fair value
Swaps – Purchases	85	11	1	-
Swaps – Sales	-	-	(5)	1
TOTAL ASSETS	**85**	**11**	**(4)**	**1**
Swaps – Purchases	5	-	69	(24)
Swaps – Sales	(3)	-	(2)	-
TOTAL LIABILITIES	**2**	**-**	**67**	**(24)**
Net impact		**11**		**(23)**

The fair value of metals derivatives is computed using the following valuation method: future cash flows are calculated using forward commodity prices and forward exchange rates at year-end and are then discounted using the interest rate of the functional currency. This method corresponds to level 2 in the fair value hierarchy.

1 2 3 4 5 6 7

< Contents >

■ 4.F.6.1.2.3. Fair value of interest rate derivatives

(In millions of euros)	2009 Nominal	2009 Fair value	2008 Nominal	2008 Fair value
Interest rate swaps	450	(3)	225	(3)
TOTAL LIABILITIES	**450**	**(3)**	**225**	**(3)**

The fair value of interest rate swaps is computed by discounting future cash flows based on market interest rates at year-end. This method corresponds to level 2 in the fair value hierarchy.

4.F.6.2. Risk management policy

A detailed description of the Group's risk management policy is provided in the management report (see Chapter 3, section 3.I.3).

4.F.6.2.1. Market risks

■ 4.F.6.2.1.1. Foreign currency risk

Exposure to foreign currency risk

A detailed description of the Group's policy for managing foreign currency risk is provided in the management report (see Chapter 3, section 3.I.3.1).

The principal hedging instruments used by the Group are forward purchases and sales of foreign currencies, as well as swaps and options. The foreign currency derivatives used by the Group are not recognized as hedging instruments according to the IAS 39 criteria. Exceptionally, the Group applies hedge accounting to highly probable future cash flows from the date the derivatives are contracted.

The Group's net exposure to foreign currency risk based on notional amounts arises on the following main currencies (excluding entities' functional currencies):

(In millions of euros)	2009 USD	2009 JPY	2009 EUR	2009 Total	2008 Total
Accounts and notes receivable	68	8	293	369	291
Other financial assets	275	9	104	388	353
Accounts and notes payable	(35)	(15)	(316)	(366)	(303)
Long-term debt	-	(20)	(383)	(403)	(444)
Gross exposure	**308**	**(18)**	**(302)**	**(12)**	**(103)**
Forward sales	(308)	(8)	(25)	(341)	(316)
Forward purchases	21	39	13	73	93
Net exposure	**21**	**13**	**(314)**	**(280)**	**(326)**

In the table above, the EUR column represents the euro exposure of Group entities whose functional currency is not the euro. Exposure arises on subsidiaries based in Eastern Europe – mainly the Czech Republic – who are financed in euro by Valeo SA.

At December 31, 2008, the breakdown by currency of the net exposure recognized in the statements of financial position for (326) million euros is as follows:

- (24) million euros relating to the US dollar;
- 19 million euros relating to the yen;
- (321) million euros relating to the euro.

Analysis of the sensitivity of net equity to foreign currency risk

The sensitivity analysis was based on an exchange rate of 1.44 US dollars, 133.15 Japanese yen and 26.47 Czech koruna to 1 euro at December 31, 2009 (USD 1.39, JPY 126.14 and CZK 26.88, respectively, at December 31, 2008).

An increase of 10% in the value of the euro against these currencies at December 31, 2009 and December 31, 2008 would have the following impacts:

At December 31

(In millions of euros)	Income: gain (loss)	Equity: gain (loss)
American dollar exposure	(2)	-
Yen exposure	(1)	-
Euro exposure	(5)	(26)
TOTAL FOR 2009	**(8)**	**(26)**

(In millions of euros)	Income: gain (loss)	Equity: gain (loss)
American dollar exposure	2	-
Yen exposure	(2)	-
Euro exposure	(10)	(22)
TOTAL FOR 2008	**(10)**	**(22)**

For the purpose of these analyses, it is assumed that all other variables, including interest rates, remained unchanged.

Assuming that all other variables remained unchanged, a 10% fall in the value of the euro against the US dollar and Japanese yen at December 31, 2009 would have the opposite effect to the one shown above.

Net investment risk

A detailed description of the Group's policy for managing net investment risk is provided in the management report (see Chapter 3, section 3.I.3.1).

Where the Group contracts net investment hedges, the resulting gain or loss is deferred through equity until such time that all or part of the foreign investment is sold.

No derivative instrument hedging a net investment in a foreign operation is recognized in the Group's statements of financial position at December 31, 2009.

■ 4.F.6.2.1.2. Commodity risk

Exposure to commodity risk

A detailed description of the Group's policy for managing commodity risk is provided in the management report (see Chapter 3, section 3.I.3.2).

The Group favors hedging instruments which do not involve physical delivery of the underlying commodity, such as swaps and options based on the average monthly price.

The volume of non-ferrous metals hedged at December 31, 2009 and December 31, 2008 break down as follows:

At December 31

In tons	2009	2008
Aluminium	22,000	26,000
Secondary aluminium	8,000	8,000
Copper	9,000	-
Zinc	5,000	5,000
TOTAL	**44,000**	**39,000**

< Contents >

Base metals derivatives used by the Group are designated as cash flow hedges under IAS 39. An unrealized gain of 10 million euros related to existing hedges was recognized directly in equity at December 31, 2009 in accordance with IAS 39. Income (loss) for the period includes a loss of 5 million euros on commodity transactions (see Note 3.7).

An unrealized loss of 13 million euros on commodity hedges purchased in second-half 2008 had been recognized in equity at December 31, 2008. The loss was reclassified in full to operating income in the first half of 2009.

Analysis of the sensitivity of net equity to metal price risk

The table below shows the impact on equity and income of a 10% variation in metal futures prices at December 31, 2009.

(In millions of euros)	2009 Income: gain/(loss)	2009 Equity: gain/(loss)	2008 Income: gain/(loss)	2008 Equity: gain/(loss)
Impact of a 10% rise in metal futures prices	-	8	(1)	4
Impact of a 10% decrease in metal futures prices	-	(8)	1	(4)

For the purposes of the sensitivity analysis, it is assumed that all other variables remain unchanged over the period.

■ 4.F.6.2.1.3. Interest rate risk

Exposure to interest rate risk

The Group's policy for managing interest rate risk is detailed in the management report (see Chapter 3, section 3.I.3.3).

The Group uses interest rate swaps to convert the interest rates on its debt into either a variable or a fixed rate, either as from origination or during the term of the loan. Cash and cash equivalents are mainly invested in variable-rate instruments. Debt is essentially at fixed rates.

The interest rate derivatives used by the Group to hedge against changes in the value of its fixed-rate debt are designated as fair value hedges under IAS 39. These derivatives are recorded at fair value in the statements of financial position, with changes in fair value taken to income. For the effective portion of the hedge, the impact on income is offset by a symmetrical revaluation of the hedged item.

On August 5, 2009, the Group set up an interest rate swap to hedge the variable-rate interest on its loan from the EIB. This derivative qualifies for cash flow hedge accounting. The fair value of the swap is initially recognized in the statements of financial position, with subsequent changes in fair value taken to equity until the hedged interest falls due. At December 31, 2009, the impact in equity of changes in the fair value of this swap totaled 2 million euros.

The Group's financing rate was 6% in 2009 (4.9% in 2008).

At the end of the reporting period, the Group's net interest rate position based on nominal values can be analyzed as follows:

At December 31, 2009

	Less than 1 year		1 to 5 years		More than 5 years		Total nominal values		
(In millions of euros)	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	40	73	1,315	117	24	113	1,379	303	1,682
Loans	-	-	-	(57)	-	-	-	(57)	(57)
Cash and cash equivalents	-	(860)	-	-	-	-	-	(860)	(860)
Net position before hedging	**40**	**(787)**	**1,315**	**60**	**24**	**113**	**1,379**	**(614)**	**765**
Derivative instruments	-	225	(113)	(112)	113	(113)	-	-	-
Net position after hedging	**40**	**(562)**	**1,202**	**(52)**	**137**	**-**	**1,379**	**(614)**	**765**

< Contents >

At December 31, 2008

(In millions of euros)	Less than 1 year Fixed portion	Variable portion	1 to 5 years Fixed portion	Variable portion	More than 5 years Fixed portion	Variable portion	Total nominal values Fixed portion	Variable portion	Total
Financial liabilities	26	166	1,326	-	-	-	1,352	166	1,518
Loans	-	-	-	(9)	-	-	-	(9)	(9)
Cash and cash equivalents	-	(661)	-	-	-	-	-	(661)	(661)
Net position before hedging	**26**	**(495)**	**1,326**	**(9)**	**-**	**-**	**1,352**	**(504)**	**848**
Derivative instruments	-	225	(225)	-	-	-	(225)	225	-
Net position after hedging	**26**	**(270)**	**1,101**	**(9)**	**-**	**-**	**1,127**	**(279)**	**848**

Analysis of sensitivity to interest rate risk

At December 31, 2009, 72% of long-term debt is at fixed rates (83% at December 31, 2008). As from August 5, 2010, the date the swap hedging the EIB loan comes into effect, 85% of the Group's borrowings will be at fixed rates (based on a comparable debt structure).

Fixed-rate debt carried at amortized cost is not included in the calculation of sensitivity to interest rate risk. The Group's exposure to interest rate risk therefore arises solely on its variable-rate debt.

The tables below show the impact on income and equity of a sudden 1% rise in the interest rates applied to variable-rate financial assets and liabilities, after hedging:

2009

(In millions of euros)	Income: gain/(loss)	Equity: gain/(loss)
Impact of a 1% rise in interest rates	6	9

2008

(In millions of euros)	Income: gain/(loss)	Equity: gain/(loss)
Impact of a 1% rise in interest rates	2	-

Similarly, at December 31, 2009 a sudden 1% fall in interest rates would have the opposite impacts for the same amount.

4.F.6.2.1.4. Equity risk

A detailed description of the Group's policy for managing equity risk is provided in the management report (see Chapter 3, section 3.I.3.4).

The assets making up the pension funds are detailed in Note 4.9.2.

The Group's cash and cash equivalents are set out in Note 4.10.4.

4.F.6.2.2. Liquidity risk

The Group borrows long-term funds either through banks or public debt markets. In 2003, Valeo issued 463 million euros worth of bonds convertible into shares (OCEANE) maturing in 2011. In 2005, it issued a 600 million euro Medium Term Note maturing in 2013. It also took out two syndicated loans maturing in 2012 for a total amount of 225 million euros, and contracted a loan with the European Investment Bank (EIB) for 225 million euros maturing in 2016.

At December 31, 2009, Valeo had 860 million euros in cash (661 million euros at end-2008). The Group's other sources of liquidity are:

- confirmed bank credit lines totaling 1 billion euros with an average maturity of 2.4 years. None of these credit lines had been drawn down at December 31, 2009 or December 31, 2008;
- a short-term commercial paper financing program for a maximum amount of 1.2 billion euros, and a medium- and long- term Euro Medium Term Notes financing program for a maximum amount of 2 billion euros. Valeo's access to the commercial paper market has been restricted since Moody's cut its credit rating on January 7, 2009. Since that date, its short-term debt has been rated "not prime".

1 2 3 4 5 6 7

< Contents >

Covenants: The credit lines in place, together with the two syndicated loans, and the EIB loan are subject to an early repayment clause related to the Group's debt/EBITDA ratio, which must not exceed 3.5 in 2009 and 3.25 thereafter. EBITDA in this case represents the Group's operating margin before depreciation, amortization and impairment. Other income and expenses are therefore excluded from EBITDA, with the exception of restructuring costs totaling more than 75 million euros in 2010 and 50 million euros thereafter. Failure to comply with this ratio would cause the credit lines to be suspended – triggering early repayment of any drawdowns already made – the syndicated loans and the EIB loan to be repaid. At December 31, 2009, the ratio calculated over 12 months was 1.1.

Credit lines with banks and the Group's long-term debt are also subject to cross-default clauses, whereby if a specified amount of debt is likely to be called for early repayment; other debt could also become repayable. Some agreements allow a grace period before the cross default clause becomes enforceable.

At the end of the reporting period, the Group believes these covenants will be respected over the following 12 months.

The Euro Medium Term Notes program includes an option granted to the bondholders who can request early repayment or redemption of their bonds in the event of a change of control at Valeo which leads to a downgrade in the bond's rating to below investment grade. Such a change of control is deemed to occur if a stockholder (or several stockholders acting in concert) acquires more than 50% of Valeo's share capital or holds more than 50% of its voting rights. If Valeo's bonds had previously been rated below investment grade, bondholders may request the early repayment or redemption of their bonds in the event of a change in control at Valeo resulting in a one category downgrade in the rating (e.g. from Ba1 to Ba2).

■ Residual contractual maturity of non-derivative financial instruments can be analyzed as follows:

Future cash flows presented below, both interest payments and reimbursements are not discounted. The interest rate forward curve at December 31, 2009 was used.

At December 31, 2009

(In millions of euros)	Carrying amount	Contractual cash flows Total	Contractual cash flows Payment schedule 2010	2011	2012	2013	2014	2015 and beyond
Bonds	597	692	23	23	23	623	-	-
OCEANE bonds	453	485	11	474	-	-	-	-
Syndicated loans	223	265	13	14	238	-	-	-
EIB loan	197	291	9	10	13	69	67	123
Other long-term debt	96	96	40	17	11	-	4	24
Accounts and notes payable	1,648	1,648	1,648	-	-	-	-	-
Short-term debt	73	73	73	-	-	-	-	-

The cash available to the Group and its confirmed bank credit lines will allow Valeo to meet the redemption obligations on its OCEANE convertible bonds at January 1, 2011.

1
2
3
4
5
6
7

< Contents >

Residual contractual maturities of derivative financial instruments can be analyzed as follows:

The European Central Bank (ECB) closing and forward rates at December 31, 2009 have been used to valorize the foreign exchange financial derivatives. As regards the commodity financial derivatives, the London Metal Exchange (LME) forward rates at December 31, 2009 were used. As regards the interest rates swap, the interest rates forward curve at December 31, 2009 was used.

At December 31, 2009

(In millions of euros)	Carrying amount	Contractual cash flows Total	Contractual cash flows Payment schedule 2010	2011	2012	2013	2014	2015 and beyond
Forward foreign currency contracts used as hedges:								
■ Assets	(1)	1	1	-	-	-	-	-
■ Liabilities	(1)	(1)	(1)	-	-	-	-	-
Foreign currency swaps used as hedges:								
■ Assets	1	1	1	-	-	-	-	-
■ Liabilities	(1)	(1)	(1)	-	-	-	-	-
Commodity derivatives:								
■ Assets	11	11	11	-	-	-	-	-
■ Liabilities	-	-	-	-	-	-	-	-
Interest rate swaps:								
■ Assets	-	-	-	-	-	-	-	-
■ Liabilities	(3)	(1)	1	(4)	-	-	1	1

Credit risk can be analyzed as follows:

Counterparty risk

The Group is exposed to financial counterparty risk on financial market transactions carried out for the purposes of risk and treasury management. Limits have been set by counterparty, taking into account the ratings of the counterparties provided by rating agencies. This also has the effect of avoiding excessive concentration of market transactions with a limited number of banks.

Commercial credit risk

Valeo is exposed to credit risk arising on its commercial operations, particularly the risk of default by its customers. Valeo operates exclusively in the automotive industry, which has been considerably weakened by the current crisis. As a result, Valeo has reinforced its oversight of credit risk and payment behaviour, which can be the focus of bilateral negotiations with customers on a case-by-case basis. The average days sales' outstanding stood at 61 days at December 31, 2009.

Valeo works with all automakers in the industry, including the three largest US automakers. At December 31, 2009, the Group was owed 51 million euros by the American entities of the three firms (4% of the total accounts and notes receivable).

At December 31, 2009, Valeo's largest customer accounts for 16% of the Group's accounts and notes receivable.

1 2 3 4 5 6 7

< Contents >

The table below presents an aged analysis of accounts and notes receivable:

(In millions of euros)	Gross carrying amount 2009	Gross carrying amount 2008
Not yet due	1,208	1,045
Less than 1 month past due	39	107
More than 1 month but less than 12 months past due	22	33
More than 1 year past due	8	15
TOTAL	**1,277**	**1,200**

Past due balances were impaired at December 31, 2009 totaling 26 million euros.

4.F.6.3. Commitments given

To the best of Valeo's knowledge, no other significant commitments exist or exceptional events have occurred other than those disclosed in the notes to the financial statements, that are likely to have a material impact on the business, financial position, results or assets and liabilities of the Group.

4.F.6.3.1. Lease commitments

Future minimum lease commitments existing at December 31, 2009 (excluding capital leases) are as follows:

(In millions of euros)	2009	2008
Less than 1 year	38	36
1 to 5 years	54	52
More than 5 years	11	12
TOTAL	**103**	**100**

Lease rentals recognized in expenses in the year are as follows:

(In millions of euros)	2009	2008
Rent	51	49

Lease commitments in respect of capital leases are as follows:

At December 31

(In millions of euros)	2009	2008
Future minimum lease payments		
Less than 1 year	3	2
1 to 5 years	5	4
More than 5 years	1	1
Total future minimum lease payments	**9**	**7**
Of which interest charges	(2)	(1)
Present value of future lease payments		
Less than 1 year	2	2
1 to 5 years	5	3
More than 5 years	-	1
Total present value of future lease payments	**7**	**6**

< Contents >

4.F.6.3.2. Other commitments given

Valeo has also given the following commitments:

(In millions of euros)	2009	2008
Guarantees given	2	2
Non-cancelable asset purchase commitments	88	93
Other commitments given	141	140
TOTAL	231	235

Other commitments correspond to warranties granted by Valeo in the context of sale transactions.

The following items recognized in assets in the Group's statements of financial position have been pledged as security:

(In millions of euros)	2009	2008
Property, plant and equipment	1	1
Financial assets	12	13
TOTAL	13	14

4.F.6.3.3 Put options

At December 31, 2009, Hitachi and Valeo owned 34% and 66%, respectively, of Japanese firm Valeo Unisia Transmissions K.K.

Hitachi has a put option that may be exercised if its interest in the company falls below 15%. If the put is exercised, all of the shares it owns at that time will be sold to Valeo, with the price to be fixed by Valeo and Hitachi or by an independent expert if the parties fail to reach an agreement.

If Valeo sells all or some of its shares representing more than 51% of the shares of the joint venture (or a lower percentage of shares if the sale deprives Valeo of its right to appoint the majority of the members of the joint venture's Board of Directors), Hitachi reserves the right to offer its own shares to said third parties ("drag – along" right). If said third parties refuse to buy the shares, Hitachi may sell them to Valeo.

At December 31, 2009, the joint venture had total equity of 38 million euros prior to appropriation of income.

4.F.6.4. Commitments received

The vendor warranty received from Johnson Controls Inc. in connection with the Group's acquisition of Johnson's Engine Electronics business expired on March 1, 2009. Valeo has received no other material commitments.

4.F.6.5. Contingent liabilities

The Group has contingent liabilities relating to legal proceedings arising in the normal course of its business. Known claims and litigation involving Valeo or its subsidiaries were reviewed at the end of the reporting period. Based on the advice of legal counsel, all necessary provisions have been made to cover the related risks.

Although the outcome of the proceedings in progress cannot be predicted, Valeo considers that they will not have a material impact on the Group's financial position at the end of the reporting period. However, new proceedings may be initiated against the Group as a result of facts or circumstances unknown at the date of this report or for which the risk cannot yet be determined and/or quantified. Such proceedings could thus have a significant adverse impact on the Group's net income.

4.F.6.6. French statutory training entitlement

Under the French law of May 4, 2004 on professional training, all of the Group's French employees, regardless of their qualifications, are entitled to statutory training hours which can be accumulated and used at the employees' initiative, subject to the employer's agreement. As of 2004, each employee is entitled to at least 20 hours' training per year.

The cumulative volume of training hours corresponding to Group employees' vested rights under the French statutory training entitlement was 1,034,000 hours at December 31, 2009 (1,240,976 hours at December 31, 2008), representing a usage rate of around 7%.

1 2 3 4 5 6 7

< Contents >

4.F.6.7. Related party transactions

4.F.6.7.1. Management remuneration

Management is comprised of the 15 members of the Group's Operating Committee. In 2008, management consisted of the 27 members of the Management Committee. Remuneration paid to management in 2009 and 2008 is shown in the table below. Remuneration paid to the Chief Executive Officer is not included.

(In millions of euros)	2009	2008
Salaries and other short-term benefits	7	14
TOTAL	7	14

The Group recognized 1 million euros related to stock subscription and stock option plans and free share awards in 2009 (3 million euros in 2008). It also recorded expenses in relation to pension obligations for management personnel in an amount of 2 million euros (3 million euros in 2008). At December 31, 2009, provisions included in the Group's statements of financial position in respect of these obligations amounted to 10 million euros (18 million euros at December 31, 2008).

4.F.6.7.2. Transactions with associates

The consolidated financial statements include transactions carried out in the normal course of business between the Group and the associates. These transactions are carried out at market prices.

(In millions of euros)	2009	2008
Sales of goods and services	11	22
Purchases of goods and services	(10)	(12)
Interest and dividends received	3	3

(In millions of euros)	2009	2008
Operating receivables	3	3
Operating payables	7	6

< Contents >

4.F.6.7.3. Transactions with joint ventures

The consolidated financial statements include transactions carried out in the normal course of business between the Group and the joint ventures. These transactions are carried out at market prices.

(In millions of euros)	2009	2008
Sales of goods and services	17	25
Purchases of goods and services	(14)	(14)
Interest and dividends received	16	17

(In millions of euros)	2009	2008
Operating receivables	9	10
Operating payables	6	5
Net debt	7	1

4.F.6.8. Joint ventures

The following amounts are recorded in the Group's consolidated financial statements in respect of proportionately consolidated joint ventures:

(In millions of euros)	2009	2008
Non-current assets	84	91
Current assets	154	127
Non-current liabilities	22	26
Current liabilities	110	94
Net sales	315	348
Operating expenses	289	335

1 2 3 4 5 6 7

< Contents >

4.F.7. Restatement of prior year financial information

IFRS requires previously published comparative periods to be retrospectively restated in the event of:

- operations meeting the criteria set out in IFRS 5 on non-current assets held for sale and discontinued operations;
- business combinations (recognition of the definitive fair value of assets acquired and liabilities and contingent liabilities assumed if fair value had been estimated on a provisional basis at the end of the previous reporting period);
- changes in accounting policies (subject to the transitional provisions applicable upon first-time adoption of new standards);
- corrections of accounting errors.

No events occurred in 2009 requiring the 2008 financial statements published in February 2009 to be restated.

1
2
3
4
5
6
7

< Contents >

4.F.8. List of consolidated companies

	2009		2008	
Company	**% voting rights**	**% interest**	**% voting rights**	**% interest**
EUROPE				
France				
Valeo S.A. (parent company)				
DAV	100	100	100	100
Equipement 1	100	100	100	100
Equipement 11	100	100	100	100
Equipement 2	100	100	100	100
SC2N	100	100	100	100
Société de Participations Valeo	100	100	100	100
Telma	100	100	100	100
Valeo Bayen	100	100	100	100
Valeo Embrayages	100	100	100	100
Valeo Equipements Electriques Moteur	100	100	100	100
Valeo Etudes Electroniques	100	100	100	100
Valeo Finance	100	100	100	100
Valeo Four Seasons (2)	50	50	50	50
Valeo Interior Controls	100	100	100	100
Valeo Management Services	100	100	100	100
Valeo Matériaux de Friction	100	100	100	100
Valeo Plastic Omnium S.N.C. (2)	50	50	50	50
Valeo Sécurité Habitacle	100	100	100	100
Valeo Service	100	100	100	100
Valeo Systèmes de Contrôle Moteur	100	100	100	100
Valeo Systèmes d'Essuyage	100	100	100	100
Valeo Systèmes Thermiques	100	100	100	100
Valeo Thermique Habitacle	100	100	100	100
Valeo Vision	100	100	100	100
Spain				
Telma Retarder España, S.A.	100	100	100	100
Valeo Climatización, S.A.	100	100	100	100
Valeo España, S.A.	100	100	100	100
Valeo Iluminación, S.A.	99.8	99.8	99.8	99.8
Valeo Materiales de Fricción, S.A.	100	100	100	100
Valeo Plastic Omnium S.L. (2)	50	50	50	50
Valeo Service España, S.A.	100	100	100	100
Valeo Sistemas de Seguridad y de Cierre, S.A.	100	100	100	100
Valeo Sistemas Electricos, S.L.	100	100	100	100
Valeo Termico, S.A.	100	100	100	100

(1) Company accounted for by the equity method.
(2) Company consolidated on a proportionate basis.
(3) Company sold or wound up in 2009.
(4) Company proportionately integrated in 2008 and fully consolidated in 2009.

< Contents >

Company	2009 % voting rights	2009 % interest	2008 % voting rights	2008 % interest
Portugal				
Cablagens do Ave	100	100	100	100
Italy				
Valeo Commutazione S.r.l.	99.9	99.9	99.9	99.9
Valeo Service Italia, S.p.A.	99.9	99.9	99.9	99.9
Valeo Sistemi di Climatizzazione, S.p.A.	99.9	99.9	99.9	99.9
Valeo, S.p.A.	99.9	99.9	99.9	99.9
Germany				
Valeo Auto-Electric Beteiligungs GmbH	100	100	100	100
Valeo Auto-Electric GmbH	100	100	100	100
Valeo Compressor Europe GmbH	100	100	100	100
Valeo Germany Holding GmbH	100	100	100	100
Valeo Gmbh (formerly Valeo Beleuchtung Deutschland GmbH)	100	100	100	100
Valeo Grundvermogen Verwaltung GmbH	100	100	100	100
Valeo Holding Deutschland GmbH	100	100	100	100
Valeo Klimasysteme GmbH	100	100	100	100
Valeo Klimasysteme Verwaltung SAS & Co. KG	100	100	100	100
Valeo Schalter und Sensoren GmbH	100	100	100	100
Valeo Service Deutschland GmbH	100	100	100	100
Valeo Sicherheitssysteme GmbH	100	100	100	100
Valeo Verwaltungs-Beteiligungs GmbH & Co. KG	100	100	100	100
Valeo Wischersysteme GmbH	100	100	100	100
United Kingdom				
Telma Retarder Ltd.	100	100	100	100
Valeo (UK) Limited	100	100	100	100
Valeo Climate Control Limited	100	100	100	100
Valeo Engine Cooling UK Ltd.	100	100	100	100
Valeo Service UK Limited	100	100	100	100
Ireland				
C.E.L. (Sales) Limited (3)	-	-	100	100
CEL Limited (3)	-	-	100	100
Connaught Electronics Limited	100	100	100	100
HI-KEY Limited	100	100	100	100
Belgium				
Valeo Service Belgique	100	100	100	100
Valeo Vision Belgique	100	100	100	100

(1) Company accounted for by the equity method.
(2) Company consolidated on a proportionate basis.
(3) Company sold or wound up in 2009.
(4) Company proportionately integrated in 2008 and fully consolidated in 2009.

1 2 3 4 5 6 7

< Contents >

Company	2009 % voting rights	2009 % interest	2008 % voting rights	2008 % interest
Luxembourg				
Coreval	100	100	100	100
Netherlands				
Valeo Holding Netherlands B.V.	100	100	100	100
Valeo International Holding B.V.	100	100	100	100
Valeo Service Benelux B.V.	100	100	100	100
Czech Republic				
Connaught Electronics CZ Spol S.r.o.	100	100	100	100
Sylea Tchequia S.r.o. (3)	-	-	100	100
Valeo Autoklimatizace k.s.	100	100	100	100
Valeo Compressor Europe S.r.o.	100	100	100	100
Valeo Vymeniky Tepla k.s.	100	100	100	100
Slovakia				
Valeo Slovakia S.r.o.	100	100	100	100
Poland				
Valeo Autosystemy Sp.zo.o.	100	100	100	100
Valeo Electric and Electronic Systems Sp.zo.o.	100	100	100	100
Valeo Service Eastern Europe Sp.zo.o.	100	100	100	100
Hungary				
Valeo Auto-Electric Hungary LLC.	100	100	100	100
Romania				
Valeo Lighting Assembly S.R.L	100	100	100	100
Valeo Lighting Injection S.A.	51	51	51	51
Valeo Sisteme Termice S.R.L	100	100	100	100
Russia				
Valeo Climate Control Tomilino LLC.	95	95	95	95
Valeo Service Limited Liability Company	100	100	100	100
Turkey				
Nursan OK (1)	40	40	40	40
Valeo Otomotiv Dagitim A.S.	100	100	100	100
Valeo Otomotiv Sistemleri Endustrisi A.S.	100	100	100	100
AFRICA				
Tunisia				
DAV Tunisie	100	100	100	100
Valeo Embrayages Tunisie S.A.	100	100	100	100
Morocco				
Cablinal Maroc, S.A.	100	100	100	100
Egypt				
Valeo Interbranch Automotive Software Egypt	100	100	100	100

(1) Company accounted for by the equity method.
(2) Company consolidated on a proportionate basis.
(3) Company sold or wound up in 2009.
(4) Company proportionately integrated in 2008 and fully consolidated in 2009.

1 2 3 4 5 6 7

< Contents >

Company	2009 % voting rights	2009 % interest	2008 % voting rights	2008 % interest
South Africa				
Valeo Systems South Africa (Proprietary) Ltd.	51	51	51	51
North America				
United States				
Telma Retarder Inc.	100	100	100	100
Valeo Aftermarket, Inc.	100	100	100	100
Valeo Climate Control Corp.	100	100	100	100
Valeo Compressor North America, Inc.	100	100	100	100
Valeo Electrical Systems, Inc.	100	100	100	100
Valeo Engine Cooling, Inc.	100	100	-	-
Valeo Friction Materials, Inc.	100	100	100	100
Valeo Front End Module, Inc.	100	100	-	-
Valeo Investment Holdings, Inc.	100	100	100	100
Valeo Radar Systems, Inc.	100	100	100	100
Valeo Switches and Detection Systems, Inc.	100	100	100	100
Valeo Sylvania, LLC. (2)	50	50	50	50
Valeo Thermal Systems NA, Inc.	-	-	100	100
Valeo, Inc.	100	100	100	100
Mexico				
Delmex de Juarez S de RL de CV	100	100	100	100
Telma Retarder de Mexico, SA de CV	100	100	100	100
Valeo Automotive Electrical Systems de Mexico, SA de CV (3)	-	-	100	100
Valeo Climate Control de Mexico Servicios S de RL de CV	100	100	100	100
Valeo Climate Control de Mexico, SA de CV	100	100	100	100
Valeo Materiales de Friccion de Mexico SA de CV (merged into Valeo Sistemas Electricos SA de CV)	-	-	100	100
Valeo Sistemas Electricos Servicios S de RL de CV	100	100	100	100
Valeo Sistemas Electricos, SA de CV	100	100	100	100
Valeo Sistemas Electronicos, S de RL de CV	100	100	100	100
Valeo Sylvania Iluminacion, S de RL de CV (2)	50	50	50	50
Valeo Sylvania Services S de RL de CV (2)	50	50	50	50
Valeo Termico Servicios, S de RL de CV	100	100	100	100
Valeo Transmisiones Servicios de Mexico S de RL de CV	100	100	100	100
South America				
Brazil				
Valeo Sistemas Automotivos Ltda	100	100	100	100
Argentina				
Cibie Argentina, SA	100	100	100	100
Emelar Sociedad Anonima	100	100	100	100
Valeo Embragues Argentina, SA	100	100	100	100
Valeo Termico Argentina, SA	100	100	100	100

(1) Company accounted for by the equity method.
(2) Company consolidated on a proportionate basis.
(3) Company sold or wound up in 2009.
(4) Company proportionately integrated in 2008 and fully consolidated in 2009.

< Contents >

Company	2009 % voting rights	2009 % interest	2008 % voting rights	2008 % interest
ASIA				
Thailand				
Valeo Compressor (Thailand) Co. Ltd.	98.5	98.5	98.5	98.5
Valeo Compressor Clutch (Thailand) Co. Ltd.	97.3	97.3	97.3	97.3
Valeo Siam Thermal Systems Co. Ltd.	74.9	74.9	74.9	74.9
Valeo Thermal Systems Sales (Thaïland) Co. Ltd.	74.9	74.9	74.9	74.9
South Korea				
Dae Myong Precision Corporation	100	100	100	100
Valeo Compressor Korea Co., Ltd.	100	100	100	100
Valeo Electrical Systems Korea, Ltd.	100	100	100	100
Valeo Pyeong Hwa Co. Ltd. (2)	50	50	50	50
Valeo Pyeong Hwa International Ltd. (2)	50	50	50	50
Valeo Samsung Thermal Systems Co., Ltd. (2)	50	50	50	50
Valeo Thermal Systems Korea Co. Ltd.	100	100	100	100
Japan				
Ichikoh Industries Limited. (1)	31.6	31.6	31.6	31.6
Valeo Engine Cooling Japan Co. Ltd.	100	100	100	100
Valeo Thermal Systems Japan Corporation	100	100	100	100
Valeo Unisia Transmissions K.K.	66	66	66	66
China				
Faw-Valeo Climate Control Systems Co. Ltd. (1)	36.5	36.5	36.5	36.5
Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd. (2)	50	50	50	50
Guangzhou Valeo Engine Cooling Co. Ltd.	100	100	100	100
Huada Automotive Air Conditioner Co. Ltd. (1)	30	30	30	30
Hubei Valeo Autolighting Company Ltd.	100	100	100	100
Nanjing Valeo Clutch Co. Ltd. (2)	55	55	55	55
Shanghai Valeo Automotive Electrical Systems Company Ltd. (2)	50	50	50	50
Taizhou Valeo-Wenling Automotive Systems Company Ltd.	100	100	100	100
Telma Vehicle Braking System (Shanghai) Company Ltd.	70	70	70	70
Valeo Auto Parts Trading (Shanghai). Co. Ltd.	100	100	100	100
Valeo Automotive Air Conditioning Hubei Co. Ltd.	55	55	55	55
Valeo Automotive Security Systems (Wuxi) Co. Ltd.	100	100	100	100
Valeo Automotive Transmissions Systems (Nanjing) Co. Ltd.	100	100	100	100
Valeo Engine Cooling (Foshan) Co. Ltd.	100	100	-	-
Valeo Engine Cooling (Shashi) Co. Ltd.	100	100	100	100
Valeo Compressor (Changchun) Co. Ltd. (formely Valeo Fawer Compressor (Changchun) Co. Ltd.) (4)	100	100	60	60
Valeo Interior Controls (Shenzhen) Co., Ltd.	100	100	100	100
Valeo Lighting Hubei Technical Center Co. Ltd.	100	100	100	100
Valeo Management (Beijing) Co. Ltd.	100	100	100	100
Valeo Shanghai Automotive Electric Motors & Wiper Systems Co., Ltd.	55	55	55	55

(1) Company accounted for by the equity method.
(2) Company consolidated on a proportionate basis.
(3) Company sold or wound up in 2009.
(4) Company proportionately integrated in 2008 and fully consolidated in 2009.

< Contents >

Company	2009 % voting rights	2009 % interest	2008 % voting rights	2008 % interest
Indonesia				
PT Valeo AC Indonesia (1)	49	49	49	49
India				
Amalgamations Valeo Clutch Private Ltd. (2)	50	50	50	50
Minda Valeo Security Systems Private Limited (2)	50	50	50	50
Valeo Engineering Center (India) Private Limited	100	100	100	100
Valeo Friction Materials India Limited	60	60	60	60
Valeo Lighting Systems (India) Private Ltd.	95	95	95	95
Valeo Minda Electrical Systems India Private Limited	66.7	66.7	66.7	66.7

(1) Company accounted for by the equity method.
(2) Company consolidated on a proportionate basis.
(3) Company sold or wound up in 2009.
(4) Company proportionately integrated in 2008 and fully consolidated in 2009.

1 2 3 4 5 6 7

< Contents >

4.G. Statutory Auditors' report on the consolidated financial statements

For the year ended December 31, 2009

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2009, on:

- the audit of the accompanying consolidated financial statements of Valeo;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by your Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

1. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at December 31, 2009 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the matter set out in the Note 1.1.1 to the consolidated financial statements regarding the impact of the application of IFRS 8 – "Operating Segments" on the accounts of Valeo.

1 2 3 4 5 6 7

< Contents >

2. Justification of our assessments

The assumptions and estimates used by Valeo for the preparation of the consolidated financial statements for the year ended December 31, 2009, as described in Note 1.2 to the consolidated financial statements, were determined in light of uncertainties linked to the difficulty in ascertaining the economic outlook for the automotive sector. In accordance with the requirements of article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- at each balance sheet date, the Company performs impairment tests on the amounts recorded as goodwill and also assesses whether there is any indication of impairment of fixed assets, in accordance with the methods described in Note 3.5.3 to the consolidated financial statements. We have examined the methods used to implement these tests and ensured that they take account of management's assumptions as described in the above-mentioned note;
- the Company records provisions for pensions and other employee benefit obligations in accordance with the policy described in Note 1.17 to the consolidated financial statements. Such obligations have generally been determined with the assistance of independent actuaries. We have examined the data used, assessed the assumptions adopted, and tested the calculations made.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3. Specific verification

As required by law and in accordance with professional standards applicable in France, we have also verified the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris La Défense and Neuilly-sur-Seine, February 24, 2010

The Statutory Auditors

Salustro Reydel
Member of KPMG International

PricewaterhouseCoopers Audit

Jean Gatinaud **Laurent des Places** **Jean-Christophe Georghiou** **Eric Bertier**

5 Corporate Governance

< Contents >

5.A. Report of the Chairman of the Board of Directors on the composition of the Board, the conditions in which the Board's work is prepared and organized, and the internal control and risk management procedures put in place by the Valeo Group

1 2 3 4 5 6 7

This report of the Chairman of the Board of Directors was presented to the Nomination, Remuneration and Corporate Governance Committee (as regards information relating to the composition of the Board, and the conditions in which the Board's work is prepared and organized) and to the Audit Committee (as regards information relating to internal control and risk management procedures). It was approved by the Board of Directors on February 24, 2010, in accordance with Article L.225-37 of the French Commercial Code *(Code de commerce)*.

5.A.1. Composition of the Board of Directors during the year ended December 31, 2009

The bylaws provide that the Board of Directors must have between three and 18 members appointed for a period of four years. At the beginning of 2009, the Board had 12 members.

Acting on a recommendation of the Nomination, Remuneration and Corporate Governance Committee, the Board of Directors' meeting of March 20, 2009 took note of the resignation of Thierry Morin and Pierre-Alain De Smedt from their tenures as directors of the Company. The Board appointed Jacques Aschenbroich as director to replace Pierre-Alain De Smedt for the remaining term of Mr. De Smedt's office, i.e. until the end of the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2010. This appointment was adopted in a resolution of the Shareholders' Meeting of the Company on June 9, 2009.

At its meeting of October 20, 2009, the Board of Directors accepted the resignation of Erich Spitz from his office as director of the Company, and appointed Michel de Fabiani as director to replace Mr. Spitz for the remaining term of Mr. Spitz's office, i.e. until the end of the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2010. This appointment will be submitted for approval at the Shareholders' Meeting of the Company on June 3, 2010.

At October 20, 2009, the Board of Directors had the following 11 members: Behdad Alizadeh, Jacques Aschenbroich, Gérard Blanc, Daniel Camus, Pascal Colombani, Jérôme Contamine, Michel de Fabiani, Philippe Guédon, Lord Jay of Ewelme, Helle Kristoffersen and Georges Pauget. For details of the corporate offices and duties performed by members of the Board of Directors over the last five years, see Chapter 3, section 3.0.

< Contents >

Summary of the expiry of directors' terms of office

Expiry of term of office	Directors whose term of office is due to expire
Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2009	Daniel Camus, Jérôme Contamine
Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2010	Jacques Aschenbroich, Gérard Blanc, Pascal Colombani, Michel de Fabiani, Philippe Guédon, Lord Jay of Ewelme, Helle Kristoffersen, Georges Pauget,
Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2011	Behdad Alizadeh

There are no employee-elected directors.

In accordance with the independence criteria set out in the Board's Internal Procedures, on February 24, 2010 the Board of Directors reviewed whether or not its members could still be classified as independent. In compliance with the AFEP-MEDEF's Corporate Governance for Listed Corporations (adopted by Valeo), the Board's Internal Procedures classify as independent a director who has no relations whatsoever with the Company, the Group or the Group's management that may compromise his or her ability to exercise freedom of judgment.

In particular, independence is presumed to exist when a director:

- is not an employee or a corporate officer of the Company, or an employee or director of one of its consolidated subsidiaries, and has not been in such a position for the previous five years;
- is not a corporate officer of a company in which the Company holds a directorship, either directly or indirectly, or in which an employee appointed in that role, or a corporate officer of the Company (currently in office or having held such office in the past five years), is a director;
- is not a customer, supplier, investment banker or commercial banker that is material for the Company or Group, or for which the Company or Group represents a significant portion of the business of the director concerned;
- is not related by close family ties to a corporate officer;
- has not been an auditor of the Company in the past five years;
- has not been a director of the Company for more than 12 years on the date he/she was appointed to his/her current term of office.

For directors holding at least 10% of the Company's capital or voting rights, or representing a legal entity that holds such a stake, the classification as independent takes into account the Company's share ownership structure and any potential conflicts of interest that may exist.

In application of these criteria, the Board of Directors noted that:

- one director (Pascal Colombani) holds the position of Chairman of the Board of Directors, and therefore cannot be considered independent;
- one director (Jacques Aschenbroich) holds the position of Chief Executive Officer, and therefore cannot be considered independent;
- two directors (Behdad Alizadeh and Michel de Fabiani) represent major shareholders in the Company owning more than 10% of its capital and voting rights. Given the Company's share ownership structure and the conflicts of interest that may arise, the Board does not therefore consider Behdad Alizadeh or Michel de Fabiani as independent;
- seven directors (Gérard Blanc, Daniel Camus, Jérôme Contamine, Philippe Guédon, Lord Jay of Ewelme, Helle Kristoffersen and Georges Pauget) are considered independent in light of the criteria set out in the Internal Procedures.

1 2 3 4 5 6 7

< Contents >

5.A.2. Preparation and organization of the Board of Directors' work

5.A.2.1. Internal Procedures

On March 31, 2003 the Board of Directors adopted Internal Procedures defining the operation of the Board in addition to applicable legal and regulatory requirements and the provisions of the Company's bylaws. Internal Procedures have also been drawn up for the Board's committees.

Pursuant to a decision of the Board of Directors' meeting of February 12, 2009, the Internal Procedures applicable to the Audit Committee were amended in line with Executive Order 2008-1278 of December 8, 2008 regarding statutory auditors.

The Internal Procedures applicable to the Board and those applicable to the Board's committees were amended on April 9, 2009 based on recommendations made by the Nomination, Remuneration and Corporate Governance Committee following the change in governance adopted by the Board on March 20, 2009 (separation of the roles of Chairman of the Board and Chief Executive Officer of the Company).

The Company's Internal Procedures are available on its corporate website (www.valeo.com).

5.A.2.2. Rules specific to the functioning and organization of the Board and their application

5.A.2.2.1. Average period of notice for calling Board meetings

In accordance with the Internal Procedures, each director is notified of the dates of Board meetings at the beginning of each fiscal year at the latest. The average period of notice for calling Board of Directors' meetings is approximately ten days.

5.A.2.2.2. Representation of directors

A director may be represented at Board meetings by another director. The proxy must be given in writing. During the 2009 fiscal year, four directors were represented by proxy at Board meetings.

5.A.2.2.3. Chairman of Board meetings

The Board meetings are chaired by the Chairman of the Board or, in his absence, by a Vice-Chairman or a director designated by the Board of Directors. All 11 Board meetings held during the 2009 fiscal year were chaired by the corporate officer acting as Chairman of the Board.

5.A.2.2.4. Directors' participation in Board meetings

The Internal Procedures allow directors to participate in Board meetings by any videoconferencing or telecommunications technology that enables them to be identified and ensures that they actually participate in the meeting. Accordingly, directors who take part in Board meetings through such means are deemed to be present for the purposes of calculating the quorum and majority, except at meetings dedicated to the preparation of the annual parent company and consolidated financial statements and the related management report (as provided for in Articles L.232-1 and L.233-16 of the French Commercial Code). The Chairman is required to state in the relevant notice of meeting whether these methods can be used for certain meetings. Directors wishing to participate in a Board meeting by these methods must contact the Board Secretary at least two working days before the meeting date (except in an emergency) in order to ensure that the relevant technical information can be exchanged and tests performed before the meeting takes place.

5.A.2.2.5. Frequency of Board meetings and average attendance rates of directors

In accordance with its Internal Procedures, the Board of Directors meets at least six times a year. In 2009, it met on 11 occasions.

The average attendance rate of the members of the Board of Directors (in person or via proxy) during 2009 was 94.3%. The average attendance rate of the members of the Board of Directors in person during 2008 was 89.4%.

5.A.2.3. Directors' access to information

5.A.2.3.1. Directors' access to information

Each director is given all the information required to perform his or her duties. The agenda for any upcoming Board meeting and details of issues requiring upfront analysis, are provided within a sufficient time frame (except in an emergency), and at least 48 hours before the meeting, provided that this is not incompatible with confidentiality requirements. The information provided to directors may include the Group's business plan, a market analysis for each of its main

1 2 3 4 5 6 7

< Contents >

businesses, key performance indicators used by Management, minutes of committee meetings, extracts from performance charts used by Management, information about business activity in the coming months (orders, etc.), cash flow forecasts covering at least three months and indicators used to monitor working capital.

Induction seminars on the specificities of the Company, its business lines and its industry sector are given to new directors.

5.A.2.3.2. Guests of the Board

During the year, the General Counsel (as Secretary to the Board) attended all Board meetings. The Group Financial Controller and the Vice-President, Financial Affairs and Strategic Operations respectively attended six and four Board meetings. The lawyers and bankers representing Valeo also attended certain meetings of the Board. A representative from Pardus was invited to attend the Board's meeting of January 27, 2009.

5.A.2.4. Role of the Board

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

In 2009, the Board:

- reviewed the Group's strategy, examined and approved provisional management data and the budget for 2009;
- assessed the Board's operating procedures and considered whether the directors could be considered as independent in light of the criteria in the Internal Procedures;
- reviewed in several stages the entire compensation applicable to the former Chairman and Chief Executive Officer (fixed and variable components, supplementary pension scheme and termination benefits), to bring it into line with the AFEP-MEDEF's October 2008 recommendations on executive compensation;
- approved the statutory financial statements and consolidated financial statements of the Group for fiscal year 2008;
- approved the management report and the Chairman's report on the conditions in which the Board's work is prepared and organized, and the internal control and risk management procedures put in place by the Group for 2008;
- amended the Audit Committee's Internal Procedures;
- authorized the former Chairman and Chief Executive Officer to issue sureties, endorsements and guarantees;
- authorized the former Chairman and Chief Executive Officer to issue bonds (within or outside the scope of the rollover of the EMTN program);
- took note of the resignation of Thierry Morin from his duties as Chairman and Chief Executive Officer and director of the Company, and from all of his offices within the Group's subsidiaries, with effect from March 20, 2009, and the financial terms and conditions of his departure;
- took note of the resignation of Pierre-Alain De Smedt as director, and approved the appointment of Jacques Aschenbroich as a new director for the remaining term of Mr. De Smedt's office;
- separated the positions of Chairman of the Board of Directors and Chief Executive Officer of the Company;
- appointed Pascal Colombani as the new Chairman of the Board of Directors and Jacques Aschenbroich as the Chief Executive Officer of the Company;
- defined the limits to the Chief Executive Officer's powers;
- authorized the Chief Executive Officer to issue sureties, endorsements and guarantees;
- authorized the Chief Executive Officer to issue bonds (within or outside the scope of the rollover of the EMTN program);
- established the compensation applicable to the new Chairman of the Board and Chief Executive Officer of the Company in line with the recommendations of the AFEP-MEDEF Code (adopted by Valeo); determined the variable compensation of the Chief Executive Officer, and set the performance criteria to be used as the basis to determine the compensation, indemnities and benefits due or likely to be due to the Chief Executive Officer;
- appointed a new Chairman and two new members of the Audit Committee;
- amended the Internal Procedures to reflect the separation of the roles of Chairman of the Board and Chief Executive Officer of the Company;
- reviewed the quarterly consolidated results;
- called an Ordinary and Extraordinary Shareholders' Meeting;
- decided to implement a share buyback program;
- decided, following the discovery of secret recordings of certain meetings of the Board of Directors, to recommend to the shareholders not to approve the agreements entered into between Thierry Morin and the Company on the termination of Mr. Morin's duties on March 20, 2009; following the decision of the Shareholders' Meeting of June 9, 2009 not to approve said agreements, decided to file a lawsuit against the former Chairman

1
2
3
4
5
6
7

< Contents >

and Chief Executive Officer in order to cancel the agreement entered into between the Company and Thierry Morin on March 20, 2009 on the termination of his duties, and to recover the termination benefits unlawfully received from the Company and regularly review the progress of these proceedings;

- authorized the Company to enter into a lending agreement with the European Investment Bank;
- examined the interim consolidated financial statements, reviewed forecasts for the second half of 2009, analyzed strategic transactions and considered Valeo's competitive positioning;
- considered the Chief Executive Officer's recommendation to set up a consultative committee to assist the Chief Executive Officer, and subsequently approved the committee and appointed Erich Spitz as Chairman;
- reviewed the shareholding structure, particularly as regards the Fonds Strategique d'Investissement (FSI) shareholder;
- appointed Michel de Fabiani as director to replace Erich Spitz who was resigning, for the remaining term of Mr. Spitz's office;
- reviewed the consolidated financial statements for the third quarter and examined the forecasts and projections prepared in this respect;
- decided on the principle for a new pension scheme applicable to all senior executives (Cadres Hors Catégorie) within the Valeo Group;
- decided to launch a project looking at employee motivation and commitment to the targets set by the Group; and
- modified the composition of the Audit Committee and Strategy Committee.

5.A.2.5. Committees created by the Board

In 2003, the Board created a number of committees to improve its functioning and provide effective assistance for preparing its decisions. These included the Strategy Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee.

At the Board meeting of December 14, 2006, the Nomination Committee was merged with the Remuneration Committee and the Strategy Committee was dissolved. At the Board meeting of October 20, 2008, the remit of the existing committees was extended, and the Nomination and Remuneration Committee became the Nomination, Remuneration and Corporate Governance Committee. A new Strategy Committee was also set up.

The Board therefore currently has three standing committees – the Audit Committee, the Nomination, Remuneration and Corporate Governance Committee, and the Strategy Committee.

The work of the Audit Committee, the Nomination, Remuneration and Corporate Governance Committee, and the Strategy Committee in 2009 was presented on a regular basis to the Board of Directors throughout the year in the form of reports and is summarized below.

5.A.2.5.1. Audit Committee

At the beginning of 2009 the Audit Committee had three members (Gérard Blanc, Daniel Camus Pierre and Alain De Smedt, Chairman). All three Audit Committee members were independent directors as defined by the criteria set out in the Internal Procedures.

On March 20, 2009 the Board of Directors took note of the resignation of Pierre-Alain De Smedt, and decided to appoint Daniel Camus as Chairman of the Audit Committee and Behdad Alizadeh as temporary member of the Audit Committee on April 9, 2009.

On November 17, 2009, based on a recommendation of the Nomination, Remuneration and Corporate Governance Committee, the Board of Directors established the members of the Audit Committee as Daniel Camus (Chairman), Gérard Blanc, Michel de Fabiani and Georges Pauget. The Audit Committee has remained unchanged since that date.

The Audit Committee therefore has four members including a Chairman appointed by the Board of Directors. The Chairman and the Chief Executive Officer are not members of the Audit Committee but may be invited to attend its meetings.

All of the members of the Audit Committee except Michel de Fabiani are independent as defined by the criteria set out in the Internal Procedures.

The Audit Committee's Internal Procedures were amended during the year (i) pursuant to a decision of the Board of Directors on February 12, 2009 bringing the procedures into line with Executive Order 2008-1278 of December 8, 2008 on statutory auditors, and (ii) pursuant to a decision of the Board of Directors on April 9, 2009 acting on a recommendation of the Nomination, Remuneration and Corporate Governance Committee regarding the separation of the roles of Chairman of the Board and Chief Executive Officer of the Company, as introduced by the Board's decision of March 20, 2009.

The role and responsibilities of the Audit Committee are described below.

a) As regards the financial statements, the role of the committee is to:

- monitor any issues linked to the preparation of financial and accounting information;
- ensure that the accounting policies adopted to prepare the consolidated and parent company financial statements are

1 2 3 4 5 6 7

< Contents >

relevant, consistent and properly applied, and that material transactions are accounted for appropriately at division and Group levels;

- monitor the statutory audit work on the parent company and consolidated financial statements, and at the end of the reporting period, review and give an opinion on the draft interim and annual parent company and consolidated financial statements prepared by the Financial Controller before they are presented to the Board. For this purpose, all draft financial statements and any other useful documentation and information should be provided to the Audit Committee before the Board reviews the financial statements. In examining the financial statements, the Audit Committee should also be provided with (i) a memorandum from the statutory auditors outlining the key findings and accounting options applied; and (ii) a memorandum from the Financial Controller describing the Company's risk exposure and material off balance sheet commitments. The Audit Committee meets with the statutory auditors, the Financial Controller (without General Management being present, where appropriate), and with General Management, to discuss depreciation, amortization, provisions, goodwill, consolidation principles and accounting policies, among other subjects;
- examine the draft interim financial statements, interim reports and reviews of operations and earnings prior to publication, as well as any financial statements drawn up in connection with specific transactions (contributions, mergers, market operations, interim dividend payments, etc.);
- analyze the scope of consolidation, and the reasons why certain companies may not have been consolidated;
- assess the risks to which the Company is exposed and any material off balance sheet commitments;
- review the accounting and financial treatment of acquisitions or disposals in excess of 50 million euros per transaction, based on the opinion of the Strategy Committee where appropriate, and review any key transactions which could have given rise to a conflict of interests.

b) As regards internal control, internal audit, and statutory auditors, the role of the Audit Committee is to:

- follow up on any issues that arise in relation to internal control over accounting and financial information, and monitor the process used to prepare financial information;
- check that internal procedures are defined for compiling and verifying information and for ensuring that data is reliable and reported in a timely manner, and review the statutory auditors' work plan;
- ensure that internal control and risk management systems are effective;
- meet with the people in charge of Internal Audit and Internal Control, give an opinion on how their departments are organized, and keep informed of their work program;
- have the Group's external auditors report on the conditions in which their work is carried out and on Management's comments on a regular basis;
- assess compliance with rules, principles and recommendations guaranteeing the independence of statutory auditors and monitor their independence, particularly by examining the risks to independence and the measures taken to mitigate such risks, in conjunction with the statutory auditors;
- supervise the procedure for selecting or renewing statutory audit engagements based on the best, and not the lowest, tender; express an opinion on the statutory audit fees requested; give an informed opinion on the choice of statutory auditors and inform the Board of its recommendation;
- obtain details of fees paid by the Company and the Group to the statutory audit firm and its network, and of any services provided in direct relation to the statutory audit engagement; ensure that the amount or percentage that such fees represent in relation to the audit firm's total revenues does not risk comprising the auditors' independence.

c) As regards financial policies, the role of the Audit Committee is to:

- be informed by General Management of the Group's financial position and of the methods and techniques used to define financial policy; to keep regularly abreast of the main thrusts of the Group's financial strategy;
- review upfront any documents to be published on accounting and financial matters or events liable to affect the Group's financial position or outlook;
- give an opinion on the resolutions submitted to Shareholders' Meetings relating to parent company or consolidated financial statements;
- at General Management's request, give an opinion on any resource allocation decisions which, in light of the beneficiaries or because of potential conflicts of interest, could give rise to difficulties in interpretation as to their compliance with legislative rules and the Company's bylaws;
- review any financial or accounting matter referred to it by the Chairman, the Board, General Management or the statutory auditors, as well as any conflicts of interest which are brought to its attention.

1
2
3
4
5
6
7

< Contents >

The Audit Committee liaises mainly with General Management, the Financial Controller and with the Company's statutory auditors. The committee may interview members of the Financial Control Department or the statutory auditors without the members of General Management being present, if it decides to do so and has previously notified the Chairman and Chief Executive Officer. It can also interview third parties to the Company if this is considered useful to the performance of its duties, and may meet with independent experts as and when necessary. The Audit Committee must be provided with regular summaries of internal audit reports.

The Audit Committee met five times in 2009 with an attendance rate of 93.75%.

During these meetings, the committee:

- reviewed the financial statements for the year ended December 31, 2008 and the consolidated financial statements for the six months ended June 30, 2009, involving:
  - a review of the main transactions affecting Valeo, the workforce adjustment plan, asset impairment tests, pension and other employee benefit commitments, the value of an equity interest and hedges of certain commodities,
  - meetings with the statutory auditors,
  - reports from the Financial Controller on Valeo's exposure to risks and material off balance sheet commitments;
- examined whether the Audit Committee's Internal Procedures complied with the Eighth Directive on audit regulation;
- reviewed the financial statements for the first quarter of 2009, in particular the applicable accounting standards and certain material income and expense items (restructuring costs, financial instruments, equity in net earnings of associates, change in equity excluding non-controlling interests and certain bad debt risks);
- examined the audit plan drawn up by the statutory auditors for 2009;
- analyzed material income and expense items, particularly disputes concerning the early retirement plan linked to asbestos exposure, impairment tests on goodwill and property, plant and equipment, exposure to bad debt risk on certain customers, net financial income/expense, equity in net earnings of associates, and provisions for reorganization costs and other employee-related expenses;
- interviewed the Internal Audit Director and reviewed the Internal Audit Department's activities in the first half of 2009, particularly as regards internal control and risk management;
- analyzed risk maps drawing on the findings of the audits carried out in the first half of the year;
- launched a call for bids from statutory auditors and met with several candidates;
- put forward the names of the candidates for the Company's principal statutory auditors to be put to the vote at the Shareholders' Meeting.

The Audit Committee's work was conducted in line with its objectives for the year. The statutory auditors, Group Financial Controller and Group Accounting Director facilitated the committee's work by attending all Audit Committee meetings. The committee was also assisted by the Internal Audit Department. The presentations made by the statutory auditors mainly related to the findings of their audit of the annual parent company and consolidated financial statements and their limited review of the interim financial statements. The Audit Committee did not have any reservations concerning the annual parent company and consolidated financial statements or the interim financial statements presented to it.

5.A.2.5.2. Nomination, Remuneration and Corporate Governance Committee

The Nomination, Remuneration and Corporate Governance Committee has five members, including a Chairman appointed by the Board of Directors. The committee's Internal Procedures were amended on one occasion in 2009 further to the Board of Directors' decision of April 9, 2009 based on a recommendation of the Nomination, Remuneration and Corporate Governance Committee. The Internal Procedures were amended to reflect the separation of the roles of Chairman of the Board and Chief Executive Officer of the Company, as introduced by the Board's decision of March 20, 2009.

In accordance with its Internal Procedures, the majority of the committee's members are independent Directors as defined by the criteria set out in the Internal Procedures. The acting Chairman is involved in the committee's work, except where deliberations concern the Chairman's compensation or the renewal of his term of office.

The members of the Nomination, Remuneration and Corporate Governance Committee in 2009 are the same as in 2008 (Jérôme Contamine, Behdad Alizadeh, Philippe Guédon, Lord Jay of Ewelme and Georges Pauget). All members are considered independent with the exception of Behdad Alizadeh. The committee is chaired by Jérôme Contamine.

According to its Internal Procedures, the roles and responsibilities of the Nomination, Remuneration and Corporate Governance Committee include the following:

a) concerning compensation:

1 2 3 4 5 6 7

< Contents >

- studying and making recommendations concerning the compensation paid to corporate officers (particularly in relation to the variable portion of their compensation and any benefits due),
- recommending to the Board an aggregate amount of attendance fees payable to directors and the rules for allocating amounts to each director,
- giving its opinion to the Board of Directors on the Group's general stock option policy and specific stock option grants;

b) concerning selection and appointments:

- preparing the composition of the Company's governing bodies, by making recommendations regarding the appointment of corporate officers and directors and ensuring that it is in a position to recommend to the Board possible successors should any unforeseen vacancies arise,
- reviewing the status of each director in light of the independence criteria set out in the Board's Internal Procedures;

c) concerning corporate governance:

- analyzing how the Board and its committees operate and
- assessing and updating corporate governance rules and in particular, ensuring that the assessment of the Board's operation is carried out in line with market practice.

In carrying out its duties, the committee may meet with Company and Group Executive Management teams. Where appropriate, and provided that it previously informs the Chairman of the Board and the Chief Executive Officer, it may be assisted by independent consultants.

The Nomination, Remuneration and Corporate Governance Committee met eight times in 2009 with an 87.5% attendance rate. During these meetings, the committee:

- examined the independence of directors in 2008;
- reviewed the compensation policy for the Group's key management personnel in 2009;
- played a part in the Board's self-assessment of its work for fiscal years 2008 and 2009, with the assistance of an independent consultant;
- reviewed the compensation package for the former Chairman and Chief Executive Officer;
- considered the terms and conditions surrounding the departure of the former Chairman and Chief Executive Officer, recommended that the roles of Chairman and Chief Executive Officer be separated, and appointed the current Chairman and Chief Executive Officer (approved by the Board on March 20, 2009);
- reviewed the various possible components of the compensation package for the Chief Executive Officer, and put forward recommendations concerning his fixed compensation, the calculation of his variable compensation (including the performance conditions to be met), and any other compensation applicable to the Chief Executive Officer (approved by the Board meetings of April 9 and July 29, 2009);
- reviewed the various possible components of the compensation package for the Chairman resulting from recommendations regarding the calculation of the compensation payable to the Chairman (approved by the Board meeting of April 9, 2009);
- put forward recommendations concerning the composition of the Board's special committees;
- proposed amendments to the Board's Internal Procedures, in particular to reflect the separation of the roles of Chairman of the Board and Chief Executive Officer of the Company pursuant to the Board's decision of March 20, 2009;
- recommended consulting the MEDEF's "Committee of Wise Men" as regards the Chief Executive Officer's compensation package;
- put forward a new management pension scheme applicable to all of the Group's senior executives *(Cadres Hors Catégorie)*. The principle of this new scheme was adopted by the Board of Directors on October 20, 2009;
- launched a process to find a new director to complement the Board of Directors' existing expertise.

5.A.2.5.3. Strategy Committee

The Strategy Committee was created further to a decision of the Board of Directors on October 20, 2008. Internal Procedures were drawn up for the committee in accordance with the Board's decision of December 16, 2008, based on a recommendation of the Nomination, Remuneration and Corporate Governance Committee. The Internal Procedures were not amended in 2009, and were approved as unchanged by the Board of Directors' meeting of April 9, 2009. The separation of the roles of Chairman of the Board and Chief Executive Officer of the Company effective pursuant to a Board decision of March 20, 2009 did not result in any changes to the Internal Procedures.

The Strategy Committee comprises several directors and a Chairman appointed by the Board.

At the beginning of 2009 the independent members of the Strategy Committee were Pascal Colombani, Pierre-Alain De Smedt and Helle Kristoffersen, and the non-independent members were Erich Spitz, Thierry Morin and Behdad Alizadeh. Pascal Colombani was chair of the committee. In light of his duties within the Group, the Strategy Director was appointed as permanent guest on the committee by the first Strategy Committee meeting on November 17, 2008.

1 2 3 4 5 6 7

< Contents >

On March 20, 2009 the Board of Directors took note of the resignation of Thierry Morin and Pierre-Alain De Smedt, and appointed Pascal Colombani, Chairman of the Strategy Committee, as Chairman of the Board of Directors. On April 9, 2009, acting on a recommendation of the Nomination, Remuneration and Corporate Governance Committee, the Board of Directors decided that Pascal Colombani would continue to act as Chairman of the Strategy Committee and that Chief Executive Officer Jacques Aschenbroich would be the permanent guest of the Strategy Committee without becoming a member of said committee.

On November 17, 2009, based on a recommendation of the Nomination, Remuneration and Corporate Governance Committee, the Board of Directors established the members of the Strategy Committee as Pascal Colombani (Chairman), Behdad Alizadeh, Gérard Blanc, Philippe Guédon and Helle Kristoffersen. No changes have since been made to the committee.

The Strategy Committee therefore has five members, including a Chairman appointed by the Board of Directors, along with two permanent guests, the Strategy Director and the Chief Executive Officer of the Company.

In accordance with its Internal Procedures, the Strategy Committee is responsible for reporting to the Board its opinions and recommendations on:

- the review of the Group's key strategies, market trend information, analyses of research activities, competition benchmarking and the resulting medium and long-term outlook for the business; and
- the analysis of the Group's development projects, particularly external growth transactions involving acquisitions and disposals of subsidiaries, equity investments and other assets, and any investments or borrowings in excess of 50 million euros per transaction.

In conjunction with the Chairman of the Board, the committee may invite other directors to participate in its debates or meet with any other competent person (senior management, independent consultants) to discuss matters dealt with by the committee.

The Strategy Committee met four times in 2009 with an attendance rate of 94.11%.

During these meetings, the committee:

- reviewed the Group's key strategies in terms of sustainable development and security enhancement;
- reviewed the reorganization of the Group around four Business Groups (Comfort and Driving Aid Systems, Powertrain Systems, Thermal Systems and Visibility Systems);
- discussed the Group's medium-term business plan for 2010-2013 and identified key strategic indicators; and
- organized a strategy seminar for face-to-face discussions with heads of the Business Groups.

5.A.2.6. Evaluation of the Board of Directors

In accordance with the Internal Procedures, the Board carried out a self-assessment to review its operating procedures and ensure that its meetings are properly organized. The assessment for 2009 was carried out with assistance from an independent consultant using a questionnaire. All of the directors responded to the questionnaire either in writing or orally.

The questionnaires set out to compile directors' assessments of how the Board functions, along with any suggestions they might have to improve it. The issues covered include the operation and composition of the Board, the information provided to the directors, the variety of subjects dealt with, the quality of discussions, the functioning of the Board's committees as a whole, the follow-up given to suggested improvements discussed in the previous assessment, and the results obtained following amendments to the Group's Internal Procedures.

The directors' responses were analyzed by an independent consultant and set out in a report submitted to the Nomination, Remuneration and Corporate Governance Committee meeting of January 21, 2010. The report was presented and discussed at the Board of Directors' meeting of February 24, 2010. In their responses to the questionnaire, directors said that they were very satisfied with the operation of the Board and its committees. The directors focused particularly on the sweeping changes in the Board's governance since the appointment of the new General Management team, and praised the Company's renewed transparency in its dealings with the Board.

5.A.2.7. Shareholdings and corporate actions

The Company's bylaws require each director to hold at least 100 shares throughout his or her term of office.

On accepting their position, members of the Board of Directors and the Group's executive managers agreed to a Code of Conduct in relation to trading in the Company's securities. Under the terms of the Code, directors must declare to the Group's General Counsel any transactions that they have entered into involving the Company's securities, within the five trading days following the transaction. In accordance with applicable regulations, this information must then be disclosed to the French securities regulator, *Autorité des Marchés Financiers* (AMF), and subsequently made public in accordance with the provisions of the AMF's General Regulation.

1 2 3 4 5 6 7

< Contents >

5.A.2.8. Agreements governed by Article L.225-38 of the French Commercial Code

The following agreements entered into in previous years remained in force during 2009:

- the agreements authorized by the Board of Directors at its meeting of October 18, 2004 and entered into between the Company and its Spanish subsidiaries, further to the implementation of the 2004 Valeorizon international employee stock ownership plan;
- the agreements authorized by the Board of Directors at its meeting of December 15, 2005 and entered into between the Company and the Group's operating subsidiaries in connection with trademark royalties agreements;
- the agreement authorized by the Board of Directors at its meeting of May 21, 2008 and entered into between the Company, Pardus Capital Management L.P. and Behdad Alizadeh; and
- the commitments made by the Company to the former Chairman and Chief Executive Officer Thierry Morin as regards his supplementary pension plan ("top-up" plan set up in 2002 for members or former members of Valeo's Management Board) and top-up plan with Valeo UK. These plans were amended in 2009 and are described in Chapter 3, section 3.H.4.

No regulated agreements governed by Article L.225-38 of the French Commercial Code were approved in 2009 other than the commitments disclosed in section 5.A.2.9.

A special report by the statutory auditors will be drawn up in respect of the regulated agreements described in this section.

5.A.2.9. Agreements featuring commitments given on behalf of the Chief Executive Officer, subject to the approval of the Shareholders' Meeting

A special report by the statutory auditors will be drawn up in respect of the regulated agreements described in this section.

Life insurance (Board decision dated April 9, 2009)

At its meeting of April 9, 2009, the Board of Directors decided to grant Jacques Aschenbroich life insurance in the event of death, incapacity or any accidents that may occur as a result of business travel.

Pension plan (Board decision dated October 20, 2009)

At its meeting of October 20, 2009, the Board of Directors decided that Jacques Aschenbroich would be eligible for the new top-up defined benefit pension plan applicable to the Group's senior executives (Cadres Hors Catégorie) as from January 1, 2010. The main features of this plan are described in Chapter 3, section 3.H.4.

In accordance with its decision of April 9, 2009, the Board decided to establish Jacques Aschenbroich's seniority at five years at the start of his new tenure, given his age and the fact that he was not eligible for any other supplementary pension plan.

Termination benefits and non-competition clause (Board decision dated February 24, 2010)

Acting on a recommendation of the Nomination, Remuneration and Corporate Governance Committee, and based on the opinion of the Committee of Wise Men (a body introduced by the MEDEF to oversee executive compensation practices), the Board of Directors of February 24, 2010 decided that in the event of his departure from the Group due a change in control or strategy (forced resignation or revocation of the corporate office of Chief Executive Officer), Jacques Aschenbroich would be entitled to termination benefits, except in the event of gross misconduct. The Board also decided that he would be bound by a non-competition clause in the event of his departure from the Company.

The termination benefits and compensation in respect of the non-competition clause payable to Jacques Aschenbroich in the event of his departure from the Group are described in Chapter 3, section 3.H.1.2.7.

In 2009 two agreements concerning the terms and conditions of departure for Thierry Morin, Chairman and Chief Executive Officer of the Company up to March 20, 2009, were submitted to the Shareholders' Meeting of June 9, 2009 for approval (see section 5.A.2.8.), and will not therefore be presented at the 2010 Shareholders' Meeting.

1
2
3
4
5
6
7

< Contents >

5.A.2.10. Authorization granted regarding sureties, endorsements and guarantees governed by Article L.225-35 of the French Commercial Code

Further to a decision dated March 20, 2009 based on a recommendation of the Nomination, Remuneration and Corporate Governance Committee, the Board of Directors authorized the Chief Executive Officer – and any person so designated by the Chief Executive Officer – to issue sureties, endorsements and guarantees in the Company's name up to a maximum amount of 40 million euros for a period of 12 months, and to maintain in effect the sureties, endorsements and guarantees previously issued.

The same 12-month authorization had been given to Chairman and Chief Executive Officer Thierry Morin in a decision of the Board of Directors' meeting of February 12, 2008, subsequently renewed at its meeting of February 12, 2009. This authorization became null and void when the Board decided to terminate the Chairman and Chief Executive Officer's tenure on March 20, 2009.

In 2009, no further commitments of this type were given by the Company's Chairman and Chief Executive Officer up to March 20, 2009, or have been given by the Chief Executive Officer of the Company since that date.

5.A.2.11. General management of the Company and limitations on the powers of the Chief Executive Officer

Functioning of General Management up to March 20, 2009

The Company's Board of Directors chose to combine the positions of Chairman of the Board of Directors and Chief Executive Officer in March 2003, when the structure of the Board was adopted.

This choice was reaffirmed during the year when Thierry Morin's term of office as Chairman and Chief Executive Officer was renewed.

The Chairman and Chief Executive Officer had the widest possible powers to act in any circumstances in the Company's name. He exercised his powers within the scope of the Company's corporate purpose and subject to the powers that the law specifically grants to Shareholders' Meetings and the Board of Directors. The Chairman and Chief Executive Officer also represented the Company in its relations with third parties.

However, in accordance with the Internal Procedures, the Chairman and Chief Executive Officer had to obtain the prior agreement of the Board for acquisitions or disposals of any subsidiaries, equity investments or any other assets, or for any other investments exceeding 50 million euros per transaction.

Separation of the roles of Chairman of the Board of Directors and Chief Executive Officer with effect from March 20, 2009 and reasons for this change

Acting on a recommendation of the Nomination, Remuneration and Corporate Governance Committee, at its meeting of March 20, 2009 the Board of Directors decided to separate the roles of Chairman and Chief Executive Officer. This decision was designed to (i) improve the way in which the Board operates by appointing a single person solely to chair Board meetings; and (ii) reinforcing the Board's oversight of the general management of the Company.

As from the date of said Board meeting, the Chief Executive Officer has the widest possible powers to act in the Company's name, within the limits provided for by law, the Company's bylaws or its Internal Procedures. The Chief Executive Officer also represents the Company in its relations with third parties or in any legal proceedings.

Acting on a recommendation of the Nomination, Remuneration and Corporate Governance Committee, at its meeting of March 20, 2009 the Board of Directors decided that the Chief Executive Officer must obtain the prior agreement of the Board for acquisitions or disposals of any subsidiaries, equity investments or other assets, or for any other investments exceeding 50 million euros per transaction.

This sole limitation to the powers of the Chief Executive Officer is reflected in the Internal Procedures as amended pursuant to a decision of the Board following a recommendation of the Nomination, Remuneration and Corporate Governance Committee on April 9, 2009.

5.A.2.12. Stock purchase/subscription option and performance share policy

5.A.2.12.1. Stock purchase/subscription option policy

The Board usually grants options to purchase new shares or acquire existing shares to the Group's employees and corporate officers in March and November each year. However, in 2009 the Board did not grant any stock purchase or subscription options, and in 2008, it granted stock options on one occasion only (March). Since 2005, the Company has granted only stock purchase options with no discount.

1 2 3 4 5 6 7

< Contents >

In theory, beneficiaries are chosen from among the Group's corporate officers, operational and functional directors, members of the Management Committee and the main managers reporting to them, divisional directors and the main managers reporting to them, product/process experts and high-performing junior managers.

The Board of Directors will take into consideration the AFEP-MEDEF recommendations published on October 6, 2008 regarding the compensation of executive directors of companies whose shares are admitted to trading on a regulated market when awarding stock purchase or stock subscription options. This is in line with the Board's decision of December 16, 2008 to base any future stock awards on the AFEP-MEDEF's Corporate Governance Code which incorporates these recommendations (see section 5.A.3).

In 2009, none of the Group's corporate officers or employees were granted stock options.

5.A.2.12.2. Performance share policy

No free shares have been awarded since March 2007. However, the Board of Directors has taken into consideration the AFEP-MEDEF recommendations published on October 6, 2008 regarding the compensation of executive directors of companies whose shares are admitted to trading on a regulated market. Any free share awards made pursuant to the Board of Directors' decision of December 16, 2008 will be based on the AFEP-MEDEF Corporate Governance Code, which incorporates these recommendations (see section 5.A.3).

5.A.2.13. Principles and rules adopted by the Board in respect of compensation and other benefits granted to executive directors and members of the Board of Directors in 2009

Apart from Pascal Colombani, Jacques Aschenbroich and Thierry Morin, no compensation or benefits were paid to members of the Board of Directors in 2009 other than attendance fees (see Chapter 3, sections 3.H.1., 3.H.2. and 3.H.3. for more information).

5.A.2.13.1. Basis for allocating attendance fees

In accordance with the Internal Procedures applicable to the Board of Directors and the Nomination, Remuneration and Corporate Governance Committee, the Board has powers to decide how attendance fees should be allocated. It bases its decision on the rules recommended by the Nomination, Remuneration and Corporate Governance Committee for allocating these fees and the suggested amounts payable to each director, taking into account directors' attendance rates at Board and Committee meetings.

Based on a recommendation of the Nomination, Remuneration and Corporate Governance Committee, the Board of Directors' meeting of December 16, 2008 decided on the following attendance fee allocation (NB: Behdad Alizadeh indicated that he would waive any attendance fees at the Board meeting of July 28, 2008):

(i) each director receives:
- fixed portion: 17,000 euros per year,
- variable portion: 1,900 euros per meeting,

the total is capped at 30,300 euros;

(ii) each director who is a member (but not Chairman) of a Board committee also receives:
- fixed portion: 0,
- variable portion: 1,900 euros per meeting,

the total is capped at 17,100 euros;

(iii) each director who is Chairman of a Board committee also receives:
- fixed portion: 7,000 euros per year,
- variable portion: 1,900 euros per meeting,

the total is capped at 24,100 euros.

The amount of attendance fees paid to each director during the year is disclosed in Chapter 3, section 3.H.3. It should be noted that the Company's policy is to pay the full fixed portion of attendance fees when the director's average attendance rate for Board meetings is at least 50%. Failing this, the full amount of the fixed portion will not be paid.

Since February 12, 2009, no corporate officer has received attendance fees in respect of the posts he or she holds within the Group.

Acting on a recommendation of the Nomination, Remuneration and Corporate Governance Committee, the Board of Directors' meeting of February 12, 2009 decided that attendance fees would no longer be payable to the Chairman and Chief Executive Officer for offices held within the Group. Acting on another recommendation of the Nomination, Remuneration and Corporate Governance Committee, the Board of Directors' meeting of April 9, 2009 decided that attendance fees would no longer be payable to the Chairman or to the Chief Executive Officer for offices held within the Group.

1 2 3 4 5 6 7

< Contents >

5.A.2.13.2. Compensation paid to corporate officers

The compensation packages of the Company's corporate officers are determined by the Board of Directors acting on recommendations from the Nomination, Remuneration and Corporate Governance Committee and in compliance with the AFEP-MEDEF's Corporate Governance Code.

The fixed compensation of each corporate officer was established by the Board of Directors' meeting of April 9, 2009. The decision applies for an indefinite period and there are no plans to revise it in the short term.

The variable compensation of corporate officers is determined on a case-by-case basis. No variable compensation is paid to the Chairman of the Board. The principles governing the variable compensation payable to the Chief Executive Officer have been submitted to the MEDEF's Committee of Wise Men for approval. For a description of these principles, see the management report in Chapter 3, section 3.H.1.2.2. The principles governing the variable compensation for the former Chairman and Chief Executive Officer Thierry Morin, are disclosed in Chapter 3, section 3.H.1.3.2.

No free shares or stock purchase/subscription options have been granted to the corporate officers since 2007.

No specific pension plan exists for executive directors. The Chairman is not eligible for any pension plan in connection with his corporate office. No pension plan other than the plan covering the Group's senior executives is available to the Chief Executive Officer (see Chapter 3, sections 3.H.1.2.6 and 3.H.4). However, in accordance with its decision of April 9, 2009, the Board of Directors established Jacques Aschenbroich's seniority at the start of his tenure at five years, given his age and the fact that he is not eligible for any other supplementary pension plan.

5.A.3. Corporate governance code

The Company applies AFEP-MEDEF's Corporate Governance of Listed Corporations published in December 2008. As regards rules on auditor independence, the Company refers to the French audit industry's code of ethics incorporated into Annex 8-1 of Book VIII of the regulatory section of the Commercial Code.

The following should also be noted:

- directorships are not renewed by rotation; however, when putting new directors up for appointment, the Board endeavors to strike an even balance between new and re-elected directors;
- the Internal Procedures and the bylaws require directors to hold at least 100 shares, a threshold deemed sufficient to avoid conflicts of interest;
- major internal restructuring operations are not expressly subject to the Board's prior agreement; in practice, however, the Board does debate them;
- stock purchase/subscription options and free shares outstanding at December 31, 2009 represented 7.1% of the share capital. Stripping out stock purchase options plans with a strike price systematically higher than the average acquisition cost of Valeo shares held in treasury at the time of the grant, the total number of stock subscription options and free shares outstanding at December 31, 2009 represented 2.1% of the capital. This reflects grants made before the October 2008 publication of new AFEP and MEDEF recommendations on executive compensation.

A copy of the AFEP-MEDEF's Corporate Governance of Listed Corporations (in French) can be downloaded from www.medef.com.

1 2 3 4 5 6 7

< Contents >

5.A.4. Special arrangements for General Meeting attendance

Article 26 of the Company's bylaws states that shareholders taking part in the meeting by videoconference or other telecommunications technologies that allow them to be identified in accordance with prevailing law and regulations, are deemed to be present for the purposes of computing a quorum and majority, provided the Board of Directors publishes a decision to that effect in the notice of meeting.

5.A.5. Information likely to have an impact in the event of a takeover bid

Details concerning the information likely to have an impact in the event of a takeover bid, pursuant to Article L.225-100-3 of the Commercial Code, are given in Chapter 3, section 3.J.

5.A.6. Internal control and risk management procedures

This report has been prepared based on the findings of a working group that included representatives of the Group's Internal Audit, Financial Affairs, and Legal Departments.

5.A.6.1. Definition and aims of internal control and risk management

Definition

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

- reliability of financial and management data;
- compliance with laws and regulations;
- safeguarding of assets;
- effectiveness and efficiency of operations.

As with any control system, Valeo's internal control procedures can provide reasonable but not absolute assurance that the Group's objectives will be achieved and that risks will be avoided. The purpose of the system put in place by Valeo is to reduce the probability of risks occurring and their potential impact.

Applicable standards

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

5.A.6.2. Scope of internal control and risk management

Valeo's internal control procedures are applied to the entire Valeo Group, defined as the parent company Valeo SA and all of its fully consolidated subsidiaries.

5.A.6.3. Components of Valeo's internal control and risk management procedures

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

Control environment

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

1 2 3 4 5 6 7

< Contents >

Valeo's internal control system is organized around a three-tier operational structure: Group, Business Groups/Product Families and operational divisions. The Group sets strategic guidelines, allocates resources to the Business Groups/Product Families, unlocks synergies between the businesses through functional networks and National Directorates, and analyzes and supervises the activities of the Business Groups/Product Families. The Business Groups/Product Families oversee the performance of the Group's divisions from an operational standpoint, and coordinate between the operational divisions assisted by the National Directorates, especially for pooling and allocating R&D expenditure and optimizing the output of the industrial plants. The operational divisions along with the Business Groups/Product Families manage their product lines within their designated geographical area, and they have all the resources – in terms of development, production and marketing – needed for that purpose. Each level is directly involved in implementing the internal control system. For this, the Group has established operating principles and rules with appropriate delegation of powers, starting with those of the Chief Executive Officer, which precisely define the areas and levels of decision-making for each line manager.

Valeo's policies and behavioral principles are set out in the Code of Ethics, the aim of which is to allow the Group to develop, while complying fully with national and international legal and ethical rules. The Code places major emphasis on upholding fundamental rights with respect to child labor, employment of the disabled, discrimination and harassment, and health and safety at work. It also highlights the Group's commitment to sustainable development, with respect for the environment and the relentless drive for environmental protection a priority for the Group. Finally, the Code of Ethics deals with societal issues and business conduct. Available on the intranet and translated into 19 languages, the Code has been sent out to all of the Group's employees.

Risk management assessment and procedures

Internal control concerns the ongoing identification and analysis of risks that may impact the objectives set by the Group, forming a basis for determining how those risks should be managed. By identifying possible risk factors, the Group can more accurately define what control activities are appropriate.

As part of its drive for ongoing improvement in internal control, the Group set up a Risk Committee in 2009. This committee has six permanent members (the heads of Strategic Operations, Financial Affairs, Risk Insurance Environment, Accounting, Internal Audit and Special Projects). Representatives of Legal and Human Resources Departments may also attend the Risk Committee as appropriate. The role of the Risk Committee is to properly identify and manage risks based on the risk identification and analysis process used by the functional departments, in conjunction with the Business Groups and Product Families. The risk management procedure is described below:

- the Financial Affairs Department analyzes, quantifies and manages risks arising on the Group's financial activities (mainly currency, interest rate, commodity, liquidity and counterparty risks);
- the Strategic Operations Department focuses specifically on operational risk, in particular country risk, risks arising on new products or commercial failures, and any risks resulting from guarantees;
- the Legal Affairs Department manages the Group's legal risks, and particularly those related to intellectual property (patents) and to legal action in the event of faulty products and/or services sold;
- the Risk Insurance Environment Department ensures compliance with environmental regulations, and manages risks arising from natural contingencies as well as from new products developed;
- the Human Resources Department ensures compliance with labor law.

Along with the functional divisions and National Directorates, the Business Groups and Product Families are responsible for identifying and assessing risks within their remit, and for ensuring compliance with local regulatory requirements. They are also responsible for ensuring that the guidelines and recommendations defined at Group level are properly applied throughout the operational divisions.

The main risks and the procedures for managing such risks are formally discussed in section 3.1 "Risks and uncertainties" in Chapter 3.1.

The main risks identified are:

- risks relating to the current economic environment;
- industrial and environmental risks, including risks specific to the automotive supply business, risks relating to the commercial success of vehicles produced, risks relating to the development of new products, and supplier risk. The Group is also exposed to risks arising from environmental, technological and nature-related risks;

1 2 3 4 5 6 7

< Contents >

- market risks, comprising currency, interest rate, share and commodity price risks;
- liquidity, credit and counterparty risks;
- legal risks, comprising risks relating to industrial property and risks relating to products and services provided.

These risks are analyzed in depth and are rated according to a matrix based on the likelihood of occurrence and level or control in order to determine the degree of exposure. This framework is then examined in detail and a number of action plans may be defined where necessary.

Risk maps are updated on an annual basis. The findings of the latest update were presented to the Audit Committee meeting on November 17, 2009, attended by the Chief Executive Officer and the Chief Financial Officer. A two-year audit plan was drawn up on the basis of these findings, with a focus on the most acute risk areas.

Control activities

Control activities are the policies and procedures that help ensure General Management directives are carried out. They occur throughout the organization, at all levels and in all functions.

The Group's Administrative and Financial Manual describes applicable financial and management procedures. It is used on a daily basis by all operational staff, and is split into two main parts:

- part one concerns the rules governing management and internal control;
- part two determines how the main items of the balance sheet and statement of income should be measured and presented.

Every year, the Director and Financial Controller of each Product Family and each operational division sign a letter of representation in which they undertake to ensure compliance with the financial, internal control and management rules contained in the Manual.

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

- the Constant Innovation Charter, which provides a strict definition of the management principles applicable to development projects;
- marketing procedures and sales practices;
- human resources procedures;
- purchasing procedures, aimed at integrating suppliers in order to facilitate quality control;
- the Risk Management Manual in relation to security, health and safety and the environment, together with the Insurance Manual. Valeo has undertaken to comply at a minimum with local regulations concerning safety and the environment, and with even higher standards in certain cases;
- Legal Procedures that set down the principles with which the Group must comply, mainly concerning the laws and regulations applicable in the countries where the Group operates, and compliance with the Group's contractual obligations and rules protecting the Group's intellectual property.

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

In terms of quality, Valeo has set its own standards – Valeo 1000 and Valeo 5000. In addition, the QRQC (Quick Response Quality Control) method ensures the prompt implementation of corrective action, and the Lessons Learned Cards (LLC) process enables the Group to monitor best practices and explore avenues for improvement.

Since September 2000, the Group has organized Valeo Finance Academy seminars with the aim of developing internal control and financial management skills. By combining modules (on accounting, cash flow, management control and internal control) with case studies and simulations, these yearly training sessions help the Group's younger financial managers to get better acquainted with the methods and tools used in financial control.

Information and communication

Pertinent information must be identified, captured and communicated in a form and timeframe that enable all of the Group's staff to carry out their responsibilities and perform the controls required of them. The information delivered by the management stems is analyzed and sent out every month to operational staff, and a monthly summary is presented to the Group's Operating Committee, comprising the Chief Executive Officer, the head of Strategic Operations, and 13 other functional or operational directors.

Financial Affairs is responsible for preparing the financial statements of the Company and the Group, and reports to the Chief Executive Officer. The budget and monthly reporting procedure is a critical tool for Valeo in managing its operations. Any variances can be identified, analyzed and dealt with during the year, thereby increasing the reliability of the account closing process for interim and annual financial statements. The same information system is used for the consolidation and reporting processes, thus ensuring that the Group has constant control over the preparation and processing of financial

1 2 3 4 5 6 7

< Contents >

information. The Group has put in place an integrated business software application, which is being rolled out to all of its operating units. As well as providing a structured framework, this application makes it possible to determine user profiles and monitor access controls, enabling the Group to comply with regulations concerning the separation of tasks (see section 5.A.6.4).

Organizing and monitoring the internal control system

The internal control system is supervised jointly by the Audit Committee, General Management, the Risk Committee, the functional divisions, the Business Groups/Product Families and the National Directorates.

The internal control system is audited by Valeo's Internal Audit Department, whose task is to carry out assignments within the Group to ensure that the procedures set up function properly. Based on observations made during these assignments, recommendations are put forward to the audited operating units, which are subsequently required to implement appropriate action plans. The Internal Audit team is also called upon at regular intervals to carry out audits of performance indicators, and to coordinate the updates to the Group's financial and management procedures. The Internal Audit Department's work and findings are presented each year to the Audit Committee, in accordance with that committee's Internal Procedures.

In 2009, the Internal Audit Department performed assignments relating to supplier financial default risk, commercial credit risk, and commodity hedges. It also reviewed the internal control processes of a number of divisions in emerging countries.

The functional divisions fall within the scope of Valeo's internal control procedures, and in 2009 detailed documentation was prepared in respect of the consolidation process (procedures, key controls, roles and responsibilities for the main sub-processes).

The application of Valeo's quality, industry, project management and safety standards is regularly checked via VAQ (Valeo Audit Qualité) audits, and the environmental and safety aspects are overseen by the Risk Insurance Environment Department. Valeo has launched a certification program for its manufacturing sites in accordance with the ISO 14001 standard relating to environmental management and the OHSAS 18001 standard concerning occupational health and safety. At December 31, 2009, these two standards had been awarded to 114 and 104 sites respectively, out of a total of 128 sites. The percentage of sites certified to ISO 14001 and OHSAS 18001 is therefore 89% and 81%, respectively.

Teams from the Information Systems Department audit the proper use of the integrated business software application by the operational divisions, focusing in particular on safety, information processing and the implementation of the Group's control tools.

5.A.6.4. Description of the internal control process

The Group continued to assess its internal control system during the year. Valeo now has reliable information for monitoring, measuring and assessing the relevance and correct implementation of existing internal control procedures in relation to the reliability of financial reporting by all of its operational divisions.

The approach is based on the following principles:

1) each operating unit carries out a self-assessment using a questionnaire that focuses on seven processes:

- accounts closing procedures,
- sales, receivables management and payments received,
- procurement, payables management and payments made,
- monitoring of assets,
- monitoring of inventories,
- payroll and human resources,
- cash flow.

In addition to the standard self-assessment questionnaire, which comprises 130 key control points, specific controls have been established and deployed for Valeo Service in order to take into account the risks related to the distribution of universal aftermarket parts. Smaller or start-up units are required to complete a simplified self-assessment questionnaire comprising 65 key control points relating to the seven aforementioned processes. The Group has also produced a specific questionnaire for holding companies covering 45 control points relating to five processes.

Rules relating to documentation and testing – particularly regarding the size of the sample used – have been defined to ensure uniformity between the sites. A special database of internal control best practices has been posted on the Group's intranet. In addition, Valeo leverages a tool for reporting the findings of its internal control self-assessment procedures to centralize documentation relating to the controls and tests. This tool is also used for real-time monitoring of action plans implemented to improve internal control. The Group's Internal Audit team supervises the tool, training and monitoring personnel who use it and overseeing the self-assessment process.

1 2 3 4 5 6 7

< Contents >

The results of the self-assessment campaign are submitted to the Audit Committee and the Financial Control Departments of the Business Groups/Product Families;

2) Valeo has set up a procedure aimed at reviewing user profiles and access controls for the integrated business software package deployed at most of the Group's sites. The underlying aim of this process is to establish consistent internal control practices across all operational divisions. Using matrices that show incompatibilities for each of the processes, optimized standard user profiles have been identified. Whenever the software is deployed for the first time, the Internal Audit team provides manuals and tracks incompatibility matrices, in liaison with each division.

Internal Audit carries out a half-yearly review of access to the integrated business application at all operational divisions. The review looks at sensitive transactions and key users (name and capacity), and analyzes incompatibilities and the corresponding corrective action plans. As part of improving the internal control assessment linked to the integrated business software package, the half-yearly review was supplemented in 2009 by a review of security settings and access controls.

5.A.6.5. Procedures for preparing and processing financial and accounting information for the financial statements of the Company and the Group

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

- the Group Accounting Department prepares and disseminates the accounting procedures used by the Group, making sure they are consistent with prevailing accounting standards. The Accounting Department, along with the Management Control Department, carries out regular checks to ensure that operations have been correctly recorded in the accounting books;
- the Consolidation Department (reporting to the Group Accounting Department) is responsible for preparing quarterly disclosures and half-yearly and annual consolidated financial statements under IFRS. All Group divisions send out detailed monthly information that includes an income statement, business analysis, summary balance sheet, cash flow statement, and analytical statements.

  Each half-yearly report is reviewed in-depth in accordance with detailed period-end closing instructions, which include the close schedule, changes in the scope of consolidation, classification of and movements in the main balance sheet items, the process for reconciling inter-company transactions within the Group, and the supervision of off balance sheet commitments (the divisions are required to provide an exhaustive list of their commitments and also to monitor them);
- the Management Control Department assesses the economic performance of the Group, analyzes the relevance of reported information, and prepares a summary of management indicators for General Management. Its analyses focus on sales and order summaries and an analysis of margins and EBITDA by Business Group/Product Family and by division where appropriate;
- the Taxation Department coordinates the Group's tax policy and advises the operational divisions, National Directorates and, where necessary, Business Groups/Product Families on all issues relating to tax law and also on the implementation of the tax consolidation system in France.

5.A.6.6. Outlook

The Group will pursue ongoing efforts to improve its internal control procedures, with the aim of constantly adapting its management and control tools in line with changes in its structure and objectives. It will also take on board the findings to be published in summer 2010 by the working group on audit committees set up by the AMF in October 2009.

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

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

These efforts are wholly supported by the Group's General Management team.

Pascal Colombani

Chairman of the Board of Directors

1 2 3 4 5 6 7

< Contents >

5.B. Report of the statutory auditors on the report prepared by the Chairman of the Board of Directors of the company Valeo

Report of the Statutory Auditors, prepared in accordance with Article L.225-235 of the French Commercial Code ("Code de commerce"), on the report prepared by the Chairman of the Board of Directors of the company Valeo

Year ended December 31, 2009

This is a free translation into English of a report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and the relevant professional auditing standards applicable in France.

1 2 3 4 5 6 7

To the Shareholders,

In our capacity as Statutory Auditors of Valeo, and in accordance with Article L.225-235 of the French Commercial Code ("Code de commerce"), we hereby report to you on the report prepared by the Chairman of your company in accordance with Article L.225-37 of the French Commercial Code for the year ended December 31, 2009.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report on the internal control and risk management procedures implemented by the company and containing the other disclosures required by Article L.225-37 particularly in terms of the corporate governance measures.

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information, and
- to attest that this report contains the other disclosures required by Article L.225-37 of the French Commercial Code ("Code de commerce"), it being specified that we are not responsible for verifying the fairness of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

These standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in :

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and existing documentation ;
- obtaining an understanding of the work involved in the preparation of this information and existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Board in accordance with Article L.225-37 of the French Commercial Code ("Code de Commerce").

< Contents >

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by Article L.225-37 of the French Commercial Code ("Code de commerce").

Paris La Défense and Neuilly-sur-Seine, March 17, 2010

The Statutory Auditors

Salustro Reydel Membre de KPMG International		PricewaterhouseCoopers Audit	
Jean Gatinaud	Laurent des Places	Jean-Christophe Georghiou	Eric Bertier

1 2 3 4 5 6 7

< Contents >

1
2
3
4
5
6
7

Information on the company and its capital

6

< Contents >

6.A. General information about the issuer

6.A.1. Legal provisions and company bylaws

6.A.1.1. Corporate name and registered office

The name of the Company is Valeo. Its registered office is at 43, rue Bayen, 75017 Paris, France. (tel.: +33 (0) 1 40 55 20 20).

6.A.1.2. Legal form and governing law – Corporate governance

Valeo is a joint-stock company ("*société anonyme*") with a Board of Directors. It is governed by French law, notably the provisions of Book II of the French Commercial Code and various provisions of the regulatory section of the Commercial Code.

6.A.1.3. Corporate governance

With a view to increasing the transparency of information disclosed to the public, the Company has set up a number of procedures to ensure that it complies with best corporate governance practices. Further information is provided in Chapter 6 in the report of the Chairman of the Board of Directors on the conditions for preparing and organizing the work conducted by the Board and on internal control and risk management procedures.

6.A.1.4. Date of incorporation and term

The Company was incorporated on February 10, 1923 and its term was extended for a further 99 years on February 10, 1972.

6.A.1.5. Corporate purpose

The Company's corporate purpose is as follows (Article 3 of the bylaws):

- the research and development, manufacture, sale, trading or supply of any products, equipment or services for industry and business purposes which may be manufactured, finished or developed by the Company or other Valeo Group companies or which may interest their customers;
- operations of any nature – including industrial, commercial, financial and investing activities, or acquisitions and divestments – which are directly or indirectly related to the corporate purpose or designed to facilitate the development or realization thereof.

6.A.1.6. Registration particulars

The Company is registered at the Paris Companies Registry under the number 552 030 967 RCS Paris.

6.A.1.7. Fiscal year

The Company's fiscal year covers a twelve-month period from January 1 to December 31.

6.A.1.8. Consultation of documents

The Company's press releases and annual reference documents filed with the French securities regulator, *Autorité des Marchés Financiers* (AMF) (including historical financial information relating to the Company and the Group), as well as any updates thereto can be accessed on the Company's website at www.valeo.com. Copies are also available on request from the Company's head office.

In accordance with Article 221-3 of the AMF General Regulation, the regulated information defined in Article 221-1 of said Regulations is posted on the Company's website and remains on line for at least five years after the related documents are issued.

As recommended by the AMF in its report on corporate governance and internal control issued on December 8, 2009, the Board of Directors' Internal Procedures are also posted on the Company's website. The bylaws, minutes of General Shareholders' Meetings, Statutory Auditors' reports and all other corporate documents can be consulted at Valeo's head office in accordance with the law and the Company's bylaws.

1 2 3 4 5 6 7

< Contents >

6.A.1.9. Auditors

Statutory auditors

- PricewaterhouseCoopers Audit, represented by Jean-Christophe Georghiou and Eric Bertier – 63, rue de Villiers 92200 Neuilly-sur-Seine, France
  - Member of the Compagnie régionale des Commissaires aux comptes de Versailles
  - First appointed on March 31, 2003
  - Current term of office began on April 5, 2004 and expires at the close of the General Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2009
- Salustro Reydel, Member of KPMG International, represented by Jean-Pierre Crouzet, then Laurent des Places, and Jean Gatinaud – Immeuble Le Palatin, 3, cours du Triangle 92939 Paris-La Défense Cedex, France
  - Member of the Compagnie régionale des Commissaires aux comptes de Versailles
  - First appointed on May 27, 1998
  - Current term of office began on April 5, 2004 and expires at the close of the General Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2009.

The auditors' term of office will expire at the close of the AGM called to approve the financial statements for the period ending December 31, 2009. The shareholders at the ordinary General Shareholders' Meeting that will be convened on June 3, 2010 will be asked to appoint for a six-year term that will expire at the close of the AGM called to approve the financial statements for the period ending December 31, 2015:

- Ernst & Young et Autres, represented by Jean-François Ginies and Gilles Puissochet – 41, rue Ybry, 92576 Neuilly-sur-Seine Cedex, France, member of the Compagnie régionale des Commissaires aux comptes de Versailles;
- Mazars, represented by Lionel Gotlib and David Chaudat – 61, rue Henri Régnault, 92075 Paris-La Défense Cedex, France, member of the Compagnie régionale des Commissaires aux comptes de Versailles.

Alternate statutory auditors

- Yves Nicolas – 63, rue de Villiers, 92200 Neuilly-sur-Seine, France
  - Member of the Compagnie régionale des Commissaires aux comptes of Versailles
  - First and current term of office began on April 5, 2004 and expires at the close of the General Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2009
- Philippe Arnaud – 198, boulevard Malesherbes, 75017 Paris, France
  - Member of the Compagnie régionale des Commissaires aux comptes of Paris
  - First and current term of office began on April 5, 2004 and expires at the close of the General Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2009.

The shareholders at the ordinary General Shareholders' Meeting that will be convened on June 3, 2010 will be asked to appoint for a six-year term that will expire at the close of the AGM called to approve the financial statements for the period ending December 31, 2015:

- Auditex, represented by Emmanuel Roger – Faubourg de l'Arche, 11, allée de l'Arche, 92037 Paris-La Défense Cedex, France, member of the Compagnie régionale des Commissaires aux comptes of Versailles, as alternate statutory auditor at Ernst & Young and others;
- Philippe Castagnac – 44, rue de la Faisanderie, 75116 Paris, France, member of the Compagnie régionale des Commissaires aux comptes of Paris, as alternate statutory auditor at Mazars.

6.A.1.10. Dividends

Each share entitles its holder to a proportion of income equal to the proportion of capital represented by the share.

Distributable income is composed of net income for the year less any prior year losses and amounts appropriated to the legal reserve, plus any income carried forward. Subject to the provisions of the law, shareholders in a General Meeting may decide to distribute amounts taken from available reserves and/or retained earnings. In this case, the related resolution approved by the shareholders must clearly specify the reserve account from which the distributed amounts are to be taken.

Shareholders may resolve to pay out a dividend only after approving the financial statements for the year and noting that amounts are available for distribution. Shareholders or the Board of Directors set the applicable conditions for any dividend payments.

The Board of Directors may decide to pay an interim dividend before the financial statements are approved, subject to the conditions set down by law.

At the General Meeting called to approve the financial statements, shareholders may decide to offer a stock dividend alternative representing all or part of the dividend, or interim dividend in cash or stock, as provided for by law.

Dividends unclaimed after a period of five years from the date they were made payable are paid to the French government.

1 2 3 4 5 6 7

< Contents >

6.A.1.11. Liquidation surpluses

Liquidation surpluses are allocated between the shareholders in proportion to their interests in the Company's capital.

6.A.1.12. General Shareholders' Meetings

Ordinary and Extraordinary Shareholders' Meetings are called and conduct business in accordance with the conditions set down by law.

In accordance with Article R.225-85 of the French Commercial Code, shareholders may participate in General Meetings subject to submitting evidence of ownership of their shares. Share ownership is evidenced by an entry in Valeo's share register in the name of the shareholder (or of the intermediary acting on their behalf) or in the register of bearer shares held by an accredited intermediary. Such entries must be recorded by 0.00 hours (12:00 am) (CET) on the third working day preceding the date of the Meeting. In the case of bearer shares, the accredited intermediary shall provide a participation certificate for the shareholders concerned, which must be attached to the corresponding postal voting or proxy form or to the admission card made out in the name of the shareholder or in the name of the registered intermediary representing the shareholder.

Subject to the above-mentioned conditions, all shareholders are entitled to attend General Meetings provided they have settled all capital calls related to their shares.

Shareholders who are unable to attend a meeting in person may choose one of the following three options:

- give proxy to their spouse or another shareholder;
- cast a postal vote; or
- return the signed form of proxy to the Company without naming a person to represent them, in accordance with the applicable laws and regulations.

In compliance with the conditions set down by the applicable laws and regulations, shareholders may send proxy and postal voting forms for General Meetings either in paper format or, if authorized by the Board of Directors in the notice of meeting, in electronic form.

Minutes of Shareholders' Meetings are drawn up, and copies and extracts thereof are certified and delivered, in accordance with the law.

6.A.1.13. Double voting rights

Each shareholder has a number of votes corresponding to the number of shares held or represented by proxy.

However, since the General Shareholders' Meeting of June 16, 1992, Article 23 of the Company's bylaws provides that double voting rights are attached to all fully-paid shares that have been registered in the name of the same holder for at least four years. In the case of a capital increase paid up by capitalizing reserves, income or share premiums, the new registered shares allocated to a shareholder in respect of existing shares with double voting rights will also carry double voting rights from the date of issue. Double voting rights are automatically stripped from any registered shares that are converted into bearer shares or transferred. However, registered shares are not stripped of voting rights and the above four-year qualifying period continues to run following the transfer of shares included in the estate of a deceased shareholder, or in connection with the settlement of the marital estate, or an inter vivos gift to a spouse or relative in the direct line of succession. Double voting rights may be removed at an Extraordinary Shareholders' Meeting, subject to the approval of shareholders entitled to double voting rights, at a special meeting held for that purpose.

6.A.1.14. Changes in share capital and rights attached to shares

Any changes in the Company's share capital or voting rights attached to shares are subject to the applicable law as the bylaws do not contain any specific provisions in relation to such operations.

1
2
3
4
5
6
7

< Contents >

6.A.2. Corporate governance structure

6.A.2.1. Executive Management

The Group's Executive Management team includes the Chairman, the Chief Executive Officer, and Valeo's Functional and Operational Directors on the Operational Committee. At its meeting of March 20, 2009, Valeo's Board of Directors elected to separate the role of Chairman of the Board of Directors from that of Chief Executive Officer, thus altering the corporate procedures adopted by the Board of Directors on March 31, 2003.

The Group's Chairman and Chief Executive Officer are:

(Non-executive) Chairman of the Board of Directors: Pascal Colombani

(Current term of office began on March 20, 2009 and expires at the close of the General Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2010).

In his capacity as Chairman of the Board of Directors, Pascal Colombani organizes and presides over the proceedings of the Board of Directors, and reports on Board meetings to the General Shareholders' Meeting. He ensures that the Company's governance bodies function effectively and in particular that the directors are able to perform their duties.

Chief Executive Officer: Jacques Aschenbroich

(Current term of office began on March 20, 2009 and expires at the close of the General Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2010).

In his capacity as Chief Executive Officer, Jacques Aschenbroich has the broadest ranging powers to act in any circumstances in the Company's name. He exercises these powers within the limits of the Company's corporate purpose and subject to the provisions of the law, the company's bylaws or internal regulations. The Chief Executive Officer represents the Company in its relations with third parties and the legal system. In compliance with internal regulations, the prior approval of the Board of Directors must be obtained for the acquisition or sale of any subsidiary, holding, or any other asset or investment, for a sum of more than 50 million euros.

Operational Committee

Luc Blériot

Chief Operating Officer

Michel Boulain

Vice-President, Human Resources

Robert Charvier

Chief Financial Officer

Robert de La Serve

Senior Vice-President, Valeo Service Activity

Edouard de Pirey

Vice-President, Corporate Strategy and Planning

Antoine Doutriaux

Vice-President, Visibility Systems Business Group and Vice-President, Wiper Systems Product Family

Martin Haub

Vice-President, Research & Development and Product Marketing

Hans-Peter Kunze

Senior Vice-President, Sales and Business Development

Géric Lebedoff

General Counsel

Claude Leïchlé

Deputy Vice-President, Powertrain Systems Business Group and Vice-President, Engine and Electrical Systems Product Family

Vincent Marcel

Vice-President, Special Projects

Alain Marmugi

Vice-President, Thermal Systems Business Group and Vice-President, Climate Control Product Family

Christophe Périllat-Piratoine

Vice-President, Comfort and Driving Assistance Systems Business Group and Vice-President, Interior Controls Product Family

Michael Schwenzer

Vice-President, Powertrain Systems Business Group and Vice-President, Transmissions Product Family

1 2 3 4 5 6 7

< Contents >

6.A.2.2. Board of Directors

6.A.2.2.1. Composition of the Board of Directors

The table in Chapter 3, section 3.0 the names of the members of Valeo's Board of Directors, together with their age, the date on which they were first appointed, and the start and end dates of their current terms of office. Information is also provided on the main positions that they hold outside the Company and other directorships and positions that they have held in any company during the past five years. This information is given in principle for the date of December 31, 2009, but any changes that took place between December 31, 2009 and March 1, 2010 are also specified.

The members of the Board of Directors are as follows:

Pascal Colombani is Chairman of the Board of Directors of Valeo and Senior Advisor for innovation, high technology and energy at the A.T. Kearney strategic consultancy firm. He is a member of the French Academy of Technology, a Director of Alstom, British Energy Group p.l.c., of Rhodia, Technip and Energy Solutions. In January 2000, he was appointed Managing Director of the French Atomic Energy Commission (Commissariat à l'Energie Atomique – CEA), a post that he held until December 2002. The instigator of the restructuring of the industrial holdings of the CEA and the creation of Areva in 2000, he chaired the Supervisory Board of Areva until May 2003. Between 1997 and 1999, he was the Director of Technology at the Ministry for Research.

Pascal Colombani spent close to 20 years (1978-1997) at Schlumberger in various posts, in the US and in Europe, before becoming Chairman and CEO of its Japanese subsidiary in Tokyo. He began his career at the CNRS.

Pascal Colombani is a graduate of the *École Normale Supérieure* de Saint-Cloud, and holds the aggrégation in physics (1969) and a doctorate in science (1974).

Jacques Aschenbroich is the Chief Executive Officer and a member of the Board of Directors of Valeo. He graduated in engineering from the *École des Mines*. He held several posts in the French administration, including serving in the Prime Minister's Office in 1987 and 1988. He then pursued an industrial career in the Saint-Gobain group from 1988 to 2008. After having managed subsidiaries in Brazil and Germany, he became Managing Director of the Flat Glass Division of the Compagnie de Saint-Gobain and went on to become President of Saint-Gobain Vitrage in 1996. Then as Senior Vice-President of the Compagnie de Saint-Gobain from October 2001 to December 2008, he managed the flat glass and high performance materials sectors as from January 2007 and, as the Vice-Chairman of the Saint-Gobain Corporation and General Delegate to the United States and Canada, he directed the operations of the group in the United States as from September 1, 2007. Jacques Aschenbroich was also a director of Esso S.A.F. until June 2009.

Behdad Alizadeh President of Pardus Europe S.A.S., was a Partner at Pardus Capital Management L.P. up to 2008. He is also a member of the Supervisory Council of Atos Origin and a member of the Board of Governor's Committee on Scholastic Achievement.

A US national, he holds an MBA from Columbia Business School (1988) and a BS in economics from New York University (1984).

Has 20 years of experience in the financial services industry. Before joining Pardus, he was a managing director in charge of the Merchant Banking division of the Bank of New York (BNY) from 1998 to early 2007. He was responsible for strategic management of BNY relations with investment capital companies. Behdad Alizadeh was partner-manager of BNY Mezzanine Partners L.P., an alternative investment company set up to invest directly in unlisted companies. He also managed BNY investments in investment capital companies. Between 1995 and 1998, Mr. Alizadeh was managing director in charge of private investments with Patricof & Co. Capital Corp., a company bought out by BNY in 1998. Before joining Patricof, he worked for seven years at Bankers Trust Company, where he specialized in operations involving mergers-acquisitions, investment capital and advice on restructuring.

Behdad Alizadeh has also been a member of the Board of Directors of Caliber Collision Centers and Mid West Wholesale Distribution.

Gérard Blanc is Chairman and CEO of Marignac Gestion SAS and a Director of Sogeclair. Earlier in his career he held the position of Executive Vice President, Programs at Airbus until 2003 when he was appointed Executive Vice-President, Operations, a position he held until 2005.

Gérard Blanc graduated from HEC business school in Paris in 1965.

Daniel Camus is Group Executive Vice President in charge of International Activities and Strategy at the EDF Group, after having been Chief Financial Officer in charge of finance and international development since 2002, after working in the chemicals and pharmaceuticals industry for 25 years within the Hoechst-Aventis group in Germany, the United States, Canada and France. He is Chairman of the Board of EDF International, a director of EDF Energy (UK) and a member of the Supervisory Board of EnBW (Germany). Outside of the EDF Group, Daniel Camus is also a member of the Supervisory Boards of Dalkia SA, Morphosys (Germany) and SGL Carbon (Germany).

He is a graduate of the Paris Political Studies Institute *(Institut d'Études Politiques de Paris)* and holds a doctorate in Economics and the *aggrégation* in management sciences.

Jérôme Contamine has been Executive Vice-President and Chief Financial Officer of Sanofi-Aventis since March 16, 2009. He joined Veolia in 2000 as Executive Vice-President, Finance, before

1
2
3
4
5
6
7

becoming Executive Vice-President responsible for cross-functional activities in 2002 and Senior Executive Vice-President of Veolia Environnement in 2003 until January 16.

Between 1988 and 2000, he held several financial posts within the Elf group including Financing and Treasury Director (1991 to 1994), Deputy Director, Europe and the USA for the Exploration and Production Division, and CEO of Elf Norway (1995-1998). In 1999 he was appointed Director of the integration group with Total, tasked with reorganizing the new merged entity, TotalFinaElf, and in 2000 became Vice-President of Continental European and Central Asian Operations for the Exploration and Production Division of Total (2000).

Jérôme Contamine graduated from *École Polytechnique* and *École Nationale d'Administration* and is a special advisor to the French Audit Commission (Cour des Comptes).

Michel de Fabiani is the first Frenchman to become President, in 2005 and again in 2009, of the Franco-British Chamber of Commerce and Industry, an institution founded in 1873 to promote and develop business and trade between France and the United Kingdom.

He is also a Member of the Board of BP France, the Rhodia Group, the Vallourec Group and EB Trans/Luxembourg. In addition, he is Chairman of the Board of British Hertford Hospital Corporation in Levallois and Founding President of the Cercle Économique Sully and of the Association for the Promotion of Ecological Vehicles.

Michel de Fabiani is a native of Lyon, where he completed his secondary education before attending the *École des Hautes Études Commerciales de Paris* (class of 1967).

After joining the BP Group in 1969, he held a number of positions in the Nutrition, Chemicals, Finance and Oil sectors in Milan, Paris and Brussels. In May 1995, Michel de Fabiani was named Chairman and CEO of BP France. In September 1997, he was appointed CEO of the BP/Mobil Joint Venture in Europe and in 1999, President Europe of the BP Group and Vice-President of Europia (European Oil Industry Association) in Brussels until 2004, when he left his executive functions after 35 years with the BP Group.

Philippe Guédon has been Managing Partner of Espace Développement since 2003.

He joined Simca in 1956 as an After-Sales Service Engineer and went on to become a Research Engineer until 1965. He then joined Matra, where he also held the post of Research Engineer, and subsequently Technical Director until 1983. In that year he was appointed Chairman and Chief Executive Officer of Matra – a post he occupied until 2003.

Philippe Guédon was the designer of the Matra 530, the Bagheera, the Rancho, the Murena, the Espace and the Avantime.

He graduated as an engineer from the Arts et Métiers school in Angers, France in 1956.

Lord Jay of Ewelme is an independent member of the House of Lords in the United Kingdom. He is also a non-executive Director of Associated British Foods (ABF) and Candover Investments Plc, Chairman of the House of Lords Appointments Commission, Chairman of the international medical charity Merlin, Vice Chairman of Business for New Europe and a Director of Crédit Agricole.

Lord Jay was also a member of the European Sub-Committee on EU law and Institutions and the House of Lords select committee on international institutions. He is also a member of, GLOBE, an interparliamentary group on climate change.

Between 2002 and 2006 he held the position of Permanent Under-Secretary at the United Kingdom Foreign Office and in this role was Head of the Diplomatic Service.

In 2005 and 2006 he served as the UK Prime Minister's personal representative at the G8 summits at Gleneagles and St. Petersburg.

Lord Jay of Ewelme is an Honorary Fellow of Magdalen College, Oxford.

Helle Kristoffersen has been Senior Vice-President, Vertical Markets, at Alcatel-Lucent since January 1, 2009. Until December 31, 2008, she was Vice-President, Corporate Strategy and Secretary of the Strategy Committee of the Alcatel-Lucent group, previously Alcatel group, which she joined in 1994 as Head of Financial Operations.

Between 1989 and 1991 she worked as an analyst in the mergers and acquisitions department at Banque Lazard & Cie before joining the Bolloré group where she held the following positions: Deputy Financial Director responsible for mergers and acquisitions, Head of Operational Strategy for the Maritime Division and Head of Mergers and Acquisitions reporting to the Chairman and CEO.

Helle Kristoffersen is a graduate of *École Normale Supérieure* and of *École Nationale de la Statistique et de l'Administration Économique* (ENSAE). She also holds a Masters degree in Econometrics from Sorbonne University Paris I.

Georges Pauget has spent his entire career with the Crédit Agricole group where he held the positions of Chief Executive Officer and Chairman of the Executive Committee from September 2005 to March 1, 2010. He became Chairman of Amundi Group in December 2009, and is also a member of the Board of Directors of Paris-Europlace and a member of the Executive Committee of the French Banking Federation (FBF).

Earlier in his career, he held the positions of permanent representative of Crédit Agricole SA on the Supervisory Board of Fonds de Garantie des Dépôts, Chief Operating Officer, member of the Executive Committee and Director of the Regional Banks division of Crédit Agricole S.A.

< Contents >

He has also been Chairman of the Board of Directors of LCL – Le Crédit Lyonnais, Chairman of the Board of Directors of Calyon, until March 2010, Chairman of the Executive Committee of LCL – Le Crédit Lyonnais, and permanent representative of LCL – Le Crédit Lyonnais to the Fondation de France, Chairman of the Executive Committee of the French Banking Federation (FBF) until September 2009, and Chairman of the Union des Assurances Fédérales,

Georges Pauget was awarded a doctorate in Economics from the University of Bordeaux in 1975 and holds a Masters in Economics (with an econometrics option) from the University of Lyon.

6.A.2.2.2. Declarations concerning members of the Board of Directors

To the best of the Company's knowledge, there are no family ties between the members of the Board of Directors.

As far as the Company is aware, in the past five years no member of the Board of Directors has (i) received a conviction for a fraudulent offence; (ii) been involved in any bankruptcies, receiverships or liquidations, (iii) been issued any official public incriminations and/or sanctions by statutory or regulatory authorities (including designated professional bodies); or (iv) been disqualified by a court of law from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

As far as the Company is aware, none of the members of the Board of Directors has agreed to any restrictions concerning the disposal of their interests in the Company's share capital within a certain period of time, other than the restrictions set down by the applicable laws and regulations or the Company's bylaws.

Independently of the agreement signed between Valeo, the Pardus Capital Management L.P. fund ("Pardus") and Behdad Alizadeh, described in Chapter 3 section 3.J.4.2 of this reference document, and the declarations of FSI, described in Chapter 3, section 3.J.4.1, no arrangement or agreement has been signed with the main shareholders, or with customers or suppliers, in which one of them is selected to become a director of Valeo or a member of the management team.

To avoid possible conflicts of interest for Pardus, owing in particular to its stake in Visteon, Pardus makes a commitment as part of the agreement signed on May 21, 2008, not to seek any representation in management bodies of any company with activities similar to or in competition with Valeo, and in particular in Visteon and Delphi. Further, Pardus has agreed that its representative on the Board of Directors will not vote or participate in any deliberations of the company's Board of Directors during which relations between Valeo and Visteon are discussed. Moreover, Pardus will not acquire more than 10% of the capital or voting rights of any Valeo competitor (without prejudice to its shareholding in Visteon).

6.A.2.2.3. Conflicts of interest

Some corporate officers hold posts as managers and/or corporate officers in groups that could sign contracts with Valeo in connection with commercial and/or financial operations (as financial advisors and/or underwriters and/or lenders). In so far as these contracts are negotiated and signed in normal conditions, there is no conflict of interest, to the best of the Company's knowledge, between the duties of these corporate officers to Valeo and their private interests and/or other duties.

6.A.2.2.4. Service contracts between the members of the Board of Directors and the Company or any of its subsidiaries

Independently of the regulated agreements described in Chapter 5, section 5.A.2.8, no service contracts have been entered into between the members of the Board of Directors and the Company or any of its subsidiaries providing for the granting of benefits.

6.A.2.3. Organization and operation of the Board of Directors

On March 31, 2003 the Company's Board of Directors adopted a set of Internal Procedures, which have since been amended. The last change took place on April 9, 2009.

These Internal Procedures define the Board's operating methods and the rules to be followed when appointing Board members. They are applied alongside the provisions set down by law, the applicable regulations and the Company's bylaws.

6.A.2.3.1. Composition of the Board and appointment of Directors

The Company's bylaws provide that the Board of Directors must comprise at least three and no more than eighteen members (subject to any amendments in line with changes in the applicable law). The Board of Directors had 12 members at the beginning of the 2009 financial year, and currently has 11 members. There are no Directors elected by employees or any non-voting Directors.

Directors are appointed by shareholders in a General Meeting on the recommendation of the Board of Directors, which in turn receives proposals from the Nomination, Remuneration and Corporate Governance Committee.

1 2 3 4 5 6 7

< Contents >

Members of the Board are appointed for renewable four-year terms which expire at the close of the General Shareholders' Meeting called to approve the accounts for the year in which their terms expire. Where one or more seats on the Board become vacant due to the death or resignation of any member or members, the Board of Directors may appoint new members on a temporary basis until the next General Shareholders' Meeting, in accordance with the applicable legislation. The term of office of the Chairman may not exceed his term of office as a Director.

The proportion of Board members over the age of 70 may not exceed one-third. This age limit applies both to individuals and to permanent representatives of legal entities holding directorships. The Chairman's term of office expires at the latest at the close of the General Shareholders' Meeting held to approve the financial statements for the year in which he reaches his seventieth birthday.

Directors may be removed from office by shareholders in a General Meeting at any time.

6.A.2.3.2. Roles and responsibilities of the Board of Directors

The Board of Directors represents all shareholders. It determines the Company's overall business strategies and oversees their implementation. Subject to the powers directly vested in General Shareholders' Meetings and within the limits of the corporate purpose, the Board of Directors deals with any issues relating to the efficient functioning of the Company and makes any and all decisions relating thereto. The Board devotes one meeting per year to reviewing the Group's overall industrial and financial strategies.

The Chairman convenes meetings of the Board as often as required in the general interest of the Company and at least six times a year. The dates for the meetings are issued at the beginning of each fiscal year at the latest. In 2009, the Board of Directors held eleven meetings with a 94.30% average attendance rate (in person or by proxy).

Board meetings are chaired by the Chairman of the Board or, in his absence, by any Director who has been temporarily authorized to chair Board meetings or a Vice-Chairman.

Board meetings are only validly constituted if at least half of the members are present or deemed present (in accordance with the law and the Company's bylaws), excluding members attending by proxy. Decisions are taken based on a majority vote of the members present, deemed present, or represented, in accordance with the law and the Company's bylaws. Each member who is present or represented has one vote and each member present may only represent one other member. In the case of a split decision, the Chairman has the casting vote.

Minutes are drawn up after each Board Meeting, which are signed by the Chairman and one other Director.

In accordance with its Internal Procedures, the Board of Directors includes an assessment of Board performance on the agenda of one meeting per year. For 2009, this assessment was performed in January and February 2010. A detailed questionnaire was sent to all Directors concerning their assessment of the way in which the Board operates and suggestions for improvement. The topics covered included the operation and composition of the Board, Directors' access to information, the choice of issues discussed, the quality of the discussions, and the general running of the Board Committees.

The Directors' replies were analyzed by an outside consultant and the findings presented at the Nomination, Remuneration and Corporate Governance Committee meeting held on January 21, 2010. The report was also presented and discussed at the Board meeting held on February 24, 2010. The results of this assessment are provided in the report of the Chairman of the Board of Directors on the conditions for preparing and organizing the work conducted by the Board and on internal control and risk management procedures, set out in Chapter 5, section 5.A.2.6.

6.A.2.3.3. Directors' rights and duties – Compensation

The Board's Internal Procedures impose certain duties on Directors in order to ensure that they are aware of the rules and regulations applicable to them, that conflicts of interest are avoided, that they dedicate the necessary time and attention to their duties and respect the applicable law relating to multiple directorships.

Members of the Board of Directors are also responsible for ensuring that they have all the necessary information to carry out their duties. To this end, the Chairman provides Directors with the data and documents required in order for them to fully perform their duties.

As compensation for the work carried out by Directors, shareholders in a General Meeting may grant an annual fixed amount of attendance fees which may be freely allocated by the Board among its members. The Board may also grant Directors exceptional compensation for specific assignments or tasks entrusted to them. The Board of Directors is responsible for setting the Chairman's compensation.

Article 14 of the Company's bylaws stipulates that each Director must hold at least 100 Valeo registered shares throughout his or her term of office.

On accepting their position, each member of the Board of Directors and the Group's Executive Management team agrees to a Code of Conduct in relation to trading in the Company's securities. This Code

1
2
3
4
5
6
7

< Contents >

sets out the legal and regulatory provisions applicable to them in relation to declaring transactions concerning those securities.

It also specifies the periods during which members of the Board and the Group's Executive Management team are prohibited from trading in the Company's securities and recalls the fact that they may not carry out any such transactions based on insider information.

6.A.2.4. Board Committees

The Board of Directors has set up committees in order to enhance its operation and provide assistance with preparing its decisions.

The Board currently has three standing committees – the Audit Committee, the Nomination, Remuneration and Corporate Governance Committee, and the Strategy Committee.

Further details relating to the composition and running of these standing committees are provided in the report of the Chairman of the Board of Directors on internal control procedures and the preparation and organization of the Board's work in Chapter 5, section 5.A.2.5.

1 2 3 4 5 6 7

< Contents >

6.B. Fees paid by the Group to the Auditors and members of their networks

2009 (in millions of euros)	**PricewaterhouseCoopers**	**%**	**KPMG**	**%**
Audit				
Issuer	0.0		0.1	
Consolidated subsidiaries	4.2		2.1	
Statutory audit and contractual audits	**4.2**		**2.2**	
Issuer	0.0		0.0	
Consolidated subsidiaries	0.1		0.1	
Audit-related services	**0.1**		**0.1**	
SUB-TOTAL AUDIT	**4.3**	**90%**	**2.3**	**88%**
Other services provided by members of the Auditors' networks to consolidated subsidiaries				
Legal and tax advisory services	0.4		0.3	
Other	0.1		0.0	
SUB-TOTAL OTHER SERVICES	**0.5**	**10%**	**0.3**	**12%**
TOTAL	**4.8**	**100%**	**2.6**	**100%**

2008 (in millions of euros)	**PricewaterhouseCoopers**	**%**	**KPMG**	**%**
Audit				
Issuer	0.0		0.0	
Consolidated subsidiaries	4.5		2.2	
Statutory audit and contractual audits	**4.5**		**2.2**	
Issuer	0.0		0.3	
Consolidated subsidiaries	0.9		0.2	
Audit-related services	**0.9**		**0.5**	
SUB-TOTAL AUDIT	**5.4**	**89%**	**2.7**	**87%**
Other services provided by members of the Auditors' networks to consolidated subsidiaries				
Legal and tax advisory services	0.7		0.4	
Other	0.0		0.0	
SUB-TOTAL OTHER SERVICES	**0.7**	**11%**	**0.4**	**13%**
TOTAL	**6.1**	**100%**	**3.1**	**100%**

< Contents >

6.C. General information on the Company's capital

6.C.1. Changes in Valeo's share capital

At December 31, 2009, Valeo's share capital totaled 234,628,851 euros, represented by 78,209,617 common shares with a par value of 3 euros each, all in the same class and all fully paid-up. The Valeo share is quoted on the Euronext Paris.

To the best of the Company's knowledge, none of these shares have been pledged.

Changes in the Company's capital since December 31, 2004 are as follows:

		Changes (in millions of euros)				
Year	**Type of operation**	**Par value**	**Premium**	**Total**	**Number of shares**	**Total number of shares**
2005	Issuance of shares on exercise of stock options	-	1	1	51,333	
	Capital reduction further to public tender offers	(19)	(233)	(252)	(6,250,000)	77,510,357
2006	Issuance of shares on exercise of stock options	-	2	2	70,260	77,580,617
2007	Issuance of shares on exercise of stock options	2	15	17	629,000	78,209,617
2008	-	-	-	-	-	78,209,617
2009	-	-	-	-	-	78,209,617

In 2005, Valeo bought back 6,250,000 shares from the Company's shareholders, at a price of 40 euros each, representing approximately 7.5% of the Company's capital. The shares were purchased at a price of 40 euros per share under a public share buyback offer and a simplified public tender offer, described in an information memorandum registered with the AMF on April 28, 2005 under number 05-323. The offer period ended on June 3, 2005 and on June 20, 2005 the Board of Directors canceled the acquired shares and reduced the Company's capital by 18,750,000 euros, representing the par value of the shares.

< Contents >

6.C.2. Authorized, unissued capital

Authorizations granted	Maximum amount of issue	Utilization of authorizations during the year
1. Authorizations to increase capital with pre-emptive rights		
Issuance of shares and/or share equivalents (A) AGM of June 9, 2009 – 8th resolution (authorization given for a maximum of 26 months, expiring on August 9, 2011)	40 million euros (A)+(B)+(C)+(D)+(E) combined ceiling = 132 million euros	None
Capital increase paid-up by capitalizing income, retained earnings or additional paid-in capital (B) AGM of June 9, 2009 – 10th resolution (authorization given for a maximum of 26 months, expiring on August 9, 2011)	40 million euros included in combined ceiling	None
2. Authorizations to increase capital without pre-emptive rights		
Issuance of shares and/or share equivalents (C) AGM of June 9, 2009 – 9th resolution (authorization given for a maximum of 26 months, expiring on August 9, 2011)	47 million euros included in combined ceiling	None
Issuance of shares to members of the employee stock ownership plan (D) AGM of June 9, 2009 – 12th resolution (authorization given for a maximum of 26 months, expiring on August 9, 2011)	5 million euros included in combined ceiling	None
3. Authorizations to increase capital with or without pre-emptive rights		
Overallocation option as part of an issuance of shares with or without pre-emptive rights (E) AGM of June 9, 2009 – 11th resolution (authorization given for a maximum of 26 months, expiring on August 9, 2011)	Issuance limited to 15% of the initial issuance Included in the ceiling applicable to the initial issuance and in the combined ceiling	None

6.C.3. Other securities giving access to the capital

6.C.3.1. Bonds convertible into new shares and/or exchangeable for existing shares (OCEANE)

Under the terms of the authorization granted by the General Shareholders' Meeting of June 10, 2002 (and confirmed on March 31, 2003 when the Company's management structure was changed), on July 25, 2003 Valeo issued 9,975,754 bonds convertible into new shares and/or exchangeable for existing shares (OCEANEs) with a nominal value of 46.40 euros each, representing an aggregate nominal value of 462,874,985.60 euros.

These bonds – which mature on January 1, 2011 – are quoted on the Euronext Paris. They bear interest at 2.375% per annum and since August 4, 2003 may be exercised at any time. The bond issue is described in detail in the prospectus registered with the *Commission des Opérations de Bourse* on July 25, 2003 under number 03-707.

On June 20, 2005, the Board of Directors adjusted the exercise conditions of the OCEANE bonds following the public share buyback offer and simplified public tender offer carried out in May and June 2005, which resulted in Valeo purchasing its own shares at an amount higher than the publicly quoted price. This adjustment was made in order to maintain the rights of the bondholders in accordance with Article R.228-90 of the French Commercial Code and with the OCEANE bond issue contract. Consequently, the conversion/exchange ratio applicable to the OCEANE bonds was amended from 1 share for 1 bond to 1.013 share for 1 bond.

On February 20, 2010, all of the OCEANE bonds were outstanding and were convertible and/or exchangeable for 10,105,439 shares, taking into account the adjustment due to the public share buyback offer and simplified public tender offer.

1 2 3 4 5 6 7

< Contents >

6.C.3.2. Stock option plans and allotment of free shares

The policy governing the allocation of stock options, and the policy on the allotment of free shares, are described in Chapter 5, section 5.A.2.12.

The table below presents the stock option plans set up since 2000.

Options to subscribe for shares, plans in force at December 31, 2009

Shareholders' Meetings			Plan characteristics				Options awarded				
Date of Shareholders' Meeting	No. of options	Term	Date[1]	Exercise price	No. of grantees	No. of options	o/w granted to corporate officers	o/w granted to exec. mgrs and corp. officers	o/w granted to exec. mgrs excl. corp. officers	o/w to top ten grantees[2]	Conditional options
05/25/2000	800,000	8 years	03/21/2001	€55.82	2	80,000	80,000	50,000	0	0	0
			12/07/2001	€42.48	5	600,000	600,000	200,000	0	0	300,000
05/09/2001	1,000,000	8 years	12/10/2001	€42.69	213	442,875	0	0	140,000	118,000	0
06/10/2002	1,500,000	8 years	07/01/2002	€43.84	699	420,000	0	0	2,500	96,700	0
			11/25/2002	€28.30	229	600,000	0	0	159,500	107,500	0
			03/31/2003	€23.51	755	700,000	160,000	100,000	52,750	44,000	0
03/31/2003	1,500,000	8 years	11/06/2003	€32.91	1,005	780,000	61,000	61,000	117,766	77,395	0
04/05/2004	1,500,000	8 years	11/08/2004	€28.46	1,094	1,123,200	160,000	160,000	169,600	134,400	0
TOTAL STOCK SUBSCRIPTION OPTIONS						**4,746,075**	**1,061,000**	**571,000**	**642,116**	**577,995**	**300,000**

(1) Date of Board of Directors'/Supervisory Board/Management Board Meeting.
(2) Including directors who are not corporate officers.

In accordance with Article R.225-138 of the French Commercial Code, following the public share buyback offer and simplified public tender offer, on June 20, 2005 the Board of Directors adjusted the number of shares underlying the Company's stock options. As a result, the exercise ratio was raised from 1 share for 1 stock option to 1.01 share for 1 stock option, with the number of shares to be allocated on the exercise of options rounded up to the nearest whole number.

At December 31, 2009, 3,852,385 stock purchase options were outstanding, exercisable for 3,856,730 existing shares (including 4,345 related to the public share buyback offer and simplified public tender offer). In addition, 1,582,034 stock subscription options were outstanding, exercisable for 1,598,323 new shares (including 16,289 related to the public share buyback offer and simplified public tender offer).

Impact	Exercise date and conditions		Number of options							
of tender offers (56,330 at June 21, 2005)	Start of exercise period	Expiry date	Options outstanding at 12/31/2008	Exercised in 2009 (year)	Exercised at 12/31/2009 (cumulative total)	Cancelled in 2009 (year)	Cancelled at 12/31/2009 (cumulative total)	Options outstanding at 12/31/2009	No. of shares to be subscribed or purchased (options +tender offers)	Residual grantees
800	100% immediate	03/20/2009	80,000 800	0	0	80,000 800	80,000 800	0 0	0	0
3,000	50% immediate; 50% cond.	12/06/2009	300,000 3,000	0	0	300,000 3,000	600,000 3,000	0 0	0	0
3,455	50%-2 years; 100%-3 years	12/09/2009	258,850 2,604	0	0	258,850 2,604	442,875 3,455	0 0	0	0
2,724	50%-2 years; 100%-3 years	06/30/2010	186,300 1,863	0	0	14,100 141	247,800 1,002	172,200 1,722	173,922	348
4,568	50%-2 years; 100%-3 years	11/24/2010	110,960 1,109	0 0	274,790 2,596	10,000 100	224,250 963	100,960 1,009	101,969	41
6,022	50%-2 years; 100%-3 years	03/30/2011	228,390 2,300	0 0	309,915 2,987	12,560 128	174,255 863	215,830 2,172	218,002	208
7,185	50%-2 years; 100%-3 years	11/05/2011	413,327 4,615	0 0	91,508 924	22,703 256	297,868 1,902	390,624 4,359	394,983	445
10,682	50%-2 years; 100%-3 years	11/07/2012	748,720 7,490	0 0	67,200 673	46,300 463	353,580 2,982	702,420 7,027	709,447	649
38,436			**2,326,547 23,781**	**0 0**	**743,413 7,180**	**744,513 7,492**	**2,420,628 14,967**	**1,582,034 16,289**	**1,598,323**	

< Contents >

Options to purchase shares, plans in force at December 31, 2009

Shareholders' Meetings			Plan characteristics				Options awarded				
Date of Shareholders' Meeting	No. of options	Term	Impact of tender offers (56,330 at June 21, 2005)	Exercise price	No. of grantees	No. of options	o/w granted to corporate officers	o/w granted to exec. mgrs and corp. officers	o/w granted to exec. mgrs excl. corp. officers	o/w to top ten grantees[2]	conditional options
03/31/2003	1,500,000	8 years	11/06/2003	€32.91	1,005	500,000	39,000	39,000	75,484	49,605	0
04/05/2004	1,500,000	8 years	11/08/2004	€32.74	1,094	280,800	40,000	40,000	42,400	33,600	0
05/03/2005	4,500,000	8 years	11/17/2005	€32.32	1,082	650,000	0	0	94,300	48,900	0
			03/03/2006	€33.75	2	187,000	150,000	150,000	37,000	0	0
			11/20/2006	€32.63	1,298	1,309,250	0	0	251,000	175,000	0
			03/07/2007	€36.97	2	250,000	200,000[i]	200,000[i]	50,000	0	0
			11/15/2007	€36.82	1,330	1,677,000	150,000[i][ii]	150,000[i][ii]	350,000[ii]	230,000[ii]	174,250[ii]
			03/20/2008	€31.41	596	426,750	0	0	0	78,000	0
TOTAL STOCK PURCHASE PLANS						**5,280,800**	**579,000**	**579,000**	**900,184**	**615,105**	**174,250**

(1) Date of Board of Directors/Supervisory Board/Management Board meeting.
(2) Including directors who are not corporate officers.
(i) Stock purchase options subject to the holding period described in Chapter 3 section 3.H.1.5 of the 2008 registration document.
(ii) Of which conditional (50% for the Chairman and COO and 25% for other directors) subject to the Group achieving an operating margin of at least 3.8% of operating revenue 2009 with proportional and linear allocation of between 3.8% and 4.1%.

Free share grant plans in force at December 31, 2009

Shareholders' Meetings		Plan characteristics			Shares awarded				
Date Of Shareholders' Meeting	No. of shares	Date[1]	No. of grantees	No. of shares	o/w granted to corporate officers	o/w granted to exec. mgrs and corp. officers	o/w granted to exec. mgrs exc. corp. officers	o/w granted to top ten grantees[2]	Conditional awards
05/03/2005	4,500,000	11/17/2005	1,082	600,000	0	0	141,450	73,350	300,000
		03/03/2006	2	63,000	50,000	50,000	13,000	0	36,500
		11/20/2006	116	100,000	0	0	0	18,500	0
		03/07/2007	155	100,000	0	0	0	0	0
TOTAL SHARE GRANTS				**863,000**	**50,000**	**50,000**	154,450	**91,850**	336,500

(1) Date of Board of Directors/Supervisory Board/Management Board meeting.
(2) Including directors who are not corporate officers.

1 2 3 4 5 6 7

< Contents >

Impact	Exercise date and conditions		Number of options							
of tender offers (56,330 at June 21, 2005)	Start of exercise period	Expiry date	Options outstanding at 12/31/2008	Exercised in 2009 (year)	Exercised at 12/31/2009 (aggregate)	Cancelled in 2009 (year)	Cancelled at 12/31/2009 (aggregate)	Options outstanding at 12/31/2009	No. of shares to be purchased (Options + tender offers)	Residual grantees
4,263	50%-2 years; 100%-3 years	11/05/2011	265,327 2,711	0 0	57,694 590	14,547 149	191,526 1,111	250,780 2,562	253,342	445
2,787	50%-2 years; 100%-3 years	11/07/2012	188,180 1,907	0 0	14,075 188	11,575 124	90,120 816	176,605 1,783	178,388	649
	50%-2 years; 100%-3 years	11/16/2013	466,660	0	465	43,910	226,785	422,750	422,750	737
	50%-2 years; 100%-3 years	03/02/2014	187,000	0	0	0	0	187,000	187,000	2
	50%-2 years; 100%-3 years	11/19/2014	1,023,000	0	0	94,500	380,750	928,500	928,500	884
	50%-2 years; 100%-3 years	03/06/2015	250,000	0	0	0	0	250,000	250,000	2
	100% - 3 years	11/14/2015	1,374,250	0	0	103,500	406,250	1,270,750	1,270,750	1,109
	100% - 3 years	03/19/2016	396,000	0	0	30,000	60,750	366,000	366,000	506
7,050			**4,150,417 4,618**	**0 0**	**72,234 778**	**298,032 273**	**1,356,181 1,927**	**3,852,385 4,345**	**3,856,730**	

Vesting period and conditions	Number of shares							
	Remaining to be transferred at 12/31/2008	Ownership transferred in 2009 (year)	Ownership transferred at 12/31/2009 (aggregate)	Cancelled in 2009 (year)	Cancelled at 12/31/2009 (aggregate)	O/w ownership remains to be transferred at 12/31/2009	N° of shares that could be transferred	Residual grantees
Vesting period: 2 years 3 months 50% cond (1/2 on 2006 perf, ½ on 2007 perf*)	0	0	223,575	0	376,425	0	0	0
Vesting period: 2 years 3 months 50% cond (1/2 on 2006 perf, ½ on 2007 perf*)	0	0	26,500	0	36,500	0	0	0
Vesting period: 3 years	74,750	65,750	65,750	9,000	34,250	0	0	0
Vesting period: 3 years	82,750	0	0	3,750	21,000	79,000	79,000	123
	157,500	**65,750**	**315,825**	**12,750**	**468,175**	**79,000**	**79,000**	

* *Perf 2006: Consolidated group operating margin before non-recurring expenditure as a % of total revenue at least 4.5%.*

* *Perf 2007: Consolidated group operating margin before non-recurring expenditure as a % of total revenue at least 5%.*

1 2 3 4 5 6 7

< Contents >

6.C.4. Other securities

The company has had access to a Euro Medium Term Notes (EMTN) program since October 2002, last renewed on April 2, 2009. Valeo issued 600 million euros worth of notes under this program on June 24, 2005. The notes have an eight-year term and bear fixed interest of 3.75%.

6.D. Ownership structure

6.D.1. Directors' interests

At December 31, 2009, Pascal Colombani, Jacques Aschenbroich and other members of the Board of Directors held less than 1% of Valeo's capital and voting rights in a personal capacity. The number of shares held by each member of the Board of Directors is given in Chapter 3, section 3.O.

6.D.2. Main shareholders

See Chapter 3, section 3.J.1.

6.D.3. Change in control

To the best of the Company's knowledge, there are no shareholder pacts or agreements in force that could lead to a change in control of the Company.

6.D.4. Capital under option

At the date of this Reference Document, no capital of any member of the Group was under option or agreed conditionally or unconditionally to be put under option.

< Contents >

6.D.5. Disclosure thresholds

In accordance with Article L.233-7 of the French Commercial Code, any individual or legal entity, acting alone or in concert that holds a number of shares representing over 5%, 10%, 15%, 20%, 25%, 33.33%, 50%, 66.66%, 90% or 95% of the Company's capital or voting rights, is required to disclose to the Company and the AMF by letter that the related disclosure threshold has been exceeded. Said disclosure must be made within five trading days from the date when the threshold is exceeded and must also state the total number of shares and voting rights held by the shareholder concerned. The AMF subsequently publishes the disclosures. This disclosure obligation also applies when an interest in the Company's capital and/or voting rights is reduced to below the above-mentioned thresholds.

If any shareholder fails to comply with these disclosure requirements, the shares in excess of the relevant threshold will be stripped of voting rights at any and all General Shareholders' Meetings held within the two-year period from the date when the omission is remedied.

Since the General Shareholders' Meeting of March 31, 2003, Article 9 of the Valeo bylaws states that, in addition to the applicable statutory disclosure thresholds, any individual or legal entity, acting alone or in concert, that raises or reduces its interest in the Company's capital or voting rights, directly or indirectly, to above or below 2% respectively (or any multiple thereof), is required to disclose to the Company by registered letter with return receipt requested that the relevant disclosure threshold has been crossed. Said disclosure must be made within 15 ays from the date when the threshold is crossed and the shareholder concerned must state their own identity as well as that of any parties acting in concert with the shareholder. In accordance with the seventh paragraph of Article L.228-1 of the French Commercial Code, this disclosure requirement also applies to shares held through an intermediary.

Non-compliance with the above obligations is subject to the penalties set out in Article L.233-14 of the French Commercial Code, at the request of one or several shareholders together holding at least 2% of the Company's capital or voting rights, as recorded in the minutes of the General Shareholders' Meeting.

6.D.6. Shareholder identification

Registered and bearer shares are recorded in shareholders' accounts in accordance with applicable laws and regulations.

However, a bank, broker or other intermediary may register on behalf of shareholders who are domiciled outside France in accordance with Article 102 of the French Civil Code. This registration may be made in the form of a joint account or several individual accounts, each corresponding to one shareholder. Any such intermediary must inform the Company or the intermediary managing the Company's account that it is holding the shares on behalf of another party.

The Company is entitled to identify all holders of shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at General Shareholders' Meetings, in accordance with the procedure provided for in Article L.228-2 *et seq.* of the French Commercial Code.

In order to identify holders of bearer shares, in accordance with the applicable laws and regulations, the Company is entitled to request, at any time, from the central depository responsible for its securities issues account, in exchange for a fee, the name – or, in the case of corporate shareholders, the company name – nationality, year of birth – or, in the case of corporate shareholders, the year of incorporation – and address of holders of bearer shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at General Shareholders' Meetings, together with details of the number of shares held by each such shareholder and of any restrictions applicable to the securities concerned.

Based on the list provided by the above-mentioned organization, where the Company considers that shares may be held on behalf of third parties, it may request, in accordance with the same conditions, either through the organization or directly from the parties mentioned on the list, the same information concerning the holders of the shares. If one of the parties mentioned on the list is a bank, broker or other intermediary, it must disclose the identity of the shareholders for whom it is acting. The information is provided directly to the financial intermediary managing the Company's share account, which shall pass on said information either to the Company or the above-mentioned central depository, as applicable.

For registered shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares, any intermediary holding the securities on behalf of a third party must disclose the

1 2 3 4 5 6 7

< Contents >

identity of the person or entity for whom it is acting as well as the number of shares held by each, upon simple request by the Company or its representative, which may be made at any time.

The Company may also request from any corporate shareholder holding over 2.5% of the Company's capital or voting rights, information concerning the identity of persons or companies holding either directly or indirectly over one third of the corporate shareholder's capital or voting rights.

If an individual or corporate shareholder is asked to provide information in accordance with the above conditions and fails to provide it by the applicable deadline, or provides incomplete or incorrect information, the shares or other securities redeemable, exchangeable, convertible or otherwise exercisable for shares recorded in the shareholder's account shall be stripped of voting rights for all General Shareholders' Meetings held until the identification request has been fulfilled, and the payment of any corresponding dividends shall also be deferred until that date.

In addition, if an individual or company registered in the Company's shareholders' account deliberately ignores their obligations, the Company or one or more shareholders holding at least 5% of the Company's capital may apply to the court of the place in which the Company's registered office is located to obtain an order to totally or partially strip the shares concerned of their voting rights and the corresponding dividend, for a maximum period of five years.

1 2 3 4 5 6 7

6.E. Market for the Company's securities

6.E.1. Share buyback program and cancellation of treasury shares

6.E.1.1. Share buyback program

In the seventh resolution of the General Shareholders' Meeting held on June 9, 2009, in accordance with Articles L.225-209 *et seq.* of the French Commercial Code, the Company's shareholders granted the Board of Directors an authorization from to trade in the Company's shares, including by delegation. This authorization may be used for the following purposes: i) to allocate shares on the exercise of stock options pursuant to the provisions of Articles L.225-177 *et seq.* of the Commercial Code; ii) to award or sell shares to employees by way of profit-sharing bonuses and in connection with company savings plans on the terms stipulated by law, particularly Articles L.3332-1 *et seq.* of the Labor Code; iii) to grant free shares in accordance with the provisions of Articles 225-197-1 *et seq.* of the Commercial Code; iv) to allocate shares on redemption, conversion, exercise, exchange or any other action; v) to cancel some or all of the shares thus acquired pursuant to the terms of the thirteenth resolution subject to its adoption by the extraordinary General Shareholders' Meeting; vi) allocate shares (as an exchange, payment or other) in connection with an acquisition, merger, sale or investment; vii) to ensure liquidity in the secondary market for the Company's shares in accordance with a liquidity agreement entered into with an investment services provider that complies with the Code of Ethics recognized by the *Autorité des Marchés Financiers* (AMF).

The number of shares that may be acquired as part of the above share buyback program may not represent more than 10% of the Company's capital at any time. Moreover, the number of shares acquired to be retained and used subsequent in respect of a merger, sale or asset contribution, may not exceed 5% of the capital.

The purchase price may not exceed 45 euros per share.

This authorization was given for an eighteen-month period as of the General Shareholders' Meeting of June 9, 2009 and superseded the unused portion of previous authorizations given to the Board of Directors to carry out share buyback programs.

A description of the 2009 renewal of the Company's share buyback program was drawn up in accordance with Articles 241-1 *et seq.* of the AMF's General Regulations and published on Valeo's website on June 8, 2009.

In 2009 Valeo carried out a number of share sale and purchase transactions under the above mentioned share buyback program, as well as the program authorized at the General Shareholders' Meeting of June 20, 2008.

During the year, the Company purchased 727,135 shares at an average price of 14.65 euros and sold 1,151,765 shares at an

< Contents >

average First In First Out price of 15.70 euros, under the liquidity agreement signed on April 22, 2004 with an investment services provider which complies with the Code of Ethics of the French Association of Investment Companies (AFEI) (for more details, see Chapter 3, section 3.D.2.2.).

At December 31, 2009, Valeo held 2,652,119 treasury shares, representing 3.39% of the Company's capital. At that date, each of the shares had a unit value of 24.06 euros. At December 31, 2008, Valeo held 3,142,499 treasury shares, representing 4.02% of the Company's capital.

The number of shares held in treasury at December 31, 2009 broke down as 2,606,119 to be allocated on the exercise of stock options and 46,000 to be used in connection with the above-mentioned liquidity agreement.

6.E.1.2. Share buyback program submitted to the next Annual General Shareholders' Meeting called to approve the financial statements for financial year 2009

The General Shareholders' Meeting that will be called on June 3, 2010 will be asked to repeal the seventh resolution approved by the General Shareholders' Meeting of June 9, 2009 and to approve a new resolution, authorizing the implementation of a new share buyback program, in accordance with the provisions of Articles L.225-209 *et seq.* of the Commercial Code, Title IV of Book II AMF General Regulation and European Commission Regulation 2273/2003 of December 22, 2003.

The features of the new share buyback program are as follows:

1°) Number of shares and percentage of capital held by the issuer

At January 31, 2010, Valeo directly or indirectly held 2,901,119 shares, representing 3.71% of the Company's capital.

2°) Breakdown of shares owned by Valeo by purpose

At January 31, 2010:

- 2,606,119 shares to be allocated on the exercise of stock options;
- 295,000 shares to be allocated under the liquidity agreement signed on April 22, 2004 with CA Cheuvreux and amended by an additional clause on June 24, 2005, which complies with the Code of Ethics of the French Association of Investment Companies (AFEI), approved by the AMF on March 22, 2005 (which has since become the Code of Ethics of Association Française des Marchés Financiers (AMAFI) approved by AMF on October 1, 2008).

3°) Purposes of the new share buyback program

Under the new share buyback program, which will be submitted to the General Shareholders' Meeting on June 3 2010, Valeo would like to buy back, directly or indirectly, its own shares, for the following purposes:

- to allocate shares on the exercise of stock options pursuant to the provisions of Articles L.225-177 *et seq.* of the Commercial Code; or
- to grant free shares in accordance with the provisions of Articles 225-197-1 *et seq.* of the Commercial Code; or
- to award or sell shares to employees by way of profit-sharing bonuses and in connection with company savings plans on the terms stipulated by law, particularly Articles L.3332-1 *et seq.* of the Labor Code; or
- to allocate shares on redemption, conversion, exercise, exchange or any other action; or
- to cancel some or all of the shares thus acquired; or
- allocate shares (as an exchange, payment or other) in connection with an acquisition, merger, sale or investment; or
- to ensure liquidity in the secondary market for the Company's shares in accordance with a liquidity agreement entered into with an investment services provider that complies with the Code of Ethics recognized by the AMF.

4°) Maximum stake in the Company's capital and maximum number of shares that could potentially be purchased under the new share buyback program

The maximum stake that can be purchased under the new share buyback program cannot exceed 10% of the total number of shares making up the Company's capital (e.g. 78,209,617 shares at January 31, 2010).

Pursuant to Article L.225-210 of the Commercial Code, the number of shares that Valeo may hold at any time may not represent over 10% of the Company's capital.

Given the number of shares the Company currently owns, i.e. 2,901,119 shares at January 31, 2010 (3.71% of the Company's capital) and subject to adjustments affecting the number of shares held by the Company and the amount of capital after the General Shareholders' Meeting on June 3, 2010, a total of 4,919,842 shares (6.3% of the Company's registered capital at January 31, 2010) could be available for purchase.

The securities covered by the buyback program are exclusively shares.

5°) Maximum unit purchase price

The purchase price of shares under the new share buyback program may not exceed 45 euros per share. This price could be adjusted in the event of a change in the nominal share price, capital increase by retaining earnings, granting free shares or reversing a stock split, distributing retained earnings or any other assets, amortization of

< Contents >

capital, or any other operation on shareholders' equity, in order to factor in the impact of these operations on the value of the share.

The maximum amount that can be spent under the new share buyback program will be fixed at 350 million euros, fees and commissions included. Valeo reserves the right to use the full amount authorized under the program.

6°) Term of the new share buyback program

In accordance with the resolution that will be submitted to the General Shareholders' Meeting for approval on June 3, 2010, the new share buyback program would be authorized for an eighteen-month period as of the meeting, i.e. until December 3, 2011.

6.E.1.3. Cancellation of treasury shares

In the thirteenth resolution of the General Shareholders' Meeting of June 9, 2009, the Company's shareholders gave the Board of Directors a twenty-six month authorization to reduce the Company's capital by canceling treasury shares. Under this authorization, the number of shares cancelled in any given twenty-four month period may not exceed 10% of the Company's share capital.

6.E.2. Dividends

Dividends per share over the past three years were as follows:

Year	Dividend per share (in euros)	Tax allowance (in euros)	Total (in millions of euros)
2006	1.10	Eligible for the 40% tax allowance provided for in Article 158-3-2° of the French General Tax Code	85
2007	1.20	Eligible for the 40% tax allowance provided for in Article 158-3-2° of the French General Tax Code	92
2008	0	Eligible for the 40% tax allowance provided for in Article 158-3-2° of the French General Tax Code	0

At the General Shareholders' Meeting to be held to approve the financial statements for the year, the Board of Directors of Valeo will not recommend payment of a dividend.

As the dividend payout rate is not fixed, future dividend payments will depend on the Group's results as well as the financing required to drive future growth. The Company cannot guarantee the amount of dividends to be paid for any particular year.

1 2 3 4 5 6 7

< Contents >

6.F. Investor relations

Valeo aims to provide a steady flow of exhaustive and detailed information in real time to its diverse financial community, comprising current and prospective private and institutional shareholders, as well as financial analysts.

6.F.1. Individual shareholder relations

Based on the Company's estimates, individual shareholders control approximately 5% of Valeo's share capital. These shareholders, who are mostly domiciled in France, have access to the following communication tools:

- a toll-free line (0 800 814 045) (available in France only) available to individual shareholders in France since 1998. In 2009, this service dealt with over 130 calls, mainly relating to Valeo's share price and the General Shareholders' Meeting;
- the valeo.com website which is aimed at providing information to all shareholders. The Investor Relations section of the site provides real-time stock market and shareholder information, including the latest share prices, ownership structure, dividends, and documents relating to General Shareholders' Meetings. Financial publications can also be consulted online, such as annual and interim reports and financial presentations, as well as all press releases and prospectuses. In addition, visitors to the site can submit financial questions to the Group's spokesperson;
- two issues of the shareholders' newsletter were published in 2009, in June and November;
- the share registrar service provided by Société Générale since the end of 2000. This service, used by almost 3,700 shareholders at December 31, 2009 – mainly individual shareholders – provides a share information line on 0825 820 000 (available in France only), for questions concerning dividends, tax issues and placing orders.

1
2
3
4
5
6
7

6.F.2. Institutional shareholder relations

Valeo places great importance on holding frequent meetings with investors and analysts. These meetings are organized in major financial centers in Europe, North America and Asia and take various forms, including one-on-one meetings, group events, conference calls, themed or general investor conferences, and site visits. In all, some 200 institutional investors participated in these events, either individually or in small groups, with one-half meeting Valeo's Chief Executive officer.

The objective of the Group's Investor Relations Department is to serve as an interface between the Group and investors and analysts, in order to keep them informed of Valeo's strategy, products, key events and financial performance.

Contact:

Thierry Lacorre
Investor Relations Director

Valeo
43, rue Bayen
F-75848 Paris Cedex 17
France
Tel.: +33 (0) 1 40 55 37 93
Fax: +33 (0) 1 40 55 20 40

Email: thierry.lacorre@valeo.com

Provisional financial communication calendar:

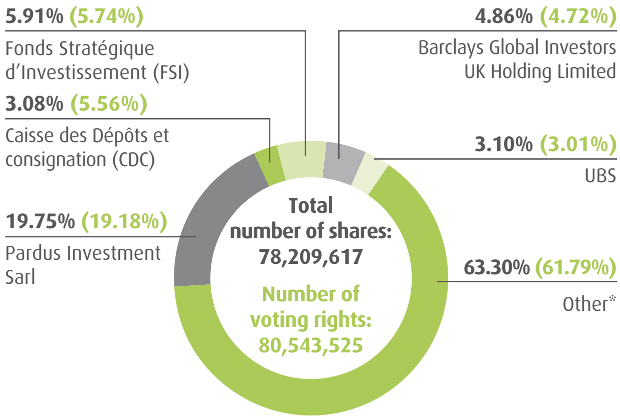
First-quarter results 2010: April 22, 2010
First-half results 2010: July 27, 2010
Third-quarter results 2010: October 21, 2010
Full-year results 2010: first half of February 2011

< Contents >

6.F.3 Ownership structure

6.F.3.1 Ownership structure at December 31, 2009

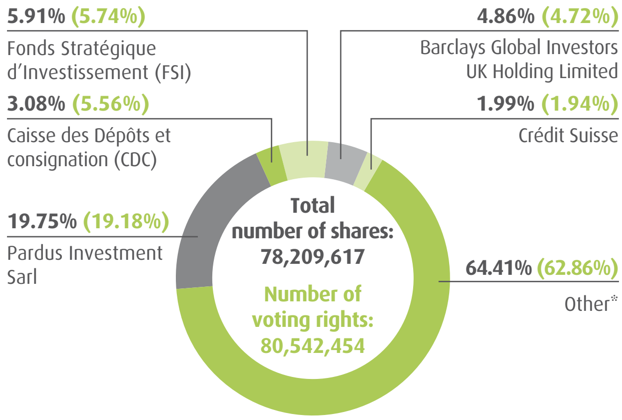
% capital (% voting rights)



*Including 2,652,119 treasury shares (3.39% of the share capital).

6.F.3.2 Ownership structure at February 19, 2010

% capital (% voting rights)



*Including 2,901,119 treasury shares (3.71% of the share capital).

6.F.4 Stock market data

	2009	2008	2007	2006	2005
Market capitalization at year-end (in billions of euros)	1.92	0.83	2.21	2.45	2.43
Number of shares	78,209,617	78,209,617	78,209,617	77,580,617	77,510,357
Highest share price (in euros)	25.46	28.60	45.89	35.40	38.20
Lowest share price (in euros)	8.00	9.22	27.75	25.00	30.25
Average share price (in euros)	15.546	20.93	37.71	30.58	33.79
Share price at year-end (in euros)	24.53	10.615	28.20	31.53	31.41

6.F.5 Per share data

(in euros)	2009	2008	2007
Earnings per share	(2.04)	(2.73)	1.06
Dividend	0	0	1.20(1)

(1) Eligible for the 40% tax allowance provided for in Article 158-3-2° of the French General Tax Code or, at the choice of the shareholder, subject to the 18% flat-rate withholding tax provided for in Article 117 quater i.1 of said Code. For more information about the withholding tax, refer to "Market for the Company's securities", paragraph 2. "Dividends".

< Contents >

6.F.6 Share performance over 18 months

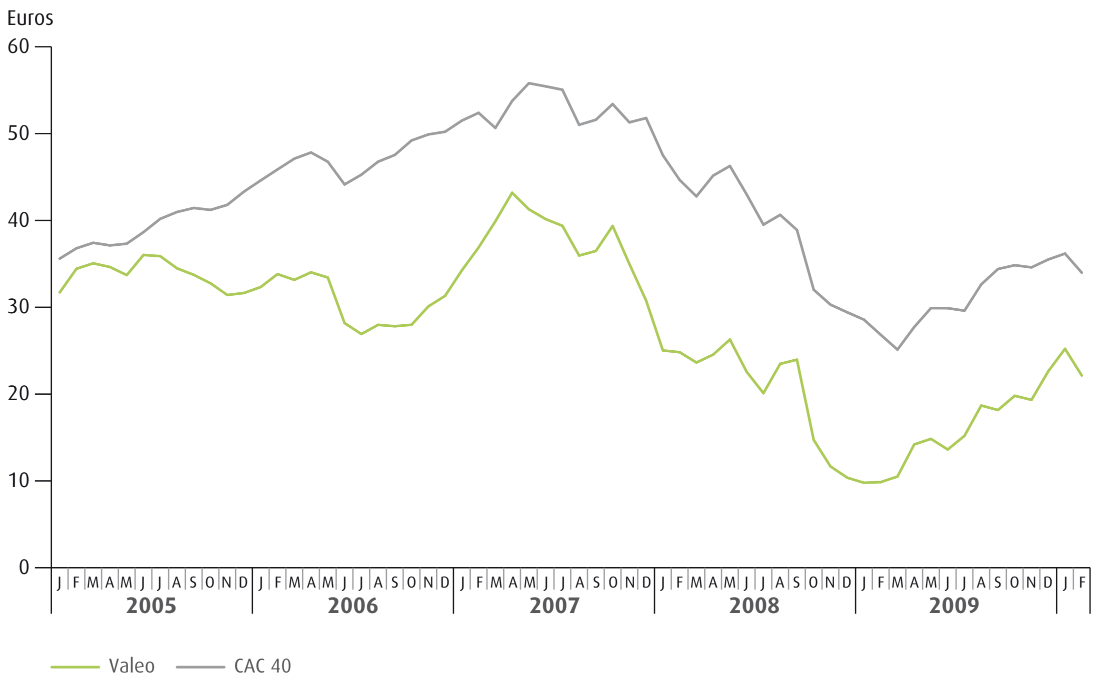
	Price (in euros)			Trading volume (no. of shares)		
Date	**High**	**Low**	**Closing (average)**	**Volume on Euronext**	**Volume on MTFs**	**Trading volume** (in millions of euros)
September 2008	25.44	21.00	23.957	22,037,082	-	529.85
October 2008	21.19	10.61	14.723	30,425,508	-	463.76
November 2008	15.02	9.22	11.666	19,349,021	-	227.67
December 2008	11.71	9.35	10.369	15,777,547	-	163.43
January 2009	12.25	8.00	9.776	18,961,521	-	186.53
February 2009	11.08	8.25	9.858	19,944,886	-	199.91
March 2009	12.16	9.00	10.496	17,057,171	458,795	182.18
April 2009	10.88	16.12	14.195	19,760,278	1,730,433	284.18
May 2009	17.66	12.7	14.843	20,733,540	2,498,226	304.66
June 2009	15.48	12.05	13.605	20,155,288	4,643,948	289.33
July 2009	18.70	12.59	15.185	16,071,490	4,353,398	241.71
August 2009	19.95	17.54	18.678	9,673,617	3,052,181	186.38
September 2009	19.90	16.52	18.157	13,081,870	3,808,407	245.28
October 2009	22.52	17.05	19.796	20,416,315	4,557,680	418.72
November 2009	20.16	17.65	19.332	11,404,439	3,482,126	224.39
December 2009	25.46	19.13	22.623	13,994,866	4,349,581	322.74
January 2010	27.36	22.35	25.207	12,719,067	3,799,775	318.84
February 2010	25.38	20.06	22.14	16,376,649	5,105,029	363.37

Source: Euronext Paris.

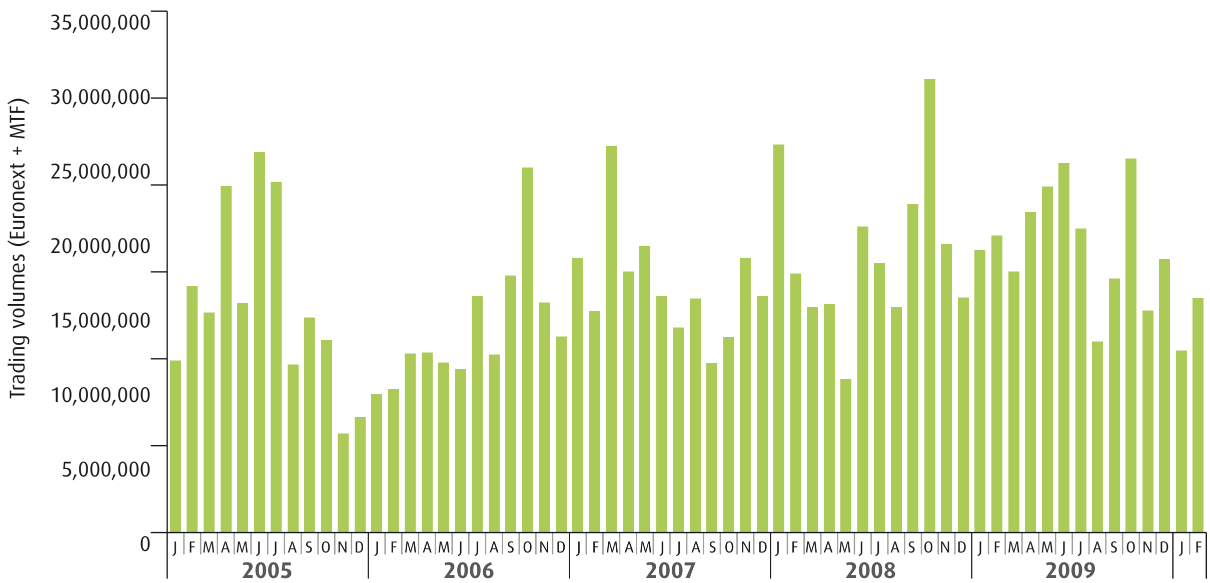
1 2 3 4 5 6 7

< Contents >

6.F.7 Share price from January 1, 2005 through February 26, 2010



6.F.8 Monthly trading volumes



1 2 3 4 5 6 7

< Contents >

6.G. Information on subsidiaries and affiliates

The general organization of the Group, from a legal and operational standpoint, is described in Chapter 2, section 2.B.1.

Following the creation of subsidiaries for industrial activities in 2002, Valeo is now the Group's holding and treasury management company. As such, Valeo centralizes the management of market risks to which its operating subsidiaries are exposed, including changes in interest rates as well as fluctuations in exchange rates and quoted commodities prices. Valeo also centralizes the financing requirements of these subsidiaries and is generally the sole counterparty of the financial institutions that provide the funding to cover these requirements. The related assets (cash and marketable securities) and liabilities (external debt) are included in Valeo's balance sheet. Valeo is also responsible for upholding the image of the Valeo brand. To this end, it has entered into brand licensing agreements with certain of its operating subsidiaries.

Group-wide control and support functions, encompassing accounting, legal counsel, information technology, procurement, real-estate management and supply chain management, are performed by Valeo Management Services, which bills a fee to the French subsidiaries.

The Group's operating assets and liabilities are carried by its subsidiaries, mainly by the industrial and commercial entities listed in the table on the following pages.

The commercial entities listed in this table are active only on the independent aftermarket, in the countries where they are present. Sales to vehicle manufacturers are handled directly by the Business Groups/Product Families concerned. The commercial activities of the Business Groups/Product Families with a given customer are coordinated by the networks of the Sales and Business Development Function, described in Chapter 2, section 2.B.4.5.2. A list of consolidated companies – including their geographic location – is given in the notes to the consolidated financial statements, Chapter 4, section 4.F.8.

1 2 3 4 5 6 7

< Contents >

Industrial

Commercial

MAIN INDUSTRIAL AND

Direct and indirect interests by location

European Union				Other European countries	Africa	North America
France	Germany, Belgium, UK, Ireland, Netherlands	Italy, Spain	Hungary, Poland Czech Republic, Romania, Slovakia	Turkey, Russia	Tunisia, South Africa	United States
VALEO EMBRAYAGES 100	VALEO SCHALTER UND SENSOREN GmbH 100	VALEO S.p.A. (Italy) 99,9	VALEO AUTO-ELECTRIC HUNGARY LLC (Hungary) 100	VALEO OTOMOTIV SISTEMLERI ENDUSTRISI A.S. (Turkey) 100	VALEO EMBRAYAGES TUNISIE SA 100	VALEO, INC. 100
VALEO MATÉRIAUX DE FRICTION 100	VALEO WISCHERSYSTEME GmbH 100	VALEO SISTEMI DI CLIMATIZZAZIONE S.p.A. (Italy) 99,9	VALEO ELECTRIC AND ELECTRONIC SYSTEMS Sp.zo.o. (Poland) 100	VALEO OTOMOTIV DAGITIM A.S. (Turkey) 100	DAV TUNISIE 100	VALEO INVESTMENT HOLDINGS, INC. 100
VALEO ÉQUIPEMENTS ÉLECTRIQUES MOTEUR 100	VALEO SICHERHEITS-SYSTEME GmbH 100	VALEO COMMUTAZIONE S.r.l. (Italy) 99,9	VALEO SERVICE EASTERN EUROPE Sp.zo.o. (Poland) 100	NURSAN OK (Turkey) 40	VALEO SYSTEMS SOUTH AFRICA (Proprietary) Limited 51	VALEO ELECTRICAL SYSTEMS, INC. 100
VALEO SÉCURITÉ HABITACLE 100	VALEO KLIMASYSTEME GmbH 100	VALEO SERVICE ITALIA S.p.A. 99,9	VALEO AUTOSYSTEMY Sp.zo.o. (Poland) 100	VALEO CLIMATE CONTROL TOMILINO LLC (Russia) 95		VALEO CLIMATE CONTROL CORP. 100
VALEO SYSTÈMES D'ESSUYAGE 100	VALEO COMPRESSOR EUROPE GmbH 100	VALEO ESPAÑA S.A. 100	VALEO VYMENIKY TEPLA k.s. (Czech Republic) 100	VALEO SERVICE LIMITED LIABILITY COMPANY (Russia) 100		VALEO SYLVANIA LLC 50
VALEO VISION 100	VALEO GmbH 100	VALEO ILUMINACIÓN S.A. (Spain) 99,8	VALEO AUTOKLIMATIZACE k.s. (Czech Republic) 100			TELMA RETARDER, INC. 100
DAV 100	VALEO SERVICE DEUTSCHLAND GmbH 100	VALEO PLASTIC OMNIUM S.L. (Spain) 50	VALEO COMPRESSOR EUROPE S.r.o. (Czech Republic) 100			VALEO SWITCHES & DETECTION SYSTEMS, INC. 100
SC2N 100	VALEO VISION BELGIQUE 100	TELMA RETARDER ESPAÑA S.A. 100	VALEO LIGHTING ASSEMBLY S.r.l. (Romania) 100			VALEO RADAR SYSTEMS, INC. 100
VALEO FOUR SEASONS 50	VALEO SERVICE BELGIQUE 100	VALEO SISTEMAS ELÉCTRICOS S.L. (Spain) 100	VALEO LIGHTING INJECTION S.A. (Romania) 51			VALEO COMPRESSOR NORTH AMERICA, INC. 100
TELMA 100	TELMA RETARDER LIMITED (UK) 100	VALEO SISTEMAS DE SEGURIDAD Y DE CIERRE S.A. (Spain) 100	VALEO SISTEME TERMICE S.r.l. (Romania) 100			VALEO ENGINE COOLING, INC. 100
VALEO SERVICE 100	VALEO SERVICE UK LIMITED (UK) 100	VALEO CLIMATIZACIÓN S.A. (Spain) 100	VALEO SLOVAKIA S.r.o. (Slovakia) 100			VALEO FRONT END MODULE, INC. 100
VALEO SYSTÈMES THERMIQUES 100	VALEO ENGINE COOLING UK Ltd (UK) 100	VALEO SERVICE ESPAÑA S.A 100				
VALEO SYSTÈMES DE CONTRÔLE MOTEUR 100	CONNAUGHT ELECTRONICS LIMITED (Ireland) 100	VALEO TÉRMICO, S.A. (Spain) 100				
VALEO ÉTUDES ÉLECTRONIQUES 100	VALEO SERVICE BENELUX B.V. (Netherlands) 100					

COMMERCIAL ENTITIES

(% interest as of 12.31.2009)

North America

Mexico

VALEO SISTEMAS ELECTRICOS SA de CV	100
DELMEX DE JUAREZ S. de R.L. de CV	100
VALEO SISTEMAS ELECTRONICOS S. de R.L. de CV	100
VALEO CLIMATE CONTROL DE MEXICO SA de CV	100
VALEO SYLVANIA ILUMINACIÓN S. de R.L. de CV	50
TELMA RETARDER DE MEXICO SA de CV	100

South America

Brazil, Argentina

VALEO SISTEMAS AUTOMÓTIVOS Ltda (Brazil)	100
VALEO EMBRAGUES ARGENTINA S.A.	100
EMELAR Sociedad Anónima (Argentina)	100
CIBIE ARGENTINA S.A.	100

Asia

China

TAIZHOU VALEO-WENLING AUTOMOTIVE SYSTEMS COMPANY LIMITED	100
HUBEI VALEO AUTO LIGHTING COMPANY LTD	100
VALEO AUTOMOTIVE AIR CONDITIONING HUBEI Co. Ltd	55
FAW-VALEO CLIMATE CONTROL SYSTEMS Co. Ltd	36,5
NANJING VALEO CLUTCH Co. Ltd	55
VALEO SHANGHAI AUTOMOTIVE ELECTRIC MOTORS & WIPER SYSTEMS Co. Ltd	55
SHANGHAI VALEO AUTOMOTIVE ELECTRICAL SYSTEMS COMPANY LIMITED	50
HUADA AUTOMOTIVE AIR CONDITIONER Co. Ltd	30
VALEO LIGHTING HUBEI TECHNICAL CENTER Co. Ltd	100
TELMA VEHICLE BRAKING SYSTEM (SHANGHAI) Co. Ltd	70
VALEO INTERIOR CONTROLS (SHENZHEN) Co. Ltd	100
VALEO AUTOMOTIVE SECURITY SYSTEMS (WUXI) Co. Ltd	100
VALEO COMPRESSOR (CHANGCHUN) Co. Ltd	100
FOSHAN ICHIKOH VALEO AUTO LIGHTING SYSTEMS Co. Ltd	50
VALEO AUTO PARTS TRADING (SHANGHAI) Co. Ltd	100
VALEO AUTOMOTIVE TRANSMISSIONS SYSTEMS (NANJING) Co. Ltd	100
GUANGZHOU VALEO ENGINE COOLING Co. Ltd	100
VALEO ENGINE COOLING (FOSHAN) Co. Ltd	100

South Korea, Japan, Thailand, Indonesia

VALEO ELECTRICAL SYSTEMS KOREA Ltd	100
VALEO PYEONG HWA Co. Ltd (Korea)	50
VALEO PYEONG HWA INTERNATIONAL Ltd (Korea)	50
VALEO SAMSUNG THERMAL SYSTEMS Co. Ltd (Korea)	50
VALEO THERMAL SYSTEMS KOREA Co. Ltd	100
VALEO ENGINE COOLING JAPAN Co. Ltd	100
VALEO UNISIA TRANSMISSIONS K.K. (Japan)	66
VALEO THERMAL SYSTEMS JAPAN CORPORATION	100
ICHIKOH INDUSTRIES LIMITED (Japan)	31,6
VALEO THERMAL SYSTEMS SALES (THAILAND) Co. Ltd	74,9
VALEO SIAM THERMAL SYSTEMS Co. Ltd (Thailand)	74,9
VALEO COMPRESSOR (THAILAND) Co. Ltd	98,5
VALEO COMPRESSOR CLUTCH (THAILAND) Co. Ltd	97,3
PT VALEO AC INDONESIA	49

India

VALEO FRICTION MATERIALS INDIA LIMITED	60
AMALGAMATIONS VALEO CLUTCH PRIVATE LIMITED	50
VALEO ENGINEERING CENTER (INDIA) PRIVATE LIMITED	100
MINDA VALEO SECURITY SYSTEMS PRIVATE LIMITED	50
VALEO LIGHTING SYSTEMS INDIA PRIVATE LIMITED	95
VALEO MINDA ELECTRICAL SYSTEMS INDIA PRIVATE LIMITED	66,7

< Contents >

7 Other information

1 2 3 4 5 6 7

< Contents >

7.A. Annual information document

This annual information document has been prepared in compliance with Article L.451-1-1 of the French Monetary and Financial Code and Article 222-7 of the General Regulation of the French securities regulator, *Autorité des Marchés Financiers* (AMF). This document lists the information published or made public by Valeo between March 4, 2009 and March 10, 2010.

Annual, interim and quarterly financial information, share buyback programs, and other information (www.valeo.com)

February 26, 2010	Press release on the remuneration of the Chief Executive Officer
February 24, 2010	2009 consolidated financial statements
February 24, 2010	Press release: 2009 results
February 5, 2010	Monthly press release containing weekly share buyback statements – January 2010 statement
January 7, 2010	Monthly press release containing weekly share buyback statements – December 2009 statement
December 31, 2009	Interim statement regarding the liquidity agreement
December 8, 2009	Monthly press release containing weekly share buyback statements – November 2009 statement
November 4, 2009	Monthly press release containing weekly share buyback statements – October 2009 statement
October 20, 2009	Press release: third quarter 2009 results
October 16, 2009	Monthly press release containing weekly share buyback statements – September 2009 statement
September 9, 2009	Monthly press release containing weekly share buyback statements – August 2009 statement
September 9, 2009	Monthly press release containing weekly share buyback statements – July 2009 statement
July 29, 2009	Interim results for first-half 2009
July 6, 2009	Monthly press release containing weekly share buyback statements – June 2009 statement
July 6, 2009	Interim statement regarding the liquidity agreement
June 11, 2009	Monthly press release containing weekly share buyback statements – May 2009 statement
June 11, 2009	Monthly press release containing weekly share buyback statements – April 2009 statement
June 8, 2009	Description of the 2009 share buyback program
March 19, 2009	2008 registration document
March 19, 2009	2008 annual financial report
March 19, 2009	2008 report on internal control and corporate governance
March 19, 2009	Press release on the fees paid to statutory auditors in 2008
April 24, 2009	Press release: first quarter 2009 results
April 7, 2009	Monthly press release containing weekly share buyback statements – March 2009 statement
March 20, 2009	Conditions relating to the termination of Mr. Thierry Morin’s tenure
March 11, 2009	Monthly press release containing weekly share buyback statements – February 2009 statement

1 2 3 4 5 6 7

< Contents >

Disclosure thresholds (published on the AMF website at www.amf-france.org)

September 24, 2009	■ Barclays Global Investors UK Holding Limited reports reducing its interest in Valeo's capital and voting rights below the 5% disclosure threshold
August 21, 2009	■ Barclays Global Investors UK Holding Limited reports raising its interest in Valeo's voting rights above the 5% disclosure threshold
July 22, 2009	■ Fonds Stratégique d'Investissement (FSI) reports individually raising its interest in Valeo's capital and voting rights above the 5% disclosure threshold.
July 15, 2009	■ The Goldman Sachs Group, Inc. reports reducing its interest in Valeo's capital and voting rights below the 5% disclosure threshold
July 7, 2009	■ Morgan Stanley reports indirectly reducing its interest in Valeo's capital and voting rights below the 5% disclosure threshold
June 19, 2009	■ Barclays Global Investors UK Holding Limited reports raising its interest in Valeo's capital above the 5% disclosure threshold
June 4, 2009	■ Barclays Global Investors UK Holding Limited reports reducing its interest in Valeo's capital and voting rights below the 5% disclosure threshold
May 25, 2009	■ Barclays Global Investors UK Holding Limited reports raising its interest in Valeo's voting rights above the 5% disclosure threshold.
May 18, 2009	■ Barclays Global Investors UK Holding Limited reports raising its interest in Valeo's voting rights above the 5% disclosure threshold
April 23, 2009	■ The Goldman Sachs Group, Inc. reports reducing and then raising its interest in Valeo's voting rights above the 5% disclosure threshold
April 14, 2009	■ The Goldman Sachs Group reports ownership of 3,379 Oceane convertible/exchangeable bonds, entitling it to 3,422 Valeo shares
April 7, 2009	■ The Goldman Sachs Group reports raising its interest in Valeo's capital and voting rights above the 5% disclosure threshold
March 3, 2009	■ Morgan Stanley reports raising its interest in Valeo's capital and voting rights above the 5% disclosure threshold

< Contents >

Information relating to the company's total share capital and voting rights (www.valeo.com)

Information covering the period from March 1, 2009 through March 10, 2010, updated monthly and available on the company's website under Investor Relations/Regulated Information.

Information filed by Valeo with the office of the clerk of the commercial court in Paris and published in legal gazettes where appropriate

November 16, 2009	■ Replacement of a director: - Minutes of the Board of Directors meeting on October 20, 2009 - Legal notice published in *La Loi* dated November 13, 2009
June 30, 2009	■ Annual parent company and consolidated financial statements for the year ending December 31, 2008 and related reports
April 17, 2009	■ Resignation of directors, appointment of a director, the Chairman of the Board of Directors, and the Chief Executive Officer: - Minutes of the meeting of the Board of Directors on March 20, 2009 - Legal notice published in *La Loi* dated April 6, 2009

Information published by Valeo in *Bulletin des annonces légales obligatoires* (BALO) and available on the BALO website (www.journal-officiel.gouv.fr/balo)

July 1, 2009	■ Approval of the 2008 parent company and consolidated financial statements by the Annual General Meeting on June 9, 2009
June 26, 2009	■ Approval of the 2008 parent company and consolidated financial statements by the Annual General Meeting on June 9, 2009
May 29, 2009	■ Consolidated financial statements at December 31, 2008
May 25, 2009	■ Convening notice for the Shareholders' Meeting of June 9, 2009
May 1, 2009	■ Notice of the Shareholders' Meeting of June 9, 2009

Information published by Valeo in financial publications

February 25, 2010	■ Press release announcing results for fourth quarter and full-year 2009 in *Les Échos*
October 22, 2009	■ Press release announcing results for the first three quarters of 2009 in *Les Échos*
August 3, 2009	■ Press release announcing interim results in *Les Échos*
April 28, 2009	■ Press release announcing quarterly results in *Les Échos*

1 2 3 4 5 6 7

< Contents >

Press releases published on the Valeo website (www.valeo.com)

March 2010	
March 19, 2010	■ Valeo announces project to sell "speed controller" activity
March 10, 2010	■ Valeo presents new strategic plan and medium-term financial objectives
March 1, 2010	■ Valeo joins the GENIVI alliance for the development of vehicle infotainment systems
February 2010	
February 25, 2010	■ Valeo announces project to sell headlamps levelers business
February 24, 2010	■ Fourth quarter 2009: operating margin of 5.5%, free cash flow of 153 million euros and positive net income of 56 million euros
January 2010	
January 12, 2010	■ Robert Charvier is appointed Chief Financial Officer of Valeo
December 2009	
December 15, 2009	■ Valeo raises its sales objective for the fourth quarter 2009
November 2009	
November 2, 2009	■ Valeo acquires 100% of its compressors joint venture in China
October 2009	
October 27, 2009	■ Édouard de Pirey joins Valeo as Group Vice-President Corporate Planning & Strategy
October 20, 2009	■ Return to positive net income in third quarter 2009
October 14, 2009	■ Valeo wins Gold International "Grand Prix" Award for Automotive Innovation at Equip'Auto
September 2009	
September 15, 2009	■ Valeo, the world's first supplier to produce top column modules with the FlexRay system
September 15, 2009	■ Valeo's long travel damper dual mass flywheel offers significantly improved acoustic comfort and reduced vibration
September 15, 2009	■ Valeo detection systems offer complete safety for low-speed maneuvers
September 15, 2009	■ Valeo offers hybrid solutions for all
September 15, 2009	■ Valeo's AquaBlade® System: simplicity, safety and ingenuity
September 15, 2009	■ The Audi Q7 equipped with Valeo's Tri-Xenon smart lighting
September 15, 2009	■ Valeo's BeamAtic® Premium system is a lighting revolution
September 14, 2009	■ Valeo's new 3D-effect position lamps: a world first on the Citroën D09 concept car
July 2009	
July 29, 2009	■ Strong improvement of Valeo's results in the second quarter
July 22, 2009	■ Valeo research projects to receive financing of up to 300 million euros from the European Investment Bank
July 15, 2009	■ Important reorganization of Valeo to enhance profitability and improve efficiency
June 2009	
June 23, 2009	■ Consortium for a French industrial electric drive-train
June 19, 2009	■ Valeo research projects for low-CO_2 vehicles supported by French environment agency ADEME
June 9, 2009	■ Valeo: 2009 Combined Annual General Shareholders' Meeting
May 2009	
May 25, 2009	■ Publication of the Meeting Notice for the Valeo Annual General Shareholders' Meeting
May 18, 2009	■ Valeo press release
May 13, 2009	■ Valeo launches an innovative initiative with Google to reduce administrative expenses
April 2009	
April 24, 2009	■ Valeo: first quarter 2009 results
March 2009	
March 24, 2009	■ Statement from the Chairman of Valeo's Board of Directors
March 23, 2009	■ Valeo's Board of Directors: departure of Thierry Morin, appointment of Jacques Aschenbroich

< Contents >

7.B. Person responsible for the Registration Document containing the annual financial report

Jacques Aschenbroich, Chief Executive Officer of Valeo.

Declaration by the person responsible for the Registration Document

« I hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in the Registration Document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import.

I further declare that to the best of my knowledge, the accounts have been prepared in accordance with applicable accounting standards, and that they give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings in the consolidation taken as a whole, and that the Management Report in Chapter 3 includes a fair review of the development and performance of the business, profit or loss and financial position of the Company and the undertakings in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

I obtained a statement from the Statutory Auditors at the end of their engagement affirming that they have read the whole Registration Document, of which this document is a free translation from the original, and examined the information about the financial position and the accounts contained therein.

The consolidated financial statements for the year ending December 31, 2009, presented in this document, are covered by a report from the Statutory Auditors (see Chapter 4, section 4.G.) which contains an observation only technical.

The parent company financial statements for the year ending December 31, 2008, presented in the French version of the Registration Document filed with the French securities regulator, *Autorité des Marchés Financiers* (AMF), under the reference D.09-128, are covered by a report from the Statutory Auditors (see Chapter 5, section 5.E. of said French document), which contains an observation ».

Paris, March 22, 2010

Jacques Aschenbroich
Chief Executive Officer

1 2 3 4 5 6 7

The printer of this report is environmentally certified by Imprim'vert.
This Reference document is printed on paper which is 100% compliant with PEPC and FSC certification standards, without use of acid, recyclable, biodegradable, and certified ISO 9001 and 14001.

The English language version of this report is a free translation from the original, which was prepared in French. All possible care has been taken to ensure that the translation is an accurate presentation of the original. However, in all matters of interpretation, views or opinions expressed in the original language version of the document in French take precedence over the translation.

43, rue Bayen - 75848 Paris cedex 17 - France / Tel.: 33 (0)1 40 55 20 20 - Fax: 33 (0)1 40 55 21 71
Valeo French «Société Anonyme» with a capital of 234 628 851 euros - 552 030 967 RCS Paris
valeo.com