2010
Registration document
containing the annual financial report

Automotive technology, naturally

Valeo

Contents

The elements of the annual financial report can be clearly identified in the table of contents using the AFR pictogram

Registration document 2010

containing **the annual financial report**

This "*Document de référence*" was filed with the *Autorité des Marchés Financiers* (AMF) on March 29, 2011, 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, 2009, and the Statutory Auditors' special report on regulated agreements relating to 2009 included in the "*Document de référence*" filed with the *Autorité des Marchés Financiers* on March 23, 2010 under No. D.10-149;
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, 2008, and the Statutory Auditors' special report on regulated agreements relating to 2008 , included in the "*Document de référence*" filed with the *Autorité des Marchés Financiers* on March 17, 2009 under No. D.09-128.

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 automotive suppliers. The Group has **109** plants, **20** Research centers, **38** Development centers, **10** distribution platforms and employs **58,000** people in **27** countries worldwide.

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

valeo added™

Interview with Jacques Aschenbroich, Chief Executive Officer of Valeo.

What do you see as the key developments for Valeo in 2010?

J.A.: In 2010 Valeo's operational performance surpassed the targets set in the plan presented at the start of 2010. With sales of 9.6 billion euros, the Group achieved an operating margin of 6.4%, 2.8 points higher than it was before the economic downturn in 2009 on comparable sales and net income of 365 million euros, representing 3.8% of sales.

Valeo also generated net cash of 440 million euros with a 30% return on capital employed.

But the best news for 2010 is certainly the record order level of 12.5 billion euros: this shows our customers' confidence in our products - in particular our innovations in CO_2 emission reduction - and our organic growth potential.

What do you attribute these results to?

J.A.: The relevance of the two main growth areas upon which we have built our strategy was confirmed in 2010: CO_2 emission reduction products and expansion in Asia and emerging countries. Worldwide car production of 74 million passenger vehicles exceeded our expectations and we outperformed the market in our main production regions.

Amid this strong recovery, our strict cost management policy also enabled us to lower our breakeven point to below what it was before the 2009 economic downturn.

The Group set new targets for 2015 in March 2011. Are you confident Valeo can attain them?

J.A.: The Group set new targets for 2015 during our investor day on 9, March:

- Sales of around 14 billion euros, equating to average annual organic growth of 8%;
- An operating margin rate above 7%, and;
- Return on capital employed of more than 30%.

We are convinced that the Group can outperform worldwide car production by 3% a year between 2011-2015, due to the growing importance of the innovative products developed by Valeo, the market's ready acceptance of the technical solutions that Valeo brings to CO_2 emission reduction, and the Group's growth in Asia and emerging countries.

Valeo will also continue to implement its new organization and strict cost control.

We are confident we can achieve these targets and attain one of the highest sustained returns on capital employed in the sector.

All of the Group's employees, who have done a remarkable job of turning the Company around during a difficult year, are fully committed to achieving these new Group goals over the coming years.

Japan has gone through an unprecedented catastrophe. What message do you want to give to Valeo's Japanese employees and partners?

J.A.: My thoughts go out particularly to all those who are suffering during this terrible time, those who have lost loved ones or seen their homes damaged or destroyed.

I would first like to thank all Valeo employees, who have shown exemplary courage and determination when faced with multiple professional challenges while at the same time dealing with their own personal problems. I would then like to thank our suppliers, who have marshaled their efforts to bring production back on line, often amid difficult material circumstances. Lastly, I would like to thank our Japanese clients for their continued confidence in our products.

I have worked with Japan for over 30 years: I am sure that the country will emerge from this extraordinary challenge stronger than before. Valeo will continue to grow and reinforce its presence in Japan in the years to come, and will continue to support its Japanese clients around the world.

March 28, 2011

Jacques Aschenbroich

Chief Executive Officer

1

PRESENTATION OF VALEO AND ITS BUSINESSES

The elements of the annual financial report can be clearly identified in the table of contents using the AFR pictogram

1.A. Overview of Valeo

1.A.1. History and development of the Group

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.

The 1960s and 1970s

For SAFF, this was a time of development 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 Shareholders' Meeting, 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 Great Britain).
- 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 businesses (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 Priorities" method in 1991 (see "5 Priorities" in "Operational excellence", section 1.C.2.2.);
- a sustained Research and Development drive: in 1992, the Group set up an electronics research centre in Créteil (France) and an electronic module production site at Meung-sur-Loire (France). In 1993, Valeo opened Research and Development centers for lighting systems in Bobigny and for clutches in Saint-Ouen (France);
- increasingly 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.

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 joint venture clutch production companies 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 and Portugal).

The 2000s

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

As from 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 and compressor production businesses,
- Valeo increased its stakes in two Thai companies, Siam Zexel Co., Ltd. and Zexel Sales Thailand Co., Ltd. – specializing in climate control systems, to 74.9%
- Valeo formed a new 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,
- Valeo formed a joint venture with Hangsheng Electronics, a Chinese tier one automotive supplier, for the production of ultrasonic parking assistance 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

- Valeo sold its Electric Motors & Actuators business to the Japanese group Nidec, of its stake in Bluetooth specialist Parrot, and of Logitec, a logistics business in Japan.
- Valeo also acquired 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.
- Two joint ventures were launched in India: Valeo Minda Security Systems and Valeo Minda Electrical Systems India Private Limited.

2008

- Valeo sold its truck engine cooling division to EQT, a Northern European investment fund.
- Valeo set a joint venture with the Russian company Itelma, which supplies automotive parts to Russian manufacturers, in which Valeo holds a 95% stake.
- A joint venture with the Anand group to produce lighting systems was set up in India. 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 took place 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 a more important role for 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.

2010

- Sale of the headlamp leveling devices business to a group of investors supported by the European investment fund Syntegra Capital and the regional development fund Picardie Investissements.
- Sale of the Telma speed controller business, which manufactures electromagnetic retarders, to the current management team.
- Increase of Valeo's stake in the Indian electrical systems production company, now known as Valeo Engine and Electrical Systems India Private Ltd., to 100%.
- Presentation of the Group's new strategy on March 10, 2010, at an investors' day, based on two priorities for growth: reduction of CO_2 emissions and development in Asia and in emerging countries.

1.A.2. Legal structure

The Group's legal structure is based on three holding companies, which are interposed between the parent company, Valeo, and its operating subsidiaries: **Valeo Finance**, which holds shares in French companies and manages research projects, **Valeo Bayen**, whose purpose is to hold shares in foreign companies and, in doing so, succeeds **VIHBV**, registered in the Netherlands, which previously played the role of investor in foreign companies. One other holding company exists for historical reasons: Société de Participations Valeo.

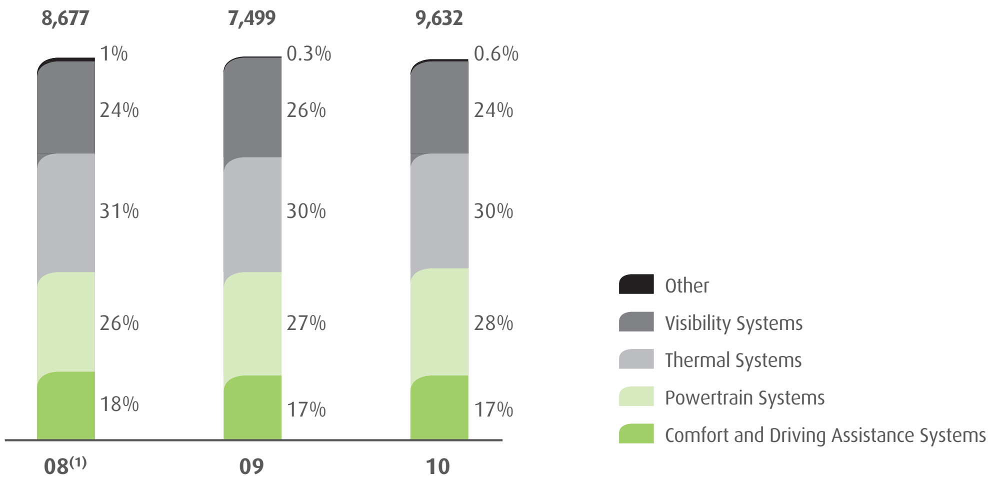
At an intermediate level, in some countries (Germany, Spain, United States, Italy, Czech Republic, United Kingdom, Japan), holdings are organized around one or several companies established in the country itself, which also play the role of holding company and hold shares, directly or indirectly in other 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 creation 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.B. Key figures

1.B.1. Net sales by Business Group

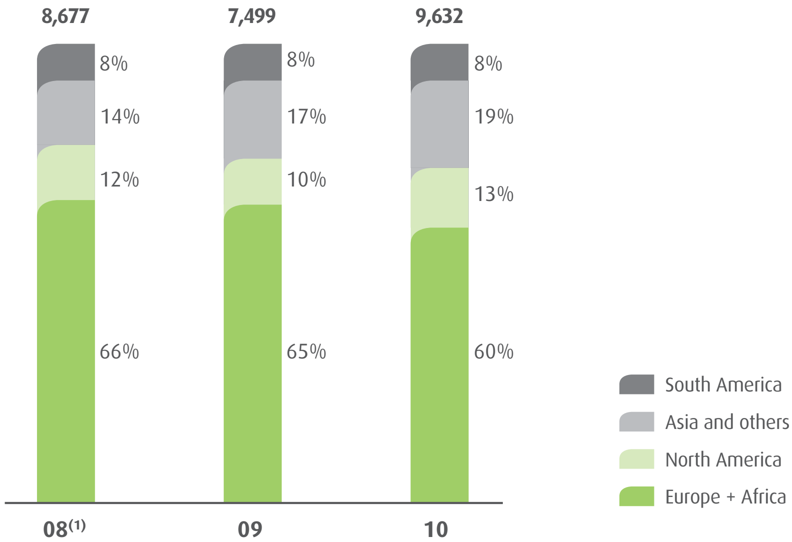
In millions of euros and as a % of net sales



(1) As from January 1, 2009, the Group has changed the presentation of its income statement, notably net sales. Other operating revenue is now classified mainly as a reduction from R&D expenditures. The figures for 2008 have been restated accordingly.

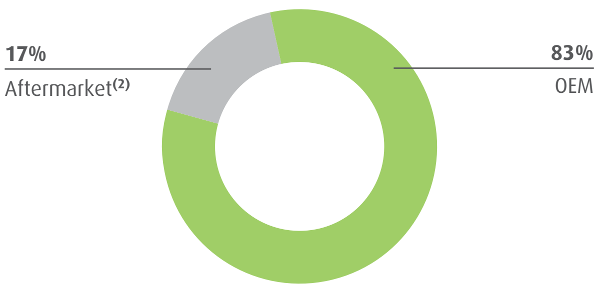
1.B.2. Net sales by region

In millions of euros and as a % of net sales



1.B.3. Net sales by market

As a % of net sales

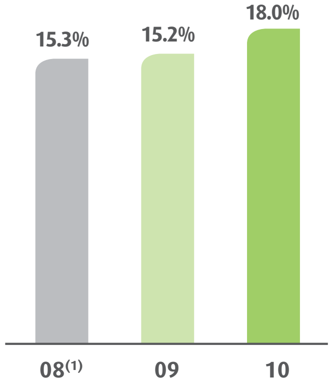


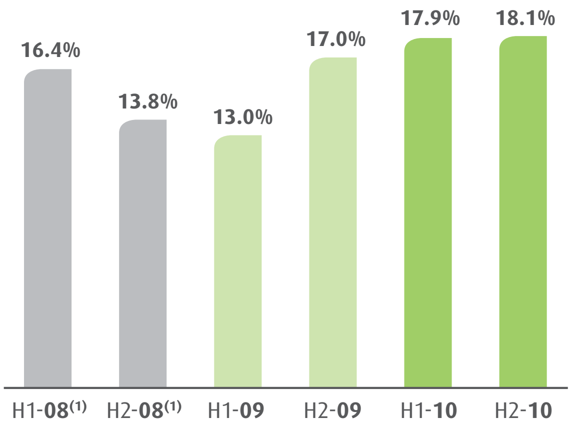
(1) As from January 1, 2009, the Group has changed the presentation of its income statement, notably net sales. Other operating revenue is now classified mainly as a reduction from R&D expenditures. The figures for 2008 have been restated accordingly.

(2) Including miscellaneous sales and tooling.

1.B.4. Gross margin

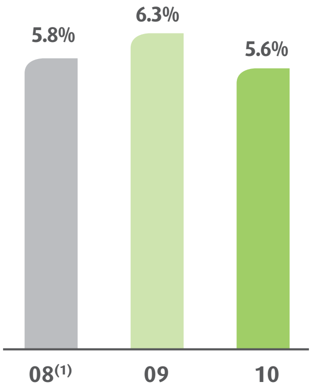
As a % of net sales





1.B.5. Research and development costs

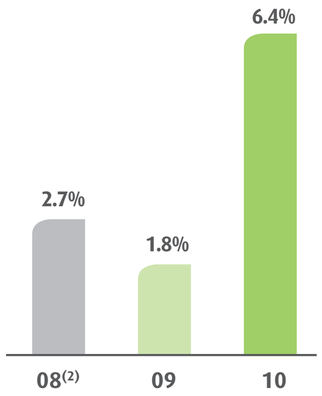
As a % of net sales

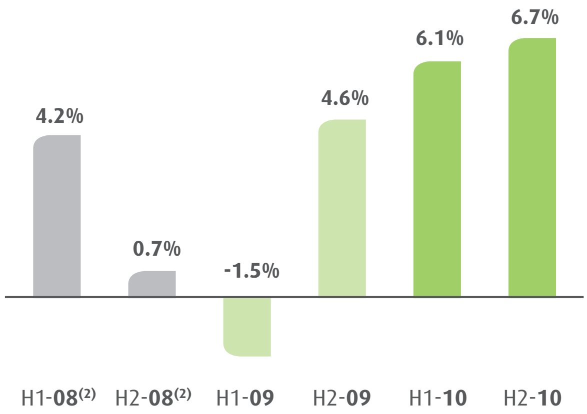


(1) As from January 1, 2009, the Group has changed the presentation of its income statement, notably net sales. Other operating revenue is now classified mainly as a reduction from R&D expenditures. The figures for 2008 have been restated accordingly.

1.B.6. Operating margin[1]

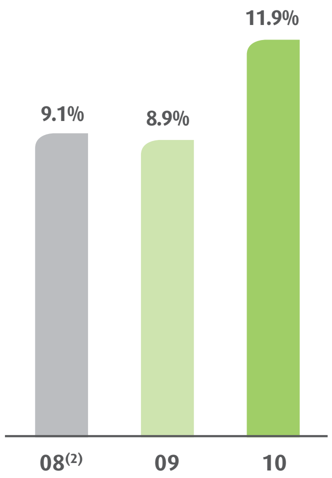
As a % of net sales

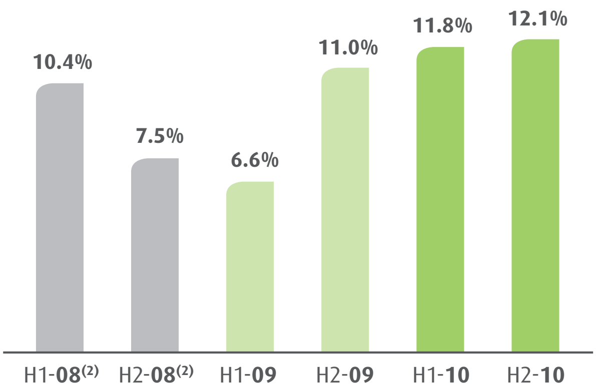




1.B.7. EBITDA[3]

As a % of net sales





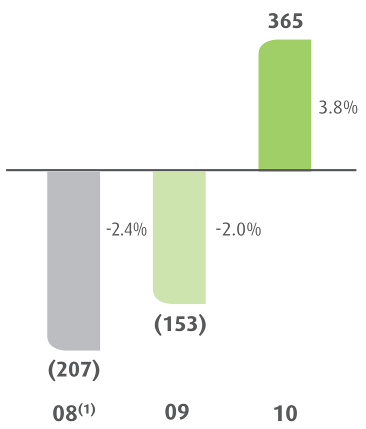
(1) The Group's operating margin corresponds to operating income before other income and expenses (see Note 4.5 to the consolidated financial statements, Chapter 5, section 5.B.6).

(2) As from January 1, 2009, the Group has changed the presentation of its income statement, notably net sales. Other operating revenue is now classified mainly as a reduction from R&D experditures. The figures for 2008 have been restated accordingly.

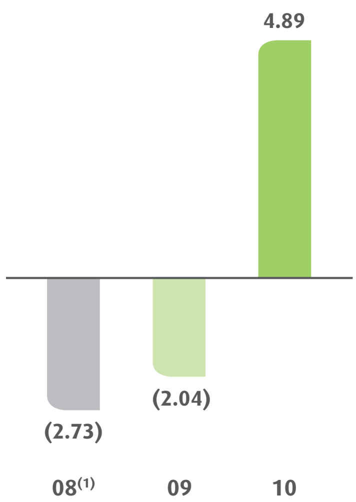
(3) EBITDA corresponds to operating income before amortization, depreciation, impairment losses, and other income and expenses (see Note 3.2 to the consolidated financial statements, Chapter 5, section 5.B.6).

1.B.8. Net attribuable income

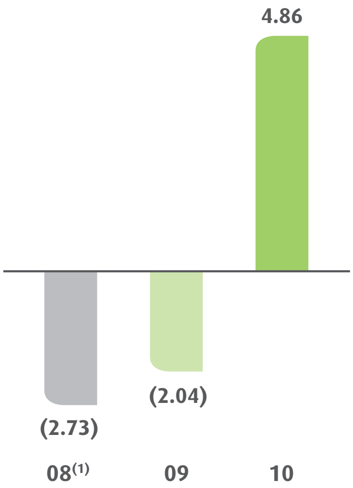
In millions of euros and as a % of net sales



1.B.9. Earnings per share from continuing operations (euro/share)

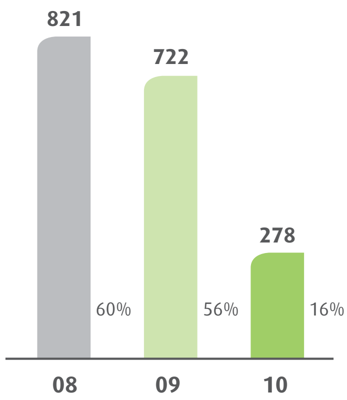


1.B.10. Earnings per share (euro/share)



1.B.11. Net debt[2]

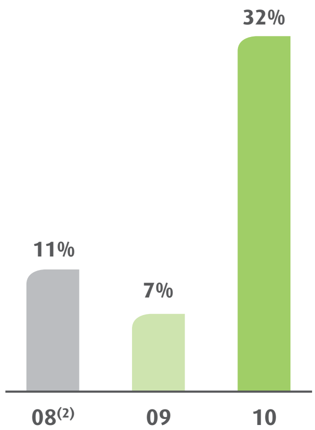
In millions of euros and % of equity



(1) As from January 1, 2009, the Group has changed the presentation of its income statement, notably net sales. Other operating revenue is now classified mainly as a reduction from R&D experditures. The figures for 2008 have been restated accordingly.

(2) Net debt comprises all long-term debt (including the current portion) and short-term debt, less loans, other non-current financial assets and cash and cash equivalents (see Note 5.10.5 to the consolidated financial statements, Chapter 5, section 5.B.6).

1.B.12. ROCE (Return on capital employed)(1)



(1) The ROCE is the ratio of operating margin to capital employed excluding goodwill.

(2) As from January 1, 2009, the Group has changed the presentation of its income statement, notably net sales. Other operating revenue is now classified mainly as a reduction from R&D expenditures. The figures for 2008 have been restated accordingly.

1.C. Presentation of Valeo

1.C.1. Description and organization

1.C.1.1. Group profile and structure

Valeo is an independent industrial Group fully focused on the design, manufacture and sale of components, integrated systems and modules for automobiles and heavy goods vehicles, in both the original equipment and aftermarket segments. It ranks among the world's leading automotive suppliers.

At December 31, 2010, the Group had 109 plants, 20 Research centers, 38 Development centers and 10 distribution platforms and employed 57,930 people in 27 countries worldwide.

1.C.1.2. The Group's operational structure

The Group's operational structure is based on four Business Groups, the aftermarket business, Valeo Service, and National Directorates, whose role has been reinforced.

1.C.1.2.1. The operational structure

The Group's operational organization is broken down as follows: Group, Business Groups, Product Groups, Product Lines and Regional Operations.

The Group defines strategic orientation and decides on the allocation of resources among the Business Groups. It oversees the deployment of the Group standards and policies, with the support of the functional networks. It analyzes and directs the Business Groups, and assures consistent sales and industrial policies.

The Business Groups are responsible for business growth and operating performance of the Product Groups and Product Lines that they manage, across the globe. They provide technological road maps to the Group. With support from National Directorates, they coordinate between Product Groups and Product Lines, in particular the pooling of resources, the allocation of R&D efforts and the optimization of production resources on the industrial sites. Each of the 4 Business Groups is structured to reinforce co-operation and stimulate growth for all the Product Groups worldwide.

The **Product Groups and Product Lines** manage their activities and can draw on all the development, production and marketing resources needed to fulfill their objectives.

The **Regional operations** manage operations of a Business Group for a given region.

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

1.C.1.2.2. National Directorates

The **National Directorates** are tasked with ensuring the Group's growth in their respective countries, and are the interface with local customers. They also manage all the services which support operational activities in the country.

1.C.1.2.3. Aftermarket activity

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

See section 1.D of this Chapter for more information on the Business Groups and the aftermarket business.

1.C.1.3. The Group's functional structure

The Group's functional structure is as follows:

The **Finance Department** oversees management control, accounting, financial reporting, financing activities and cash management, taxation, financial communications, strategic operations, IT systems, procurement and the area of risk, insurance and the environment;

The **Human Resources Department** is centered on workplace relations, career development, training and skills managment and employee involvement;

The **Chief Operating Officer's office** is responsible for the four operations Business Groups and Valeo Service and oversees the Industrial, Logistic and Quality functions;

Research & Development and Product Marketing directs the Group's innovation program as well as methods and product development tools;

The **Sales and Business Development Department** is organized around four main areas: a Sales Department for each Business Group, Customer Directors dedicated to each major automaker, National Directorates for each geographical aera, and an International Development Department for Business Group;

The **Legal Department** ensures compliance with Group procedures and with legal regulations;

The **Corporate Strategy and Planning Department** coordinates the Group's strategic planning, in liaison with all the functional departments and Business Groups; in particular for preparing the medium-term plan and determining the Group's profitability and the main areas of organic and external growth.

The Heads of these functions, of the Business Groups and of Valeo Service are members of an Operations Committee (see Chapter 4, section 4.A.1.1).

1.C.2. Valeo's functional networks: tasks and achievements

1.C.2.1. Human Resources

Human Resources is responsible for skills management (recruitment, compensation, internal mobility and team motivation), 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 commitment 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.

1.C.2.1.1. Management development

The Group’s new organization, rolled out in October 2010, improves the HR network’s ability to develop the Company’s most talented staff, which is one of the function’s essential activities, particularly in the Business Groups and at the country level. To this end, the role of the HR teams at the country level has been extended so that they can work to best support the Group’s development locally. The HR teams have been strengthened in high-growth markets that are growing strongly (Germany, Brazil, China, India, Mexico, Poland). The skills 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.

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

Recruitment and relations with schools and universities

Recruiting the best talent in the field of technologies related to reducing CO_2 emissions and in fast growing emerging markets, in particular the emerging countries, in order to support its international development and innovation strategy is a key factor for Valeo’s success. 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 2010, Valeo recruited 10,676 employees throughout the world (of whom 5,063 are on fixed-term contracts) including 1,592 engineers and managers, bringing to the Group new skills that will support its international development.

Valeo has maintained its policy of relations with higher education institutes, in particular **by developing partnerships with universities and schools** of international renown, and fostering diversity within its workforce. In 2010, the Group took part in many events targeting future graduates school forums at: Arts et Métiers ParisTech, Audencia, Centrale Paris-Supélec, EDHEC, ESEO, Supméca, Sup’Optique and UTC (France); the international corporate volunteers forum organized by UbiFrance; a training forum with CEFIPA and ESIEE (France); events held at 11 universities in China (in, among others, Shanghai, Wuhan, Chengdu), Japan and India; and the Franco-German forum held in Strasbourg.

Valeo also sponsors the *Ingénieur d’Audencia Nantes* network, which allows graduate engineers to qualify at this renowned business school through a specific studies course.

The Group was also represented at the “Top Women, Top Careers” forum in Brussels, with the objective of attracting applications from female engineers or those seeking a career in industry. Valeo also sponsors the *Elles bougent* association which promotes careers in the transport sector among female high school graduates; and Valeo helped to organize the *Elles Bougent au Mondial de l’automobile* day, which allowed some 100 female high school and university students to attend events where businesses were presented with the aid of the Valeo sponsors.

Valeo took an active part in the campaign to promote aftermarket businesses conducted by the FIEV (*Fédération des Industries des Équipements pour Véhicules*), which produced a brochure on this topic, including testimonials from Valeo.

Valeo also signed a collaboration agreement with the IFP School (*École du Pétrole et des Moteurs*), which foresees the development of joint teaching courses in the field of automotive automobile technologies.

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 Shanghai (China) in December 2010.

Internal mobility and personal development

To offer attractive career prospects to the **11,375 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 strongly encouraged in 2010, in particular as part of the implementation of the new organization.

A succession and development plan is drawn up each year, in order to identify the next stages in the career path of each engineer and manager. This 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, **2,099 engineers and managers** benefited from career development actions in 2010.

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. With this in mind, the Group has set up a shared services center devoted to managing international mobility, in order to provide high level support to these moves.

The system for recognizing Experts (products or processes) introduced in 1997 led to the appointment in 2010 of 63 new Experts, the promotion of 8 Experts to a higher status, and the renewal of 134 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.

Compensation 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 compensation to its employees throughout the world. The Group maintains competitive salaries in particularly volatile employment markets such as Brazil, China, Egypt, India, Romania, Russia and Slovakia, while also adapting its employee benefits in countries like Romania. Valeo's human resources rules are constantly reviewed and updated to adapt to countries in which the Group is newly established.

1.C.2.1.2. Personnel training and 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 Five Priorities 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 communications. 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. Valeo has also developed special training courses to develop managerial skills in change management and has produced its executive training program, carried out with the CEDEP (*Centre Européen d'Education Permanente*, a permanent education center that works with INSEAD).

1.C.2.1.3. The 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 Global Compact.** Valeo has also undertaken to promote the fundamental rights expressed in the Universal Declaration of Human Rights, human dignity and value, respect for 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.

The Group has set up an alert procedure to inform it of any unethical situations. For each alert, an enquiry is opened, driven and coordinated by the Group and the HR network.

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.

1.C.2.1.4. Well-being at work

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

On March 9, 2010, Valeo signed a method agreement with French unions that has continued with the negotiation and signing of a Group agreement on "Wellbeing at work" on October 13, 2010. This agreement aims to:

- Reaffirm the Valeo Group's commitment to the physical and mental wellbeing of its employees;
- Define an approach for assessing psychosocial risks in the Company;
- Define a list of measures aimed at improving wellbeing at work.

Accordingly, a social climate survey covering all French employees was carried out in the last quarter of 2010. Following this quantitative analysis, a series of qualitative interviews took place in the first quarter of 2011 in order to draw up a psychosocial risks roadmap. The "Well-being at work" committees set up in 2010 in each establishment will be responsible for defining and implementing local action plans during 2011, with a view to addressing their own issues.

A course for all members of the "Well-being at work" committees began in 2010 and will be continued in 2011. A video to raise awareness amongst employees and managers of psychosocial risks will also be circulated during the first half of 2011.

1.C.2.1.5. Labor relations

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

Within the framework of optimizing its industrial base, the Group actively seeks solutions that will provide alternative jobs for employees affected: transfers within the Group, training courses leading to qualifications, 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 2010, Valeo started to implement its new organization, based on four major Business Groups. The Group's Management investigated all possible measures in order to minimize job losses.

The Group's social indicators are set out in Chapter 3, section 3.B.

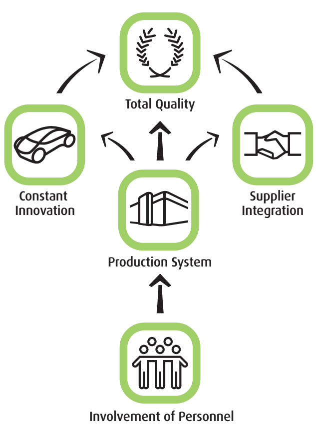
1.C.2.2. Operational excellence

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

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

- **Personnel Involvement**: 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;
- **The Valeo Production System (VPS):** the 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, to develop productivity plans with suppliers and improve quality. 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 expectations in terms of product and service quality, Total Quality is required throughout the Group and from its suppliers.

5 PRIORITIES



FOR CUSTOMER SATISFACTION

In 2010, Group Quality function focused on 10 key points to deploy across all Group sites in terms of operational excellence.

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

The seven other essential points are:

- **the 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;
- **"Level 3 QRQC" certification of the teams**: this allows qualitative measurement of individual capacity to ensure the implementation of the Group's Quality approach. Valeo teams therefore have access to a growing number of instructors/certifying officers to accelerate Group culture and establish it in the long term;
- **compliant project management**: 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;
- **the 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 product and process characteristics was developed and put in place in all project teams (Built In Quality Program). In addition, the testing of said characteristics, known as SPPC (Special Product and Process Characteristics), was implemented internally by Valeo, but also by its suppliers, by making communication, assessment and measurement standards available to teams. In 2010, this process was applied to all projects;
- **an appropriate supply base**: suppliers are selected according to several criteria which were updated in 2009, including their ability to supply Valeo with the highest quality components, as well as their financial stability and capacity for ongoing improvement;
- **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 distributed to reinforce the definition of the Group's quality requirements in development processes among our Supplier Quality teams. In addition, all specifications and the associated checks, and more particularly in relation to "critical" characteristics, are included in the VRF (Valeo Requirement File). Valeo also continued to deploy tools to help its suppliers improve their own quality processes. Valeo's QRQC (Quick Response

Quality Control) approach continues to be implemented to assist suppliers in achieving "zero defects";

- **the *San Gen Shugi* approach**: all sites and functional networks adhere to the principle of 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 an intranet search tool.

The results of the 5 Priorities approach are measure by an internal audit. For the past 10 years, Valeo has developed its own standards to analyze and improve the application of each of the 5 Priorities.

1.C.2.2.1. Purchasing

In order to give Valeo's strategy a truly competitive edge, the role of the Purchasing Department 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.

In the fourth quarter of 2010, the new Purchasing Department was rolled out across the Group.

Six Commodity Purchasing Directors (Purchasing Family) were appointed to lead the cross-departmental purchasing teams spread out in each key area of the world. Each is responsible for defining the strategy for one of the six main commodities and for managing all the Group's activities related to integrating its suppliers.

The six commodities relate to:

- Steel and conversion;
- Plastics and conversion;
- Non-ferrous metals and conversion;
- Electromechanics;
- Electronics;
- Indirect purchases.

This in-depth organizational change is aimed at improving the globalization of the Purchasing function at Group level, in order to accelerate the convergence of new business on strategic suppliers and justify greater competitive efforts on their part at the planning phase, where they will be integrated sooner.

Valeo has continued to deploy 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 2010, Valeo instituted a new strategy referred to as Supplier Quality Step Up in order to improve the quality of its suppliers. Valeo thus brought its expertise, covering key commodities, to 60 of its suppliers, who accounted for 35% of the Group's supplier incidents. A technical analysis of the gap existing between the supplier's technology and best practices in the automotive industry was carried out when this program was launched. A quality improvement plan was written as a result and is reviewed periodically to ensure continuous progress. In particular, implementing this new strategy allowed supplier incidents to be reduced by 25% compared with 2009.

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 (qualification of new components in projects) and the Supplier Scorecard (quality performance, cost and delivery timeframe) can be accessed on a secure extranet. These enable 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 2010, the Group, with its new organization, set a new objective to streamline the supply base, which aims at reducing by 30% the number of suppliers accounting for 95% of its purchases, over the next 3 years.

In line with its Code of Ethics, Valeo further tightened the requirements imposed on its suppliers in terms of labor rights and environmental protection. All production suppliers, accounting for 95% of Valeo's net revenue, signed the SCSD (Supply Chain Sustainable Development) Code on December 31, 2010, or have forwarded their own codes compatible with the UN charter.

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 jointly consider how to incorporate them into new projects.

Valeo has increased its sourcing from competitive-cost regions. These purchases are up by 30% compared with 2009. This result has been obtained through the presence of the Purchasing network at Valeo's sites in the various regions of the world where its customers are based.

1.C.2.2.2. Industrial and Logistics

The role of the Industrial and Logistics 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 industrial operations and the deployment of a Total Quality culture.

In 2010, Valeo continued to implement its plan to standardize processes and equipment, 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 to products' value-added, 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. It helps reduce the number of accidents at the Group's plants.

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, 2010 saw the continued introduction of pull flow lines in order to reduce inventories, 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.

The ongoing introduction of assembly to order and the widespread roll out of the truck image helped maintain the plant service rate above 99%.

The implementation of sequential flows has also started on some sites. This organization will be implemented wherever possible in 2011.

1.C.2.2.3. Quality

Quality is a key demand from consumers and automakers. It is a prime concern for all Group employees on a daily basis: it is the cornerstone of Valeo's 5 Priorities 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 each of the Group's 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 systemic approach, the Quality network ensures that the organization responds quickly to problems affecting the Group's customers. It also promotes and provides the necessary support for implementing the tools whithin the Quality anticipation strategy, in order to pre-empt customers issues.

The Valeo Quality network operates as a decentralized network and involves each of the 5 Priorities:

- 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, and develop its skills and abilities by instilling the QRQC spirit into the teams making up all the networks. With this in mind, Level 3 QRQC, which is a method of coaching in problem-solving tools, was implemented 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 2010, the Group had 80 resident engineers: 51 in Europe, 12 in North America, 13 in Asia and 4 in South America. Among these 80, a team of 12 project and warranty resident engineers, as part of a resident engineers program, have also joined customer teams either at the headquarters or in their warranty management centers.

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 an approach based on reality: *Gen-ba* (where and when a problem arises) *Gen-butsu* (with actual parts involved, whether above or below the standard) and *Gen-jitsu* (with measurable facts). This attitude is founded on both individual responsibility and teamwork;
- it also relies on 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 once and for all. These meetings involve employees from the various functions, as required: production, logistics, maintenance, etc.

At the end of 2010, the Group's Quality level reached a historic record of 7,300 PPB (defective parts per billion), an improvement of almost 50% compared with 2008, and stable compared with 2009.

1.C.2.3. Sales and Business Development

Valeo develops, produces and sells original equipment and aftermarket products and systems for all automotive 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.

1.C.2.3.1. Automaker customers

In 2010, the Group's German customers were its leading customers, representing 28% of revenue. French customers (excluding Nissan) represented 23% of Group revenue. Asian and American customers represented 22% and 18% of Group sales respectively.

The Group's biggest customer represents 20% of Valeo's revenue.

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

- BMW;
- Chery;
- Daimler;
- Fiat/Chrysler;
- Ford Motor Company;
- Geely/Volvo Cars;
- General Motors;
- Honda;
- Hyundai;
- MAN;
- Mazda;
- Mitsubishi;
- PSA Peugeot Citroen;
- Renault-Nissan;
- Subaru;
- Suzuki;
- Tata Motors/Jaguar/Land Rover;
- Toyota;
- Volkswagen Group/Porsche
- Volvo Trucks.

1.C.2.3.2. Strategy and Organization

In 2010, the Sales and Business Development strategy focused on:

- **generating new orders:** 2010 was a record year for orders, reflecting the success of the Group's strategy for its two growth priorities, which are: selling innovative products which reduce CO_2 emissions, and expanding in emerging countries. Orders taken increased substantially in all areas: Europe, North America, South America and Asia, mainly China.
- **concentrating efforts on growth in emerging countries:** in 2010, the Sales and Business Development network stepped up its efforts among customers in emerging countries, mainly in India, China, ASEAN, Russia and Turkey, with a number of achievments in all these areas, both with its traditional customers, by following their international growth, and with local automakers, in particular in China and India.
- **selling of products aimed at reducing CO_2 emissions have been very successful,** in particular in the Group's traditional markets. There were also significant orders in 2010 for innovative driving assistance products.

In line with this strategy, Sales and Business Development was reorganized in 2010 around its four networks:

- **the Sales and Business Development network,** consisting of four Sales Directors attached to each of the four Business Group's Managment teams, as well as the Sales Directors for each Product Group. This network is responsible for defining the sales strategy to be implemented, as well as day to day customer relations, with a global customer-focused organization, both for the Business Groups and for each Product Group;
- **the Group's Customer Directors,** who are the Commercial Directors responsible for the key automaker customers; there are ten of these. Each represents Valeo in its dealing with a given automaker and coordinates relations with this customer across all departments in the Group's Business Groups;
- **National Directorates,** whose aim is to promote the Valeo brand and establish close relationships with the key customers in their geographical aera and, if necessary, resolve locally any legal or labor issues. There are thirteen National Directorates, based in Germany, North America, South America, China, South Korea, Spain, India, Italy, Japan, Poland, Turkey, Thailand for ASEAN (Association of South-East Asian Nations) and Russia.

The role of the National Directorates was reinforced in 2010, with the aim of optimizing the Group's presence among national automakers.

- **the International Business Development network,** which consists of four International Development Directors for the Group's four Business Groups. It identifies market opportunities in emerging countries, defines and implements the external growth strategy for the Business Groups and manages relations with external partners.

1.C.2.4. The Risk, Insurance, Environment, Health and Safety function

1.C.2.4.1. Risks Management and Insurance

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

The Risk Insurance Environment Department has instituted a dedicated structure which relies on Health, Safety and Environment (HSE) managers assigned to each Valeo Business Group and their sites. Each Business Group HSE Manager provides technical support to the site HSE managers. **The Risk Management Committee,** whose members are the Business Group HSE managers and the Director, is the central steering body of the Group's Risk Insurance Environment Department.

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

To achieve its objectives and bring risk levels down to zero, continuous visibility is necessary. Each site therefore undergoes regular external audits covering the environment, health and safety at work, and the protection and safety of the facilities. These audits are carried out by external consultants in accordance with local obligations, Group policy and good practice. They provide useful and detailed information, especially related to environmental issues, site activity, the surrounding area and its natural environment: geology, seismic risks, flood risk areas, etc. Actions to be undertaken and associated action plans are established on the basis of these audits.

In 2010, a computerized risk management system was tested, in order to track more accurately changes to site action plans resulting from external audit recommendations. A self-assessment system in the form of a roadmap has also been instituted, so that each site can assess its own performance.

The Risks Insurance Environment Department thus has a precise and complete reporting procedure for measuring site performances. This performance is measured by means of a rating based on objective and factual criteria. Risks that might impact Valeo's business are set out in Chapter 2, section 2.A.2 "Industrial and environmental risks".

1.C.2.4.2. 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 and biodiversity through a consistent sustainable development policy, notably by reducing consumption of energy and natural resources (water and raw materials), reducing greenhouse gas emissions, particularly CO_2, 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 always incorporates an environmental approach to all the stages in the life of its products and processes: design, production, use and end of life management. Since 1998, a group of experts in Environmental matters and Research and Development from different Valeo Business Groups 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 regulated substances, the use of recycled plastics, or compliance with the REACH regulations (Registration, Evaluation, Authorization and Restriction of Chemicals): this requires listing the chemicals purchased or produced by the Company, assessing the toxicological risk associated with their use and, where relevant, requesting a license to put it on the market.
- Valeo has also created a reference database of substances that are banned or restricted in the automotive industry. Updated again in 2010 and scheduled for further reviews in 2011, this database details the regulations applicable in the different countries where Valeo operates and the requirements of its automaker customers concerning those 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. **98% of sites were ISO 14001 certified at the end of 2010** compared with 89% at the end of 2009. 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.

For a complete list of the Group's environmental indicators, see Chapter 3, section 3.A. – "Environmental Policy and Sustainable Development".

1.C.2.4.3. Health & 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 the QRQC approach applied to health and safety at work, and finally, an OHSAS 18001 certification process for all industrial sites.

At the end of 2010, 89% of sites were certified, compared with 81% at the end of 2009. Like the ISO system, this health and safety management system is based on continuous improvement.

1.C.3. Research and Development

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 value-added for drivers: improved comfort, safety, performance and respect for the environment.

With this in mind, the search for solutions that will reduce fuel consumption is the fundamental priority for Valeo's R&D teams. This is materialized both by continuous improvement of all existing products (volume gains and energy efficiency improvement), but above all by new ground-breaking approaches from which innovations bringing very significant fuel consumption benefits emerge. This approach covers the technologies and components, as well as complete sub-systems and systems, extending to the vehicle in its entirety, connected to and communicating with its environment.

Valeo's Business Groups are thus working in harmony with new system approaches, in particular in the research phases. This is also the case with an increasing number of partners, manufacturers and research institutes.

Valeo's R&D centers are located throughout the world. At the end of 2010, the Group had 20 Research centers and 38 Development centers, with a total headcount of over 6,200.

In 2010, Research and Development expenses, net of customer contribution and net of subsidies and tax credits, represented 5.6% of revenue, and 612 new patents were filed. Less than 4% of the Group's revenue rely on external patents or licenses.

1.C.3.1. Research and Development policy

In line with market expectations, Valeo's Research and Development is focused on 3 main topics:

- Reduction of CO_2 emissions, which is broken down into several priorities :
  - in the internal combustion engine field, Valeo contributes to the design of new low-consumption motorizations (direct injection, supercharged engines with few cylinders), the objective being to meet future European requirements (maximum emission level of 95g of CO_2/km in 2020), in particular through new gasoline engine management systems, depollution systems (EGR - Exhaust Gas Recycling), engine combustion management and transmissions (acyclism filtering solutions, especially with 3-cylinder engines),
  - a second research priority is to power accessories (pumps, valves, compressor, etc.) with electricity, with the aim of strictly limiting consumption to need, and to significantly improve alternator efficiency,
  - Valeo is now an indisputable player in the hybrid combustion engine field, with its micro-hybrid solutions (i-Stars integrated alternator/starter motor and Re-Start reinforced starter motor) and more recently mild-hybrids (8-15kW) associated with new electrical energy management strategies and associated storage devices (batteries or ultra-capacities),
  - Valeo, with its Electric Vehicle Consortium partners (Leroy Sommer, Johnson Controls-Saft, GKN, Michelin, Leoni), is continuing to develop integrated solutions for power electronics (inverters - chargers, converters) and climate control solutions (with heat pump) for future electric vehicles. The objective is to significantly increase vehicles travel range, in particular in difficult weather conditions (cold/hot),
  - more recently, Valeo has developed new innovative solutions for recovering energy lost during vehicle braking or energy lost in exhaust from internal combustion engines (*Exhaust heat recovery*), in order to work towards achieving maximum use of the on-board energy;
- Weight reduction and the energy budget:
  - reducing the weight of parts has recently become an important priority for electric vehicles (lower weight means greater travel range), but for a long time it has been a permanent R&D objective for Valeo's engineers. In this context, Valeo aims to use new materials (technical plastics under engine covers, light alloys, etc.), develop new designs to increase mass or volume power ratings (electric motors, power electronics, etc.) an incorporate features to reduce volume and weight. This also involves more conventional product lines such as wipers (AquaBlade® solution) or LED lighting systems,
  - Valeo is also developing new approaches aimed at optimizing vehicle energy budgets with the use of virtual simulation platforms. This approach enables overall optimization of the vehicle energy budget, taking into account operations and synergies between the different systems while in use (for example, between the engine and its combustion system and/or the air conditioning system). This is how new technological solutions emerge and new strategies are proposed (for example, optimizing the energy recovery phases while the vehicle is braking and accelerating, in particular for hybrid motorizations).

- Intelligent driving, for which the main levers are as follows:
  - Valeo is continuing to develop its range of components and systems (ultrasound sensors, radars, cameras) with, in particular, new data fusion techniques aimed at improving the modeling and integration of the environment close to the vehicle, in particular in an urban environment,
  - Valeo expands its product offering each year (Park4U™, 360 Vue™) adding increasingly sophisticated assisted driving features in order to increase comfort and safety in the urban environment. In the near future, these driving modes will also take into account minimum energy consumption targets in line with the powertrain system, in this way contributing to the CO_2 reduction,
  - With various partners, Valeo is also developing innovative human-machine interfaces (HMI) that will accompany the imminent emergence of the connected and communicating vehicle, for example, the smart phone connected and controlled by an on-board touchscreen, the "Smart key-Smart phone concept", the Smart phone NFC (Near Field Communication) controlling access to the vehicle, and the "Always Connected" concept (in particular for the electric car) in order to manage the battery charge state, program its route or control the car's thermal preconditioning.

1.C.3.2. Valeo listens to consumers

In order to anticipate consumer needs and societal changes, and to refocus its product strategy accordingly, Valeo takes a proactive approache based on five types of studies:

- focus groups through which a qualitative survey can be performed by means of group meetings and enabling consumers' attitude towards a new product to be analyzed;
- societal surveys segmenting the automotive market and positioning Valeo innovations within it;
- online surveys sent directly to end customers and intended to assess approval of the Group's innovations;
- consumer clinics to test products and validate new features developed by Valeo in a real situation;
- 2030 scenarios in order to understand and anticipate changes to powertrain systems.

1.C.3.3. Actions taken in 2010

In 2010, Valeo continued its R&D efforts, taking the following actions:

- Faced with an ever more demanding market in terms of new products, Valeo has developed the necessary processes 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.
- Valeo maintained its partnerships with a number of leading universities and schools such as l'École des Mines – ParisTech and ESIGELEC, in France, for electronics.
- Valeo proposed projects for "competitive clusters" on themes relating to energy, power trains, mechatronics, software, as well as safety, comfort and connectivity. Regarding energy and powertrains, Valeo is also working on future combustion engines, on hybrid and electric cars and on electrification of accessories. Valeo also invested in the governance of some of these groups (MOVEO, System@tic Paris-Région), which enables Valeo to help bring universities, industry and research closer together.
- Valeo and IFP Energies nouvelles have signed a framework agreement in the field of Powertrain Systems concerning both internal combustion engines and hybrid and electric motorization systems. Taking advanatage of their complementarity, this collaboration will allow both partners to increase their understanding and their technical vision of the market for Powertrain Systems and to jointly develop the powertrain technologies and systems for tomorrow.
- Valeo signed a cooperation, development and license agreement with Ibeo Automotive Systems GmbH in the laser scanner technology field. This agreement will give Valeo exclusive access to Ibeo's expertise and know-how and enable Ibeo's laser scanner technology to be developed for production applications. This Ibeo technology will complement the Valeo range of radar, infrared, ultrasound and vision sensor systems.
- In 2010, Valeo participated in more than forty collaborative research programs, having received a subsidy, of which more than half related directly to CO_2 reduction and low-CO_2 vehicles. More than 60 partners - research laboratories or innovative small and medium size companies - participated in these programs alongside Valeo.
- At the end of 2010, Valeo had four specialist development centers – "Group Technical Service Centers" serving the entire Group: in Egypt, on the Cairo site for software development; in India on the Chennai site for mechanical design and simulation; in China on the Wuhan sites for mechanical design and simulation dedicated to lighting and on the Shenzen site for electronic circuit design. The headcount for these activities doubled in 2010, resulting in the implementation of one of the Group's priorities over this period.

1.C.4. Industrial footprint and real estate portfolio

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

In 2010, Valeo continued the deployment of its sites as part of its globalization strategy and approach to accompanying its automaker customers around the world.

1.C.4.1. Production, R&D and distribution sites

Geographic distribution at 12/31/2010

	Production plants	Research centers	Development centers	Distribution platforms	Number of employees
Western Europe					
Germany, Belgium/Netherlands, Spain, France, Ireland, Italy, United Kingdom	42	16	15	5	24,200
Eastern Europe					
Hungary, Poland, Czech Republic, Romania, Russia, Slovakia, Turkey	14		4	3	9,592
North America					
United States, Mexico	13	1	5		6,213
South America					
Argentina, Brazil	8		4	1	4,382
Asia					
China, South Korea, India, Japan, Thailand	29	3	9	1	12,115
Africa					
South Africa, Egypt, Tunisia	3		1		1,428
TOTAL	**109**	**20**	**38**	**10**	**57,930**

1.C.4.2. Real estate portfolio

At December 31, 2010, the Group's real estate portfolio (land and buildings) had a net book value of 538 million euros (see Chapter 5, section 5.B.6, Note 5.3 to the consolidated financial statements). 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, 2010, they had a net book value of 845 million euros, excluding fixed assets under construction (see Chapter 5, section 5.B.6, Note 5.3 to the consolidated financial statements).

Environmental constraints result from the regulations applicable in this area to all Group establishments (see Chapter 1, section 1.C.2.4.2 "Environment"; Chapter 2, section 2.A.2 "Industrial and environmental risks" and Chapter 3, section 3.A. "Environmental policy and sustainable development").

1.C.5. Investments over the past three years

1.C.5.1. 2010

As from the year ended December 31, 2010, it is deemed more relevant to present the book value of recognized investments. Divestments are summarized for the data relating to 2008 and 2009.

In 2010, investments in property, plant and equipment stood at 318 million euros(1), or 3.3% of total sales. The Group invested heavily in additional capacity in the Powertrain Systems Business Group to develop its torque converter businesses in Mexico and in China and to develop micro-hybrid systems development (39 million euros). In the Comfort & Driving Assistance Systems Business Group, the Groups invested in ultrasonic sensor and camera capability lines (12 million euros).

In order to take advantage of potential future growth, investment in emerging countries, mainly in Asia, Eastern Europe and Mexico, remained high, represented approximately 50% of the amounts invested.

Investment in intangible assets reached 150 million euros(1), corresponding to 1.6% of revenue, including 143 million euros corresponding to capitalized development expenses.

On May 19, 2010, Valeo acquired a 33.3% stake in the Indian electrical systems production company based at Pune, owned by the N.K. Minda Group, thus raising its stake to 100%.

Valeo made no significant investments nor did it take a controlling interest in any companies headquartered in France.

In 2011, given that the order book reached a historic high in 2010, Valeo plans to increase its capital investments in 2011, particularly in order to adapt Group production capacity to meet demand in high-growth areas (Asia and emerging economies).

1.C.5.2. 2009

In 2009, investments in property, plant and equipment stood at 324 million euros(1), or 4.3% of total sales (divestments of 304 million euros). Given the decline in business, investments in capacity were lower than in 2008. However, the Group did make major capacity investments in the Powertrain Systems Business Group to develop the torque converter businesses 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 and Brazil, remained high at more than 5% of total sales, in order to take advantage of the potential for future growth.

Investments in intangible assets stood at 155 million euros(1) (divestments of 150 million euros) including 147 million euros of capitalized development expenditure, representing an increase from 1.7% of sales in 2008 to 2% in 2009.

1.C.5.3. 2008

In 2008, the Group invested 478 million euros in property, plant and equipment, or 5.5% of revenue (divestments of 468 million euros). The Group made major investments related to the development of production capacity for new products in 2008. These investments concerned several Product Families: Transmissions, with the installation of capacity in torque converters in Mexico and in China, Electrical Systems for future micro-hybrid StARS production, Interior Controls for ultrasound sensors production in Germany and Security Systems, with completion of a plant in Slovakia that supplies door closing systems. In Brazil, the Group 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 revenue (divestments of 160 million euros).

(1) Acquisitions (see Chapter 5, section 5.B.6., Notes 5.2 and 5.3 to the consolidated financial statements)

1.D. Core businesses

Valeo's operational structure is organized around four Business Groups:

- Powertrain Systems;
- Thermal Systems;
- Comfort and Driving Assistance Systems;
- Visibility Systems.

The Business Groups, under the responsibility of the Group's Chief Operating Officer, are responsible for encouraging the growth and profitability of the Product Groups across all its markets.

Section 1.B.1 of this Chapter sets out Group sales broken down by Business Group.

1.D.1. Powertrain Systems

- Powertrain Systems combines all the activities related to powertrains. Its mission is to develop innovative solutions aimed at reducing fuel consumption and CO_2 emissions, without compromising on the pleasure and the dynamism of driving. These innovations cover a complete product range, from optimization of internal combustion engines to varyingly high electrification of cars, from Stop-Start to the electric car.

Powertrain Systems has five Product Groups:

- Electrical systems;
- Transmission systems;
- Engine management systems;
- Air circuit systems;
- Systems for hybrid and electric vehicles.

1.D.1.1. Electrical systems

This Product Group offers electrical systems which control the car's key functions, such as electrical energy generation and management.

This Group's traditional products are starter motors and alternators.

Numerous innovations complement this range:

- High performance alternators;
- *Stop-Start* systems. Valeo offers two Stop-Start technologies: technology based on a starter alternator and technology based on reinforced starter. The second generation of the i-StARS micro-hybrid system (i-Starter Alternator Reversible System), based on a starter alternator, was launched in 2010 on PSA Peugeot Citroën's HDi diesel engine, with both manual and automatic transmission. It is distinguished by the integration of the electronics on the electrical machine. This Stop-Start function can also be provided by an improved starter motor, moving up from 50,000 start cycles to 300,000 start cycles so as to meet the numerous restarts required by this function;
- *Mild hybrid* systems, which add energy recovery functions to the braking to reuse the energy in acceleration phases. Valeo offers a range of electric motors which work at higher powers and thus higher voltages.

1.D.1.2. Transmission systems

Transmission Systems develops and produces systems that transfer the power from the engine to the transmission. The solutions it offers incorporate innovative systems that dampen noise, vibrations and harshness. This Product Group 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 planetary gear trains. 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, with the convenience of automatic transmission and the sporty response of manual transmission. Dry clutches also improve efficiency, cutting consumption by 4-6%.

Torque converters with a lock-up function, wide clearance damper and an optimized hydraulic circuit are associated with the market, for automatic and continuous variation transmissions. They offer improved comfort and markedly lower fuel consumption in comparison with previous generations of automatic transmissions.

Other products from this Product Group include, *inter alia*, various clutch mechanisms (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, release bearings with built-in automatic self-centering; hydraulic clutch actuators), flexible flywheels and dual mass flywheels.

1.D.1.3. Engine management systems

This Product Group offers electronic powertrain management systems. By improving engine performance continually, innovations in engine management help to reduce the environmental impact of vehicles while increasing driving pleasure.

Valeo designs optimized system architectures, which represent new engine developments and offers its customers a complete range of engine components, such as:

- engine management systems for gasoline and NGV (natural gas vehicle) engines;
- engine control units for direct and indirect injection gasoline engines or those adapted to alternative energies (NGV, Flex Fuel);
- ignition component such as coils and ramps and high energy “top plugs”;
- injectors for gasoline and NGV engines;
- a range of sensors for fluid management, temperature and pressure measurement, engine or transmission optimization;
- canister valves.

1.D.1.4. Air circuit systems

This Product Group offers air circuit management systems, from inlet to exhaust, in order to meet requirements for reducing CO_2 emissions and pollutant gases.

Valeo designs components and systems for controlling the flow and temperature of the air circuit and exhaust fumes. These improve the performance of gasoline and diesel engines in compliance with the regulations governing pollutant or greenhouse gas emissions internationally, such as European standards Euro 5 & 6 and, eventually, Euro 7 or the American Tier2 Bin5 standards.

The products from this Product Group are:

- single and dual inlet manifolds;
- high or low pressure EGR (Exhaust Gas Recirculation) modules incorporating EGR valves, exhaust gas coolers and by-pass modules;
- Valves and throttles for gasoline applications.

1.D.1.5. Systems for electric and hybrid vehicles

Valeo is committed to supporting the development of new electric vehicles, with the goal of presenting innovative solutions.

The aim of offering automakers a complete electric powertrain has led to the creation of a French consortium, which brings together all the technological leaders in this field. The interest is in being able to optimize all the components and obtain a cost/service ratio similar to that of a traditional internal combustion engine.

In the consortium, Valeo acts as system integrator on powertrain control. An innovative design for the electronic power module will combine three major components: the inverter, charger and voltage converter. This architecture will reduce the cost of an electric powertrain considerably because the charger will be completely built in to the inverter.

The range, a critical point for the electric vehicle, has been improved in all-electric modes by using a high efficiency inverter.

1.D.2. Thermal Systems

Thermal Systems develops systems designed to provide first, thermal energy management of the powertrain and second, comfort of each passenger for all phases of the vehicle's use.

With the optimizations that they provide, these systems make a significant contribution:

- reducing fuel consumption and CO_2 emissions as well as pollutant gases and harmful particles in vehicles equipped with internal combustion engines;
- increasing range and battery life in hybrid and electric vehicles.

Thermal Systems has four Product Groups:

- Climate control systems;
- Powertrain thermal control systems;
- Compressors;
- Front end modules.

1.D.2.1. Climate control systems

These systems ensure passengers are comfortable.

The key component of these systems is the HVAC (Heating, Ventilation and Air Conditioning). This module distributes purified heated or chilled air. The HVAC is tailored to each type of vehicle, starting from simple heaters with mechanical manual controls, through to automatic electronic control devices that regulate the air flow, its humidity and temperature constantly, based on the needs communicated by the driver and the outside climatic conditions. If these appliances are multizone, they can also be adjusted for comfort individually, *i.e.* matched to each passenger's comfort needs.

The main components of a HVAC are the heat exchangers, the additional heating module used while starting, the fan unit which blows the air through the heat exchangers, the distribution valve systems, the fan and valve control electronics and the air filter. The air filter range is complemented by additional modules intended to obtain ideal air quality inside the vehicle.

In vehicles with an internal combustion engine, the heat exchanger for heating the vehicle uses the heat lost from the engine and the heat exchanger intended for cooling - the evaporator - is connected to another heat exchanger - the condenser - placed in the front of the vehicle, as well as a compressor that circulates the refrigerant between these heat exchangers. The new refrigerants meet the most stringent environmental standards.

The advent of hybrid and electric motorizations has caused the disappearance of the heat energy used for heating the passenger compartment and the need of temperature regulation of other components, such as the electric motor itself, its control electronics, the batteries, etc.

System architectures matched perfectly to these changes have been developed. Those based on the heat pump system reduce to the minimum the power drawn from the batteries. Comfort in the passenger compartment is thus guaranteed without reducing the vehicle's range between successive charges.

A broad selection of technologies is also available to regulate the temperature of the batteries, which is needed if they are to work properly and to increase their working life.

1.D.2.2. Powertrain thermal control systems

This Product Group consists of the systems and modules related to the internal combustion engine powertrain:

- engine temperature management systems, the main components of which are fan units, high and low temperature cooling radiators and regulation valves. They contribute to the optimization of the engine's performance. The THEMIS™ valve in particular, thanks to its zero output function, enables a marked reduction in fuel consumption;
- modules for cooling the air which enters the engine, with heat exchangers, air distributors, valves and manifolds. They help to optimize the air density, improving the fill of the cylinders;
- heat exchangers incorporated into exhaust gas recycling systems (EGR), developed by the Powertrain Systems Business Group. They help to optimize the air / fuel mix admitted into the cylinders.

Finally, the Ultimate Cooling™ system helps, with its innovative architecture, improve the efficiency of the aforementioned systems. The reduction in the number of exchangers set in the front side of the vehicle, the correct distribution of the other exchangers within the engine compartment, made possible by using a single thermal fluid, significantly improves the performance of the exchangers. This architecture is also perfectly adapted to the thermal energy management needs of all the other types of powertrains, hybrid and electric. Its modular nature allows automakers to significantly simplify management of various engine types.

1.D.2.3. Compressors

This Product Group has a complete range of compressors matched to every type of motorization and all vehicle categories.

- economic, low displacement, mechanically-driven compressors: with pistons, pallets, fixed or variable cylinders;
- external control compressors, which reduce fuel consumption substantially;
- electric compressors, based on spiral technology, for hybrid and electric motorizations.

1.D.2.4. Front end modules

These modules are an integral part of the vehicle structure. They usually house the fan unit and some of the heat exchangers.

The incorporation of controlled valves which adjust the air flow entering the vehicle helps to reduce fuel consumption by increasing the efficiency of the heat exchangers and improving the aerodynamics of the vehicle.

The Safe4U® system also offers a structure which provides increased protection for pedestrians in the event of a crash.

1.D.3 Comfort and Driving Assistance Systems

Comfort and Driving Assistance Systems develops interface systems between the driver, the vehicle and its environment, helping to improve comfort and safety.

These systems are thought to optimize the interaction of the driver with the vehicle by providing useful indications in real time (central console, intelligent key); by simplifying or automating certain maneuvers (parking, on board access, controls in the steering wheel); or again by alerting or even acting on the vehicle controls in case of danger or incorrect maneuvering. Sensors (radars, ultrasound, cameras) also allow for monitoring the driving environment.

The Group has four Product Groups:

- Driving assistance;
- Interior controls;
- Cabin electronics;
- Access mechanisms.

1.D.3.1. Driving assistance

Valeo is the only automotive supplier in the world offering the mass production of all three of the technologies for detection around the vehicle which can be used in applications to help with maneuvering and parking: 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 sensors 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.

- Ultrasonics and infrared sensors 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;
- The radars form part of the blind spot detection systems and the systems that detect vehicles when reversing out of a parking space 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;
- The 360 Vue™ multi-camera system offers total vision around the vehicle. Front cameras give a view in front of the vehicle at a blind crossing or on leaving a car park.

1.D.3.2. Interior controls

The Interior Controls Product Group plays a major role in human-machine interfaces and offers innovative and ergonomic solutions. Relying on long experience and in-depth knowledge of vehicle architectures, this Product Group develops well-known high quality solutions and a robust design for top-of-the-range markets as well as for emerging and mass markets. It comprises:

- top column modules, which represent the electronic communication hub between the safety features and the cabin's central electronics system. Valeo was the first supplier to have integrated in 2009 a "FlexRay" system in a top column module (communication protocol used in the automobile industry for security-related systems);
- 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.

1.D.3.3. Cabin electronics

Cabin Electronics covers the full range of access and starter motor systems: remote controls, receivers and immobilizers, hands-free entry and starter systems which are experiencing strong growth on all markets.

This Product Group also offers very innovative systems capable of communication with the car by radio within a range that can be several hundred meters. It is therefore possible to check via an intelligent key a certain number of parameters (door locking, inside temperature, etc.) and to activate certain comfort features remotely, such as pre-heating or pre-ventilation.

At the World Motor Show in Paris in 2010, in partnership with Orange, Valeo presented a virtual key system based on NFC (Near Field Communication) contactless technology and mobile telephony. This simplifies the use of a single car by several people, while maintaining a very high level of theft prevention.

Cabin Electronics also includes cabin computers, which mainly equip the various vehicles of the PSA and Renault-Nissan Groups.

1.D.3.4. Access mechanisms

This Product Group produces mechanical access systems having very high anti-theft levels (handles, locks, bolts and steering locks). It also produces systems that help to improve on-board access comfort (motorized opening and closing of the trunk, door closing assistance, electric steering locks for hands-free entry systems, etc.).

In particular, Valeo won new contracts in 2010 with the new “Optimum” generation of locks. No awkward mechanical resistance is felt during lock use, and the system offers a constant effort level throughout the lifetime of the vehicle. The design’s robust construction also reduces the costs and system validation times on new vehicles.

1.D.4. Visibility Systems

Providing perfect visibility on the road contributes to the safety of the driver and the passengers. Visibility Systems’ task is to design and produce efficient and innovative systems which support the driver at all times, by day and by night.

Visibility Systems has three Product Groups:

- Lighting systems;
- Wiper systems;
- Wiper motors.

1.D.4.1. Lighting systems

Lighting quality has a direct impact on road safety. The Lighting Systems Product Group develops a wide range of products which meet the demands of road safety: to have perfect vision and be perfectly visible. Lighting systems also play a full part in the statement of identity unique to each model.

The different solutions provided are as follows:

- main headlamps with LED, xenon or halogen technology;
- 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 NEO (*New Efficient Optics*) technology, which is a hybrid solution between conventional reflectors and elliptical lens models. The Peugeot 508 is equipped with NEO technology using a new generation halogen lighting system with unsurpassed performance;

High performance lighting systems, whether with xenon lamps or LEDs, emit a light flow twice as great as that supplied by conventional halogen lamps and offer unequalled comfort for night driving.

- camera-assisted adaptive headlamps, allowing motorists to enjoy ideal night-time lighting without dazzling oncoming traffic. The BeamAtic® Premium function offers the driver the convenience of driving on the road without dazzling other drivers;
- daytime running lights (DRLs) with LEDs or traditional bulbs - designed for vehicle visibility;
- rear lights and high-mounted stop lamps with LEDs or traditional bulbs;
- fog lights and auxiliary lights;
- lighting and signaling controllers;
- cigar lighters, multifunction sockets and USB ports.

1.D.4.2. Wiper systems

Maintaining visual contact with the road under all circumstances is essential if the driver is to anticipate dangers properly. The Wiper systems Product Group develops technologies which, by combining efficiency and weight reduction, clean the windscreen and the rear window while minimizing or even eliminating any visual obstruction.

These are mainly:

- latest generation flat/traditional arm and blade sets;
- totally electronic wiper systems without linkages or mechanisms;
- USB windscreen washing and de-icing systems;
- rear wiper modules with built-in washing;
- the AquaBlade® system, which ensures perfect road visibility in all driving conditions and a significant reduction in the weight of the windshield wiper system.

1.D.4.3. Wiper motors

Valeo wiper motors are characterized by standardization, range coverage, innovative vehicle installation solutions, integrated electronics and reduction of weight and energy consumption.

These consist of:

- a new line of electronic wiper motors deployed worldwide, offering a range of solutions adapted to the latest vehicle architectures;
- a line of rear window wiper motors for simplified vehicle integration.

1.D.5. Aftermarket products and services

Valeo Service is under the responsibility of the Group's Chief Operating Officer. In cooperation with the Business Groups/ Product Groups, 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, organized around five markets (repair, maintenance, crash, post-equipment and trucks) offers 176 product ranges, covering 12 functions for light, commercial and industrial vehicles, as well as trucks: wiper systems (under the Valeo, Marchal, PJ and SWF brand names); transmissions; lighting and signaling; 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:

- **speed/visio®NOMAD™**, the plug&play version of the **speed/visio™** head-up speed display system. With GPS technology, the speed is displayed directly on the windscreen, without obstructing the driver's field of view and an alarm warns the driver if he exceeds the selected speed limit.
- **Uni-Click®,** a unique connection system which covers 95% of the European car inventory fitted with flat blade wipers.
- **Valeo CLASSIC**, a product range devoted entirely to vehicles from the segment known as D4 D5: vehicles aged 10 years and over, with a high mileage. This is a market with considerable potential, given that the average age of a vehicle in Europe is constantly increasing and that the relationship of car owners to their cars is always changing. Launched in 2010, covering starter motors and alternators, this economic range is a quality alternative to premium price products.
- Five new car bulb ranges in order to meet the car owner's different needs:
  - an "Essential" range: Valeo's premium quality standard,
  - a "Long Life" range: bulbs with a longer working life,
  - a "+50% Light" range: more light to see further on highways,
  - a "Blue Effect" range: a blue-tinted headlamp close to that of xenon lights,
  - an "Aqua Vision" range: for optimum visibility in bad weather without dazzling.

1.D.6. Highlights of the year

1.D.6.1. Strategic operations

Valeo's acquisitions/disposals strategy is designed to reinforce the four Business Groups and increase the organic growth potential of the Group. This strategy relies on the following four major guidelines:

- focusing on the Group's Product Lines;
- reducing CO_2 emission, and expanding into Asia and emerging countries;
- the degree of vertical integration (Make-Or-Buy);
- acquiring majority stakes in Valeo's joint ventures.

In line with its development strategy in emerging countries, Valeo has upped its presence on the Indian market by acquiring a 100% stake in its joint venture in electrical systems production in India, in which it previously held a 66.7% stake and which is now called Valeo Engine and Electrical Systems India Private Ltd.

Because the Group wants to dispose of non-core businesses, it sold the headlamp leveling actuators business to a group of investors supported by the European investment fund Syntegra Capital and the regional development fund Picardie Investissements. Valeo has also sold its Telma speed controller business, which manufactures electromagnetic retarders, to the current management team.

1.D.6.2. Commercial successes

2010 was a record year for orders, reflecting the success of the Group's strategy for its two growth lines, which are: selling innovative products which reduce CO_2 emissions and expanding in emerging countries. Orders, which accounted for 1.6 times the original equipment sales for the year, increased substantially in all regions: Europe, North America, South America and Asia, mainly in China. New orders won accounted for a sum of 12.5 billion euros.

1.D.6.2.1. Powertrain Systems

Electrical Systems

- Various orders for Stop-Start systems based on a starter motor (ReStart), a very high efficiency system for restarting diesel engines, with the major European, Asian and American automakers.
- Various orders for the new ranges of high efficiency alternators for reducing CO_2 emissions.
- The 2nd generation of the i-StARS micro-hybrid system entered volume production in Europe and in Japan on gasoline and diesel engines. This system is based on a belt-driven alternator-starter; Stop-Start can be used conveniently and with improved availability compared with systems based on a starter motor and also guarantees improved electrical energy management. This represents the first step in hybridization.
- Various orders in China from local automakers, which have reinforced the position of the Powertrain Systems Business Group in this burgeoning market.

Transmission Systems

Transmission Systems posted much improved sales in 2010, in particular in China, North America and India, again with new products.

- First production order for the dual dry clutch and the corresponding dual mass flywheel.
- Valeo won several orders for torque converters for use with 6-speed, continuously variable automatic transmissions for American and Japanese automakers in the Asian and North American markets. These products will equip gasoline engines from 1.6l to 3.2l for front-wheel drive vehicles. Production is underway at plants in Atsugi in Japan, Taegu in Korea, Nanjing in China and, since 2010, in San Luis Potosi in Mexico.
- In the manual field, the general European and Korean automakers chose Valeo for the supply of self-adjusting clutches and dual mass flywheels, in particular PSA, BMW and Hyundai.
- In China, the Products Group also obtained new orders for dual mass flywheels and torque converters and, in USA, an initial order for flywheels for hybrid vehicles.

Engine Management Systems

- First order from a European car automakers for engine control computers intended for new gasoline engines with direct injection.
- New contract in China for the supply of engine control and ignition computers for gasoline applications. Production takes place on the Wuxi site.

Air Circuit Systems

- New contract for the air inlet valve for 1.4l and 1.6l Euro6 diesel engines.
- New contract for a new inlet module fitted with supercharger cooler and EGR valve for 1.6l and 2.0l Euro6 diesel engines.

Systems for Electric and Hybrid Vehicles

- The Products Group won a large contract for power modules intended for the next generation of electric vehicles to be produced by a French automaker.

1.D.6.2.2. Thermal Systems

Thermal Systems has outperformed in terms of orders in all its product lines. A significant part of its orders were gained in the emerging countries, mainly in China but also in India with local automakers, in South America and in Eastern Europe. Orders also remained strong on the European and American markets, with a strong push with the German automakers.

The orders also correspond in large part to systems and modules tied to developments in powertrain groups that help to reduce fuel consumption and CO_2 emissions.

- Climate Control Systems won a record number of orders in 2010, thanks to significant sales successes with various automakers such as General Motors, Daimler, Renault-Nissan, Subaru and Chery.
- Thermal Systems, from the Powertrains Group, won a large number of orders with a German automaker, mainly as a result of a water-cooled air inlet module, comprising the cooler, valves and manifolds. This high value-added module will be used on 800,000 vehicles per year and will have a significant impact on lowering CO_2 emissions produced by these vehicles. Other orders were generated, mainly with automakers in Germany and North American automakers, but with a large proportion in China and South America.
- The Compressors Products Group, already well established in Asia, has laid the foundations for subsequent growth in Europe with French automakers, and a new presence in the USA. An initial order has been received for a low-cost compressor in India, confirming the growing interest of automakers who want to equip their entry-level vehicles.

1.D.6.2.3. Comfort and Driving Assistance Systems

Driving assistance products

- For ultrasonics systems:
  - "Park assist" parking aid: a new global vehicle platform aimed at an emerging market.
  - Park4U®: the success of the semi-automatic parking sector continues, with a new European client, an extension to other vehicles for a current Asian client and a global multinational platform.
- For radars:
  - Blind spot detection system and "Cross Traffic Alert": a new global vehicle platform aimed at an emerging market.
- For cameras:
  - 360 Vue™ multi-camera system: this innovation has once again been clearly successful in terms of new orders, notably with two new European clients and extensions to other vehicles for two other current European top-end clients.

Interior Controls:

2010 was a record year for orders, with an orders/sales ratio of 1.8.

Among major orders to be noted:

- The first integrated central console incorporating a touchscreen.
- An improvement to the market share in top of column modules for future years with the acquisition of 3 major platforms, including a global "low cost" vehicle and one of the largest international platforms in volume terms.
- Major climate control contracts in China and in North America, as well as 2 multiplexed façade contracts combining air conditioning and audio.
- A new roof module incorporating multiple HMI features, as well as anti-theft alarms.
- Acquisition of a new key account for angle and torque sensors for the European, Chinese and North American markets.

Cabin Electronics

- Folding key for Ford.

Access Mechanisms

- New orders for the *Optimum* innovative locking range:

  After winning a first contract with PSA Peugeot-Citroën in 2009, other automakers turn have opted for Valeo's modular and standard design and we can now deploy the complete range.

  The Optimum locking system will then be industrialized worldwide through the Valeo plants, *i.e.* Europe, Brazil, Russia and China.
- Orders are very satisfactory for trunk and tailgate opening and closing systems, as well as electrical steering locks:
  - new contracts for actuators to open/close trunks and tailgates for a German automaker,
  - several significant orders to supply electrical locks in Europe and in the United States.

Valeo Access Mechanisms Products Group has improved its position with two unbeatable German automakers:

- locks and keys for the European and South American markets,
- side door handles.

1.D.6.2.4. Visibility Systems

- Visibility Systems completed the decade with a very promising growth profile. A new site opened its doors in Chennai, India, in excellent conditions. And 2010 was highlighted by a growth in activity with, most notably, firm orders up compared with 2009. The size of these firm orders, in particular in growing markets, ensured the continuation of Valeo lighting and wiper systems on an increasing number of models in the future.
- The LED market confirmed its strong growth. Front headlamps with LEDs with a novel design appeared on production vehicles. The LED low beam headlamp, developed in partnership with Ichikoh, is fitted to the Nissan Leaf, the first 100% electric car in mass production, in a well-observed launch on the market (some other very large projects are being developed for some automakers). Finally, the application from 2011 of a European Directive making it compulsory to fit daytime running lights on new vehicles has helped to spread DRLs with LEDs over a wide range of models. LEDs are therefore confirmed on the market both as satisfying the demand for energy saving systems and as developing a given distinctive style.
- **BeamAtic® Premium** confirmed its success with the launch of the Volkswagen Phaeton and Passat fitted with anti-dazzle headlamps. Shortly, **BeamAtic® Premium** will also be available on more accessible ranges.
- In 2010, Valeo introduced the **Direct Drive** electronic wiper system to the world market on the Mercedes SLS AMG. This technology is particularly suited to the reduced areas under the hood or vehicles with large area windshields, and has burgeoned with various automakers, both in Europe and North America. It brings reduced weight, low bulk and standardization to a number of vehicle ranges.
- The advantages of **AquaBlade®**, combining windshield cleaning efficiency without obstructing the driver's view while at the same time reducing washer fluid consumption by half, have attracted a number of automakers all over the world. Firm orders have also been taken for this technology.

Valeo took part in "eSafety Challenge 2010" which was held on July 13, 2010 at Millbrook in the United Kingdom. As part of this event, Valeo presented its latest driving assistance and visibility technologies, including advanced xenon lighting systems and the revolutionary BeamAtic® Premium system. The aim of eSafety Challenge was to make the public aware of technological automobile innovations aimed at improving road safety. The eSafety challenge is the result of a partnership between the European Commission, the IAF (International Automobile Federation) and the eSafetyAware association (which brings together 39 organizations from the automotive industry, including Valeo), and is sponsored by the Euro NCAP organization. The event tries to demonstrate how new technologies make a safer driving mode possible, while reducing road safety risks.

1.D.6.2.5. Aftermarket

Customer satisfaction is a priority for Valeo Service. In 2010, Valeo's aftermarket business again placed it at the center of its concerns through:

- the development of a range of driving assistance products with the launch of speed/visio®NOMAD™, the plug&play version of speed/visio™, a heads-up speed display system using GPS technology;
- the extension of the wiper system range with Uni-Click®, a universal connection system for connecting a wiper blade with several types of wiper arm, the objective being to reduce the number of different parts in the Premium Flat Blade range and thus storage space on customers' premises;
- the deployment of a new range of products completely devoted to vehicles that are more than 10 years old and/or with high mileage: Valeo CLASSIC. This is a market with considerable potential, given that the average age of a vehicle in Europe is increasing constantly and that car owners' budgets devoted to repair and maintenance change with the age and use of the vehicle. This range, which only covers alternators and starter motors at present, is a quality alternative to Valeo's Premium range and is ideal for users with a modest budget;
- the opening of new divisions worldwide, such as Valeo Service USA in January 2010;
- the improvement of logistic services offered to customers with, in particular, the opening of new warehouses in China and in the USA for improved on-the-spot service;
- awards obtained in Russia, in Germany and in the United States by the Valeo and SWF wiper blades;
- the election of Valeo Service as "Supplier of the Year 2010" by Groupauto International. This recognition underlined the quality of Valeo's portfolio worldwide, for goods and services, and its commitment to always satisfying its customers;
- the global recovery of the markets, mainly in North America, South America and Asia in the automakers' distribution channel (OES - Original Equipment Spares) has benefited Valeo significantly;

- the development of the Valeo range of spare parts towards a more complete offer with improved technical and customer support to increase sales;
- the extension of the Valeo OES offer with the creation of low-cost ranges in order to reach the entry-level segments and enlargement to a complete range for all brands.

1.D.6.3. Operational excellence

1.D.6.3.1. Quality

At the end of 2010, the Group's Quality level reached a historic record of 7,300 PPB (defective parts per billion), an improvement of almost 50% compared with 2008 and stable compared with 2009. 21% of the Group's sites were at 0 PPB, which represents an improvement of over 20% compared with the situation in the previous year. At the same time, total non-quality costs (direct costs, special transport and warranty costs) increased by 7%, impacted mainly by rapid sales growth, which generated exceptionally high transport costs.

1.D.6.3.2. Supplier integration

By supporting its customers with its 109 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 2010, many projects started in production with more than 70% of purchasing coming from these benchmark suppliers.
- This strategy helped sales grow by 30% in low-cost countries.
- The widespread implementation of levers to reduce purchasing costs helped lessen the effects of record inflation in raw materials. The main levers are:
  - product and supplier base 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 streamline its supply base and concentrate on the best suppliers for each technology, at a global level. In 2010, the Group set, with its new organization, a new objective to streamline the supply base, which aims at reducing the number of suppliers accounting for 95% of its purchases by 30% over the next 3 years.
- 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 the Group Purchasing Department, was deployed in all Product Groups. All 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.

1.D.6.4. Awards

In 2010, the Group enjoyed widespread recognition by its customers and partners for the quality of its goods and services, attesting to the Group's operational excellence.

1.D.6.4.1. Innovation rewarded

The "Nissan Global Supplier Award" in the innovation class to Valeo Radar Systems for the development of radar sensors for blind spot detection.

The "Superior Technical Award" from Toyota North America awarded to the Lighting Systems Product Group (Valeo Sylvania site in the United States and Hainaut in Belgium) for development of wide angle fog lamps.

1.D.6.4.2. Outstanding operational excellence

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

- Best supplier award from the Chinese automaker Chery, awarded to the Nanjing (China) site, operated by the Transmission Systems Product Group.
- Best supplier award from GM Daewoo Auto & Technology, awarded to the Valeo Pyeong Hwa (Korea) joint venture company, operated by Transmission Systems Product Group.
- Best supplier award from the Indian automaker Maruti Suzuki in the design and development class, awarded to the Chennai site (India), operated by the Transmission Systems Product Group.
- Best supplier of the year award from GM, awarded to the San Luis Potosi (Mexico) site, operated by the Transmission Systems Product Group.
- Best production performance award from Mitsubishi Motors in North America, awarded to the Juarez (Mexico) site, operated by the Wiper Systems Product Group.
- Best project award, awarded by the Toyota European Association of Manufacturers, awarded to the Hainaut (Belgium) site, operated by the Lighting Systems Product Group.
- Best supplier award from the Group Auto Union International, in the marketing class, awarded to Valeo Service.
- Honda Quality award, awarded to the Access Mechanisms Product Group in North America.
- Toyota China Quality award, awarded to the Foshan (China) site, operated by the Lighting Systems Product Group.
- *Top Quality Award* from Toyota Peugeot-Citroën Automobile (TCPA), awarded to the Humpolec (Czech Republic) site, operated by the Compressors Product Group.
- Toyota Peugeot-Citroën Automobile (TCPA) Quality award, awarded to the Rakovnik (Czech Republic) site, operated by the Climate Control Product Group and to the Créteil (France) site, operated by the Access Mechanisms Product Group.
- Quality and Logistics performance award, awarded by Honda Brazil to the Campinas (Brazil) site, operated by the Wiper Systems Product Group.
- Quality target achieved award, awarded by Mitsubishi to the Chonburi (Thailand) site, operated by the Climate Control Product Group.
- Dongfeng Peugeot-Citroën Automobile (DPCA) Quality performance award, awarded to the Wuhan (China) site, operated by the Lighting Systems Product Group.

1.E. Main markets

1.E.1. Introduction to the Group's markets

In order to meet the demand of customers, in particular international automakers operating on several continents, Valeo has to be able to deliver under acceptable economic and logistic conditions in all regions.

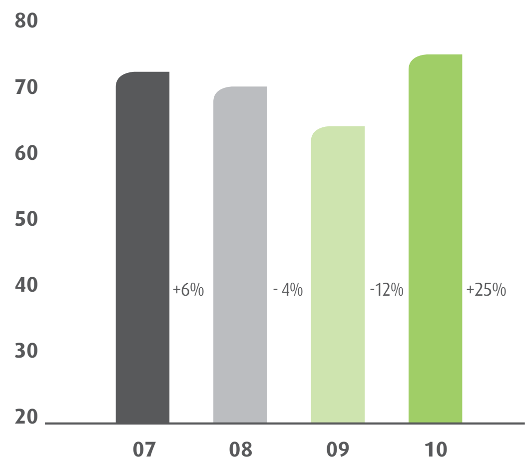
Moreover, in order to seize the major growth opportunities in Asia and in emerging countries, the Group must increase its industrial and development presence in these regions. However, Europe, the United States and Japan are still the areas for technological growth and innovation. Valeo must maintain a strong presence in these areas, both in industrial facilities and in R&D terms.

2010 was highlighted particularly by the start-up of a new lighting business in India, as well as a limited increase in its capacity in this country for its clutch business.

The very strong increase in customer demand for products and solutions that reduce CO_2 emissions also required increases to capacity, for example for torque converters, mainly in China and Mexico. Driving assistance systems, such as ultrasonic sensors and cameras, were also greatly in demand, which required the installation of considerable additional capacity, in particular in Germany and in China.

In 2010, world automobile production reached 74 million passenger cars, up by 3.8 million compared with the previous record, set in 2007 (70.2 million vehicles produced) [(1)].

Global automotive production[(1)] (in millions of passenger cars)



In 2010 (compared with 2009) passenger car production grew by 14% in Europe (19 million vehicles produced); 28% in Asia (36.8 million vehicles produced); 39% in North America (11.8 million vehicles produced) and 12% in South America (4.1 million vehicles produced) [(1)].

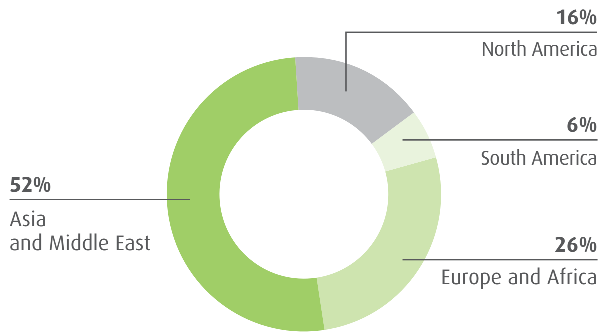
Valeo's original equipment passenger car sales are set out in Chapter 5, section 5.A.1.1 of this Reference Document.

World automobile production was broken down as follows in 2010 [(2)]: 50% in Asia (of which 23% in China), 26% in Europe, 16% in North America, 6% in South America and 3% in the Middle East and in Africa. The Group's background anchors it particularly in Europe, where it still achieved 60% of its revenue in 2010 [(2)]. The final objective is to rely on these sound bases and grow strongly in other areas to bring the Asian share to more than 35% of Group revenue. With this in mind, Valeo will most likely look towards external growth.

(1) Source: JD Power Global Automotive Production Forecast January 2011.

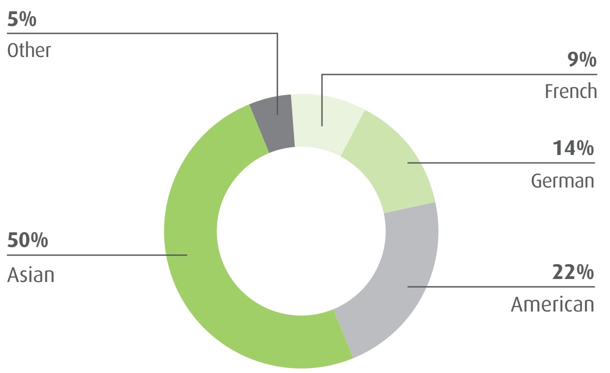
(2) Including Africa.

Global automotive production by region



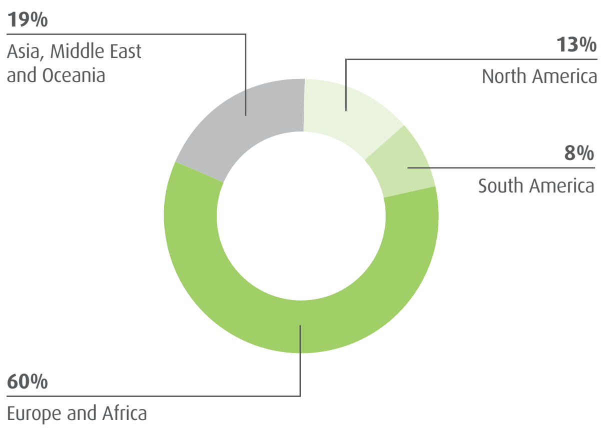
Source: Valeo estimates and JD Power Global Automotive Production Forecast, January 2011

Global automotive production by manufacturer's country of origin

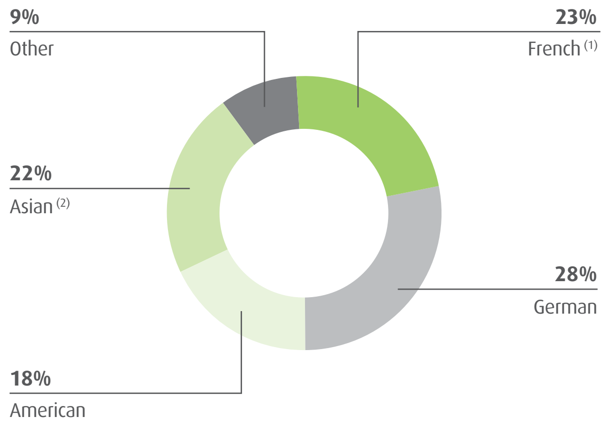


Source: Valeo estimates and JD Power Global Automotive Production Forecast, January 2011

Valeo consolidated sales by region



Valeo OEM sales by manufacturer's country of origin



(1) excluding Nissan
(2) including Nissan

In terms of customers, Valeo can rely on its traditional base of European and American automakers, but must also increase its presence with the Asian automakers and, in particular, the Chinese and Indian automakers who post very high growth figures. In China, for example, half the market is held by local automakers.

1.E.2. Valeo's competitive positioning

Valeo currently enjoys very good competitive positions on its main product lines. The Group's ambition is to become or remain one of the three top automotive suppliers in the world over all its product lines.

The Group's main competitors are the main automotive suppliers in the world specialized in the automotive industry, like Robert Bosch, Continental, Denso, Delphi, Visteon or Magneti Marelli; as well as other more specialist manufacturers such as Behr, Tokaï Rika, Koito, Remy or LuK.

Over almost all of Valeo's main product lines, the market is fairly concentrated, with the three top automotive suppliers in the world representing more than 60% of the global market.

According to an in-house estimate by Valeo, the Group is among the three leading players in the market across its main product lines and is positioned as follows:

Driving assistance systems

Valeo
Bosch
Panasonic

57% of global market

Interior controls

Kostal
Tokaï Rika
Valeo

34% of global market

Transmission systems

LuK
Valeo
ZF Sachs

44% of global market

Electrical systems

Valeo
Denso
Bosch

65% of global market

Thermal systems

Denso
Valeo
Visteon

>50% of global market

Lighting systems

Koito
Valeo
Magneti Marelli

59% of global market

Wiper systems

Valeo
Bosch
Denso

72% of global market

2

RISK FACTORS

The elements of the annual financial report can be clearly identified in the table of contents using the AFR pictogram

2.A. Main risks

2.A.1. Operational risks

2.A.1.1. Risks associated with the automotive equipment industry

Risk:

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.

Following the crisis which hit the automotive industry in 2009, Valeo benefited from a significant improvement in the automotive market in its main production areas in 2010. The recovery of the automotive market, as well as strict management of its costs and an improvement in its industrial performance, allowed Valeo to post a significant improvement in net earnings in 2010, with positive net income after losses over two consecutive financial years.

A fresh decline in the automotive market could again affect Valeo's net income.

Likewise, a sharp drop in automotive production could put some of Valeo's manufacturing customers into bankruptcy, which would affect the Group's financial position.

Management of risk:

Valeo has the necessary expertise and resources to underlake the new restructuring measures which would be needed if the automotive market experienced another downturn. In this case Valeo, as in the past, would have to take specific actions in order to deal with a difficult economic environment.

The actions undertaken from 2008 to 2010 enabled the Company to lower its "break-even point" to 7.6 billion euros by the end of 2010.

In addition, since the Group enjoys considerable diversification in sales by customer, region and product, it is less vulnerable to negative trends in one of its markets.

2.A.1.2. Risks related to the marketing of vehicle models produced

Risk:

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.

Management of risk:

The risks are broadly diversified, with Valeo's wide range of products and services used by a great number of customers, in a very large number of vehicle models.

2.A.1.3. Risks related to new product development

Risk:

Valeo's sales and income depend on the ability of the Group to develop new products and to achieve the technological progress needed to remain 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 products, modules and systems in each Product Line ten years out.

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.

Management of risk:

The Group employs every means necessary to remain at the cutting edge of technological developments. Research and Development is of key importance for the Group. Valeo operates 20 research centers and 38 development centers around the world, and net expenditure on Research and Development represented 5.6% of Group sales in 2010.

However, no assurance can be given that the Group will be able to respond satisfactorily to all regulatory and technological developments, so as to maintain a competitive product offering.

For more on our Research and Development policy, see Chapter 1, section 1.C.3.

2.A.1.4. Supplier risks

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.

However, manufacturing purchases are spread over a broad list of suppliers, with several suppliers for each business and in each region. Ninety-five percent of Valeo's needs are handled by 1,020 suppliers.

Management of risk:

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.

2.A.1.5. Political or social instability risks

Risk:

Given the large number of countries in which Valeo has a presence, the Group's business can be affected by various political risks such as war, terrorist acts, armed conflicts or labor unrest.

Management of risk:

In order to protect itself against such risks, Valeo has put in place various alerts and safety plans.

Alert measures consist of actions to permanently monitor the political and social situation in all countries, not only those where Valeo operates, but also those to which its employees might have to travel.

Safety plans include such measures as:

- ban on travel to the countries in question;
- evacuation of expatriates;
- heightened security at operating sites.

2.A.2. Industrial and environmental risks

2.A.2.1. General principles of protection and management of environmental and industrial risks

The Group has always had a policy of providing the highest level of protection of its sites against natural disasters, technological risks and environmental risks. Problems and accidents in the Group's plants or a tightening of standards in force, could generate additional costs or capital expenditures for the Group in order to correct problems, achieve compliance and/or pay any fines.

At the request of the Group Risk Insurance Environment Department, regular inspections are carried out by independent external consultants to verify application of the risk management policy. Valeo's audit program has been in place for 20 years, and is a major component of its risk reduction policy. Every site is audited, on average, once every three years. The purpose of these on-site audits is to assess performance and the progress that has been made.

2.A.2.2. Environmental 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.

As described in Chapter 3, section 3.A ("Environmental Policy and Sustainable Development"), Valeo's environmental 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 Health, Safety, Security, Environment organization involving all Group departments. The Group's Environmental Assurance Risks Department is assisted by a Health, Safety, Environment (HSE) manager for each of the Business Groups and the Service Business. HSE 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. By the end of 2011, this tool will be operational for assessing risk management with respect to the safely and security of facilities.

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.

Provisions for site restoration amounted to 22 million euros at December 31, 2010. Of this amount, 2.5 million euros was earmarked for work to bring facilities into compliance with environmental regulations. No individual provision constituted a material amount.

2.A.2.3. Industrial risks: technological and natural risks

- The vast majority of Valeo's sites are classified HPR (Highly Protected Risk) and have an automatic sprinkler system for fires and 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, if they are, are equipped with systems that protect them against flood risks.
- New Valeo sites are located far from sites representing a significant potential risk (Seveso sites, etc.) which could have a domino effect that endangers Valeo's sites.

2.A.2.4. Crisis management

- 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.
- A crisis management tool was put in place in 2008 that enables each site to be aware of its potential crisis situations and make effective preparations for them.

2.A.3. Legal risks

2.A.3.1. Intellectual property risks (patents and trademarks)

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 outside patents or licensing.

The major intellectual property risk that Valeo faces is counterfeiting which can have an immediate effect on sales and net income, and gradually harm the reputation and quality image of the products involved.

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 is therefore a major patent filer in its business sector, as set out in Chapter 1, section 1.C.3. These patents, covering the major automotive markets, provide the Group with an effective weapon against counterfeiting.

To spot infringements of its patented rights, the Group has for several years conducted surveillance at Chinese customs, so that it can be alerted to questionable products, whether imported or exported. Beyond that, whenever products shown at industry trade shows seem to involve the reproduction of patented technologies, Valeo pursues every lawful course available to stop and penalize the infringement.

Valeo also has a trademark protection unit in France that monitors products in its business sector.

In the normal course of its business, Valeo is paid royalties for patents licensed to other companies.

2.A.3.2. Risks related to product and service liability

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. In all, provisions for customer warranty claims came to 170 million euros at December 31, 2010.

Although Valeo follows a policy aimed at achieving a degree of quality excellence, the Group can, at times, be confronted by major quality and safety issues resulting in a large-scale recall campaign for a given production period. If a quality problem were to trigger a major recall, it could have a substantial impact on the Group's financial position and image. To protect itself against this risk, the Group has an insurance policy that covers recall costs (above the deductible amount),*i.e*, the cost of returning vehicles to the garage and removing and installing the parts, with the Group bearing the cost of the parts.

Valeo is also exposed to the risk of liability claims for damages caused by defective products sold or services rendered by the Group. To protect itself against 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.

Finally, Valeo is exposed to the risk of being sued by its customers for failure to comply with contractual commitments, which result from their demands regarding operational performance, such as management excellence in development and industrialization projects, the ability to meet demand in terms of volumes, and absolute mastery of logistics in all circumstances. The Quality function and its Project Quality network, as well as the Purchasing, Industrial and Logistics functions, are responsible for managing these risks.

2.A.3.3. Claims, litigation, governmental, legal and arbitration proceedings

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.

The amount of these provisions is shown in Chapter 5, section 5.B.6, in Note 5.9 to the consolidated financial statements.

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 position. 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 income or on its image.

To the best of Valeo's knowledge, and excluding the new asbestos-related actions brought in France by former employees, during the past 12 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.

Status of legal proceedings with Thierry Morin

On June 16, 2009, Valeo filed a complaint against Thierry Morin with the Nanterre Commercial Court and petitioned to have the Memorandum of Understanding signed by the Company and Thierry Morin on March 20, 2009, voided for false cause or misrepresentation. In a subsidiary petition, Valeo asked for repayment of 30% of the termination payment made to Thierry Morin and the reintroduction of the continued employment 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, Daniel Camus and Helle Kristoffersen in the case. By order of December 2, 2010, the Presiding Judge of the Commercial Court of Nanterre appointed a mediator whose task is to mediate between the parties, to hear their respective points of view and, if necessary, to negotiate a memorandum of understanding. The period for mediation is three months, renewable once at the mediator's request.

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. These proceedings are still ongoing.

2.A.4. 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 that 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 and the value of the derivatives portfolio, 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.

2.A.4.1. Foreign currency risk

Group entities may be exposed to transaction risks with respect to purchases or sales transacted in currencies other than their functional 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 instrument. However, on an exceptional basis, the Group establishes specific hedges for major individual transactions and applies hedge accounting rules.

The Group is also exposed to foreign currency risk through its investments in foreign subsidiaries, in the event of exchange rate movements against the functional 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's statement of financial position at December 31, 2010.

The Group is also exposed to foreign currency risk when it provides financing to subsidiaries whose functional 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 5, section 5.B.6, Note 6.2.1.1 to the consolidated financial statements).

A statement of the Group's gross and net exposures is given in Chapter 5, section 5.B.6 Note 6.2.1.1 to the consolidated financial statements.

2.A.4.2. Commodity risk

The Group uses a variety of raw materials as part of its industrial activity, including steel, non-ferrous metals and resins, amounting to 1,275 million euros in purchases in 2010. Certain raw materials such as steel and plastics cannot be hedged, since they are not listed on an organized exchange. 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.

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 which do not involve 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, 2010, an unrealized gain of 16 million euros from hedging has been recognized directly in stockholders' equity. At December 31, 2009, an unrealized gain of 10 million euros was recognized in stockholders' equity. At December 31, 2008, an unrealized loss of 13 million euros was recognized, following a significant downturn in production volumes, the resulting over-hedging and a sharp fall in prices for these materials.

Inventory values are not significantly affected by the rise in prices of raw materials because of the rapid turnover and optimization of logistical flows to reduce inventories. Exposure to commodity risk and an analysis of sensitivity to this risk are dealt with in the notes to the consolidated financial statements (Chapter 5, section 5.B.6., Note 6.2.1.2).

2.A.4.3. Interest rate risk

The Group uses interest rate swaps to convert interest rates on its debt into either a variable or a fixed rate, either at origination or during the term of the loan.

At December 31, 2010, 85% of long-term debt was at fixed rates versus 72% at the end of 2009.

The repayment of the convertible bond on January 3, 2011 brought this ratio to 78.6%.

Exposure to interest rate risk and an analysis of sensitivity to this risk are discussed in the notes to the consolidated financial statements (Chapter 5, section 5.B.6., Note 6.2.1.3).

2.A.4.4. Equity risks

2.A.4.4.1. Treasury shares

Under IAS 32, treasury shares are deducted from stockholders' equity at the date of acquisition and changes in value are not recognized. When treasury shares are acquired or sold, stockholders' equity is adjusted to reflect the fair value of the shares purchased or sold. The acquisition of 3,559,156 treasury shares in 2010, and the disposal of 2,672,637 shares, led to a decrease of 31 million euros in stockholders' equity at December 31, 2010, compared with December 31, 2009.

A detailed presentation of movements in treasury shares, both as part of the liquidity agreement and as hedging for stock purchase option or free share plans, is provided in Chapter 6, section 6.E.4.

2.A.4.4.2. Equity investments for pension funds

Pension fund assets comprised 186 million euros in equities at December 31, 2010, or 56.4% of the assets invested. The strength of the markets in 2010 led to a revaluation of the funds positioned on this market segment (see Chapter 5, section 5.B.6, Note 5.9.2 to the consolidated financial statements). 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, assisted by the same advisers, meets periodically to assess the relevance and performance of the various investments.

2.A.5. Liquidity risks

2.A.5.1. Cash management policy

At December 31, 2010, Valeo had 1,316 million euros in cash and cash equivalents (compared with 86 million euros at December 31, 2009) breaking down as 335 million euros in cash at bank and in hand and 981 million euros in cash equivalents, mainly corresponding to securities issued by money market funds.

Other sources of liquidity were as follows:

- confirmed bank credit lines totaling 1.1 billion euros, with an average maturity of two years. These credit lines, none of which had been drawn down at December 31, 2010, were negotiated with ten leading banks rated AA- on average by S&P and Aa3 on average by Moody's;

  These lines of credit are subject to a commitment by Valeo to maintain the ratio of net debt to EBITDA below 3.25 by the end of 2010 and beyond. In this case, EBITDA is equal to the Group's operating margin, before depreciation, amortization and impairment. 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 12 months to December 31, 2010 stood at 0.254;

- a loan agreement for 75 million euros signed in October 2010 between Valeo and the European Investment Bank (EIB). Under this agreement, Valeo can borrow 75 million euros up to March 2012 at a variable rate of interest over seven years, repayable in four annual instalments after a grace period of four years. This 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. This loan had not been drawn down at December 31, 2010;
- a short-term commercial paper financing program for a maximum amount of 1.2 billion euros. However, access to the commercial paper market will remain restricted as long as the credit rating given by Moody's remains below investment grade (see section 2.5.A.2, "Ratings", below).

Group gross debt stood at 1,679 million euros at December 31, 2010 (prior to the Group's redemption of 463 million euros in OCEANE bonds on January 3, 2011) consisting of short-term debt of 77 million euros and long-term debt of 1,602 million euros (95% of the total). The average weighted maturity of long-term debt was 1.8 years at the end of 2010. Financial debt with a maturity of over one year included the following:

- two syndicated loans totaling 225 million euros maturing on July 29, 2012. Since the end of June 2009, these two loans have been subject to the covenants applicable to the lines of credit, whereby the Group's net debt to EBITDA ratio must be below 3.25 at the end of 2010 and beyond;
- 600 million euros worth of Euro Medium Term Notes, maturing on June 24, 2013 and issued as part of a EMTN program capped at 2 billion euros. The program includes an option allowing noteholders to request early redemption or buy back their notes in the event of a change of control of Valeo that leads to the note'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 being downgraded by one rating category (e.g., from Ba1 to Ba2);
- a seven year loan from the European Investment Bank of 225 million euros, repayable in four equal annual payments starting in August 2013. This loan is covered by the same financial commitment regarding the ratio of net debt to EBITDA as that applicable to the lines of credit. This 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

The 463 million euro debt represented by bonds convertible to new shares and/or exchangeable for existing shares was repaid on January 3, 2011 with available cash.

The Group's bank credit lines and long-term debt 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.

At the end of the reporting period, the Group expects to comply with all debt covenants over the next 12 months.

2.A.5.2. Credit rating

The long-term and short-term credit ratings were downgraded on two occasions in 2009 - on January 7 (from Baa3/negative outlook to Ba1/negative outlook, and from Prime 3 to Not Prime respectively); and on August 12 (downgrading of the long-term rating to Ba2 with a stable outlook) - placing Valeo's debt in the speculative category.

In 2010, the rating was revised upwards on July 29 (from Ba2 to Ba1 stable) and then by a change of outlook, from stable to positive, on December 9. The rating remains in the speculative category, however.

Access to the commercial paper market remained restricted for Valeo in 2010, and will remain so, as long as the classification of the Group's debt has not been revised to investment grade. The upward trend, however, should reduce the Group's financing costs.

2.A.6. Credit and counterparty risks

2.A.6.1. Commercial 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, 2010 Valeo's largest customer accounted for around 18% of the Group's accounts and notes receivable. Nevertheless, the composition of the portfolio is such as to lessen customer risk.

The average days' sales outstanding stood at 56 days at December 31, 2010, compared to 61 days at end-2009.

Valeo also generates more than 15% of its net sales in the aftermarket, with automakers representing 7% and independent dealer networks 8%. 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 6% of the Group's customer receivables at December 31, 2010.

For more information on the aging of customer receivables and impairment of doubtful receivables, see Notes 5.7 and 6.2.3 to the 2010 consolidated financial statements, found in Chapter 5.B, section 5.B.6.

2.A.6.2. Credit risk on financial investment instruments

Cash equivalents comprise marketable securities (981 million euros at December 31, 2010, prior to the Group's redemption of 463 million euros in convertible bonds on January 3, 2011) represented by money market funds invested in short-term money market securities issued by the best-rated banks, companies and governments in the eurozone. 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 approximate their carrying amount.

In addition, at the end of 2010, pension fund assets allocated to finance medium- and long-term pension liabilities were primarily invested in equities (see section 2.A.4.4.2) and bonds. Bonds comprised sovereign debt (18% of total pension fund assets) issued primarily by the American, British and Japanese governments, and corporate bonds (20% of 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.

2.A.6.3. Counterparty risk

The Group is exposed to counterparty risk on financial market transactions carried out for the purposes of managing risks and cash flows. 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. 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 2.A.5, 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.

2.B. 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: covered events relate to technological risks (in particular fire, explosion and electrical damage) as well as natural disasters (in particular floods and earthquakes). Property is insured based on the replacement cost of buildings, equipment and inventories;
- business interruption: these are cases where activity is interrupted or reduced following an event insured under damage coverage, or by extension of coverage to one of the following events: physical impossibility of accessing a site, lack of suppliers and loss of power. Business interruption is insured on the basis of loss of gross margin and covers a period of 18 months;
- merchandise and equipment transportation and business interruption following transportation incidents;
- liability of all kinds of domage towards customers and third parties;
- liability towards employees for occupational illnesses and accidents;
- liability for workplace risks.

The annual coverage limits of these policies are as follows:

Type of insurance	Coverage limit *(in euros)*
Property damage and business interruption	700 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

The Group paid a total of 10 million euros in premiums for its insurance coverage in 2010.

3

CORPORATE SOCIAL RESPONSIBILITY

The elements of the annual financial report can be clearly identified in the table of contents using the **AFR** pictogram

3.A. Environmental policy and sustainable development

In the first years of the new millennium, a clearer understanding of the major environmental challenges facing our planet developed across all stakeholder groups.

2010 demonstrated, once again, that the challenges of sustainable development remain central to global concerns. Several international summits bear testimony to this concern, particularly the 2010 Cancun Conference on Climate Change Summit and the Nagoya Conference on Biodiversity Summit.

In addition, the awareness instilled by governments among consumers about the relationship between greenhouse gases and global warming has fostered increased research into modes of transport with low or even zero carbon footprints and the development of new technologies.

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.

In 2010 Valeo increased its investment in research aimed at the development of low CO_2 emission vehicles, electric and hybrid solutions, and improved efficiency for combustion engines. With 612 patents filed (20% higher than the average for the past five years), Valeo ranks among the top French companies in filing patents.

The market for innovative products that reduce CO_2 emissions is estimated to be growing at 20% yearly. Accordingly, Valeo's goal is to be the leading partner of automobile manufacturers in their efforts to reduce CO_2 emissions. One of the Group's main ambitions is to encourage technological innovation and the development of eco-friendly solutions and systems. To do so, Valeo will intensify its Research and Development (R&D) efforts with a view to offering products that reduce CO_2 emissions. The Group expects to see its sales double in this area by 2013, reaching 1 billion euros.

Towards Zero Emission Vehicles

In 2009 Valeo published The Zero Emission Vehicle (available at http://www.valeo.com/fr/publications.html), a summary document that sets out Valeo's forecast for developments of alternatives to internal combustion engine vehicles.

At the end of 2010, Valeo and BAIC (Beijing Automotive Industry Corporation) presented to the Beijing Governor an electric demo car equipped with a complete Valeo electric powertrain system, demonstrating the Group's expertise in systems that reduce electric vehicles' energy consumption.

The partnership between Valeo and BAIC started in early 2010 with the intent to bring an electric vehicle to series production in 2011. This demo car is the first concrete achievement of this partnership.

Jacques Aschenbroich, Chief Executive Officer of Valeo declared: "The development of this vehicle with our partner, BAIC, demonstrates Valeo's expertise in powertrain systems designed to reduce vehicle CO_2 emissions and improve energy efficiency. It also confirms our know-how in electric and hybrid vehicle technology worldwide."

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 to 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 plants 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 the French Commercial Code.

3.A.1. Strategy and management of Valeo's environmental and sustainable development policy

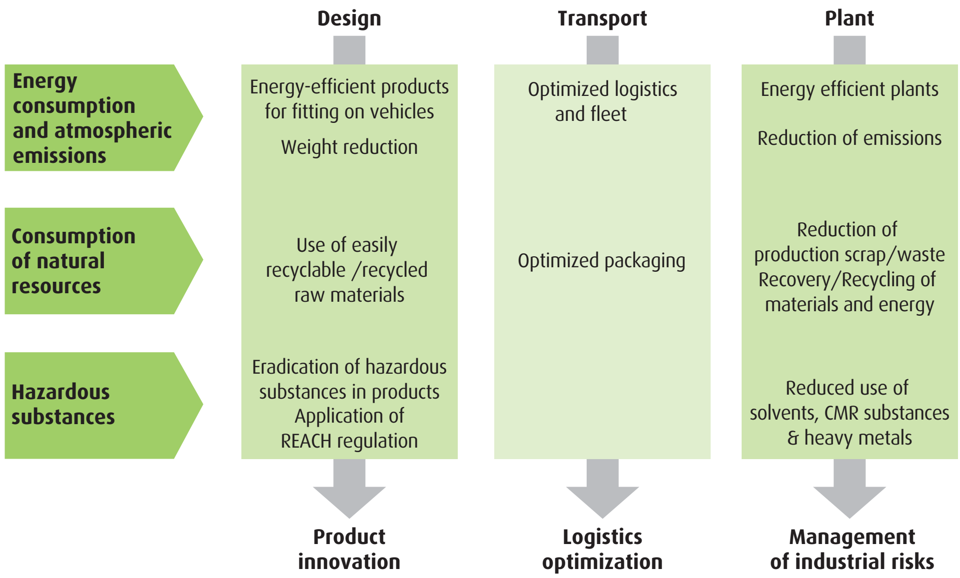
3.A.1.1. Valeo's active role in meeting CRS challenges

When it comes to CO_2, critics often single out the responsibility of the auto industry and more specifically the impact that vehicles have therein. Members of the auto industry therefore must consider the environment and the requirements of sustainable development throughout the value chain of the products they create.

Valeo, as a leading automotive equipment manufacturer, is very aware of its position as a key link in the auto industry.

The Group has adopted the approach of improving the performance of its products throughout the value chain:

- **upstream**, by striving to reduce the use of raw materials, natural resources and hazardous materials;
- during **manufacturing**, by minimizing the consumption of energy, water, raw materials and packaging in our production plants;
- in **the use** of our products by offering innovative, low-energy solutions; and
- **at the end of the product life cycle**, by developing clean and recyclable solutions.



The Group is continuously improving its risk management and discovering new opportunities through the development and deployment of environmental, health and safety management systems. Despite unavoidable time lags between Research and Development, industrial production and market launch, Valeo is always able to deliver products that meet current market demands and respond to a maturing market with ever greater demands for innovations that reduce the environmental impact of vehicles.

3.A.1.2. A comprehensive sustainable development strategy

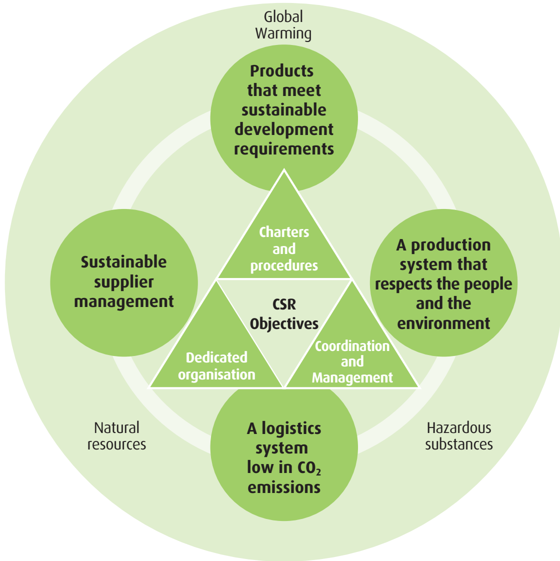
Valeo's corporate social responsibility requires that all environmental, social and societal impacts of the Group's operations, and of its products, are taken into consideration. This is why one of Valeo's primary strategic efforts is to concentrate its research and innovation on reducing the environmental impacts of its processes and products. During investor day, held on March 10, 2010, lowering CO_2 emissions across all market segments was considered the main growth driver for Valeo over the next ten years.

This strategy covers four key aspects of the Group's operations:

- products that meet sustainable development requirements throughout their life cycle;
- sustainable supplier management;
- a production system that respects people and the environment;
- a logistics system low on CO_2 emissions.

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

- objectives that reflect these priorities and lead to ongoing improvements;
- a dedicated organizational structure that ensures the policy is effectively deployed and monitored;
- charters and procedures that set out the Group's commitments and methods;
- tools for the coordinating and management of the policy.



For over 20 years, the Group has been working on the environmental management of its products and processes (the Group's social performance is presented in section 3.B). Valeo has confirmed its long-term commitment to Corporate Social Responsibility (CSR) through its adherence to the UN Global Compact since 2003. The Company is now considering extending its policy more systematically towards societal issues, in particular with respect to other stakeholders such as its suppliers and local communities.

3.A.1.3. Ambitious CRS objectives bolstered by a dedicated organizational structure, framework documents and management tools

3.A.1.3.1. Ambitious objectives for 2010-2012

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

Issue	Objective	Target	Unit	Deadline
Environmental performance of production sites	Reduction of energy use	-10%	MWh/€m	2012
	Reduction of intensity of water use	-7%	m^3/€m	2012
	Reduction of intensity of use of packaging materials	-15%	kg/€m	2012
	Reduction of intensity of waste production	-15%	t/€m	2012
	Waste recovery rate (%)	15%	%	2012
Low carbon emissions of infrastructures and logistics	Reduction of Valeo Group's carbon footprint [1]	-10%	t CO_2/€m	2012
	Improved average energy efficiency of buildings	-12%	kWh/m^2	2012
Certification	ISO 14001 certification OHSAS 18001 certification	100%	No. of sites	2012

(1) The Valeo Group's carbon footprint was initially estimated in 2009 and then in 2010. See section 3.A.2.1 for a description of the scope of the carbon footprint evaluation.

These objectives were set with reference to the performance for 2009.

Valeo results for the 2008-2010 period

Issue	Indicators used	Results 2008 vs. 2007 2007	Results 2009 vs. 2008	Results 2010 vs. 2009	Total since 2007
Energy consumption	Energy consumption/sales ratio	-1.50%	-3.50%	-6%	-10%
Water consumption	Water consumption/sales ratio	0%	-14.40%	-20%	-31%
Packaging materials consumption	Packaging consumption/sales ratio	-4.30%	-16.10%	Stable	-20%
Waste production	Waste recovery rate (%)	4.10%	6.50%	+1%	12%
Carbon footprint	CO_2/sales ratio	NA	NA	Stable	NA

3.A.1.3.2. A dedicated organizational structure for implementing and monitoring the CSR policy

The three key areas of the sustainable development policy are managed by the following departments:

- Risk Insurance Environment Health Safety Department manages the Company's commitments and actions regarding the work environment and health and safety at the workplace;
- the Human Resources Department handles the Group's employment and social issues.

All corporate functions are also involved in the policy.

At **every Valeo site**, a **Health, Safety, Environment** (HSE) **manager** is responsible for the practical implementation of the Group's HSE procedures. The HSE managers share their expertise with site management and check that the site is in compliance with regulations and Valeo standards.

In each of the Company's four Business Groups and the Valeo Service Department, the Risk Insurance Environment Department works closely with the **HSE managers**. They provide technical assistance to the HSE managers at the sites that report to it, and also provide 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 help with the application of procedures and see that the sustainability objectives assigned by the Group are met; they report the best practices of which they are aware and support 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 four HSE managers of the Business Groups, the HSE manager from the Valeo Service Department and the Group's Director. It meets every two months in order to share feedback and further develop the Group's sustainability policy.

In 2011, country HSE managers will be named, in order to coordinate the sustainability actions taken in every country where Valeo has a presence.

3.A.1.3.3. Framework documents relating to the Group's commitments and operating methods

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 in 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 issues 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, occupational health and safety, the security of people, assets and information, and the safety of buildings and facilities.

Code of Ethics

Revised in 2005, Valeo's Code of Ethics has been introduced across the Group and with all suppliers.

The Code of Ethics aims to ensure that Valeo operates in accordance with national and international rules of ethics and 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.

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, and society), business ethics (relations with customers, service providers and suppliers, competition law), and professional ethics (confidentiality, protection of the Group's assets, loyalty and conflicts of interest).

The Risk Management Manual

The manual contains all the Valeo directives with respect to the environment, occupational health and safety, as well as the safety and security of our facilities. These directives are 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 external consultants. In 2010, the Group worked on an update of the manual, which will result in a new version in 2011. The aim of the revision is to expand and clarify the directives, so that the process of gradually making our management systems more uniform can be taken to the next level. A regulatory-monitoring tool was developed and is being tested on a number of Group sites at this time. This tool will allow sites to review legislative texts which apply to them.

The Eco-design Standard Directive

The Group's CSR policy also includes product design, in the "Eco-design standard" directive, that aims to ensure that environmental impact is taken into account in the design phase of new products. The directive is based on the main regulations and standards in effect, such as European Directive 2000/53/EC on end-of-life vehicles, the REACH regulation, ISO 22 628 (Road vehicles - Recyclability and recoverability -- Calculation method) and ISO 14 040 (Eco-design).

The directive is supplemented by eco-design guidelines issued per business line or Product Line.

3.A.1.3.4. Policy coordination and monitoring tools

A quarterly reporting tool for performance indicators

The environmental data published in this report applies to all Valeo Group production and distribution sites worldwide, excepting those of the minority-owned affiliates. The financial data reported by the Group (sales, R&D expenditure, etc.) is checked for consistency against the data reported by the sites. The environmental indicators for 2010 cover a total of 115 sites, including eight Valeo Service sites and one storage site:

- centers dedicated only to R&D, offices and sites that have been acquired, sold or closed during 2010 are not covered by the reporting;
- data for companies that are 50% controlled by Valeo are taken into account for 50%, data for companies in which Valeo has a stake of more than 50% are included in full.

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.

Operating levels were significantly higher in 2010 and consequently impacted certain environmental indicators, particularly in absolute terms. The Group's environmental performance is therefore better understood using indicators linked to sales ratios, many of which show significant improvement.

The representativeness of each indicator is measured by a response rate. This rate is expressed as total sales of sites responding to the indicator divided by total sales of all sites in the reporting scope. The 2010 response rate was excellent with 100% from nearly all sites. As in previous years, the responses from the sites were consolidated and checked by an independent, outside firm in order to ensure quality and representativeness. Section 3.A.2 lays out the Valeo Group's environmental performance for 2010.

Independently certified management systems

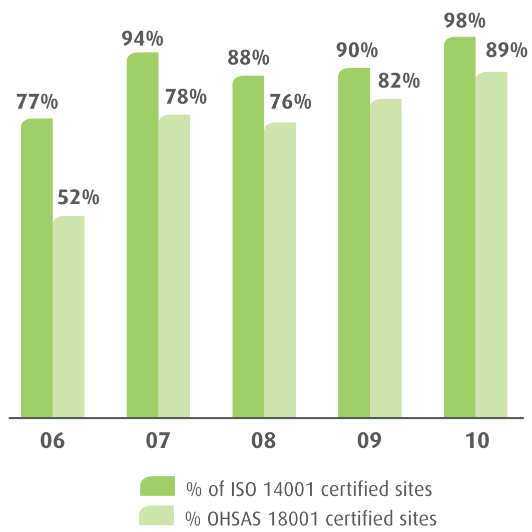
To demonstrate its commitment to do better every year on reducing its environmental impact and improving the health and safety of its employees, Valeo has introduced a number of independently **certified management systems**.

Since 1998, Valeo has been expanding ISO 14001 certification to all of its majority-owned sites as well as its distribution facilities. At the end of 2010, 98% of Valeo sites were ISO 14001 certified.

The deployment process of OHSAS 18001 certification began in 2005. Since 2007 the extension of this certification to all sites has been one of the Group's objectives. In 2010 89% of sites were OHSAS 18001 certified, an indication of the progress Valeo has made in terms of health and safety management. Furthermore, our 2010-2012 objectives estimate that 100% of sites will be ISO 14001 and OHSAS 18001 certified by 2012.

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

% of ISO 14001 certified sites, % of OHSAS 18001 certified sites



Auditing benchmarks in areas that affect the environment, health, safety, security and sustainability

Valeo's risk management policy is set out in the Group's Risk Management Manual.

This entails regular **inspections by independent external consultants** to ensure the application of the risk management policy, at the request of the Risk Insurance Environment Department. Valeo's audit program has been in place for nearly 20 years, and is a major component of its risk reduction policy. Every site is audited about once every three years.

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

- environment;
- workplace health and safety;
- ethics;
- 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 rates each site in the areas indicated according to objective criteria.

Every year, each site ratings are reported to General Management.

In parallel, there is a **Sustainable Development Audit Reference Standard**, which extends the scope of current audits to include ethical, social and societal issues. These audits are 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.

A risk management self-diagnostic tool for sites

The **self-diagnostic tool**, put in place in 2008, allows HSE managers to track their site's performance as action plans move forward and consequently the effectiveness of their environmental, health and safety risk management systems.

This tool has been deployed to evaluate environmental and safety monitoring in the workplace and will be deployed in 2011 with regard to the safety of facilities. It will be deployed at a later stage with regard to the security of facilities and information. This **self-evaluation tool** fits into Valeo's comprehensive process for managing the Group's risks, particularly in that it places responsibility on the sites for implementing and executing their own HSE performance monitoring.

In 2011, the country HSE managers will be able to set up cross-site self-diagnostic tools to make the process more reliable, standardize methods and raise the overall performance level.

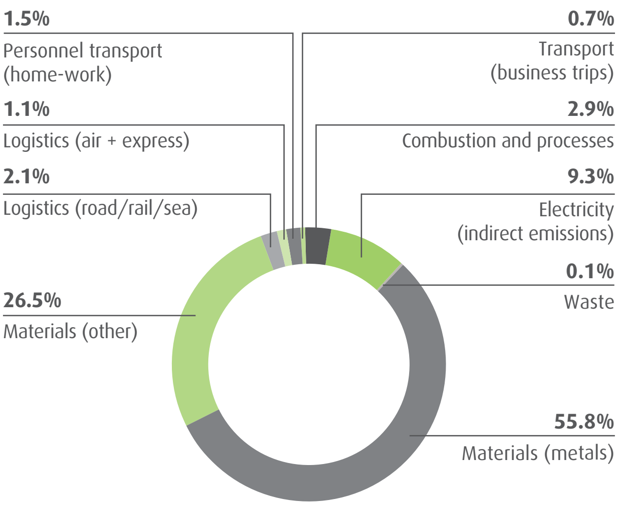
3.A.2. Valeo environmental management and performance in 2010

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

This section presents the management systems the Group has installed together with its results in addressing these issues and meeting the challenge of reducing its carbon footprint, and its overall environmental impact, and of reaching the objectives set for 2012.

For each corporate commitment, it describes the strategy adopted by Valeo in product design and site management. Charts with comments are presented to give an at-a-glance view of Group performance and trends over the past five years. Examples of actions taken at Group and local level illustrate the Group's performance. Lastly, text boxes outline the forthcoming measures that Valeo has chosen in order to continue the progress being made on its environmental endeavors.

Estimate of Valeo's carbon footprint – 2010 data



3.A.2.1. Valeo's commitment to reducing its carbon footprint by 10% from 2009 to 2012

To obtain an overall evaluation of its activities' impact on 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. The items covered by this 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 generation;
- transport: inbound and outbound logistics, home-work travel, business trips, vehicle fleet.

These 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 56% of the footprint.

Emissions generated indirectly through electrical consumption at the Valeo sites make up around 10%. In total, indirect emissions represent over 90% of the overall carbon footprint of the Group.

Direct emissions, accounting for less than 10% of the Group's overall carbon footprint, can be divided into three items: CO_2 emissions generated by fossil fuel consumption at industrial sites, emissions generated by logistics, and finally emissions generated by transport of people.

In 2009, an initial evaluation was made based on information available within the Group. The Valeo Group's carbon footprint in 2009 was measured at approximately 3.5 million metric tons of CO_2 equivalent.

In 2010 the Group's carbon footprint amounted to 4.4 million metric tons of CO_2 equivalent.

When compared to Valeo's sales, the data shows that the Group **has reduced its CO_2 emissions by nearly 1% compared with 2009 and has therefore stabilized its carbon footprint.**

Emissions	2009 (eq. t CO_2)	2010 (eq. t CO_2)	Change/ sales [(1)]
Indirect emissions			
Electricity (indirect emissions)	336,078	410,513	-4%
Materials (metals)	1,887,007	2,470,085	3%
Materials (other)	895,900	1,173,076	3%
Direct emissions			
Combustions and processes	108,087	129,051	-6%
Waste	1,938	2,845	14%
Logistics (road/rail/sea)	87,032	92,766	-16%
Logistics (air + express)	33,764	49,560	15%
Personnel transport (home-work)	89,841	68,636	-40%
Personnel transport (bussiness trips)	56,412	33,217	-54%
Total	3,496,090	4,429,749	-0.48%

(1) Refers to the change in the "Total Emissions 2009/Sales 2009" and the "Total Emissions 2010/Sales 2010" ratios.

This progress supports the critical actions Valeo has chosen in order to reduce the Group's CO_2 emissions:

- **choice of lighter-weight materials** at the product design stage;
- **environmental plant management** in terms of raw materials usage, packaging and waste management;
- **logistical optimization** undertaken by the Group.

In parallel, in 2010 Valeo continued its efforts to develop lower-emission solutions for vehicle usage, which were sought by automakers as a way to meet one of the industry's major challenges.

3.A.2.2. Valeo's commitment to reducing the environmental impact of its products over their life cycle

3.A.2.2.1. Product innovation: factoring sustainable development into R&D

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 of the R&D programs.

For this reason, Valeo has included energy consumption, weight, choice of materials (green materials, recycled, recyclable) and elimination of undesirable substances among its **project evaluation criteria.**

Since 2007 Valeo adopted an **Eco-design Standard directive** and **eco-design guidelines** by Product Line. The directive guides designers in assessing the full range of environmental impacts during every stage in the 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, recovery, disposal.

The designers are provided with a tool that consists of a detailed matrix of improvement measures and design guidelines to help them include all these dimensions in the new product development project. The items in the matrix touch on design and production, such as the use of raw materials, production processes and logistics. But above all they make it possible to factor in sustainable development constraints from the use of the product, as this phase of the product accounts for 90% of its total impact.

Valeo has also published an **Eco-design checklist** in order to track and report the integration of these aspects embedded into new projects. These easy-to-use tools ensure that eco-design criteria are observed in the product design process, making it possible to verify that this has been done, and also simplifying the integration of sustainable development criteria into the design of new products.

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.

In addition, Valeo's R&D programs adhere to two main principles:

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

In 2010, a consortium was created on Valeo's initiative to work on this matter with five other automotive suppliers: Leroy Somer (engines/generators), Johnson Controls (batteries), GKN (transmissions), Michelin (tires) and Leoni (cables). The goal was to produce an electric drive-train that met the needs of the market.

In addition, this year Valeo developed a **high-level simulation tool making it possible to measure a vehicle's energy consumption using programmable variables**. This tool is used to optimize the Group's innovation portfolio and to select projects which promise especially low energy usage when the vehicle is driven.

Alongside internal programs, Valeo is involved in **joint European R&D programs**. Among these 60 projects, **43 are devoted to developing all-electric vehicles and associated electronics.**

The European Investment Bank provides up to 300 million euros in financing for Valeo R&D programs devoted to projects with high environmental added value. The total cost of these programs is 645 million euros. The programs include those that reduce fuel consumption and emissions, such as the hybrid solutions Valeo has developed. This project falls within the European Clean Transport Facility.

Close-up on Valeo low CO_2 emission projects

The two R&D projects Valeo presented to the French ministry of sustainable development in late 2009, **MYGHALE** (Mild HYbride GénérALisablE) and **VEGA/THOP**, began to be developed in 2010. Their respective aims are to develop an affordable hybrid solution with a major impact on worldwide CO_2 emissions (25% to 30%) and to develop a new thermal system for electric vehicles that provides heat comfort comparable to the one found in internal combustion engine vehicles, in any season, with the least possible impact on the vehicle's need for outside energy. **In 2010, new projects were added to the portfolio, including:**

HYBRELEC, a project developing two vehicles, one entirely electric and the other hybrid but rechargeable on the traditional grid (the plug-in hybrid). These two vehicles will be platforms for experimentation and optimization of systems. The project is being carried out by the MOVEO competitive cluster and its outcome is expected in June 2012.

VelV, a PSA-managed project launched in 2010. It aims to create a three-wheeled electric car for city use. The purpose is to offer a way to make very short trips using a very compact vehicle. Total financing for this project amounts to 70 million euros, with results scheduled for late 2011.

3.A.2.2.2. Eco-products: planning a range of Valeo products with lower environmental impact

Reducing the weight of raw materials used and incorporating more recycled or green materials into our products

Consumption of natural resources such as water, minerals and oil generally increases with human activity. However, given that some of the resources are limited and non-renewable, global economic development could deplete supply and threaten the ability of future generations to enjoy an environment as diverse as today.

Commodity prices on world markets (metal, oil - and therefore plastics) also show that the use of natural resources has become a major economic issue 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 water, metals and plastics derived from oil. In order to limit its impact on the environment, Valeo is taking action along two lines: limiting its consumption of raw materials and making greater use of recyclable and recycled materials.

Valeo is pursuing its efforts to minimize the impact of its products, especially the impact they may have on ecosystems, the natural environment and protected animal and plant species.

Valeo is working to **reduce the weight of raw materials used** in product design. For example, the incorporation of StARS electronics on the rear of the alternator will result in significant weight reduction and a reduction in the consumption of raw materials. Valeo is also working towards producing an engine less than one liter in size which would reduce raw material consumption accordingly.

Lastly, in 2010 Valeo carried out a major effort to reduce the weight of headlamps that are on the market, with a goal of reducing the weight of each element (ring, casing, components, glass, reflector, etc.) by an average of 30%.

In 2010 Valeo developed innovative processes for the manufacture of plastics, particularly by incorporating **grades of recycled plastic and natural materials**, such as linen, into some of its products.

Eliminating hazardous substances from products

The European Regulation of December 18, 2006, commonly known as REACH, established a single system for the Registration, Evaluation and Authorization of Chemicals. It took effect 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 consumer 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.

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.

Valeo has **organized itself specifically** to ensure that it is in compliance with REACH. A REACH correspondent has been designated in each Valeo entity and at each Valeo plant. The Valeo Group has thus set up a network of **242 REACH managers**. The R&D, Procurement and Quality departments are responsible for ensuring full product knowledge and for communicating on the subject with outside players (suppliers, customers and authorities). In 2010, the Procurement, HSE and R&D Departments updated their Internal Procedures to include REACH requirements.

REACH training tools have been made available to all those involved in the Group and are regularly updated to incorporate successive amendments.

In addition, the Group began working jointly with its suppliers to ensure that their products were modified to comply with REACH. This task is carried out by the Product Lines, through their R&D teams.

Since 2008, Valeo has ensured its compliance with regulatory requirements by identifying and pre-registering 13 imported substances or preparations deemed “critical” to its operations, with the European Chemicals Agency.

In 2010, the Group continued to identify its products containing **chemical substances of very high concern** *(SVHC : Substance of Very High Concern)* on the lists published by the European Chemicals Agency.

This year three new lists came out. Using IMDS (International Material Data System) software, which is specific to the auto industry, the Group has continued to keep track of the references with at least one substance of very high concern from one of these lists. Due to Valeo’s responsiveness and network of REACH correspondents, **over 1,500 products were identified in 2010**.

Developing products to reduce vehicle fuel consumption

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 plant. With population and economic growth expected over the coming decades, all members of the industry will have to balance the strong demand for individual and commercial mobility against the increasing scarcity of fossil fuels and the ever more pressing need to combat climate change.

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.

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%.**

Up to 20% reduction in fuel consumption

The following table shows the energy savings due to Valeo technologies. It consists of figures typically used in the industry, based on simulations assuming average vehicle use. The simulation program can also provide more accurate results based on data for actual use.

	Technologies	Reductions (not necessarily cumulative)
Energy control	High-performance air-conditioning system	3%
	LED headlamp	1%
Thermal management	UltimateCooling™	3 to 5%
	THEMISTM valve™	2 to 4%
Transmission automation	Dual-clutch transmission with electro-mechanical actuators	4 to 6%
Air intake	Exhaust gas recirculation (EGR) cooler	5 to 7%
Hybridization	StARS micro-hybrid system	6 to 15%
	High output alternators	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 StARS starter-alternator is a micro-hybrid system making it possible 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. The second generation of this Stop-Start system was introduced in the second half of 2010 by PSA for its e-HDi engines, and lowers CO_2 emissions further, on average by 5 grams per kilometer. 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** carries out the same Stop-Start function, 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 addition, 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 (under 2kg per vehicle), which in turn contributes a reduction in vehicle weight and in CO_2 emissions.

In the same Product Line, Valeo now offers wiper blades of natural rubber, which are more effective, quieter, longer-lasting and less carbon intensive. In 2010, Valeo and BAIC (Beijing Automotive Industry Corporation) presented to the Beijing Governor an electric demo car equipped with a complete Valeo electric powertrain system, demonstrating the Group's expertise in systems that reduce electric vehicles' energy consumption. Due to its permanent magnet synchronous engine, offering a wide speed range, Valeo's electric drive train provides both good acceleration at low and medium speeds and a higher top speed, all with a single gear transmission. Developed by Valeo in partnership with Leroy Somer and GKN, this system includes an electric engine, an inverter, a transmission, a charger, a governor and an DC-to-DC converter. The partnership between Valeo and BAIC started in early 2010 with the intend to bring an electric vehicle into series production in 2011. This demo car is the first concrete achievement of this partnership.

In December 2010 Valeo and IFP Energies Nouvelles announced a framework contract concerning powertrain groups. The skill sets of the two partners will create synergies and accelerate the development of clean powertrain systems.

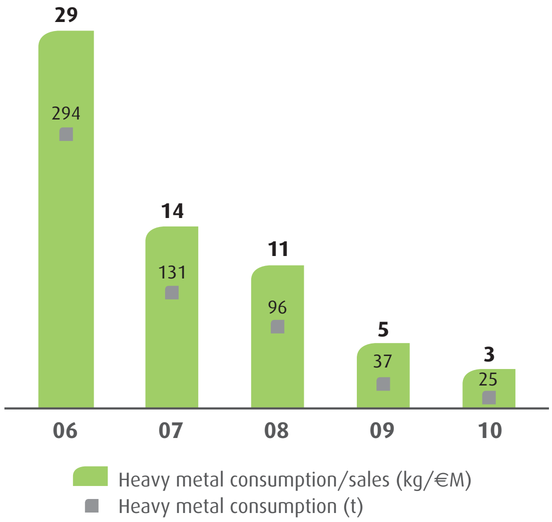
In the years ahead, the Valeo Group will continue to pursue product innovation of the kind favored in Europe. We will expand our assembly of components that reduce automotive CO_2 emissions, reflecting market growth now estimated at 20% a year.

Reducing the impacts of products at the end of their life

Valeo is also concerned with reducing the **impacts of products at the end of their life**. The "Eco-design standard" directive calls for specific requirements, in three areas: heavy metals, recyclability and re-use. 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. In accordance with the EU Directive on end-of-life vehicles (ELV), Valeo is committed to taking steps in terms of vehicle design. The directive aims among other things 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 French government order of December 24, 2004 sets out the conditions on which such substances may still be used. To give one example, Valeo has been among the first to adopt lead-free welding in its electronic housings.

The ELV Directive was amended in February 2010: and now provides that the exemption granted for the use of lead, particularly in the case of soldering, will be revised by 2014 at the latest and, with respect to soldering on glass, by 2012. Consequently, lead in soldering electronic components will be prohibited for all vehicles put on the road after January 1, 2016.

Consumption of heavy metals



Response rate

2006	2007	2008	2009	2010
97.5%	100%	98.9%	100%	100%

Heavy metal consumption has fallen continuously since 2005 and dropped significantly again this year (down 46% from 2009 in proportion to sales).

To achieve results like these, the Product Lines have taken action in a number of areas over the years:

- eliminating lead in soldered electronic components;
- changing the surface treatment process from chromium VI to chromium III;
- eliminating cadmium as a coloring agent.

In the years to come, the Group will continue to go beyond the initial scope of the ELV Directive, with the goal of reaching zero heavymetal content in its products. This goal will drive ongoing technological efforts by the Group's Product Lines and R&D Departments.

3.A.2.2.3. An ethical product: Valeo intends to extend its corporate responsibility to its supply chain

In order to observe its commitment to offer lightweight, safe and environmentally friendly products and thereby control its risks related to brand image, regulations, resource conservation and uninterrupted supply, the Group is aware that it needs **to involve its suppliers in making its supply chain more secure**.

The Group plans to create environmentally efficient, mutually beneficial **long term relationships** with its suppliers, ones that will keep them in business for a long time to come. In 2009, Valeo carried out systematic internal audits of its suppliers (some **2,400 suppliers**), working up a new evaluation grid for identifying those who were at-risk.

Valeo makes sure that its suppliers observe their legal obligations For instance, after the Group had identified the so-called substances of very high concern (SVHC), it made a list of the suppliers of the affected components so that they could be questioned as to their strategy for using these substances and, based on their answers, Valeo could devise its own strategy. 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 the end of 2010, all Valeo Product Lines had been through this identification process. The Group now applies a product-by-product strategic analysis whereby **priority is given to those suppliers offering alternative products that do not contain any SVHC**.

Finally, it is Valeo's intention to help **promote and defend its principles by orienting its purchasing policies towards partners who are equally aware of their responsibilities**. For this reason, Valeo published the "Supplier Quality Manual" which was translated into 15 languages and sent to suppliers. Suppliers must agree to the contents as well as to possibly being audited by the Group concerning these matters. The document mentions the Group's chief concerns regarding national and international regulations, fundamental rights, freedom of association, forced labor and child labor, anti-discrimination and anti-corruption measures, worker's rights, workplace health and safety, and the environment.

Valeo plans to step up its effort in 2011 by including relevant sustainability criteria in the evaluation grid used in auditing suppliers.

3.A.2.3. Valeo is committed to improving the performance of its plants and operations

The actual implementation of the Group's sustainability strategy takes place in the plants. There the principles set out in our charters are applied. Many local initiatives are also carried out for the sake of lowered environmental impact and to incorporate sustainability into the manufacturing process in the best way possible.

Valeo has developed the concept of the *generic plant*, which formalizes and describes how sustainability is to be applied at our production sites.

The life cycle of a site consists in finding a suitable location, building the site, operating the site, and ultimately closing or selling it. Accordingly:

- plants are usually located close to customer sites. Plants are located 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 includes sustainable development criteria relating to plant 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 (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, and 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 if necessary, 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, the necessary measures are taken. 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.

Most of these indicators show that Valeo increased in absolute terms its consumption of energy and resources, as well as its amount of emissions, due to the rebound in business and production in 2010. Nonetheless, at constant business levels, Valeo's performance, expressed as a proportion of sales, improved on nearly all environmental aspects on which the Group focused.

3.A.2.3.1. Improving energy efficiency and reducing greenhouse gases from buildings and industrial processes

Aware of the need to optimize the energy efficiency of its buildings and manufacturing processes, Valeo intensified its management of this issue in 2010 by launching a major campaign. The campaign aims to accurately identify the best practices and opportunities for improvement, and then to pass the information obtained on to the sites for implementation.

The campaign, organized in conjunction with an outside consulting firm specializing in energy management and efficiency, included the following elements in 2010:

- 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.

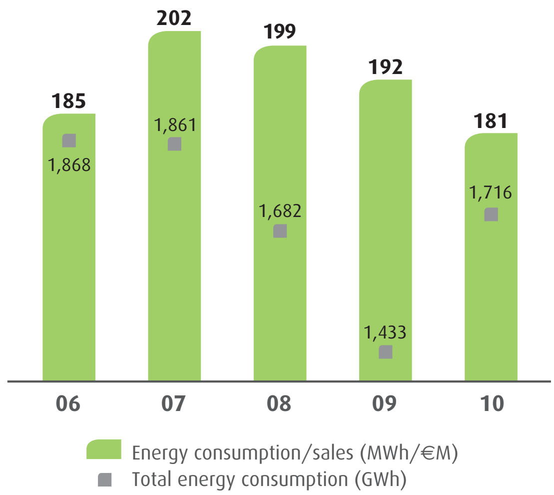
The campaign will continue in 2011, with:

- the 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; and
- the 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 2012.

The Group is also considering implementing an ISO 50001 energy efficiency management system.

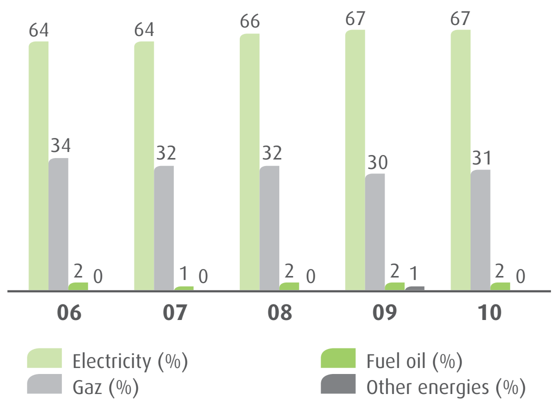
Energy consumption



Response rate

2005	2006	2007	2008	2009	2010
98.7%	96.2%	99.7%	98.9%	100%	100%

Energy consumption distribution



Response rate

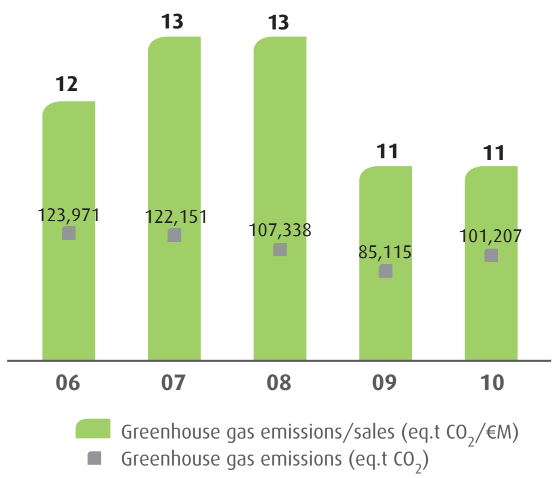
	2006	2007	2008	2009	2010
Electricity	97.8%	99.7%	98.9%	100%	100%
Gas	96.8%	99.7%	98.9%	100%	100%
Fuel oil	98.1%	99.6%	98.9%	100%	100%

In 2010, Valeo consumed 1,716 GWh of energy, or 20% more than in 2009 given the increase in activity. However, measured in relative terms (MWh/€m of sales), the Group's energy consumption has dropped by 10% since 2007, reflecting Valeo's efforts to limit its energy consumption and reduce CO_2 emissions.

The energy mix is relatively stable, with electricity accounting for around 67% of the total and gas for around 31%. This reflects the Group's policy of using primarily these two energy sources, with marginal use of fuel oil.

The efforts deployed to limit energy consumption have considerably reduced the emission of greenhouse gases at all sites and for the Group as a whole. Valeo started measuring fossil fuel combustion emissions in 2001. Building climate control, ventilation, lighting and process energy requirements are planned from the initial plant design stage to control energy expenditure in operations.

CO_2 emissions (direct emissions only)



Response rate

2006	2007	2008	2009	2010
96.9%	99.7%	98.9%	100%	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 2010 the Group's direct CO_2 emissions, expressed as a proportion of sales, fell by 3% compared with 2009 and have fallen by 18% since 2007, a performance reflecting the Group's commitment to limiting energy consumption in particular by optimizing the energy consumed by manufacturing processes. Whenever a new process is designed, an energy audit is carried out to optimize its operation.

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

- The Limoges site (France) equipped a tunnel oven with an energy harvester, thereby reducing its gas consumption by 36%. The same site installed 42m² of solar panels, thereby providing three quarters of the energy necessary to provide warm water for the showers and economizing 30,000kWh of electricity per year, or the equivalent of about two metric tons of CO_2 equivalent.
- The Châtellerault (France) site signed an energy performance contract with its partner Siemens. The contract includes productivity commitments for gas consumption.
- The San Luis Potosi (Mexico) site completely automated its ventilation and heating system, which now automatically switches on at 10am and shuts off at 5.30pm, thereby generating an annual reduction in consumption of 30% to 40%. The site has also launched a detailed campaign to increase employee awareness of the energy savings achievable via proper use of lighting and computer equipment.
- The Hainaut (Belgium) site equipped all its compressors with heat exchangers. The heat retrieved is then re-diffused via five space heaters. The consumption of gas for heating, in terms of the requirement for degrees of heating per day, was thereby reduced by 15% between November 2009 and November 2010.

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

3.A.2.3.2. Reducing transport-related energy consumption and emissions

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.

The evaluation of the Group's carbon footprint reveals that logistics-related emissions amount to some 140kt of CO_2 equivalent or 3.5% of the total. Overland and sea transport account for around two thirds of emissions (mostly from truck transport). Air freight, although not used as regularly, has a high carbon impact and so also accounts for around one third of logistics emissions.

In order to reduce its carbon footprint, Valeo has undertaken initiatives for lower carbon logistics and reduced packaging. **Logistics** still accounts for around 3.5% of the Group's global carbon footprint, but compared to sales has nevertheless **decreased by 4%** between 2009 and 2010.

In the area of transport, Valeo has initiated an in-depth review designed to identify new scope for **logistical and environmental optimization:** improved management of the (inbound) subcontracting chain, optimization of transport between sites, coordination with customers. The very broad program of initiatives deployed in 2009 and pursued in 2010 has diminished the environmental impact of all the Group's logistical activities and reduced both consumption of packaging and production of waste.

- **Optimization of trailer and container loads.** Steps have been taken to allow for average loads of 85%, and measure the achievement of targets. Valeo is currently applying the same approach to optimizing filling of the boxes used to transport products.
- **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 flows. Valeo's sites equally strive to make space for stock on consignment from vendors, thereby eliminating the need for intermediate storage and the related transport.
- With effect from 2010, certain transport lines are organized in such a way that the **trucks cover several vendors before delivery to Valeo,** thereby reducing the overall distance covered in comparison with individual return trips and **avoiding empty return journeys.**
- An ambitious objective of **reducing urgent transport by 50%** has been set, inasmuch as such transport generally involves the use of taxis, planes, helicopters etc. which emit significant quantities of greenhouse gases.
- **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.
- **Surveys are performed on the Group's main carriers** in order to verify their fleet quality (trucks compliant with Euro 4, 5 and 6 standards).

These Group-wide initiatives are combined with local pilot schemes such as the truck-train transport program in the United States, where customers' demand and the organization of the transport network constitute favorable factors for such an approach.

Valeo is also a member of Galia, an industry body created to **improve the exchange of electronic data and optimize the logistics and packaging required for product movements throughout the industry.** Valeo has made proposals, which the industry has accepted, designed to generalize the use of recyclable packaging. Valeo has defined packaging specifications and proposed standard units to its partners.

Valeo is also working on a standard packaging solution for long-distance maritime transport, designed to reduce raw material packaging content and allow both for improved filling of containers and for reuse of the packaging. This initiative is currently under trial in the Thermal Systems Business Group in partnership with Chinese suppliers.

The automotive industry envisages transforming this initiative into an industry standard with a view to publication during the first half of 2011.

> Valeo's objective for 2011 is to continue optimizing its logistics and reducing its carbon footprint.

3.A.2.3.3. Eradication of hazardous substances used at the sites

Exposure to hazardous substances is an issue in terms of products as well as production processes.

Hazardous substances generally have carcinogenic, mutagenic or reprotoxic properties that can harm the health of any person exposed to them: plant workers, vehicle repairmen, etc.

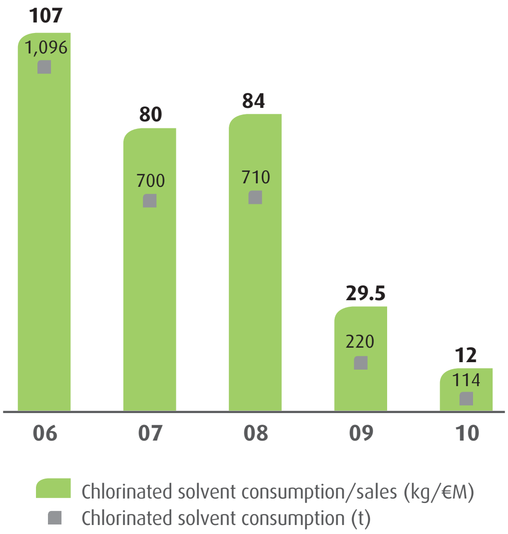
Alongside actions taken to bring products into compliance, the Group is continuing to **eradicate all substances used at its industrial sites that are deemed hazardous**. In 2008, a new European Regulation called CLP (Classification Labeling and Packaging), following on from GHS (Global Harmonized System), 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 costs.

With the REACH regulation, the sites must comply with utilization requirements for the substances concerned as indicated by the manufacturers and distributors.

In 2010 new practical guidelines, adapted to the constraints of REACH, were drawn up for use at Valeo's sites.

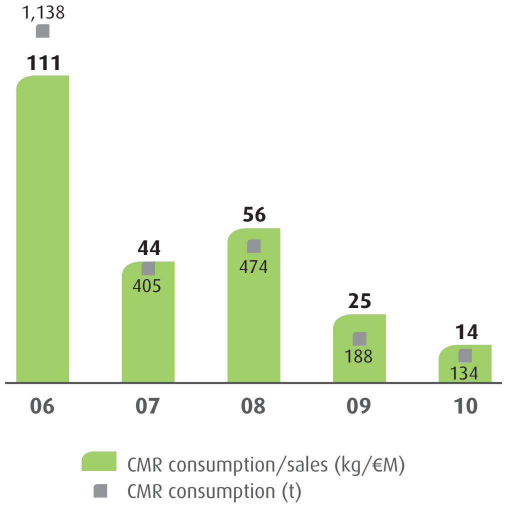
Consumption of chlorinated solvents



Response rate

2006	2007	2008	2009	2010
98.2%	100%	98.9%	100%	100%

Consumption of carcinogenic, mutagenic and reprotoxic (CMR) substances



Response rate

2006	2007	2008	2009	2010
98.2%	99.4%	98.9%	100%	100%

In 2010 Valeo continued to make significant progress in its efforts to reduce consumption of CMRs and chlorinated solvents and atmospheric emission of VOC and lead. The reduction achieved forms part of a positive trend, since 2007. During this period, the consumption of CMRs (relative to sales) fall by 68% and that of chlorinated solvents by 85%, while VOC emissions fell by more than 30% and those of lead were virtually eliminated, plummeting from 20 to 0.1g per million euros of sales.

The number of listed chemicals has decreased at all sites, and limitations have been set on the quantities of chemicals used.

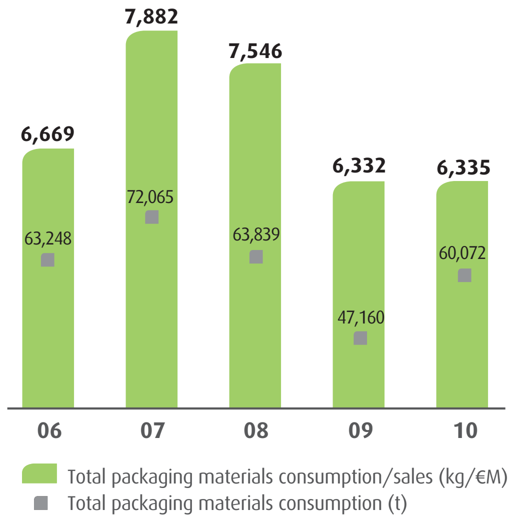
Actions have already been undertaken to reduce reliance on hazardous substances and chlorinated products such as paints. Product Lines strive to replace such hazardous substances by alternative ones whenever possible.

In the years to come, Valeo will pursue efforts to eradicate all hazardous substances from its plants. In addition, the sites will continue efforts to achieve compliance with the Reach Directive.

3.A.2.3.4. 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.

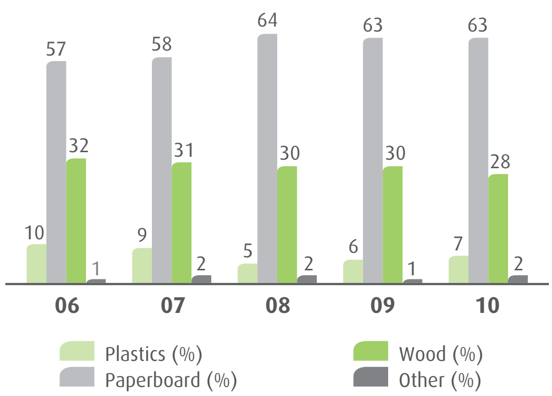
Packaging materials consumption



Response rate

2005	2006	2007	2008	2009	2010
92.5%	90.4%	99.1%	98.9%	99.2%	100%

Breakdown of packaging materials consumption



Response rate

	2006	2007	2008	2009	2010
Plastic	92.1%	99.1%	98.9%	100%	100%
Paperboard	92.9%	99.1%	98.9%	100%	100%
Wood	94.4%	99.1%	98.9%	99.2%	100%

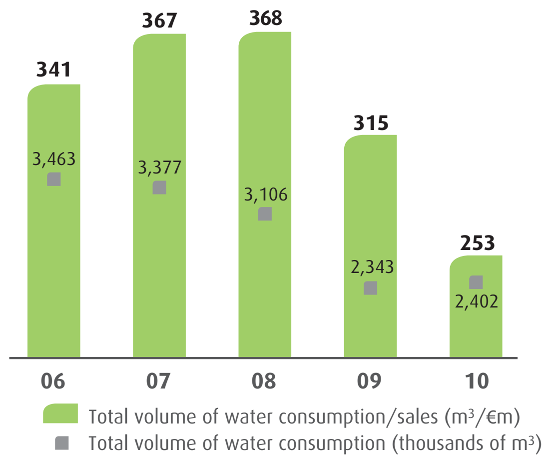
Packaging material consumption compared to sales remained stable in 2010 following the 16% reduction achieved in 2009. The efforts made by sites continued, but the Group's reorganization led to new manufacturing circuits, as well as transfers between sites and suppliers, which still need to undergo logistical optimization.

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). New initiatives for reducing the use and increasing the reuse of packaging materials were undertaken in 2010, in particular the introduction of logistical loops which enable the same packaging to be used for incoming and outgoing products.

For example, the Ben Arous (Tunisia) site stores packaging to use for products returned to suppliers. Whereas the Sainte Florine site uses component cardboard boxes for its finished products which has resulted in annual savings of 35,000 euros.

Valeo will continue its efforts in 2011 with a view to reducing its use of packaging materials and increasing reuse and recovery at its sites.

3.A.2.3.5. Reducing water consumption



Response rate

2006	2007	2008	2009	2010
96.9%	99.7%	98.7%	100%	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 progressive drop in water consumption since 2006. In 2010, water consumption as a proportion of sales, decreased by 20%. The indicator has fallen for all the Group's Product Lines and sites reflecting the implementation of locally developed plans.

Total water consumption increased by 2.5%, about ten times less than the increase in sales. Several sites achieved particularly significant reductions; such as the Shashi site (China) where a major water leak was repaired and the Timisoara site (Romania) where an open cooling system was eliminated.

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 of the water is used in a roof cooling system.

Group sites have developed innovative solutions for reducing water consumption. For example, the San Luis Potosi site (Mexico) now waters its lawns using reused and treated water, thereby saving 50% of the previous cost of watering. 60% of the site's total water consumption comes from treated water. This site has also replaced all of its manual taps with automatic water-saving taps, thereby saving 20% of total consumption.

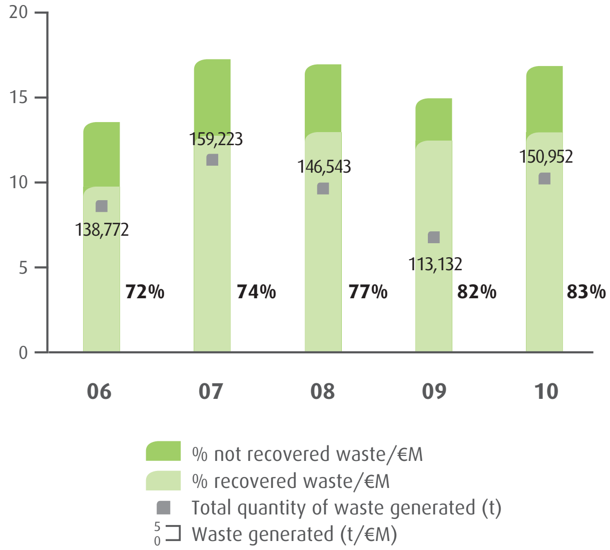
Each Group site is encouraged to implement techniques to further reduce water consumption in the years ahead such as by controlling leaks, changing individual behavior or replacing open flow cooling systems. The recovery of stormwater and wastewater is another avenue to be explored on a case by case basis.

3.A.2.3.6. 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. Wood is recycled and the remainder is used for heating. Two-thirds of the plastic is sold for recycling. The above figures do not include exceptional waste such as that arising from dismantling or demolition.

Waste production

Recovery rate



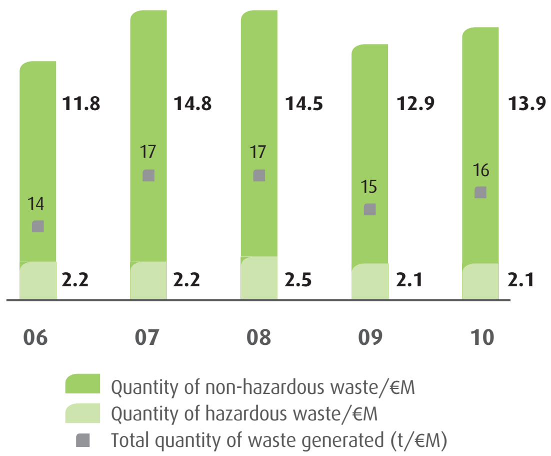
Response rate

2006	2007	2008	2009	2010
97.4%	99.7%	98.9%	98.9%	99.7%
96.8%	94.7%	98.9%	98.9%	99.7%

The volume of waste generated in 2010 rose compared with 2009. The recycling rate continued to rise, reaching 83% in 2010. The proportion of hazardous waste remained stable.

Waste production

Hazardous and non-hazardous waste



Response rate

2006	2007	2008	2009	2010
97.4%	100%	98.9%	100%	99.7%

In 2010, Valeo's sites continued to implement local initiatives for reducing their waste generation and increasing their recycling rates:

- The San Luis Potosi (Mexico) site organized two in-house competitions, one lasting a week and the other three months, as a means of increasing employee awareness of the importance of sorting and reducing waste.
- In Poland, the Skawina site installed special compactors for the cans and plastic bottles used in its canteen and cafeteria.
- Also in Poland, the Chrzanów site worked together with its waste collector in order to recycle the major part of its conventional waste, thereby achieving annual savings of 10,000 euros.
- The Ben Arous (Tunisia) site has set up an on site waste program.

The Group's objective for 2011 is to continue efforts to cut waste production and increase material recycling and reuse.

3.A.2.3.7. 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 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 its plants. 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.

At its sites, Valeo continues to strive for an overall reduction of noise and other forms of pollution by developing innovative and more effective products and processes. For example, the Kyungju site (South Korea) has replaced its phosphate-based lubricant with a cold forging lubricant that generates practically no airborne emissions (SOx, NOx, dust) and reduces wastewater emissions by 90%.

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 trichloroethylene in the manufacture of clutch facings. In 2010, the generation of VOCs compared to sales was down 27% year on year, a performance which highlights Valeo's commitment to the issue.

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. The Group has offered to work with the French Ministry of Sustainable Development on the safety of former sites that have not belonged to Valeo for more than 30 years. This comprehensive approach is part of its policy on "corporate citizens".

3.A.2.3.8. Ensuring high-level 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 upgraded to comply with the most recent seismic regulations;
- Valeo sites are not located in flood zones or, if they are, are equipped with systems that protect them 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 the prevention of crisis situations and on situation-specific contingency plans. This directive requires each site to draw up an emergency plan for dealing with potential incidents.

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 2010.

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.

3.A.2.3.9. Providing for health and safety in the workplace

Valeo attaches the highest importance to its risk management policy, which is designed to ensure the health and safety of its employees, and the security of its assets as well as to provide the basis of sustainable development.

The Group's Code of Ethics demonstrates how Valeo has committed itself to complying with a certain number of ethical and social values included in the UN's Global Compact, more particularly in the area of employment. The Group's Sustainable Development Charter also sets out requirements for the protection of persons and assets, the practical application of which is embodied in its Risk Management Manual which includes the Group's standards in respect of health and safety in the workplace.

In 2010, two campaigns were organized during which employees from the Group's sites worldwide took part in various activities designed to raise awareness in the areas of protecting the environment and ensuring safety in the workplace. A Safety Week was organized in April 2010 to coincide with the World Day for Safety and Health at Work. The activities organized focused on the four fundamental pillars of safety: equipment (including protection and ergonomics), training, attitude and constant improvement. For example, the Itatiba site (Brazil) undertook an innovative experience as part of this Safety Week: a group of actors came to the plant to perform a play about safety in the workplace.

In June 2010, to coincide with the World Environment Day, the Group's sites worldwide took part in Valeo Environment Week by organizing activities designed to protect the workplace and the planet. In Nogent-le-Rotrou (France), for example, the week was devoted to an awareness campaign with posters focusing on a new theme each day, including issues such as safety in the workplace. A satisfaction survey disclosed that 75% of the site's employees had appreciated the campaign.

Worldwide, the Group devoted 7,296 hours of training related to its Code of Ethics and 103,136 hours to health and safety in the workplace. Training concerns sustainable development and environmental issues remained a key priority with 22,790 hours of training.

Other local initiatives are illustrative of site managers' concern with issues of health and safety at work:

- The San Luis Potosi site (Mexico) prepared a poster campaign on valeo's environmental policy and the iso 14001 standard, as well as information sheets dealing with the standard and the environment. The site has also started reporting on the number of accident-free days and displays posters explaining the proper use of tools and protective equipment.
- The same site has started making accident-prone zones, highly visible using a 1.6M tall red outline to alert employees and has equally set up a first aid program.
- The Gravatai site (Brazil) treats safety as a daily concern and at the end of 2010, was able to announce 436 consecutive accident-free days.
- The Skawina site (Poland) holds lotteries if no accidents have been recorded for three consecutive months, equating with about 300,000 working hours. Three times fewer accidents were reported in 2010 thanks to this initiative.
- In 2010, the Tuam site (Ireland) inaugurated a room devoted to health and safety in the workplace, used for first aid, medical surveillance, emergency consultations and individual interviews with employees wishing to raise particular safety issues.
- The Veszprem site (Hungary) organized a Healthy Week in the plant, during which appropriate nutritional meals were served. The same site organizes awareness campaigns for local residents particularly in respect of recycling.
- The Skawina site (Poland) organized a health campaign for its employees focusing on smoking, stress, the use of computers for extended periods of time, cardio-vascular health and hearing. The site's medical statistics showed a 5% fall in muscular complaints.
- The Angers site (France) arranged for the inspection and repair of its employees' windshields as a means of reducing the risk of accident during travel to and from work. This type of action improves the sense of wellbeing at work, provides a different perception of the Company and contributes to road safety.

3.A.3. Table of environmental indicators

	2006	2007	2008	2009	2010
Total revenue across all sites in reporting scope *(gross)*	10,486	9,222	8,555	7,448	9,482
Number of sites in reporting scope	138	119	119	118	115
ISO 14001 certified sites *(%)*	77%	94%	88%	89%	98%
OHSAS 18001 certified sites *(%)*	52%	74%	76%	81%	89%
Total volume of water consumption *(thousands of m³)*	3,463	3,377	3,106	2,343	2,402
Total volume of water consumption/revenue *(m³/€m)*	341	367	368	315	253
Total energy consumption *(GWh)*	1,868	1,861	1,682	1,433	1,716
Total energy consumption/revenue *(MWh/€m)*	185	202	199	192	181
Electricity *(%)*	64%	64%	66%	67%	67%
Gas *(%)*	34%	32%	32%	30%	31%
Fuel oil *(%)*	2%	1%	2%	2%	2%
Other energy sources *(%)*	0%	0%	0%	1%	0%
Consumption of chlorinated solvents *(metric tons)*	1,096	739	710	220	114
Consumption of chlorinated solvents/sales *(kg/€m)*	107	80	84	29.5	12
Consumption of heavy metals *(metric tons)*	294	131	96	37	25
Consumption of heavy metals/sales *(kg/€m)*	29	14	11	5	3
Consumption of CMR substances *(metric tons)*	1,138	406	474	188	134
Consumption of CMR substances/sales *(kg/€m)*	111	44	56	25	14
Consumption of packaging materials *(metric tons)*	63,248	72,065	63,839	47,160	60,072
Consumption of packaging materials/sales *(kg/€m)*	6,669	7,882	7,546	6,332	6,335
Proportion of plastic packaging *(%)*	10%	10%	5%	6%	7%
Proportion of paperboard packaging *(%)*	57%	58%	64%	63%	63%
Proportion of wood packaging *(%)*	32%	31%	30%	30%	28%
Proportion of other packaging materials *(%)*	1%	2%	2%	1%	2%
Consumption of recycled plastics *(metric tons)*	6,150	7,184	6,751	7,490	10,269
Volume of industrial effluents emissions *(thousands of m³)*	748	918	809	642	684
Volume of industrial effluent emissions/sales *(m³/€m)*	76	103	96	86,3	72
Heavy metal content in effluents *(kg)*	278	242	142	278	563
Heavy metal content in effluents/sales *(kg/€m)*	0	0	0	0	0.06
VOC atmospheric emissions *(metric tons)*	1,489	1,296	1,107	1,001	926
VOC atmospheric emissions/sales (*kg/€m)*	153	141	132	134	98
TCE atmospheric emissions *(metric tons)*	327	51	89	42	19
TCE atmospheric emissions/sales (*kg/€m)*	32	6	10.5	5.6	2

	2006	2007	2008	2009	2010
Lead atmospheric emissions *(kg)*	52	173	137	11	1
Lead atmospheric emissions/sales *(g/€m)*	5	20	16.5	1.5	0
Greenhouse gas emissions *(metric tons CO_2 equivalent)*	123,971	122,151	107,338	85,115	101,207
Greenhouse gas emissions/sales *(metric tons CO_2 equivalent/€m)*	12	13	13	11	11
Total waste generated *(metric tons)* (both hazardous and non-hazardous)	138,794	159,223	146,543	113,133	150,952 [(1)]
Total waste generated/sales *(metric tons/€m)*	14	17	17	15	16 [(1)]
Hazardous waste *(metric tons)*	23,296	20,485	21,195	15,579	19,732
Non-hazardous waste *(metric tons)*	115,498	138,738	125,347	97,554	131,220
Waste reuse rate *(%)*	72%	74%	77%	82%	83%
Number of fines and compensation awards	3	1	10	4	3
Amount of fines and compensation awards *(€ thousands)*	4	1	4.1	112.7	8
Provisions and guarantees for environmental risks *(€ thousands)*	3,091	4,289	1,386	2,358	2,571
Functional expenditure to prevent environmental consequences of operations *(€ thousands)*	16,417	19,789	19,930	11,740	11,123
Capital expenditure excluding decontamination costs to prevent environmental consequences of operations *(€ thousands)*	4,244	3,552	4,898	2,080	1,796
Decontamination costs *(€ thousands)*	1,240	1,427	1,217	1,358	710

(1) The 2010 figure excludes the Pianezza site (Italy) which mistakenly included dismantling waste in its reporting. Waste volumes and sales have been removed from the 2010 scope.

3.B. Social and societal policy

The social indicators below are based on the provisions of Articles L.225-102-1 and R.225-104 of the French 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.

In response to the new requirements of the automotive industry and the increasing globalization of its markets and customers, in 2010 the Group reorganized itself into four Business Groups including 109 production sites, 20 research centers, 38 development centers and 10 distribution platforms across 27 countries. The role of its National Directorates was also reinforced. The new organization is designed to accelerate the Group's growth and improve its productivity.

3.B.1. Employment

3.B.1.1. Number of employees

3.B.1.1.1. Change in employment over three years

	2008	2009	2010
Engineers and managers	11,468	10,834	11,375
Administrative staff, technicians and supervisors	8,243	7,433	7,637
Operators	29,898	28,789	31,767
REGISTERED HEADCOUNT	**49,609**	**47,056**	**50,779**
Temporary staff	1,531	5,054	7,151
TOTAL HEADCOUNT	**51,140**	**52,110**	**57,930**
o/w:			
Permanent staff	48,631	44,705	47,146
Temporary staff	2,509	7,405	10,784

At December 31, 2010 the Group employed 57,930 people worldwide, an increase of 11.2% on 2009 following the upturn in the automotive market.

There was also a rise in the number of temporary and permanent employees at the end of 2010 owing to the temporary impact of vehicle scrappage programs in Europe and the strong recovery in vehicle production in emerging countries.

On a consolidated basis, temporary staff thus represented 18.6% of total employees at the end of 2010 as opposed to 14.2% at the end of 2009.

The proportion of engineers and managers fell slightly to 22.4% of total employees at the end of 2010 compared with 23.0% at the end of 2009 and 23.1% at the end of 2008.

3.B.1.1.2. International composition of the Group's workforce

The Group's growing worldwide presence is reflected in the increasingly international face of its workforce. Today, 75.1% of employees are based in a country other than France, compared with 66.5% in 2000.

Total headcount outside France

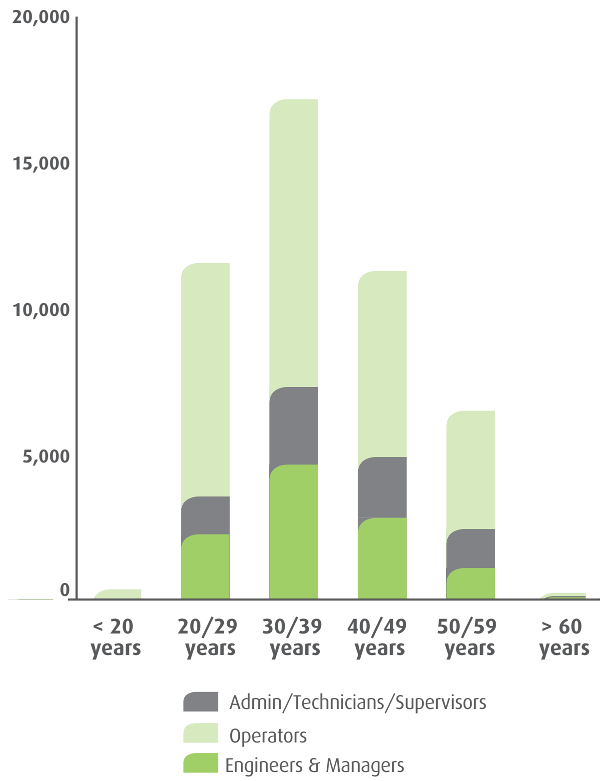
1995	2000	2005	2009	2010
14,125	50,002	50,273	36,492	43,490

	Western Europe	Eastern Europe	Africa	North America	South America	Asia
Total headcount at December 31, 2010	24,200	9,592	1,428	6,212	4,383	12,115
as a % of the total headcount in 2010	41.8%	16.6%	2.5%	10.7%	7.6%	20.9%

Compared with 2009, the headcount fell by 1.6% in Western Europe but rose by 48.2% in North America, 16.8% in Eastern Europe, 7% in Africa, 2.2% in South America and 27.6% in Asia, notably as a result of the rebound in automotive production in those regions.

3.B.1.1.3. Generational turnover

Registered headcount by age bracket



At December 31, 2010 the breakdown of the Group's permanent headcount was as follows:

- 1% aged under 20;
- 26.2% aged between 20 and 29;
- 35.8% aged between 30 and 39;
- 23.3% aged between 40 and 49;
- 13.1% aged between 50 and 59;
- 0.6% aged 60 or over.

A total 42.4% of engineers and managers are in the 30-39 age bracket, compared with just 34.6% of administrative staff, technicians and supervisors and 33.7% of operators. A total 29.8% 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.B.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.B.1.2.1. Permanent contracts

Number of hires on permanent contracts

	2008	2009	2010 (1)
Engineers and managers	1,724	713	1,470
Administrative staff, technicians and supervisors	540	194	432
Operators	3,430	1,729	3,712
TOTAL	**5,694**	**2,636**	**5,614**

(1) Excluding the joint venture in Pune, India.

During the first quarter of 2010, Valeo increased its forecast for automotive production in 2010 and as a result, new hires on permanent contracts increased by 113% overall compared with 2009, although they remained 1.42% below their level of 2008.

Breakdown of hires on permanent contracts by geographic area

	Western Europe	Eastern Europe	Africa	North America	South America	Asia (1)
Total permanent hires, 2010	537	688	140	1,151	1,087	2,010
As a % of hires on permanent contracts, 2010	9.6%	12.2%	2.5%	20.5%	19.4%	35.8%

(1) Excluding the joint venture in Pune, India.

The primary focus of the Group's recruitment efforts was in high-growth areas: North and South America and Asia.

3.B.1.2.2. Fixed-term contracts

Number of hires on fixed-term contracts

	2008	2009	2010 (1)
Engineers and managers	131	73	123
Administrative staff, technicians and supervisors	93	65	68
Operators	1,616	3,746	4,871
TOTAL	**1,840**	**3,884**	**5,062**

(1) Excluding the joint venture in Pune, India.

A total of 5,062 new hires on fixed-term contracts were made during the year, an increase of 30% on 2009 in response to the temporary surge in activity following the introduction of vehicle scrappage schemes, and the pick-up in automotive production in North America and emerging countries.

A total of 3,633 employees were on fixed-term contracts at December 31, 2010, compared with 2,350 in 2009 and 978 in 2008.

Breakdown of hires on fixed-term contracts by geographic area

	Western Europe	Eastern Europe	Africa	North America	South America	Asia (1)
Total fixed-term hires, 2010	2,160	650	58	1,286	35	873
As a % of fixed-term hires, 2010	42.7%	12.8%	1.1%	25.4%	0.7%	17.3%

(1) Excluding the joint venture in Pune, India.

Compared with 2009, the number of new hires on fixed-term contracts fell by 6 points in Eastern Europe, 4.2 points in Asia, 8.9 points in Africa, 7.8 points in North America and 0.4 points in South America. In contrast, the number rose by 11.7 points in Western Europe.

3.B.1.3. Departures

	2008	2009	2010 (1)
Contract terminations:	4,167	3,806	2,058
■ o/w layoffs	2,238	2,619	733
Resignations	3,937	2,038	2,141
Early retirement	191	225	115
Retirement	417	285	247

(1) Excluding the joint venture in Pune, India.

Valeo terminated 2,058 contracts in 2010, or 4.4% of permanent staff (8.5% in 2009 and 8.6% in 2008).

Layoffs accounted for 35.6% of the total compared with 69% in 2009 and nearly 54% in 2008.

The drop in layoffs reflects the upturn in automotive production.

Other contract terminations were for personal reasons whether or not of a disciplinary nature.

Early retirements and retirements amounted to 0.8% of permanent staff (1.1% in 2009 and 1.2% in 2008).

In 2010 the number of resignations was up 5% on 2009, and still remains one of the main reasons for departures. Resignations represented 4.5% of the permanent headcount in 2010 (4.6% in 2009 and 8.1% in 2008). By socioprofessional category, resignations represented 6.9% of the permanent headcount of engineers and managers, 3% of the permanent headcount of administrative staff, technicians and supervisors and 4.3% of the permanent headcount of operators.

Breakdown of departures in 2010 by geographic area

	Western Europe	Eastern Europe	Africa	North America	South America	Asia [1]
Layoffs	624	38	19	21	2	29
	85.2%	*5.2%*	*2.6%*	*2.9%*	*0.3%*	*3.9%*
Dismissals	202	141	3	163	615	201
	15.2%	*10.6%*	*0.2%*	*12.3%*	*46.4%*	*15.2%*
Resignations	445	347	36	400	224	689
	20.8%	*16.2%*	*1.7%*	*18.7%*	*10.5%*	*32.2%*
Early retirement	111	0	0	4	0	0
	96.5%	*0.0%*	*0.0%*	*3.5%*	*0.0%*	*0.0%*
Retirement	129	14	1	17	8	78
	52.4%	*5.7%*	*0.4%*	*6.7%*	*3.2%*	*31.6%*

(1) Excluding the joint venture in Pune, India.

Valeo is firmly committed to a forward-looking employment and skills management policy. The Group implements measures to delay and where possible avoid layoffs, such as granting leave or vacations, cutting overtime, reducing temporary staffing and sub contracting, and putting employees on 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.

3.B.2. Work time organization

3.B.2.1. Length of work time

Working week of full-time employees

The work of employees at the Group's 110 production sites, 21 research centers and 40 development centers and 10 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.

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 (time-by-day)	215 days/year
Administrative staff, technicians and supervisors	35 hours
Employees without paid overtime hours	37.5 hours
Operators	35 hours

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.B.2.2. Work schedules

Breakdown of personnel by work schedule as a %

	2008	2009	2010 (1)
Day workers	48%	48%	45%
2x8 hour shifts	23%	21%	19%
3x8 hour shifts	23%	23%	29%
Night workers	5%	6%	6%
Weekend workers	0%	1%	1%

(1) Excluding the joint venture in Pune, India.

Most production employees work as part of 2x8, 3x8 or night shifts in order to optimize plant utilization. In 2010 the Group had 27,680 shift workers, representing 55% of the total headcount.

3.B.2.3. Overtime

In 2010, 5,463,551 hours of overtime were paid (versus 4,393,339 in 2009 and 4,897,136 in 2008), of which 86.9% went to production workers (87.7% in 2009 and 82.5% in 2008).

This paid overtime corresponds to 5.6% of total possible work hours (*i.e.* the number of basic hours that could be worked by all Group employees).

3.B.2.4. Part-time

A total of 1,072 employees were working part-time in the Group in 2010, or 2.1% of the registered headcount (versus 2.2% in 2009, 2.4% in 2008 and 2.5% in 2007).

Women accounted for 74.5% of this number (versus 76.9% in 2009 and 79.1% in 2008).

The breakdown of part-time workers by category was as follows: engineers and managers: 8.8%; administrative staff, technicians and supervisors: 14.8% and operators: 76.4%.

3.B.2.5. Absenteeism

In 2010, the Group-wide absenteeism rate (ratio of hours of absence to possible work hours) was 2.35% (versus 2.55% in 2009). The reasons for absence were broken down as follows: illness, 81.4% (versus 82.3% in 2009), unauthorized absence, 4.2% (versus 2.9% in 2009), authorized absence such as unpaid leave, 4.6% (versus 4.2% in 2009), workplace and commuting accidents, 3.9% (versus 4% in 2009), strikes, 3.4% (versus 4.2% in 2009), suspensions, 0.1% (versus 0.2% in 2009), and other reasons, 2.5%.

Absenteeism is higher in France than for the Group as a whole, at a rate of 3.04%.

3.B.3. Gender equality and diversity

3.B.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 2010, it rose 0.5 points on 2009 and 0.7 points on 2008.

Breakdown of women by socioprofessional category

(as a % of the registered headcount in 2010)	2008	2009	2010 (1)
Engineers and managers	18.3%	18.5%	19.0%
Administrative staff, technicians and supervisors	25.5%	24.6%	24.3%
Operators	38.9%	38.1%	37.1%

(1) Excluding the joint venture in Pune, India.

Through partnerships with leading French business schools and associations such as *"Elles Bougent"*, Valeo is striving to increase the percentage of female employees.

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	%
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	23.0%
2010 (1)	304	20.7%	116	26.9%	1,012	27.3%	1,431	25.5%

(1) Excluding the joint venture in Pune, India.

3.B.3.2. Diversity

The presence of the Valeo Group in 27 countries promotes diversity.

In 2010 the Group's workforce comprised employees of 96 different nationalities.

The ten most prevalent nationalities within the Group are: French, Chinese, Brazilian, Mexican, Polish, German, Spanish, Korean, American and Czech.

The countries where Valeo has the largest number of nationalities are: France (60 nationalities), Germany (44 nationalities), United States (25 nationalities), Ireland (22 nationalities), Italy (21 nationalities) and Czech Republic (20 nationalities).

The two most diversified entities are Valeo Equipements Electriques Moteur in France, with 26 nationalities in a headcount of 343 employees, and Connaught Electronics in Ireland, with 22 nationalities in a headcount of 440 employees.

3.B.4. Labor relations and collective bargaining agreements

Valeo has developed an active contract-based labor relations policy. In 2010, 269 agreements were signed (compared with 315 in 2009 and 267 in 2008) in 18 countries. These agreements covered a range of subjects and were based on national laws.

Among these agreements, 82 (26%) concerned work time, 77 (24.4%) wages, 31 (9.8%) profit-sharing and incentive plans, and 33 (10.5%) premiums or bonuses.

Examples of these agreements are given below:

Western Europe

- France: 2010 wage agreements, agreements on profit-sharing and incentive plans, agreements on forward jobs and skills planning, agreements on the organization of work time and leave, agreements on pensions, health, insurance benefits and wellbeing at work and labor provisions in the corporate articles of association;
- Italy: agreements on the organization of work time and leave, unemployment benefits and short-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; and
- Benelux: collective bargaining agreements.

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 and agreements on the organization of work time and leave.

South America

- Brazil: wage agreements, collective bargaining agreements, agreements on profit-sharing and incentives; and
- Argentina: wage 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; and
- Korea and Thailand: wage agreements.

Africa

- Tunisia: agreements on the organization of work time and leave.

The European Works Council includes representatives from the following countries: Germany, Belgium, Spain, France, Hungary, Italy, Poland, Czech Republic, Romania, Slovakia, the United Kingdom and Ireland. The enterprise agreement on the European Works Council was revised in July 2008.

The Council met five times in 2010.

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.B.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 2010, a new diagnostic tool was developed which allows each Health, Safety and Environment Manager to audit compliance with the applicable Group standards. The tool is used in addition to the audits performed by external consultants and makes it possible to assess the performance of sites on a more frequent basis.

In 2010, 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 are fine-tuned year by year, with real involvement by management, leading to a significant fall in the number of accidents. For example, in 2010, the occurrence of occupational accidents, involving lost-time or not, was down 66% on 2007.

With effect from 2010, performance in matters of safety has become an integral part of management evaluation, at all levels, with a view to increasing teams’ awareness of the issue and commitment to addressing it.

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).

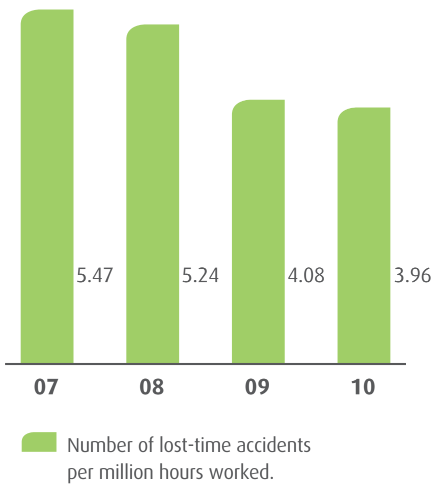
In 2010 the number of occupational accidents, involving lost-time or not, was stable at 1,924 as in 2009. Their severity decreased with 339 lost-time occupational accidents compared with 348 in 2009 (and 515 in 2008 and 555 in 2007), a fall of 39% over three years.

Generally speaking, the main causes of lost-time accidents concern machines or processes (55.3%) or ergonomics (12.1%).

Following its “Well-being and efficiency at the workstation” project launched in 2007, in 2010 Valeo initiated the drafting of a substantive agreement on the theme of well-being at work, as a result of which a survey of the social climate at all the Group’s French sites was performed by external consultants. Each site now has a Well-being at Work Commission which brings together the Site Director, the HR Manager, the Health, Safety and Environment Manager, the occupational doctor, the nurse and a staff member designated by each eligible trade union including the secretary of the Health, Safety and Working Conditions committee (CHSCT). A training plan for the parties involved in the agreement, site Well-being at Work Commissions and the CHSCT was launched in 2010 and will continue in 2011.

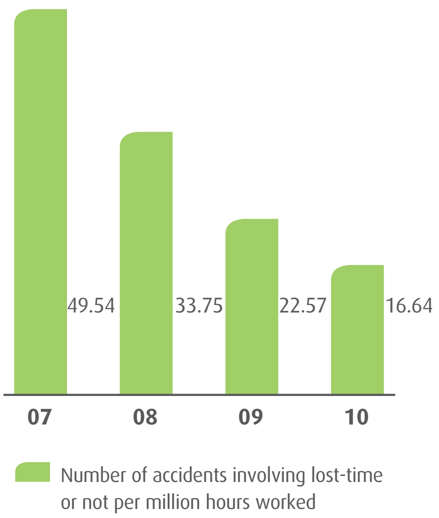
For the time being the project has only been deployed in France but the Group is currently considering an international extension.

Group Frequency Rate 1 (FR1) Lost-time accidents



FR1 calculation: (Number of lost-time accidents x 1,000,000)/number of hours worked.

Group Frequency Rate 2 (FR2) Accidents involving lost-time or not



FR2 calculation: (Number of accidents, involving lost-time or not x 1,000,000)/ number of hours worked.

Group Severity Rate 1 (SR1)

Severity ratio 1: (number of days lost owing to occupational accidents 1,000)/Number of hours worked.

The employees included in the calculation of the number of accidents include all Valeo's employees whatever their type of employment contract.

The employees included in the calculation of the number of hours worked include all Valeo's employees, whatever their type of employment contract, with the exception of certain interns, temporary personnel and external service providers. (Source M.A.F I.03.21).

France

	2008	2009	2010
Frequency	9.72	7.28	7.76
Severity	0.21	0.20	0.18

In France, the Group's frequency and severity rates for 2010 are below its industry average namely 19.57 for the frequency of lost-time accidents and 1.05 for their severity (source CNAMTS code 343ZB - 2009 – latest survey).

16.4% of the Group's training hours in 2010 were devoted to safety. 59.6% of employees attended at least one training session devoted to safety in 2010 compared with 51.5% in 2009.

3.B.6. Remuneration

3.B.6.1. Changes in remuneration and social charges

(in millions of euros)	2008	2009	2010 (1)
Payroll excluding social charges and temporary staff	1,496	1,354	1,460
Social charges	367	358	404
Pension charges for defined benefit plans	26	25	26
Pension charges for defined contribution plans	88	79	71
Total loaded payroll cost	1,977	1,816	1,961
Loading rate	30.4%	32.3%	32.5%

(1) Excluding the joint venture in Pune, India.

(in millions of euros)	2008	2009	2010 (1)
Loaded personnel costs (including temporary staff)	2,106	1,888	2,114
% of revenue	24.3%	25.2%	21.9%

(1) Excluding the joint venture in Pune, India.

Breakdown by geographic area in 2010

(in millions of euros)	France	Europe (excluding France)	Rest of the world (1)
Payroll excluding social charges	573	478	409
Social charges	212	103	89
Loaded personnel costs (excluding pension costs)	785	581	498
Loading rate	37.0%	21.5%	21.8%

(1) Excluding the joint venture in Pune, India.

The highest registered headcount is in France, with 12,266 employees at December 31, 2010.

3.B.6.2. Profit-sharing, incentives and employee savings plans

3.B.6.2.1. Profit-sharing

In 2010, two of the Group's fifteen French companies set aside a special profit-sharing reserve of 6,004,600 euros.

3.B.6.2.2. Incentives

Employees at ten of the Group's fifteen French companies received a total of 6,987,706 euros as part of incentive plans for 2010.

3.B.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. An addendum 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 euros for the PEG and 750 euros for the PERCO per year and per employee, based on payments made.

These agreements only concern French companies in the Group.

At December 31, 2010 in France, 10,300 employees were part of the Valeo PEG (down 4.9% on December 31, 2009). Over the same period, the headcount in France fell by 6.4%, from 13,108 at December 31, 2009 to 12,266 at December 31, 2010. At December 31, 2010, 84% of the French employees had joined the Valeo PEG, compared with 82.6% in 2009.

Total assets invested by employees in the PEG amounted to 43,394,959 euros spread across seven mutual funds.

At December 31, 2010, 932 employees had joined the Valeo PERCO, representing 7.6% of the registered headcount in France. Total assets invested by employees in the Valeo PERCO amounted to 2,842,138 euros 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.

Global employee share ownership

In 2008, Valeo chose a single service provider, CREELIA, a subsidiary of Crédit Agricole Asset Management, to manage employee savings accounts.

Following a proposal from Group Management, on June 24, 2010 the Board of Directors of Valeo decided to grant each eligible employee the right to receive three free Valeo shares. The operation took place during the 4th quarter of 2010 and benefited 42,922 employees over 30 countries.

3.B.7. Training

Training over the past three years

In 2010, the Group spent 25,231,511 euros on training, up 25% on 2009 in absolute terms and equally rising in relative terms at 1.73% of the payroll, excluding social charges, compared with 1.49% in 2009.

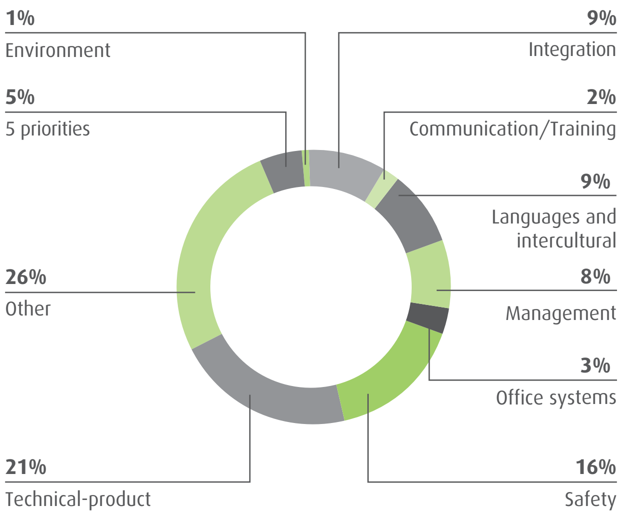
As part of its training policy, the Group reinforced its investment in training to benefit the greatest number of employees. A total 81.4% of employees took part in at least one training program during the year (compared with 77.1% in 2009), for an average of 23 hours per person. The average investment per person trained rose by 9.7% (from 556 euros to 610 euros per person trained).

The breakdown of training for new hires and job instruction training (62%), the development of new cross-cutting skills (paving the way for internal mobility) or progress within one of the Group's business areas (38%) shifted in 2010 in favor of the latter category.

	2008	2009	2010 (1)
Number of hours of training provided	1,065,792	780,413	944,671
Training expense	€25,223,395	€20,180,632	€25,231,511
Number of persons trained	40,730	36,285	41,317
% of persons trained, Total	**82.1%**	**77.1%**	**81.4%**
■ Engineers and managers	87.6%	86.9%	88.4%
■ Administrative staff, technicians and supervisors	85.7%	82.5%	93.9%
■ Operators	79.0%	72.0%	75.9%

(1) Excluding the joint venture in Pune, India.

Breakdown of training hours per subject category in 2010 (1)



(1) Excluding the joint venture in Pune, India.

Average number of hours of training per socioprofessional category

	2008	2009	2010 (1)
Engineers and managers	38	33	37
Administrative staff, technicians and supervisors	38	29	28
Operators	18	14	16
TOTAL	**26**	**22**	**23**

(1) Excluding the joint venture in Pune, India.

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 methods 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 Priorities 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 assessment interviews 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 21% of the total. These programs, led by Group technical experts or outside specialists, are constantly evolving under the guidance of the Research and Development (R&D) department and the Valeo Technical Institutes.

In 2010, as in 2009, the Group placed the emphasis on training in safety (16% of total hours for 60% 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 strong 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 Quick Response Quality Control (QRQC). QRQC is a technique for detecting, analyzing and processing quality deficiencies of all kinds. The "other business training" category totaled 26% of training hours in 2010.

Training in the 5 Priorities, induction programs and the corporate culture continue to account for a significant proportion of training (14%), as do language training and intercultural relations (9%), owing to the Group's worldwide presence and the development of international activities in all business lines.

The Group is also devoting considerable efforts (8%) 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.

3.B.8. Employment and insertion of workers with disabilities

When it revised its Code of Ethics in 2005, 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 of 768 employees with disabilities were working for the Group at end-December 2010. The percentage of disabled employees remained stable at 1.5% of the registered headcount between 2009 and 2010.

In France, the headcount at end-December 2010 included 409 employees with disabilities (414 at year-end 2009 and 428 at year-end 2008), making up 3.3% of the registered headcount. The total value of subcontracting and service contracts with sheltered workshops and special employment centers was close to 1.4 million euros in 2010 (1.5 million euros in 2009).

At the end of 2010, Valeo engaged an audit of all its French sites with a view to identifying the future focus of improvement in the employment of workers with disabilities.

3.B.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 2010, 36 million euros, or 2.45% of the payroll excluding social charges, was channeled into social programs.

In France in 2010, Valeo devoted 9.1 million euros, or 0.6% of the payroll excluding social charges, to social programs (11.1 million euros in 2009 and 10.3 million euros in 2008). These amounts break down as follows: 26.6% on cafeteria facilities and restaurant vouchers, 11.7% on cultural outings, 7.4% on transport subsidies, 7.5% on sports clubs and recreational activities, 3.8% on medical services and vaccination campaigns, 4.5% on daycare and holiday camps for employees' children, 0.2% 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.

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.

Numerous specific examples may be quoted at Valeo's sites:

Social initiatives

- organization of vaccination campaigns;
- creation or improvement of transport services;
- implementation of medical prevention programs.

Societal initiatives

- organization of awareness campaigns on environmental topics;
- organization of blood donor campaigns;
- organization of gift campaigns for schools.

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.

3.B.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 186.1 million euros in 2010, or 12.7% of Group payroll excluding social charges. In France, this item amounted to 77.8 million euros, or 5.3% of the payroll excluding social charges.

The Group is vigilant in ensuring that its subsidiaries comply with principles of national labor law and fundamental international agreements from the International Labour Organization 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. Valeo suppliers throughout the world are required to accept its content and to agree to be audited by Valeo in this area.

3.B.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 2,593 interns, of whom 23% are women, 713 apprentices, of whom 25% are women, and 150 international corporate volunteers, of whom 31% are women.

3.B.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 2010, the Group participated in a large number of events where it was able to make contact with future graduates, particularly in universities in China, India and Japan, during the international corporate volunteer forum organized by UbiFrance in Paris and during the Franco-German forum organized in Strasbourg. The Group was also represented at the "Top Women, Top Careers" forum in Brussels, with the objective of attracting applications from female engineers or those seeking a career in industry.

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 Shanghai last December.

3.B.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;
- IFP School, following the signature of a partnership agreement providing for the development of joint teaching initiatives in the area of innovative automotive technologies;
- ESTACA and SUPMECA, by sponsoring the activities of the *"Elles Bougent"* association;
- Audencia Nantes, through a partnership set up to 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, Sup'Optique, Centrale Paris-Supélec, ESEO Angers, ESO, Supméca, UTC Compiègne, Audencia Nantes and EDHEC. Valeo also sponsors the *"Elles Bougent"* association, through which it promotes careers in transport among female high school students. The Group was involved in organizing the *"Elles Bougent au Mondial de l'automobile"* day which enabled about a hundred high school and university students to take part in job presentation groups with assistance from Valeo sponsors.

Valeo contributed actively to the promotional campaign on apprenticeships conducted by FIEV (the French trade association of vehicle component vendors) by helping prepare a set of documentation including testimonials by Valeo Service employees.

3.C. Valeo's voluntary commitment to sustainable development

3.C.1. Commitment to sustainable development in the area of research and innovation

3.C.1.1. Recognition for the Group's investment in Research and Development

In July 2009 the European Investment Bank (EIB), in conjunction with the European Commission, granted the Valeo Group 225 million euros of financing in the framework of its Risk Sharing Financial Facilities program. The financing is designed to assist the Group in its expenditure on research projects in the areas of reducing fuel consumption and CO_2 emissions and improving active safety features. The total investment in these projects is expected to reach 645 million euros over four years.

The grant of this loan was subject to the achievement of particularly high standards of environmental policy. To this end, Valeo was subject to an audit of its environmental performance which demonstrated its compliance with the EIB's requirements.

Valeo is one of the foremost European beneficiaries of such funding.

In October 2010, the Group was granted additional funding of 75 million euros under the program, thereby once again demonstrating recognition of its industrial commitment to reducing CO_2 emissions and producing green innovation, and of its continuing commitment to R&D investment to prepare for the future as the crisis is left behind.

3.C.1.2. Industry-wide commitment

Valeo has invested in France's Level 2 Automotive Equipment Manufacturers' Modernization Fund (FMEA2), alongside Bosch France, Faurecia, Hutchinson, Plastic Omnium, and the two major French automobile manufacturers Renault and PSA, in order to provide smaller automotive equipment manufacturers with up to 4 million euros of financing via the FMEA2 fund held by France's *Fonds Stratégique d'Investissement* (Strategic Investment Fund-FSI).

The FMEA (1 and 2) is a venture capital fund created on January 20, 2009, at the French government's initiative, in order to support the automotive industry. It is jointly owned by the FSI, Renault SA and PSA Peugeot Citroën. It acquires minority equity or quasi-equity interests in automotive equipment manufacturers engaging in industrial projects liable to create value and market competitiveness.

3.C.2. Valeo's active involvement in working groups

3.C.2.1. European Road Transport Research Advisory Council

Valeo is Vice-Chairman of the European Road Transport Research Advisory Council (ERTRAC), charged with orienting and coordinating road transport research policy on behalf of the European Commission.

ERTRAC's mission is to explore the opportunities for road transport innovation in Europe and pass on specific recommendations, in particular from industry, to the European commissioners responsible for research, business, competition and digital technology. ERTRAC has already developed common vision, identified research priorities, drawn up a Strategic Research Agenda for the coming two decades and launched implementation of the program.

The European Commission uses ERTRAC's research as a basis for decisions in respect of investment in future road transport research programs, and with the focus on deploying the resources and technological solutions most liable to produce the least polluting, most intelligent and safest possible forms of transport.

3.C.2.2. International Transport Forum

Valeo is also a member of the Research Center of the International Transport Forum (ITF), an inter-governmental organization within the OECD bringing together the transport ministers of all the OECD countries, several Central and Eastern European countries and the ASEAN member countries. Its purpose is to develop focuses and priorities for work and cooperation engaged in by the companies operating in those countries. Valeo has been particularly active in promoting carbon-free road transport and stressing the necessity for each member state to implement programs to preserve the environment. Valeo is a member of the executive council alongside other industrial players and air, rail and maritime operators.

3.C.2.3. Automotive Industry Platform

Valeo helped create both the French Automotive Industry Platform, set up on April 28, 2009 at the initiative of the French government, and the CCFA *(French automakers' association)* and CLIFA *(French Liaison Committee for Automotive Suppliers)*, both of which represent automotive manufacturers and their suppliers. The platform's purpose is to develop cooperation between the parties for the benefit of the automotive industry as a whole. For Valeo, this platform also provides a basis for its commitment to engage in regular reviews of customer/vendor best practices, via input from the Group's Purchasing Department.

4

CORPORATE GOVERNANCE

The elements of the annual financial report can be clearly identified in the table of contents using the AFR pictogram

4.A. Corporate governance structure

4.A.1. Corporate governance structure

4.A.1.1. 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. At its meeting of January 20, 2011, the Board of Directors decided to maintain the separation of the duties of Chairman of the Board and Chief Executive Officer, subject to the renewal of the terms of office of Pascal Colombani and Jacques Aschenbroich.

The Group's Chairman and Chief Executive Officer are:

Chairman of the Board of Directors (non-executive): Pascal Colombani

(Current term of office began on March 20, 2009, and expires at the close of the Shareholders' Meeting that will be held to approve the financial statements for the year ended on December 31, 2010, and at which the renewal of his term of office will be proposed).

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 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 Shareholders' Meeting that will be held to approve the financial statements for the year ended on December 31, 2010, at which the renewal of his term of office will be proposed).

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.

Operations Committee

Michel Boulain
Head of Human Resources

Robert Charvier
Chief Financial Officer

Robert de La Serve
Head of Valeo Service Activity

Édouard de Pirey
Head of Corporate Strategy and Planning

Antoine Doutriaux
Head of Visibility Systems Business Group

Martin Haub
Head of Research & Development and Product Marketing

Hans-Peter Kunze
Head of Sales and Business Development

Géric Lebedoff
General Counsel

Claude Leïchlé
Deputy Head of Powertrain Systems Business Group

Alain Marmugi
Head of the Thermal Systems Business Group

Christophe Périllat-Piratoine
Chief Operating Officer

Michael Schwenzer
Head of the Powertrain Systems Business Group

Marc Vrecko
Head of the Comfort and Driving Assistance Systems Business Group

4.A.1.2. Composition of the Board of Directors

At December 31, 2010, the members of the Board of Directors were:

- Pascal Colombani;
- Jacques Aschenbroich;
- Gérard Blanc;
- Daniel Camus;
- Jérôme Contamine;
- Michel de Fabiani;
- Philippe Guédon;
- Michael Jay;
- Helle Kristoffersen;
- Noëlle Lenoir;
- Georges Pauget.

On February 24, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided to appoint Ulrike Steinhorst as Director to replace Behdad Alizadeh for his remaining term of office, *i.e.*, until the end of the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2011. At the same meeting the Board of Directors also recognized, on the recommendation of the Appointment, Compensation and Governance Committee, Ulrike Steinhorst's status as an Independent Director, as defined by the Internal Regulations.

The table below provides information about Directors holding office during 2010:

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 held in the Company	Main position outside the Company	Other directorships and positions held in companies other than Valeo subsidiaries during the past five years
Pascal Colombani French 65 Valeo 43, rue Bayen 75017 Paris France	600	05/21/2007	05/21/2007	Shareholders' Meeting called to approve the 2010 financial statements	Chairman of the Board of Directors	Senior Adviser, A.T. Kearney	■ Director: British Energy Group Plc* (until June 9, 2011), Alstom SA*, Rhodia SA*, Technip SA*, Energy Solutions Inc.*, EDF, IFP, Cogéma ■ Member, French Academy of Technology (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 Advisor, Detroyat et Associés, Arjil Banque

* *Current directorships and positions.*

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 held in the Company	Main position outside the Company	Other directorships and positions held in companies other than Valeo subsidiaries during the past five years
Jacques Aschenbroich French 56 Valeo 43, rue Bayen 75017 Paris France	7,000	03/20/2009	03/20/2009	Shareholders' Meeting called to approve the 2010 financial statements	Chief Executive Officer	■ Chairman of Valeo Finance, Valeo Service, Valeo SpA, Valeo (UK) Limited ■ Director, Valeo Service España, 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 (US) ■ Chairman and CEO, Saint-Gobain Advanced Ceramics Corp. (US) ■ Chairman: Saint-Gobain Abrasives Inc. (US), Saint-Gobain Advanced Ceramics Corp. (US), and Saint-Gobain Ceramics & Plastics Inc. (US) ■ Chairman: Saint-Gobain Corporation Foundation Inc. (US), and Saint-Gobain Ceramics & Plastics Inc. (US) ■ Director: École nationale supérieure des mines ParisTech*, Saint-Gobain Corporation (US), Saint-Gobain Corporation Foundation Inc. (US), Saint-Gobain Performance Plastics Corp. (US), Saint-Gobain Containers Inc. (US) Solaglas Ltd (UK), 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 KK (Japan), Hankuk Glass Industries Inc. (South Korea), Saint-Gobain Glass Mexico (Mexico), Saint-Gobain Sekurit Mexico (Mexico), ESSO SAF. ■ 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)

* *Current directorships and positions.*

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 held in the Company	Main position outside the Company	Other directorships and positions held in companies other than Valeo subsidiaries during the past five years
Behdad Alizadeh French 49 Pardus Europe SAS 21, avenue George V 75008 Paris France (Member of the Board of Directors until 08/17/2010)	100	06/20/2008	06/20/2008	08/17/2010		Chairman, Pardus Europe SAS	■ Partner, Pardus Capital Management L.P. ■ Member of the Supervisory Board, Atos Origin* ■ Member of the Board of Directors, Governor's Committee on Scholastic Achievement* ■ Managing Director and 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
Gérard Blanc French 68 Marignac Gestion SAS 17, rue Joseph Marignac 31300 Toulouse France *Independent*	500	05/21/2007	05/21/2007	Shareholders' Meeting called to approve the 2010 financial statements		Chairman and CEO, Marignac Gestion SAS	■ Director, Sogeclair* ■ Executive Vice President of Operations, Airbus
Daniel Camus French 58 151, boulevard Haussmann 75008 Paris France *Independent*	500	05/17/2006	06/03/2010	Shareholders' Meeting to be called to approve the 2013 financial statements		Group Executive Vice President in charge of International Activities and Strategy, EDF group until December 1, 2010, previously Chief Operating Officer in charge of Finance and International Development, EDF group until March 29, 2010	■ Member of the Supervisory Board: Morphosys (Germany)*, SGL Carbon (Germany)*, Vivendi SA*, EnBW (Germany), Dalkia SA ■ Chairman of the Board of Directors, EDF International* ■ Director: EDF Energy (UK)*, Edison (Italy), and Transalpina di Energia (Italy)

* *Current directorships and positions.*

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 held in the Company	Main position outside the Company	Other directorships and positions held in companies other than Valeo subsidiaries during the past five years
Jérôme Contamine French 53 Sanofi- Aventis 174, avenue de France 75635 Paris Cedex 13 France *Independent*	2,000	05/17/2006	06/03/2010	Shareholders' Meeting to be called to approve the 2013 financial statements		Executive Vice-President and Chief Financial Officer, 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. (UK)*, and Zentiva NV (Netherlands) **Outside Sanofi-Aventis group** ■ Executive General Manager, 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 (UK), Veolia Environmental Services Plc (UK), Veolia ES Holdings Plc (UK), Veetra, Venac (US) ■ CEO and Chairman of Venao (US) ■ Managing Director, Veolia UK (UK) ■ Chairman, VE IT ■ Member of the Management Board, Vivendi Environnement ■ Member of the Supervisory Board: Veolia Eau and Dalkia France ■ Member: Dalkia's A and B Supervisory Boards ■ Director, Rhodia

* *Current directorships and positions.*

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 held in the Company	Main position(s) outside the Company	Other directorships and positions held in companies other than Valeo subsidiaries during the past five years
Michel de Fabiani French 65 Franco-British Chamber of Commerce and Industry (CCI Franco-Britannique) 31, rue Boissy d'Anglas 75008 Paris France	500	10/20/2009	10/20/2009	Shareholders' Meeting called to approve the 2010 financial statements		Chairman, Franco-British Chamber of Commerce and Industry (CCI Franco-Britannique)	■ Chairman and CEO, BP France ■ Regional President Europe, BP group ■ Vice-President, Europia (European Oil Industry Association) (Brussels, Belgium) ■ Chairman of the Board of Directors, British Hertford Hospital Corporation (Levallois, France)* ■ Founding President: Cercle économique Sully, and Association for the Promotion of Ecological Vehicle (Association pour la promotion des véhicules écologiques)* ■ Director: BP France*, Rhodia group*, Vallourec group*, EB Trans SA (Luxembourg)*, Star Oil Mali, SEMS (Morocco)
Philippe Guédon French 77 Espace Développement 16, rue Troyon 92316 Sèvres France *Independent*	500	03/31/2003	05/21/2007	Shareholders' Meeting called to approve the 2010 financial statements		Managing Partner, Espace Développement	■ Chairman and Chief Executive Officer, Matra ■ Chairman of the Supervisory Board, Matra Automobile
Michael Jay British 64 House of Lords Westminster London SW1A OPW United Kingdom *Independent*	500	05/21/2007	05/21/2007	Shareholders' Meeting called to approve the 2010 financial statements		Member of the House of Lords in the UK	■ 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 (an international medical charity)*, and Culham Languages and Sciences (an educational charity)* ■ Permanent Under Secretary, Foreign & Commonwealth Office ■ Trustee, British Council

* *Current directorships and positions.*

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 held in the Company	Main position outside the Company	Other directorships and positions held in companies other than Valeo subsidiaries during the past five years
Helle Kristoffersen French 46 Total 2, place Jean Millier La Défense 6 92078 Paris La Défense Cedex France *Independent*	500	03/22/2007	05/21/2007	Shareholders' Meeting called to approve the 2010 financial statements		Deputy, Vice President of Strategy and Business Intelligence, Total	■ Senior Vice President of Vertical Markets, Alcatel-Lucent ■ Vice President of Economic Analysis, Alcatel group ■ Vice President of Corporate Strategy, Alcatel-Lucent
Noëlle Lenoir French 62 Jeantet et Associés 87, avenue Kléber 75116 Paris France *Independent*	1,000	06/03/2010	06/03/2010	Shareholders' Meeting called to approve the 2013 financial statements		Partner, Jeantet et associés	■ President, Institute of Europe (Institut de l'Europe) at HEC* ■ Member, American Law Institute*, French Academy of Technology*, French Association of Women Lawyers (Association française des femmes juristes)*, High Level Group of Company Law Experts at the European Commission* ■ Director, Generali France* ■ Municipal Advisor, Valmondois (Val d'Oise, France)* ■ Founding Chairman, Cercle des Européens* ■ Honorary Chairman, les amis d'Honoré Daumier* ■ Associate Professor, HEC* ■ Lecturer, Paris I Panthéon-Sorbonne* ■ Member of the Steering Committee, Association des maires de France

** Current directorships and positions.*

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 held in the Company	Main position outside the Company	Other directorships and positions held in companies other than Valeo subsidiaries during the past five years
Georges Pauget French 63 Economie, Finance et Strategie S.A.S. 89 avenue de Wagram 75017 Paris France *Independent*	100	04/10/2007	05/21/2007	Shareholders' Meeting to be called to approve the 2010 financial statements		Chairman, Économie, Finance et Stratégie SAS	■ Honorary Chairman of the Board of Directors, LCL – Le Crédit Lyonnais* ■ Chairman: Amundi group* ■ Chairman of the Board of Directors, Viel & Cie* ■ Chairman: Insead OEE Data Service*, and the Institut pour l'éducation financière du public (IEFP)* ■ Member of the Supervisory Board, Eurazeo* ■ Chairman, Fédération bancaire française (FBF) ■ Director: Danone Communities*, Club Med*, Banca Intesa ■ Representative, Crédit Agricole SA at the Club des Partenaires of Association TSE (Toulouse School of Economics)* ■ CEO, Crédit Lyonnais ■ Chairman, Crédit Lyonnais ■ CEO, Crédit Agricole S.A. ■ Chairman, Crédit Agricole Corporate and Investment Bank ■ Chairman, Finance Innovation "Competition Cluster" Europlace* ■ Chairman, Projet Monnet for European bank cards* ■ Scientific Director, and Chair of Asset Management, Paris Dauphine* ■ Associate Professor, Université de Paris Dauphine* ■ Visiting Professor, University of Beijing*

* *Current directorships and positions.*

4.A.2. Corporate officers' experience

Pascal Colombani is Chairman of the Board of Directors and Director 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 Plc., of Rhodia, and of Energy Solutions Inc. In January 2000, he was appointed Managing Director of the French Atomic Energy Commission (*Commissariat à l'Énergie Atomique* – CEA), a position 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 French Ministry for Research.

Pascal Colombani spent close to 20 years (1978-1997) at Schlumberger in various positions, in the US and in Europe, before becoming Chairman and CEO of its Japanese subsidiary in Tokyo.

Pascal Colombani is a graduate of the *École Normale Supérieure de Saint-Cloud*, and is a holder of the *agrégation* (a high level teaching qualification) in physics and a doctorate in science.

Jacques Aschenbroich is the Chief Executive Officer and a member of the Board of Directors of Valeo. He is a Director of École nationale supérieure des mines ParisTech. He held several positions 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 Compagnie de Saint-Gobain and went on to become Chairman of Saint-Gobain Vitrage in 1996. Then, as Senior Vice-President of Compagnie de Saint-Gobain from October 2001 to December 2008, he managed the flat glass and high performance materials sectors as from January 2007 and, as the Vice-Chairman of Saint-Gobain Corporation and General Delegate to the United States and Canada, he directed the operations of the group as from September 1, 2007.

He was also a Director with Esso SAF until June 2009.

Jacques Aschenbroich graduated in engineering from *École des mines*.

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 of Programs at Airbus until 2003 when he was appointed Executive Vice-President of Operations, a position he held until 2005.

Gérard Blanc graduated from HEC business school in Paris.

Daniel Camus was, until December 1, 2010, Group Executive Vice President in charge of International Activities and Strategy at EDF group. 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 joined the EDF group in 2002, as Chief Operating Officer in charge of Finance and International Development. He is a member of the Supervisory Boards of Morphosys (Germany), of SGL Carbon (Germany) and of Vivendi.

Daniel Camus is a *docteur d'État* in economic sciences, a holder of the *agrégation* in management sciences and of a *Lauréat* from the *Institut d'Études Politiques de Paris* (IEP).

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 of Finance, before becoming Executive Vice-President responsible for cross-functional activities in 2002, and Senior Executive Vice-President of Veolia Environnement in 2003 until January 16, 2009. Between 1988 and 2000, he held several financial positions within the Elf group including Financing and Treasury Director (1991 to 1994), Deputy Director in Europe and the US 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.

Jérôme Contamine graduated from *École Polytechnique*, was a former student at *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 UK.

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 (France) and Founding President of the *Cercle économique Sully* and of the Association for the Promotion of Ecological Vehicles.

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 in Brussels until 2004, when he left his executive functions after 35 years with the BP group.

Michel de Fabiani graduated from *École des Hautes Études Commerciales de Paris*.

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 position of Research Engineer, and subsequently Technical Director until

1983. In that year he was appointed Chairman and Chief Executive Officer of Matra – a position he occupied until 2003.

Philippe Guédon was the designer of the Matra 530, the Bagheera, the Rancho, the Murena, the Espace and the Avantime.

In 1956 he graduated as an engineer from *Arts et Métiers*, an engineering school in Angers, France.

Michael Jay is an independent member of the House of Lords in the UK. 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 Merlin (an international medical charity), and of Culham Languages and Sciences (an educational charity), Vice Chairman of Business for New Europe and a Director of Crédit Agricole and of EDF.

Michael 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 inter-parliamentary group on climate change.

Between 2002 and 2006 he held the position of Permanent Under-Secretary at the UK 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 Saint Petersburg.

Michael Jay is an Honorary Fellow of Magdalen College, Oxford.

Helle Kristoffersen is Deputy Vice President of Strategy and Business Intelligence at Total.

She has been Senior Vice-President of Vertical Markets, at the Alcatel-Lucent group since January 1, 2009. Until December 31, 2008, she was Vice-President of Corporate Strategy and Secretary of the Strategy Committee of the Alcatel-Lucent group (previously the 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 *Université Paris I Panthéon-Sorbonne*.

Noëlle Lenoir is a member of the *Conseil d'État* (France's highest administrative court) and a partner in the law firm Jeantet et associés since 2009. During her career she has held some of the highest positions in the French State; as well as being the first woman to be appointed as a member of the French Constitutional Council (Conseil constitutionnel) (1992-2001), she was Deputy Minister of European Affairs from 2002 to 2004. Since 2004, Noëlle Lenoir has mainly worked as a lawyer with the law firms Debevoise & Plimpton LLP (2004-2009) and Jeantet et associés (since 2009). She has been a Director of Generali France since 2008.

Noëlle Lenoir is also Chairman of the Institute of Europe at HEC, Associate Professor at HEC, Member of the American Law Institute, of the French Academy of Technology, of French Association of Women Lawyers and of the High Level Group of Company Law Experts at the European Commission, Honorary Chairman of les amis d'Honoré Daumier, Founding Chairman of the Cercle des Européens.

Noëlle Lenoir is a lecturer at *Université Paris I Panthéon-Sorbonne*.

Noëlle Lenoir holds a postgraduate degree in public law and is a graduate from *Institut d'études politiques de Paris* (IEP).

Georges Pauget is President of Economie Finance et Stratégie SAS. He 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 is Honorary Chairman of the Board of Directors, LCL – Le Crédit Lyonnais, Chairman of Amundi group since December 2009, and Chairman of the Board of Directors at Viel & Cie. He is also Chairman of Insead OEE Data Service and of the IEFP (Institute for the Financial Education of the Public). Georges Pauget is a member of the Supervisory Board of Eurazeo, and a Director of Danone Communities and of Club Med. He is also Chairman of Europlace's Finance Innovation "Competition Cluster", a global business and research cluster dedicated to financial services, and of the Monnet Project on European bank cards. He was the permanent representative of Crédit Agricole SA on the Supervisory Board of Fonds de garantie des dépôts, as well as Chief Operating Officer, member of the Executive Committee and Director of the Regional Banks Division of Crédit Agricole SA. 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 at theFondation de France, Chairman of the Executive Committee of Fédération bancaire française (FBF) until September 2009, and Chairman of the Union des assurances fédérales.

Georges Pauget holds a Doctorate in economics and a Masters in economics with a specialization in econometrics from the University of Lyon (Université de Lyon).

Ulrike Steinhorst has been Chief of Staff of the Executive Chairman of EADS, Louis Gallois, since April 2007. Ulrike Steinhorst started her career as a technical advisor to the Minister of European Affairs in charge of relations with Germany during its reunification. From 1990 to 1998, she worked at EDF in the International Management Division, then she was Head of International Issues then Institutional Issues within the General Management of the group, and finally, Head of International Subsidiaries in the Industrial Division. In 1999, she joined Degussa AG group where she first held the position of Human Resources Director of a division, then that of Head of Senior Management Career Development at group level. She then took charge of the subsidiary Degussa France and became responsible for the group's representation office in Brussels.

Ulrike Steinhorst graduated from *Université Paris II - Panthéon* and from *École nationale d'administration*.

4.A.3. Declarations concerning the Group's corporate officers

4.A.3.1. Conflicts of interest

Some corporate officers hold positions 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.

4.A.3.2. Service contracts between the members of the Board of Directors and the Company or any of its subsidiaries

With the exception of the regulated agreements described in this chapter, section 4.D.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.

4.A.3.3. Other 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 offense; (ii) been involved in any bankruptcies, receiverships or liquidations, (iii) been issued any official public incriminations and/or sanctions by statutory or regulatory authorities (including designated professional bodies); or (iv) been disqualified by a court of law from acting as a member of the administrative, management or supervisory bodies of an issuer, or from acting in the management or conduct of the affairs of any issuer.

As far as the Company is aware, none of the members of the Board of Directors 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.

In addition, in a letter dated August 17, 2010, Pardus Capital Management L.P. ("Pardus") sent Valeo notice of the cancellation of the agreement with Pardus and Behdad Alizadeh ("Pardus Agreement"), which was accordingly terminated *ipso jure* after a period of four months, *i.e.* December 18, 2010. (see Chapter 6, section 6.F.6.3.2).

Other than the declarations of the FSI (see Chapter 6, section 6.F.6.3.1.), and since the cancellation of the agreement signed between Pardus Capital Management L.P. fund ("Pardus") and Behdad Alizadeh ("Pardus Agreement"), 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 General Management.

4.A.4. Executive managers' transactions in the Company's shares

In 2010, Noëlle Lenoir, a Director, acquired 1,000 Company shares at a unit price of 27 euros on August 30. Daniel Camus, a member of the Board of Directors acquired 300 Company shares at a unit price of 26.505 euros on August 31, 2010. Michel de Fabiani, a Director, acquired 400 Company shares at a unit price of 27.70 euros on 31 August. Philippe Guédon, a Director, acquired 400 Company shares at a unit price of 30.166 euros on September 13, 2010. Helle Kristoffersen, a Director, acquired 300 Company shares at a unit price of 39.175 euros on November 8, and 100 Company shares at a unit price of 39.210 euros on November 9, 2010. Pascal Colombani, Chairman of the Board of Directors, acquired 500 Company shares at a unit price of 38.50 euros on November 10, 2010. Gérard Blanc, a member of the Board of Directors acquired 350 Company shares at a unit price of 39.39 euros on November 10. Michael Jay, a Director, acquired 400 Company shares at the unit price of 37.7964 euros on November 12, 2010.

4.B. Compensation of corporate officers

4.B.1. Executive corporate officers

At its meeting on March 20, 2009, the Board of Directors decided to separate the duties of Chairman of the Board and Chief Executive Officer, acting on the recommendation of the Appointment, Compensation and 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.

At its meeting on January 20, 2011, Valeo's Board of Directors decided, acting on the recommendation of the Appointment, Compensation and Governance Committee, to maintain the separation of the duties of Chairman of the Board and Chief Executive Officer, subject to the renewal of Pascal Colombani's and Jacques Aschenbroich's terms of office.

4.B.1.1. Compensation of Pascal Colombani for his role 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 Appointment, Compensation and Governance Committee.

4.B.1.1.1. Fixed compensation and benefits in kind

The Board of Directors decided that Pascal Colombani would receive a fixed annual compensation of 250,000 euros as Chairman of the Board of Directors. In 2010, Pascal Colombani was paid 250,000 euros as compensation for his role as Chairman of the Board of Directors (compared with 195,564 euros in 2009).

4.B.1.1.2. Variable compensation

Pascal Colombani does not receive any variable compensation.

4.B.1.1.3. Attendance fees

Pascal Colombani does not receive attendance fees.

In 2009, Pascal Colombani was paid 11,700 euros in attendance fees for the period in which he was a Director, before being appointed 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 on the recommendation of the Appointment, Compensation and Governance Committee, that the Chairman of the Board would not be paid attendance fees.

4.B.1.1.4. Compensation paid by companies controlled by Valeo

Pascal Colombani does not receive any compensation by companies controlled by Valeo.

4.B.1.1.5. Stock options and performance shares

During 2010, no stock options or performance shares were granted to Pascal Colombani (no stock options or performance shares were granted to Pascal Colombani in 2009).

Performance shares are in the form of free shares as detailed in Article L. 225-197-1 of the French Commercial Code (*Code de commerce*).

4.B.1.1.6. Pension plans

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

4.B.1.1.7. Severance payments

Pascal Colombani is not entitled to severance payments.

4.B.1.1.8. Compensation paid to the Chairman of the Board of Directors over the last two years

The following tables show the compensation paid and the options and shares granted to Pascal Colombani over the last two years.

Summary of compensation paid and options and shares granted to Pascal Colombani

(in euros)	2009	2010
Compensation	207,264	250,000
Value of options granted during the year	0	0
Value of performance shares granted during the year	0	0
TOTAL	**207,264**	**250,000**

Summary of compensation paid to Pascal Colombani

	2009		2010	
(in euros)	Amount owed	Amount paid	Amount owed	Amount paid
Fixed compensation	195,564	195,564	250,000	250,000
Variable compensation	0	0	0	0
Exceptional compensation	0	0	0	0
Attendance fees	11,700	11,700	0	0
O/w attendance fees paid by Valeo	11,700	11,700	0	0
O/w attendance fees paid by controlled companies	0	0	0	0
Benefits in kind	0	0	0	0
TOTAL	**207,264**	**207,264**	**250,000**	**250,000**

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

Performance shares granted to Pascal Colombani

Performance shares granted by the Annual Shareholders' 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

Performance 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

Allocations of stock options – information concerning stock options

Not applicable.

Employment contract, supplementary pension plans and benefits

	Employment contract	Supplementary pension plans	Compensation or benefits owed or likely to be owed on termination or change of position	Payments relating to non-competition clause
Pascal Colombani **Chairman of the Board of Directors** **First appointed as a Director: 05/21/2007** **Term of office began: 03/20/2009** **Term of office ended: Shareholders' Meeting called to approve the 2010 financial statements**	No	No	No	No

4.B.1.2. Compensation of Jacques Aschenbroich for his role 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 Appointment, Compensation and Governance Committee. Jacques Aschenbroich does not have an employment contract with the Valeo Group.

The CEO's overall compensation is determined taking into account the supplementary retirement plan from which he benefits (see section 4.B.1.2.6).

4.B.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 2010, Valeo paid Jacques Aschenbroich fixed compensation of 867,009 euros (compared with 689,550 euros in 2009). This consists of fixed compensation of 850,000 euros (compared with 664,919 euros in 2009) and 17,009 euros (compared with 24,631 euros in 2009) as benefits in kind.

4.B.1.2.2. Variable compensation

After consulting the Committee of Wise Men (*Comité des sages*), (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 executive managers' pay that can be consulted by Boards of Directors, Compensation Committees and Shareholders' Meetings) and in keeping with the recommendation of the Appointment, Compensation and 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;

- qualitative criteria for up to 30% of the 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, in view of the economic climate, the Board decided that, if the application of these criteria resulted in variable compensation greater than 60% of fixed compensation, this 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 recommendation of the Appointment, Compensation and 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 a percentage 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 cap on variable compensation was set at 120% of Jacques Aschenbroich's fixed compensation.

At its meeting on February 24, 2011, the Board of Directors noted that all the quantitative and qualitative criteria had been met. The Board noted that the application of these criteria would set Jacques Aschenbroich's variable compensation for 2010 at 120% of his fixed compensation, *i.e.* 1,020,000 euros (compared with 398,952 euros in 2009).

At the same meeting, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided that the variable compensation to be paid to Jacques Aschenbroich for 2011 would depend on:

- quantitative criteria, including: (i) operating margin, (ii) operating cash flow, (iii) net income, (iv) the ROCE and (v) orders booked by the Group;
- qualitative criteria, including: (i) quality of financial communications and (ii) strategic vision.

The amount of variable compensation as a percentage of the basic fixed compensation would be from 0% to 15% for each quantitative criterion:

For the qualitative criteria, the quality of the financial communication was attributed a value of 0% to 10%, and strategic vision was attributed a value of 0% to 35% of fixed compensation.

The cap on variable compensation for 2011 was set at 120% of Jacques Aschenbroich's fixed compensation.

4.B.1.2.3. Attendance fees

In 2010, no attendance fees were paid to Jacques Aschenbroich for his directorship at Valeo. At its meeting of April 9, 2009, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided that the Chief Executive Officer would not be paid attendance fees because of his terms of office within the Group.

4.B.1.2.4. Compensation paid by companies controlled by Valeo

In 2010, Jacques Aschenbroich did not receive any compensation from companies controlled by Valeo. At its meeting of April 9, 2009, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided that the Chief Executive Officer would not be paid attendance fees because of his terms of office within the Group.

4.B.1.2.5. Stock options and performance shares

At its meeting on June 24, 2010, the Board of Directors decided the allocation de 100,000 stock purchase options and of 50,000 performance shares to Jacques Aschenbroich.

Performance shares are in the form of free shares as detailed in Article L. 225-197-1 of the French Commercial Code.

All the stock purchase options and 50% of the performance shares granted to the CEO are conditional upon the achievement of a level of operating margin for 2010 fixed by the Board of Directors and which must be higher than the annual guidance.

Allocation of the remaining 50% of the performance shares is also conditional on achieving the target operating margin for 2011 and on renewal of Jacques Aschenbroich's appointment as a Director by the Company's Shareholders' Meeting held to approve the accounts for the financial statements for the year ended December 31, 2010. In addition, all the performance shares granted to Jacques Aschenbroich provided that his term of office as Chief Executive Officer has not expired the vesting date (the presence condition, however, is to be waived by the Board of Directors at its discretion unless his departure is attributable to gross negligence or misconduct).

The stock purchase options can only be exercised two years after their allocation, provided Jacques Aschenbroich's term of office has not expired on the date they are exercised (presence condition, however, to be waived by the Board of Directors at its discretion unless his departure is attributable to gross negligence or misconduct). In addition, the shares granted to Jacques Aschenbroich are subject to minimum holding periods. Any shares he acquires from the exercise of his stock purchase options must be held for a minimum of four years following their allocation. He shall also keep at least 50% of any performance shares granted as registered shares until the end of his term of office.

Lastly, should he exercise the options granted to him, and after selling the number of shares necessary for financing the exercise of the option and payment of tax, any social security contributions and transaction costs, Jacques Aschenbroich shall keep at least 50% of the remaining shares resulting from exercising said options in registered form until the end of his term of office.

As the use of hedging mechanisms to protect the value of options and performance shares is formally prohibited, Valeo hereby declares that, to the best of its knowledge, Jacques Aschenbroich has not acquired any such hedging instruments to cover his options and performance shares.

The shares to which the purchase options give access and the performance shares granted to Jacques Aschenbroich during 2010 represented respectively 0.13% and 0.06% of the Company's capital at December 31, 2010.

4.B.1.2.6. Pension plans

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 plan that applies to the executive managers of Valeo and its French subsidiaries (or the new plan under consideration to replace the existing plan), 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 plan at present. This decision was taken out of concern for retaining the new Chief Executive Officer and motivating him 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 plan until a later meeting. However, the Board did take into consideration the benefit of a supplementary retirement plan 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 plan for the Group's executive managers. The main characteristics of this plan are described in this chapter, section 4.B.3.

In view of Jacques Aschenbroich's age (55 at that time) and the fact that he is not covered by any other supplementary retirement plan, 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 plan has been in force since January 1, 2010.

4.B.1.2.7. Severance payments and non-competition payments

At its meeting on February 24, 2010, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee and after consulting the Committee of Wise Men, decided to make Jacques Aschenbroich eligible for severance payments 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 benefits will depend on the termination date:

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

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

- payment of all or part of the exceptional target-based bonus 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 during the last-fiscal year;
- operating margin during the last-fiscal year exceeding 3.6%;
- gross margin during the last-fiscal year exceeding 16%;
- a ratio of new orders to original equipment sales exceeding 1.3 on average over the previous two fiscal years (or the last year if terminated after one year).

The compensation used to calculate the termination benefits will be the average compensation (fixed and variable) paid for the two fiscal years preceding the departure (or the previous fiscal year if the departure occurs 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 were met: Jacques Aschenbroich would receive 100% of the termination benefits;
- if 4 criteria were met: Jacques Aschenbroich would receive 80% of the termination benefits;
- if 3 criteria were met: Jacques Aschenbroich would receive 60% of the termination benefits;
- if 2 criteria were met: Jacques Aschenbroich would receive 40% of the termination benefits;
- if fewer than 2 criteria were met: Jacques Aschenbroich would receive 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 12 months after the end of his term of office as Chief Executive Officer of Valeo for any reason.

If this clause is invoked, Jacques Aschenbroich will be given a non-competition payment equal to 12 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 severance payments. For example, the maximum amounts to be paid to Jacques Aschenbroich in the form of a non-competition indemnity and/or severance payments would be as follows:

	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 at least the amount of the non-competition indemnity, and the amount due under the non-competition clause and the severance payments will be paid: (i) up to the amount owed under the non-competition clause, in accordance with the relevant payment rules set out for same, (ii) in addition to, where applicable, any surplus owed under the payment rules for the severance payments.

At its meeting on February 24, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided to renew the severance payments for a period of 24 months as from 2013, subject to the renewal of Jacques Aschenbroich's directorship by the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2010 and the renewal of his term of office as Chief Executive Officer.

At its meeting on February 24, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, also noted that the non-competition indemnity to which Jacques Aschenbroich is entitled will be maintained without any modification, subject to the renewal of his directorship by the Shareholder's Meeting called to approve the financial statements for the year ended December 31, 2010, and the renewal of his term of office as Chief Executive Officer by the Board of Directors at its meeting following the Shareholders' Meeting.

Thus, were the Company to exercise the non-competition indemnity, the potential amount due would continue to be offset against his severance payments, such that, depending on the circumstances, the maximum amount likely to be paid to Jacques Aschenbroich on the basis of the non-competition clause plus the termination benefits would be equal to:

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

4.B.1.2.8. Compensation paid to the Chairman of the Board of Directors over the last two years

The following tables show the compensation paid and options and shares granted to Jacques Aschenbroich over the last two years.

Summary of compensation paid and options and shares granted to Jacques Aschenbroich

(in euros)	2009	2010
Compensation	1,088,502	1,887,009
Value of options granted during the year	0	695,000
Value of performance shares granted during the year	0	1,065,000
TOTAL	**1,088,502**	**3,647,009**

Summary of compensation paid to Jacques Aschenbroich

	2009		2010	
(in euros)	Amount owed	Amount paid	Amount owed	Amount paid
Fixed compensation	664,919	664,919	850,000	850,000
Variable compensation	398,952	0	1,020,000	398,952
Exceptional compensation	0	0	0	0
Attendance fees	0	0	0	0
o/w attendance fees paid by Valeo	0	0	0	0
o/w attendance fees paid by controlled companies	0	0	0	0
Benefits in kind (1)	24,631	24,631	17,009	17,009
TOTAL	**1,088,502**	**689,550**	**1,887,009**	**1,265,961**

(1) Company car, annual contribution to the unemployment insurance fund for Company managers and annual contribution to pension fund.

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
06/24/2010	Purchase	€695,000	100,000	€24,07	Until 06/24/2018 (1)

(1) Obligation to hold 50% of shares until the end of his term of office. The performance conditions to which these options are subject are set out in section 4.B.1.2.5

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

Performance shares granted to Jacques Aschenbroich

Performance shares granted by the Shareholders' 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
	06/24/2010	50,000	1,065,000	06/24/2012	06/24/2014 (1)	(2)

(1) Obligation to keep at least 50% of any shares granted as registered shares until the end of his term of office.
(2) The performance conditions to which these performance shares are subject are indicated in section 4.B.1.2.5.

Performance 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

Allocations of stock options – information concerning stock options

Not applicable.

Employment contract, supplementary pension plans and benefits

	Employment contract	Supplementary pension plans	Compensation or benefits owed or likely to be owed on termination or change of position	Payments relating to non-competition clause
Jacques Aschenbroich **Chief Executive Officer** **First appointment: 03/20/2009** **Term of office began: 03/20/2009** **Term of office ended: Shareholders' Meeting called to approve the 2010 financial statements**	No	Yes The pension plan covering Jacques Aschenbroich is detailed in sections 4.B.1.2.6 and 4.B.3.	Yes See section 4.B.1.2.7 for a description of these benefits.	Yes See section 4.B.1.2.7 for a description of these payments

4.B.2. Non-executive Directors

Non-executive Directors are paid attendance fees. Until July 27, 2010, the Board of Directors allocated attendance 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.

The rules regarding the payment of attendance fees were amended by the Board of Directors on July 27, 2010, namely: each Director will be paid a fixed annual fee of 22,000 euros plus 2,000 euros per meeting attended. Directors who also sit on a Board Committee (other than the Committee Chairmen) will be paid an additional 2,000 euros per committee meeting attended. Each Director who chaired a Committee (other than the Audit Committee) will be paid a fixed fee of 12,000 euros per year plus 2,000 euros per meeting attended, and the Chairman of the Audit Committee will receive 15,000 euros per year plus 2,000 euros per meeting attended. These payments are not capped; but in the event the total cost of these provisions should exceed the budget of 600,000 euros approved by the Ordinary and Extraordinary Shareholders' Meeting of June 28, 2008, a rule of three is applied according to the following formula: (amount of Director's fees paid to a particular Director divided by the sum of all fees paid to all Directors) multiplied by 600,000 euros.

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 attendance fees.

Apart from Pascal Colombani and Jacques Aschenbroich, no Board member was paid any other compensation or benefits by the Company during the year. No Director was granted stock options or free shares. No Director holds any stock purchase or stock subscription options.

Summary of attendance fees and other compensation paid to corporate officers

Attendance fees paid to Board members amounted to 397,400 euros in 2010, compared with 363,550 euros in 2009. Attendance fees were distributed as follows:

	Attendance fees		Other compensation (fixed, variable or exceptional compensation, benefits in kind)	
(in euros)	**2009**	**2010**	**2009**	**2010**
Executive Directors				
Pascal Colombani	11,700	0	195,564	250,000
Jacques Aschenbroich	0	0	689,550	1,265,961
Thierry Morin (1)	0	0	3,514,201	0
Non-executive Directors				
Behdad Alizadeh (2)	0	0	0	0
Gérard Blanc	37,900	45,000	0	0
Daniel Camus	45,050	54,000	0	0
Jérôme Contamine	52,500	50,500	0	0
Michel de Fabiani (3)	8,050	44,900	0	0
Pierre-Alain De Smedt (4)	9,350	0	0	0
Philippe Guédon	41,700	52,800	0	0
Michael Jay	43,600	37,200	0	0
Helle Kristoffersen	36,000	43,100	0	0
Noëlle Lenoir (5)	0	22,900	0	0
Georges Pauget	41,700	47,000	0	0
Erich Spitz (6)	36,000	0	0	0
TOTAL	**363,550**	**397,400**	**4,399,315**	**1,515,961**

(1) Thierry Morin resigned from his positions as CEO on March 20, 2009.
(2) Behdad Alizadeh waived his attendance fees and resigned from his directorship on August 17, 2010.
(3) Michel de Fabiani was co-opted to be a Director on October 20, 2009.
(4) Pierre-Alain De Smedt resigned his directorship on February 12, 2009.
(5) Noëlle Lenoir was appointed Director by the Shareholders' Meeting of June 3, 2010, on the recommendation of the Board of Directors of February 2, 2010.
(6) Erich Spitz resigned his directorship on October 20, 2009.

4.B.3. Other Group executive managers

The other executive managers are members of the Operations Committee, which is made up of 13 members and the Chief Executive Officer. Total gross compensation paid to the members of the Operations Committee (excluding the Chief Executive Officer but including two members who ceased their functions in November and December 2010) came to 9,283,265 euros in 2010 (compared with 6,550,955 euros in 2009) of which 6,273,000 euros as fixed compensation and 2,843,027 euros as variable compensation, 113,471 euros as benefits in kind and 53,767 euros in Service Medals.

The Board of Directors of June 24, 2010, on the recommendation of the the Appointment, Compensation and Governance Committee, decided to grant 280,000 stock purchase options and 75,000 free shares to the members of the liaison committee, of which 177,500 options and 55,500 free shares to the members of the Operational Committee (excluding Jacques Aschenbroich).

All the stock purchase options and 50% of the free shares granted to members of the liaison committee are conditional upon the achievement of a level of operating margin for 2010 fixed by the Board of Directors and which must be higher than the annual guidance. The allocation of the remaining 50% of free shares is also conditional upon a target level of operating margin for 2011.

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

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

- the supplementary pension is capped by the nature of the plan 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, all plans combined, 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 4.B.1.2.6).

4.B.3.1. Information about stock options and performance shares

The policies governing the award of stock options and free shares are detailed in the report by the Chairman of the Board of Directors relating to their composition, the application of the principle of gender balancing, the conditions under which the Board's work is prepared and organized as well as internal control and risk management procedures.

4.B.3.1.1. 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, excluding corporate officers	Number of options granted /exercised	Weighted average strike price	Expiration date	Date of Board meeting
Options granted in 2010 by Valeo and/or other Group companies to the ten employees of the issuer or other Group companies receiving the highest number of options.	150,000	€24,07	06/24/2018	06/24/2010
Options exercised in 2010 by the ten employees of the issuer or other Group companies holding the highest number of options.	190,869 (1)	€31.14 (1)	11/25/2010 03/03/2011 11/06/2011 11/08/2012 11/17/2013 11/20/2014 11/15/2015	11/25/2002 3/03/2003 11/06/2003 11/08/2004 11/17/2005 11/20/2006 11/15/2007

(1) Of which 1,369 that result from 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 shares per bond.

4.B.3.1.2. Performance shares

Free shares granted to the ten employees receiving the highest number of free shares, excluding corporate officers	Number of free shares granted	Date of Board meeting
Shares granted free of consideration in 2010 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	47,500	06/24/2010

4.B.3.2. Pensions and other post-employment benefits

At December 31, 2010, 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 the Group's executive managers came to 13 million euros, as opposed to 10 million euros at December 31, 2009.

At December 31, 2010 total provisions set aside and the total amount paid by Valeo and its subsidiaries for these benefits to former Board members and other executive managers of the Group came to, respectively, 5.2 million euros, as opposed to 3.9 million euros at December 31, 2009 and 96,600 euros, as opposed to 93,000 euros at December 31, 2009.

4.C. 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.

4.C.1. Composition of the Board and appointments of Directors

The Company's bylaws provide that the Board of Directors must comprise at least 3 and no more than 18 members (subject to any amendments in line with changes in the applicable law). The Board of Directors had 11 members at December 31, 2010, and has 12 members at the date hereof. There are no Directors elected by employees or any non-voting Directors.

Directors are appointed by shareholders at Shareholders' Meeting on the recommendation of the Board of Directors, which in turn receives proposals from the Appointment, Compensation and Governance Committee.

Members of the Board are appointed for renewable four-year terms which expire at the close of the Ordinary Shareholders' Meeting called to approve the accounts for the year in which their terms expire. They can be re-elected. Where one or more seats on the Board become vacant due to the death or resignation of any member or members, the Board of Directors may appoint new members on a temporary basis until the next Shareholders' Meeting, in accordance with the applicable legislation. The term of office of the Chairman may not exceed his term of office as a Director.

At its meeting of January 20, 2011, the Board of Directors acting on the recommendation of the Appointment, Compensation and Corporate Governance Committee, decided to propose to the Shareholders' Meeting convened to approve the financial statements for the year ended December 31, 2010, the renewal of Directors' terms of office by a system of rotation, in order to avoid the simultaneous renewal of members of the Board and promote a harmonious renewal of Directors.

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 Shareholders' Meeting held to approve the financial statements for the year in which he/she reaches his/her seventieth birthday.

Directors may be removed from office by the Annual Shareholders' Meeting at any time.

4.C.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 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 year at the latest. In 2010, the Board of Directors held nine meetings with a 99% 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 2010, this assessment was performed in January 2011. 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, composition and the missions 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 internally and the findings were presented at the Appointment, Compensation and Governance Committee's meeting held on January 19, 2011. The report was also presented and discussed at the Board meeting held on January 20, 2011. The results of this assessment are provided in the report of the Chairman of the Board of Directors on the composition and the application of the principle of gender balancing, on the conditions for preparing and organizing the work conducted by the Board and on internal control and risk management procedures that are set forth in section 4.D.2.6.

4.C.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, conflicts of interest are avoided, 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' Meetings 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. The Board of Directors' meeting of July 27, 2010, held on the recommendation of the Appointment, Compensation and Governance Committee, decided to adjust this minimum shareholding threshold to 500 shares. A proposal to amend the Company's bylaws accordingly will be submitted for the approval of the Shareholders' Meeting convened to approve the financial statements for the year ended December 31, 2010.

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 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 reiterates that they are formally prohibited from conducting any such transactions based on insider information.

4.C.4. Board Committees

The Board of Directors has set up committees in order to enhance its operation and provide assistance with preparing decisions.

The Board currently has three standing committees – the Audit Committee, the Appointment, Compensation and Governance Committee, and the Strategy Committee.

Further details relating to the composition and operation of these standing Committees are provided in the report of the Chairman of the Board of Directors on the application of the principle of gender balancing, the preparation and organization of the Board's work and internal control procedures described in section 4.D.2.5.

4.D. Report of the Chairman of the Board of Directors on the composition of the Board, the application of the principle of gender equality, 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

This report of the Chairman of the Board of Directors was presented to the Appointment, Compensation and Governance Committee (as regards information relating to the composition of the Board, application of the principle of gender equality, 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, 2011, in accordance with Article L.225-37 of the French Commercial Code (*Code de commerce*).

4.D.1. Composition of the Board of Directors

The articles of association provide that the Board of Directors must have between 3 and 18 members appointed for a period of four years. At the beginning of 2010, the Board had 11 members. Behdad Alizadeh, Jacques Aschenbroich, Gérard Blanc, Daniel Camus, Pascal Colombani, Jérôme Contamine, Michel de Fabiani, Philippe Guédon, Michael Jay, Helle Kristoffersen and Georges Pauget.

At its meeting of February 24, 2010, the Board of Directors, acting on a recommendation of the Appointment, Compensation and Governance Committee, proposed to the Shareholders' Meeting of June 3, 2010 that Noëlle Lenoir be appointed as a Director of the Company.

The Shareholders' Meeting of June 3, 2010 subsequently appointed Noëlle Lenoir as a Director of the Company.

At its meeting of August 19, 2010, the Board of Directors acknowledged Behdad Alizadeh's resignation from his directorship, effective as of August 17, 2010.

Thus, since August 19, 2010, the Board of Directors was made up of the following 11 members: Jacques Aschenbroich, Gérard Blanc, Daniel Camus, Pascal Colombani, Jérôme Contamine, Michel de Fabiani, Philippe Guédon, Michael Jay, Helle Kristoffersen, Noëlle Lenoir and Georges Pauget. For details of the directorships and other positions performed by members of the Board of Directors over the last five years, see section 4.A.1.2 of this chapter.

The Board of Directors meeting of February 24, 2011 decided to co-opt Ulrike Steinhorst as a Director of the Company to replace Behdad Alizadeh for the remainder of his term of office, *i.e.* until the end of the Shareholders' Meeting convened to approve the 2011 financial statements.

Summary of the expiration dates of Directors' terms of office:

Expiration 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, 2010	Jacques Aschenbroich, Gérard Blanc, Pascal Colombani, Michel de Fabiani, Philippe Guédon, Michael Jay, Helle Kristoffersen, Georges Pauget,
Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2011	Ulrike Steinhorst
Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2013	Daniel Camus, Jérôme Contamine, Noëlle Lenoir

None of the Directors were elected by employees.

In accordance with the independence criteria set out in the Board's Internal Regulations, on January 20, 2011 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 Code for Listed Companies (adopted by Valeo), the Board's Internal Regulations 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 in the past 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 holds the position of Chairman of the Board of Directors: Pascal Colombani, and therefore cannot be considered independent;
- one Director holds the position of Chief Executive Officer: Jacques Aschenbroich, and therefore cannot be considered independent;
- one Director's appointment was put forward by one of the Company's major shareholders, holding more than 10% of its capital and voting rights: Michel de Fabiani; given the Company's share ownership structure and the conflicts of interest that could arise, Michel de Fabiani may not be considered an independent Director; and
- eight Directors are considered independent according to the definition set forth in the Internal Regulations: Gérard Blanc, Daniel Camus, Jérôme Contamine, Philippe Guédon, Michael Jay, Helle Kristoffersen, Noëlle Lenoir and Georges Pauget.

The Board of Directors' meeting of February 24, 2011 that decided to co-opt Ulrike Steinhorst as Director also noted that Ulrike Steinhorst is considered independent according to the definition established in the Company's Internal Regulations.

Application of the principle of equal representation of men and women on the Board of Directors

At the beginning of the 2010 fiscal year, Helle Kristoffersen was the only woman on Valeo's Board of Directors. At its meeting of February 24, 2010, the Board of Directors, acting a recommendation of the Appointment, Compensation and Governance Committee, decided to recommended to the Shareholders' Meeting that Noëlle Lenoir be appointed as a Director of the Company. Noëlle Lenoir was appointed Director by the Shareholder's Meeting of June 3, 2010 under its sixth resolution. This appointment raised the number of women on the Board of Directors to two, representing more than 18% of the Directors.

In addition, on February 24, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided to appoint Ulrike Steinhorst as Director to replace Behdad Alizadeh for the remainder of Mr. Alizadeh's term of office, *i.e.* until the end of the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2011.

This appointment raised the number of women on the Board of Directors to three, representing more than 25% of the Directors.

4.D.2. Preparation and organization of the Board of Directors' work

4.D.2.1. Internal Regulations

On March 31, 2003 the Board of Directors adopted Internal Regulations defining the operation of the Board in addition to applicable legal and regulatory requirements and the provisions of the Company's articles of association. Internal Regulations 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 Regulations applicable to the Audit Committee were amended in line with Executive Order 2008-1278 of December 8, 2008 regarding statutory auditors.

The Internal Regulations applicable to the Board and those applicable to the Board's committees were amended on April 9, 2009 acting on the recommendations of the Appointment, Compensation and 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 Regulations are available on the Company's website (www.valeo.com).

4.D.2.2. Rules governing the operation and organization of the Board, and their application

4.D.2.2.1. Average notice period for calling Board meetings

In accordance with the Internal Regulations, each Director is notified of the dates of Board meetings at the beginning of each fiscal year at the latest. The average notice period for calling a meeting of the Board of Directors is approximately ten days.

4.D.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 2010 fiscal year, seven Directors were represented by proxy at Board meetings.

4.D.2.2.3. The Chairman of Board meetings

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 nine Board meetings held during the 2010 fiscal year were chaired by the Chairman of the Board of Directors.

4.D.2.2.4. Directors' participation in Board meetings

The Internal Regulations 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.

4.D.2.2.5. Frequency of Board meetings and average attendance rates of Directors

In accordance with its Internal Regulations, the Board of Directors meets at least six times a year. In 2010, it met on nine occasions.

The average attendance rate of the members of the Board of Directors (in person or via proxy) during 2010 was 99%. The average attendance rate of the members of the Board of Directors in person during 2010 was 90.1%.

4.D.2.3. Directors' access to information

4.D.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 agenda items 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 businesses, key performance indicators used by General Management, minutes of committee meetings, extracts from performance charts used by General 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.

4.D.2.3.2. Guests of the Board

During the year, the General Counsel, as Secretary to the Board, attended all Board meetings. Out of the nine Board of Directors' meetings, the Group's Chief Financial Officer and Human Ressources Director attended seven meetings and one meeting respectively. Lastly, the Group's Statutory Auditors attended certain Board meetings.

4.D.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 2010, the Board of Directors notably:

- reviewed the Group's strategy, examined and approved provisional management data and the budget for 2010;
- approved the appointment of two statutory auditors;
- assessed the Board's operating procedures and considered whether the Directors could be considered as independent in light of the criteria in the Internal Regulations;
- established all the items of the compensation to be awarded to the Chief Executive Officer (variable compensation, termination benefits, non-competition indemnities) in accordance with the recommendations of the AFEP/MEDEF Code (adopted by Valeo);
- reviewed in several stages and adopted the free shares and stock options plans for employees and corporate officers;
- approved the candidacy of Noëlle Lenoir as a Company Director;
- approved the financial statements and consolidated financial statements of the Group for the 2009 fiscal year;
- 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 2009;
- convened the Ordinary and Extraordinary Shareholders' Meeting;
- decided to implement a share buyback program;
- 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);
- discussed staff training and the negotiation of a Group-wide agreement for the prevention of workplace stress and psychosocial risks;
- examined strategic questions;
- established new rules for the allocation of attendance fees;
- modified the composition of the Appointment, Compensation and Governance Committee and of the Audit Committee;
- decided to modify the minimum number of shares to be held by each Director;
- duly noted the resignation of a Director (Behdad Alizadeh) and the cancellation of the agreement concluded between the Company and Pardus Capital Management L.P.;
- examined the interim financial statements, reviewed the forecasts for the second half of 2010, analyzed strategic transactions and considered Valeo's position in terms of competitiveness;
- examined the shareholder structure, notably in view of the withdrawal of Pardus Capital Management L.P.; and
- reviewed the quarterly consolidated financial statements and the forecasts and projections prepared for each period.

4.D.2.5. Committees created by the Board

The Board of Directors has set up several committees in order to enhance its operation and provide assistance with preparing its decisions. These include: the Audit Committee, the Appointment, Compensation and Governance Committee, and the Strategy Committee.

The work of the Audit Committee, the Appointment, Compensation and Governance Committee, and the Strategy Committee in 2010 was presented on a regular basis to the Board of Directors throughout the year in the form of reports.

4.D.2.5.1. Audit Committee

At the beginning of 2010 the Audit Committee had four members, the majority of whom were independent Directors as defined by the criteria set out in the Internal Regulations: Daniel Camus (Chairman of the Audit Committee) Gérard Blanc, Michel de Fabiani and Georges Pauget.

On July 27, 2010 the Board of Directors acknowledged Gérard Blanc's request to withdraw from the Audit Committee.

Since that date, the Audit Committee has been composed of Daniel Camus (Chairman of the Audit Committee), Michel de Fabiani and Georges Pauget.

The Audit Committee therefore has three 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 Directors according to the criteria set out in the Internal Regulations.

The role and responsibilities of the Audit Committee are as follows:

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 relevant, consistent and properly applied, and that material transactions are accounted for appropriately,
- 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 Finance Department 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 Chief Financial Officer describing the Company's risk exposure and material off balance sheet commitments. The Audit Committee meets with the Statutory Auditors, the Chief Financial Officer (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, and
- 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) In the area of internal control and auditing, the Audit Committee's role is to:

- follow up on any issues that arise in relation to internal control over financial and accounting 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, and
- 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 total revenues of the audit firm or network does not risk compromising their 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 the 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 articles of association, and
- 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.

The Audit Committee liaises mainly with General Management, the Finance Department and with the Company's Statutory Auditors. The Committee may interview members of the Finance Department or the Statutory Auditors without the members of General Management or executive corporate officers being present, if it decides to do so and has previously notified the Chairman and Chief Executive Officer. The Committee can also interview third parties if this is deemed useful for the achievement of its assignments. It may also seek the assistance of external auditing experts whenever it needs to. The Audit Committee must be provided with regular summaries of internal audit reports.

The Audit Committee met four times in 2010 with an attendance rate of 86.6%.

During these meetings, the Committee:

- examined the financial statements for the year ended December 31, 2009 and notably:
  - reviewed the accounting framework, R&D costs, the accounting treatment of a contracted loans, quality risk, pension commitments, the results of impairment tests on tangible and intangible assets and the early retirement commitments linked to asbestos exposure,
  - met with the Statutory Auditors,
  - examined the "Internal Control and Risk Management" section of the Chairman's report for 2009;
- organized the accounting audits of the first quarter of 2010 by the statutory auditors and reviewed the consolidated results of the Group for the first quarter of 2010;
- examined the reports compiled by the statutory auditors;
- examined the draft press releases relating to the 2009 financial statements and 2010 first quarter sales;
- examined the consolidated financial statements drawn up at June 30, 2010 and notably the accounting framework, charges in the scope of consolidation and certain material income and expense items (quality risks, restructuring costs relating to the implementation of Valeo's new organization, pension commitments and litigation concerning the early pension plan for employees exposed to asbestos); interviewed the Internal Audit Director and reviewed the Internal Audit Department's activities in the first half of 2010, particularly as regards internal control and risk management;
- examined the schedule of the Internal Audit Department's assignments for 2010; and
- examined a mapping of the risks to which Valeo is exposed.

The Audit Committee's work was in line with the objectives defined for it during the year. The Audit Committee's work was facilitated by the presence of Statutory Auditors, the Group's Chief Financial Officer and the Group Accounting Director at all of the Audit Committee's meetings. The Committee was also assisted by the work of 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.

4.D.2.5.2. Appointment, Compensation and Governance Committee

In accordance with its Internal Regulations, which were not modified during 2010, the majority of the Committee's members must be independent Directors as defined by the criteria set out in the Internal Regulations. 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.

At the start of 2010, the Appointment, Compensation and Governance Committee had five members: Jérôme Contamine (Chairman of the Appointment, Compensation and Governance Committee), Behdad Alizadeh, Philippe Guédon, Michael Jay and Georges Pauget. All members were considered independent with the exception of Behdad Alizadeh.

On July 27, 2010, the Board of Directors, acting on a recommandation of the Appointment, Compensation and Governance Committee, decided to appoint Noëlle Lenoir as a member of the Appointment, Compensation and Governance Committee.

At its meeting of August 19, 2010, the Board of Directors acknowledged the resignation of Behdad Alizadeh, effective as of August 17, 2010.

Since that date, the Appointment, Compensation and Governance Committee has been composed of five members, all independent: Jérôme Contamine (Chairman of the Appointment, Compensation and Governance Committee), Philippe Guédon, Michael Jay, Noëlle Lenoir and Georges Pauget.

According to its Internal Regulations, the roles and responsibilities of the Appointment, Compensation and Governance Committee include the following:

a) concerning compensation:

- 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, and
- 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, and
- reviewing the status of each Director in light of the independence criteria set out in the Board's Internal Regulations.

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 practices.

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 Appointment, Compensation and Governance Committee met four times in 2010 with an attendance rate of 90%. During these meetings, the Committee:

- played a part in the Board's self-assessment of its work during 2009, with the assistance of an independent consultant;
- examined and issued recommendations concerning the different items of the compensation of the Chief Executive Officer (variable income due for 2009 and 2010, amounts due under the non-competition clause and the termination benefits, grant of stock options and free shares);
- examined the policy for granting stock options and free shares to employees and corporate officers;
- examined the succession plan and the development of the Group's senior managers;
- examined the independence of Directors in 2009;
- launched a process to find a new Director to complement the Board of Directors' existing expertise;
- issued proposals concerning the renewal of Board of Directors' terms of office on a rotating basis.
- examined the application by the Company of the AFEP-MEDEF's Corporate Governance Code;
- put forward recommendations concerning the composition of the Board's Special Committees;
- proposed the modification of the minimum number of shares to be held by each Director;
- issued proposals concerning the renewal of attendance fees, and
- examined the proposal from the tribunal to commence mediation in the framework of the proceedings against the former Chairman and Chief Executive Officer, Thierry Morin.

4.D.2.5.3. Strategy Committee

The Strategy Committee was created further to a decision of the Board of Directors on October 20, 2008. Internal Regulations were drawn up for the Committee in accordance with the Board's decision of December 16, 2008, on the recommendation of the Appointment, Compensation and Governance Committee. The Internal Regulations, approved by the decision of the Board of Directors' meeting of April 9, 2009 following the separation of the roles of Chairman of the Board and Chief Executive Officer pursuant to a Board decision of March 20, 2009, were not amended in 2010.

The Strategy Committee comprises several Directors and a Chairman appointed by the Board.

At the beginning of 2010 the independent Directors of the Strategy Committee were: Gérard Blanc, Philippe Guédon and Helle Kristoffersen; and the following non-independent Directors: Pascal Colombani and Behdad Alizadeh. Pascal Colombani was Chairman of the Strategy Committee. On April 9, 2009, acting on a recommendation of the Appointment, Compensation and Governance Committee, the Board of Directors decided that the Chief Executive Officer Jacques Aschenbroich would be the permanent guest of the Strategy Committee without becoming a member thereof.

On August 19, 2010, the Board of Directors acknowledged the resignation of Behdad Alizadeh. Since that date, the Strategy Committee has thus been composed of four members including a Chairman, appointed by the Board of Directors, and the permanent guest, the Chief Executive Officer of the Company.

In accordance with its Internal Regulations, the Strategy Committee is responsible for submitting 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 2010 with an attendance rate of 100%.

During these meetings, the Committee:

- examined the "Equity Story" of the Company;
- organized a strategy seminar for face-to-face discussions with heads of the Business Groups; and
- discussed the Group's medium-term business plan for 2011-2015 and identified key strategic areas for development.

4.D.2.6. Assessment of the operation of the Board of Directors

In accordance with the Internal Regulations, the Board carried out a self-assessment to review its operating procedures and ensure that its meetings are properly organized. The assessment for 2010 was conducted internally 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 and the general functioning of the Board's Specialized Committees.

The Directors' responses were analyzed internally and set out in a report submitted to the Appointment, Compensation and Governance Committee meeting of January 19, 2011. The report was presented and discussed at the Board of Directors' meeting of January 20, 2011. In their responses to the questionnaire, Directors said that they were very satisfied with the operations of the Board and its Committees. The members of the Board of Directors concluded that even if certain areas for improvement were highlighted, an analysis of the questionnaire responses clearly showed that the work within the Board of Directors and its Committees is conducted in a climate of trust and is shared and appreciated by all.

4.D.2.7. Shareholdings and corporate transactions

The Company's articles of association required each Director to hold at least 100 shares throughout his or her term of office.

The Board of Directors' meeting of July 27, 2010, acting on a recommandation of the Appointment, Compensation and Governance Committee, decided to adjust this minimum shareholding threshold to 500 shares. A proposal to amend the Company's articles of association accordingly will be submitted for the approval of shareholders at the Shareholders' Meeting convened to approve the 2010 financial statements.

On accepting their positions, each member 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 *Autorité des Marchés Financiers (AMF)*, and subsequently made public in accordance with the provisions of the AMF's General Regulations.

4.D.2.8. Agreements governed by Article L. 225-38 of the French Commercial Code already approved by the Shareholders' Meeting which continued to be implemented during the year

The following agreements, already approved by a Shareholders' Meeting, were pursued during 2010:

- 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. This agreement was lawfully cancelled on December 18, 2010, as the interest held by Pardus had fallen to below 8% of the Company's share capital.

The following agreements contain commitments to the Chief Executive Officer, Jacques Aschenbroich:

- a commitment in the form of life insurance in the event of death, incapacity or any accidents that may occur as a result of business travel (Board of Directors' decision of April 9, 2009). This policy is described in section 4.B.1.2.1 of this Chapter;
- a commitment in the form of a defined benefits pension plan (Board of Directors' decision of October 20, 2009). This plan is described in sections 4.B.1.2.6 and 4.B.3 of this Chapter;
- commitments in the form of termination benefits and non-competition indemnities (Board of Directors' decision of

February 24, 2010). Acting on a recommendation of the Appointment, Compensation and 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 meeting of February 24, 2010 decided that in the event of his departure from the Group due to a change in control or strategy (*i.e.* forced resignation or removal from his position as Chief Executive Officer), Jacques Aschenbroich would be entitled to severance payments, except in the event of gross professional misconduct. The Board also decided that he would be bound by a non-competition clause in the event of his departure from the Company. These commitments were approved by the Shareholders' Meeting of June 3, 2010. Both the termination benefits and the non-competition indemnities that could potentially be paid to Jacques Aschenbroich in the event of his departure are described in section 4.B.1.2.7 of this Chapter.

A special report by the Statutory Auditors will be drawn up in respect of the regulated agreements described in this section.

4.D.2.9. Agreements subject to the approval of Shareholders' Meeting

Severance payments (Board decision dated February 24, 2011)

At its meeting on February 24, 2011, the Board of Directors, acting on a recommandation of the Appointment, Compensation and Governance Committee, decided to extend the terms of the termination benefits offered to Jacques Aschenbroich to 24 months of fixed and variable compensation beyond 2013, subject to the renewal of his term of office as Director by the Shareholder's Meeting convened to approve the 2010 financial statements and the renewal of his term of office as Chief Executive Officer. This commitment will be the subject of a special report by the Statutory Auditors.

At the same meeting of February 24, 2011, on a recommandation of the Appointment, Compensation and Governance Committee, the Board of Directors also acknowledged that the non-competition clause and its associated payments, the defined-benefit supplementary pension plan and life insurance in case of death, incapacity or accidents that may occur as result of business travel, to which Jacques Aschenbroich is entitled, will be maintained without any modification, subject to the renewal of his term of office as Director by the Shareholders' Meeting convened to approve the 2010 financial statements and the renewal of his term of office as Chief Executive Officer by the Board of Directors' meeting following the aforementioned Shareholders' Meeting.

4.D.2.10. Authorizations granted regarding sureties, endorsements and guarantees governed by Article R.225-35 of the French Commercial Code

Further to a decision dated February 24, 2010, on a recommendation of the Appointment, Compensation and 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.

During 2010, no further commitments of this type were made by the Company's Chief Executive Officer.

Further to a decision dated February 24, 2011, on a recommendation of the Appointment, Compensation and 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.

4.D.2.11. General management of the Company and limitations on the powers of the Chief Executive Officer

Acting on a recommendation of the Appointment, Compensation and 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.

The Chairman of the Board organizes and presides over the work performed by the Board of Directors and presents a report on its activities to the Shareholders' Meeting. He ensures the correct functioning of the Company's managerial and administrative bodies and makes sure that all the Directors are able to perform their duties.

The Chief Executive Officer has the widest possible powers to act in the Company's name, within the limits provided for by law, the Company's articles of association or its Internal Regulations. 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 Appointment, Compensation and 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 Regulations as amended pursuant to a decision of the Board on a recommendation of the Appointment, Compensation and Governance Committee on April 9, 2009.

The way in which General Management operates was not modified during 2010.

At its meeting on January 20, 2011, the Board of Directors decided to continue to separate the functions of Chairman of the Board and Chief Executive Officer, subject to renewal of the term of office of Pascal Colombani and Jacques Aschenbroich as Directors.

4.D.2.12. Stock purchase/subscription option and performance shares policy

4.D.2.12.1. Stock purchase/subscription option policy

At its meeting on June 24, 2010, the Board of Directors, on a recommandation of the Appointment, Compensation and Governance Committee, decided to grant one million stock purchase options to the employees and corporate officers of the Company, breaking down as follows: (i) 100,000 stock purchase options to the Chief Executive Officer, (ii) 280,000 stock purchase options to the members of the liaison committee, and (iii) 620 000 stock purchase options to the Company's employees, with some of these options being reserved for high-potential categories.

All the stock purchase options granted to the Chief Executive Officer and members of the liaison committee are conditional upon the achievement of a level of operating margin for the fiscal year 2010 set by the Board of Directors and which must be higher than the annual guidance. The stock purchase options may only be exercised after a minimum of two years from their allocation date, and on condition, in the case of the Chief Executive Officer, that he is still in office on the date on which they are exercised (this presence condition may however be lifted by the Board of Directors, unless the Chief Executive Officer's departure is attributable to gross negligence or misconduct). In addition, the shares granted to Jacques Aschenbroich are subject to minimum holding periods. Any shares he acquires from the exercise of his purchase options must be held for a minimum of four years following their allocation.

Lastly, should he exercise the options allocated to him, and after selling the number of shares necessary for financing the exercise of the option and payment of tax, any social security contributions and transaction costs, Jacques Aschenbroich shall keep at least 50% of the remaining shares resulting from exercising said options in registered form until he leaves office.

At December 31, 2010, the stock subscription options in circulation represented 1.2% of the Company's share capital and the stock purchase options represented 5.6%. The combined total amounted to 6.8% of the Company's share capital.

The Board of Directors has taken into consideration the AFEP-MEDEF recommendations published on October 6, 2008 regarding the compensation of executive corporate Officers 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 4.D.3).

The stock purchase/subscription options granted and exercised during 2010 are presented in detail in section 4.B.3.1.1 of this Chapter.

4.D.2.12.2. Performance shares policy

At its meeting on June 24, 2010, the Board of Directors, on a recommandation of the Appointment, Compensation and Governance Committee, decided to grant 400,000 free shares to the employees and corporate officers of the Company, breaking down as follows: (i) 50,000 free shares to the Chief Executive Officer, (ii) 75,000 free shares to the liaison committee members and (iii) 275,000 free shares to the Company's employees, with some of these free shares being reserved for high-potential categories.

As part of this grant, 133,000 free shares were allocated to the Company's personnel on the basis of three free shares per employee and not subject to any performance conditions.

50% of the free shares granted to the Chief Executive Officer and members of the liaison committee are conditional upon the achievement of a level of operating margin for the financial year 2010 set by the Board of Directors and which must be higher than the annual guidance. The allocation of the remaining 50% of free shares is conditional upon a target level of operating margin for 2011. In addition, all the free shares attributed to Jacques Aschenbroich are conditional upon his being Chief Executive Officer on the vesting date (this presence condition may be lifted by the Board of Directors, unless the Chief Executive Officer's departure is attributable to gross negligence or misconduct).

In addition, the shares granted to the Chief Executive Officer are subject to minimum holding periods. He must hold 50% of the vested free shares in the form of registered shares until the termination of his functions with Valeo.

The free shares in circulation at December 31, 2010 represented 0.5% of the Company's share capital.

The Board of Directors has taken into consideration the AFEP-MEDEF recommendations regarding the compensation of executive corporate Officers of companies whose shares are admitted to trading on a regulated market, 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 recommendation. (see section 4.D.3).

Detailed information regarding free shares is presented in section 4.B.3.1.2.

4.D.2.13. Principles and rules adopted by the Board in respect of compensation and other benefits granted to executive corporate officers and members of the Board of Directors in 2010

Apart from Pascal Colombani and Jacques Aschenbroich, no Board member was paid any compensation or benefits other than attendance fees by the Company during 2010. For more information on this subject, see section 4.B.2 of this chapter.

4.D.2.13.1. Basis for allocating attendance fees

In accordance with the Internal Regulations applicable to the Board of Directors and the Appointment, Compensation and Governance Committee, the Board has powers to decide how attendance fees should be allocated. It bases its decision on the rules recommended by the Appointment, Compensation and 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.

Basis for the payment of attendance fees until July 27 2010

Acting on a recommendation of the Appointment, Compensation and Governance Committee, the Board of Directors' meeting of December 16, 2008 decided on the following allocation of attendance fee for 2009 according to the following rules (NB: Behdad Alizadeh indicated that he would waive any attendance fees at the Board meeting of July 28, 2008):

(i) each Director received:

- fixed portion: 17,000 euros/year;
- variable portion: 1,900 euros/meeting attended,

the total capped at 30,300 euros;

(ii) each Director who is a member (but not Chairman) of a Board Committee also received:

- fixed portion: 0;
- variable portion: 1,900 euros/meeting attended,

the total capped at 17,100 euros;

(iii) each Director who is also Chairman of a Board Committee received:

- fixed portion: 7,000 euros/year,
- variable portion: 1,900 euros/meeting attended,

the total capped at 24,100 euros.

Basis for the payment of attendance fees since July 27, 2010

On July 27, 2010, the Board of Directors, on a recommandation of the Appointment, Compensation and Governance Committee, decided, as of that date, to pay attendance fees on the following basis:

(i) each Director receives:

- fixed portion: 22,000 euros/year;
- variable portion: 2,000 euros/meeting attended;

(ii) each Director who is a member (but not Chairman) of a Board Committee also receives:

- fixed portion: 0;
- variable portion: 2,000 euros/meeting attended;

(iii) each Director who is a member of a committee (s) and Chairman of the Audit Committee also receives:

- fixed portion: 15,000 euros/year;
- variable portion: 2,000 euros/meeting attended;

(iv) each Director who is a Chairman of a Committee (other than the Audit Committee) also receives:

- fixed portion: 12,000 euros/year;
- variable portion: 2,000 euros/meeting attended.

These payments are not capped; but if the budget of 600,000 euros is exceeded in any one year, the following formula is applied:

(fees paid to an individual Director/total fees paid to all Directors) multiplied by 600,000 euros.

The amount of attendance fees paid to each Director during the year is disclosed in section 4.B.2 of this Chapter. 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 over the previous 6-month period is at least 50%. Failing this, the full amount of the fixed portion is not 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 the recommendation of the Appointment, Compensation and 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. Similarly, the Board of Directors' meeting of April 9, 2009, acting on a recommendation of the Appointment, Compensation and Governance Committee, it was decided that attendance fees would no longer be payable to the

Chairman or the Chief Executive Officer (if these positions are separated) for offices held within the Group.

4.D.2.13.2. Remuneration paid to executive corporate officers

The compensation packages of the Company's corporate officers are determined by the Board of Directors acting on recommendations from the Appointment, Compensation and 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 it has not been modified since that date.

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. See section 4.B.1.2.2 of this chapter for a description of these principles.

The Board of Directors' meeting of June 24, 2010, acting on a recommandation of the Appointment, Compensation and Governance Committee, decided to grant 100,000 stock purchase options and 50,000 free shares to the Chief Executive Officer, *i.e.* a maximum percentage of respectively 10% and 12.5% of the overall budgets submitted for approval to the shareholders (for more information on stock purchase options and performance shares policy, see sections 4.D.2.12.1 and 4.D.2.12.2 of this Chapter.)

There is no specific pension plan for senior executive corporate officers. 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 management is available to the Chief Executive Officer (see section 4.B.3.) However, in accordance with its decision of April 9, 2009, the Board of Directors decided to credit Jacques Aschenbroich with five additional years of service at the start of his tenure, in view of his age (55 at the time) and the fact that he was not covered by any other supplementary pension plan.

4.D.3. Corporate Governance Code

The Company applies AFEP-MEDEF's Corporate Governance Code for Listed Companies published in December 2008 and revised in April 2010. As regards rules on auditor independence, the Company refers to the French audit profession's Code of Ethics incorporated into Annex 8-1 of Book VIII of the regulatory section of the French Commercial Code.

The following should also be noted:

- directorships are not currently renewed on a rotating basis; however, the Board of Directors has decided to propose to the Shareholders' Meeting convened to approve the 2010 financial statements an amendment to the Company's articles of association that would introduce a rotation system for the renewal of terms of office;
- the Company's Internal Regulations and articles of association require that Directors hold a minimum of 100 shares; however, the Board of Directors has decided to propose to the Shareholders' Meeting convened to approve the 2010 financial statements an amendment to the Company's articles of association that would raise this minimum threshold to 500 shares;
- major internal restructuring operations are not expressly subject to the Board's prior agreement; in practice, however, the Board does discuss them;
- stock purchase/subscription options and free shares outstanding at December 31, 2010 represented 7.3% 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, 2010 represented 1.7% of the capital;
- the grant of performance shares to the Chief Executive Officer is subject to the achievement of specific targets, the presence of the Chief Executive Officer in office at the time of their allocation and any shares thus granted are subject to defined minimum holding thresholds. The grant of performance shares is not conditional upon the purchase of a specific quantity of shares when such shares become available; and
- the Chief Executive Officer is eligible for a supplementary pension plan with effect from January 1, 2010. The Board of Directors' meeting of October 20, 2009, on a recommandation of the Appointment, Compensation and Governance Committee, decided to credit Jacques Aschenbroich, upon his appointment, with five additional years of service in view of his age (55 at the time) and the fact that he did not have any other supplementary pension plan. This supplementary pension plan requires that the Chief Executive Officer end his/her professional career within the Group.

The French version of the AFEP/MEDEF's Corporate Governance Code for Listed Companies published in December 2008 and revised in April 2010 can be downloaded at www.code-afep-medef.com.

4.D.4. Special arrangements for attendance at Shareholders' Meetings

Article 26 of the Company's articles of association 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 calculating the quorum and majority, provided the Board of Directors publishes a decision to that effect in the notice of meeting.

4.D.5. Information likely to have an impact in the event of a public tender offer

Details concerning the information likely to have an impact in the event of a public tender offer, pursuant to Article L.225-100-3 of the French Commercial Code, are provided in Chapter 6, section 6.F.6.

4.D.6. Internal control and risk management procedures

This report, like all previous annual reports, presents the internal control and risk management procedures that have been implemented by the Group in a purely descriptive way, using the "reference framework" established by the *Autorité des marchés financiers* (AMF) as its basis. The Chairman instructed the Audit Director to gather all the information in this report, which was drawn up by incorporating contributions from several departments (notably Finance and Management Control, the Legal Department, the Risks and Insurance Department, etc.).

4.D.6.1. Definition and aims of internal control and risk management

Definition

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

- reliability of financial and management data;
- compliance with 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 certain risks will be prevented from materializing. 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 the procedures and principles described in the AMF's internal control reference framework and its Application Manual.

4.D.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 and all of its fully consolidated subsidiaries.

4.D.6.3. Components of Valeo's internal control and risk management systems

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.

Valeo's internal control system is organized around a four-tier operational structure: Group level, Business Group/Product Group level, National Directorate level and Operational Entities level. The Group sets strategic guidelines, allocates resources to the Business Groups/Product Groups, and develops synergies between Business Groups through functional networks and National Directorates. The Business Groups and the National Directorates control the performance of the operational entities and play a key role of coordination and support between the entities, notably with regard to the pooling of resources, the allocation of R&D expenditure and the optimization of production among the different industrial sites. Each level is directly involved in implementing the internal control system. For this purpose, 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 operational manager.

Valeo's policies and behavioral principles are set out in a 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, based on respect for the environment and the relentless drive for environmental protection, both of which are 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 Directors of the Strategic Operations, Finance, Risk Insurance Environment, Accounting, Internal Audit and Special Projects Departments). Representatives of the Legal and Human Resources Departments may also attend the Risk Committee as appropriate. The Risk Committee meets at least twice a year and is tasked with properly identifying and managing all risks to which the Group is exposed. Its work involves the identification and analysis of risk conducted within the Business Groups and the functional networks. The risk management procedure is described below:

- the Strategic Operations Department focuses specifically on operational risk, in particular, country risk, risks relating to the development and industrialization of new products and risks associated with customer warranty claims;
- the Legal Department manages the Group's legal risks, and particularly those related to intellectual property (patents and brands) 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 the country risks arising from political, economic and social instabilities as well as those risks linked to natural phenomena and product development;
- the Human Resources Department ensures compliance with labor law and compliance with the Company's Code of Ethics;
- the Finance Department analyzes, quantifies and manages risks arising on the Group's financial activities (mainly currency, interest rate, commodity, liquidity and counterparty risks).

Along with the functional networks and the National Directorates, the Business Groups 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 entities.

The main risks and the procedures for managing such risks are formally discussed in Chapter 2, section 2.A "Risk factors".

The main risks identified are:

- Operational risk, which includes notably all risks related to the Group's activities as an automotive equipment manufacturer, the risks related to the development and industrialization of new products, supplier risk and country risk triggered by political and social instability;
- legal risks, comprising notably risks relating to intellectual property and risks relating to products and services provided;
- industrial and environmental risks; market risks, comprising currency, interest rate, equities and commodity price risks; and
- liquidity, credit and counterparty risks.

These risks are analyzed in depth and are rated according to a matrix based on their potential impact, likelihood of occurrence and associated level of 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, 2010, attended by the Chief Executive 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 that General Management directives are carried out. They are performed throughout the organization, at all levels and in all functions.

The Group has a Financial and Administrative Manual that contains all the financial and management procedures. It is used throughout the Company on a daily basis. The Administrative and Financial Manual has two main parts:

- part one concerns the rules governing management and internal control; and
- part two determines how the main items of the balance sheet and income statement should be measured and presented.

Every year, letters of representation regarding compliance with financial standards, internal control standards and management standards are sent to the different levels of the operational organization to be signed. At the end of 2010, the Directors and the Financial Directors of the Business Groups, the Financial Directors of the National Directorates and the Financial Directors and Controllers of each entity had all signed these letters of representation.

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 originating from the management system is analyzed and distributed once a month to all operational personnel. A monthly summary is presented to the Group's Operating Committee, comprising the Chief Executive Officer, the Head of Strategic Operations, and twelve other Functional or Operational Directors.

The Finance Department is responsible for preparing the parent company and the consolidated financial statements, and reports to the Chief Executive Officer. The budget and monthly reporting procedure is a critical tool for Valeo in managing its operations. 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 information. The Group has put in place an integrated business software application, which is being deployed throughout its principal operational entities. 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 4.D.6.4).

Organizing and managing 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 operational entities, 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 financial year to the Audit Committee, in accordance with that Committee's Internal Regulations.

For 2010, the Internal Audit Department also conducted cross-cutting assignments examining continuous inventories and the vehicle scrappage process, and the monitoring of R&D project profitability. It also conducted internal control review assignments in operational entities located in emerging countries and at a recently created shared services center.

The functional divisions fall within the scope of Valeo's internal control procedures, and therefore in 2010, a diagnosis of the fiscal function was established in order to identify the procedures, key controls, roles and responsibilities for the main sub-processes and any areas for improvement.

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, 2010, these two standards had been awarded to 104 and 94 sites respectively, out of a total of 106 sites. The percentage of ISO 14001 and OHSAS 18001 certified sites is therefore 98% and 89%, respectively.

Teams from the Information Systems Department audit the proper use of the integrated business software application by the operational entities, focusing in particular on safety, information processing and the implementation of the Group's control tools.

4.D.6.4. Description of the internal control assessment 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 entities.

The approach is based on the following principles:

1) each operational entity 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, and
- 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, trains and monitors personnel who use it and oversees the self-assessment process.

The results of the self-assessment campaign are submitted to the Audit Committee and communicated to the Business Groups/Product Groups.

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 entities. 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 site.

Internal Audit carries out a half-yearly review of access to the integrated business application at all operational entities. The review looks at access to sensitive transactions and key users (name and capacity), and analyzes incompatibilities and the corresponding remedial action plans. As part of improving the internal control assessment linked to the integrated business software package, the half-yearly review was supplemented in 2010 by a review of security settings and access controls.

4.D.6.5. Procedures for preparing and processing financial and accounting information for the financial statements of the Company and the Group

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

- the Group Accounting Department prepares and disseminates the accounting procedures used by the Group, making sure they are consistent with 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 half-yearly and annual consolidated financial statements under IFRS. All Group entities send out detailed monthly information that includes an income statement, business analysis, summary balance sheet, cash flow statement, and analytical statements. Each half-yearly and annual report is drawn up on the basis of 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 entities 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 the order book, analyses of margins and of EBITDA per Business Group/Product Groups and per geographic zone; and
- the Taxation Department coordinates the Group's tax policy and advises the operational entities, National Directorates and, where necessary, Business Groups/Product Groups on all issues relating to tax law and also on the implementation of the tax consolidation system in France.

4.D.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. In 2011, the internal control system will evolve in order to take into account the strengthening of the National Directorates and the implementation of shared services centers during 2010.

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

- an appropriate control environment;
- the accountability of all parties involved, and particularly operational staff key to the internal control processes and responsible for driving forward ongoing internal control improvements; and
- 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

4.E. Statutory Auditors' report prepared in accordance with article L. 225-235 of the French Commercial Code and dealing with the report of the Chairman of the Board of Directors of Valeo

Year ended December 31, 2010

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 professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of Valeo and in accordance with article L. 225-235 of the French Commercial Code, we hereby present our report dealing with the report prepared by the Chairman of your Company in accordance with article L. 225-37 of the French Commercial Code for the financial year ended December 31, 2010.

The Chairman is responsible for preparing and submitting for the approval of the board of directors, a report describing the internal control and risk management procedures implemented by the company and disclosing other information as required by article L. 225-37 of the French Commercial Code dealing in particular with corporate governance.

Our own responsibility is to:

- Communicate to you any observations we may have as to the information contained in the Chairman's report and relating to the Company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information; and
- Attest that the report includes the other disclosures required by article L. 225-37 of the French Commercial Code. It should be noted that we are not responsible for verifying the fair presentation of those other disclosures.

We have performed our work in accordance with the professional standards applicable in France.

Information relating to the Company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information

Our professional standards require the application of procedures designed to assess the fair presentation of the information contained in the Chairman's report and relating to the Company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information.

Those procedures involve in particular:

- obtaining an understanding of the underlying internal control and risk management procedures in the area of the preparation and processing of financial and accounting information presented in the Chairman's report, and of the related documentation;
- obtaining an understanding of the work performed as a basis for preparing that information and the existing documentation;
- determining if any major internal control weaknesses in the area of the preparation and processing of financial and accounting information identified by us during the course of our engagement have been appropriately disclosed in the Chairman's report.

On the basis of the procedures performed, we have nothing to report on the information relating to the Company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information contained in the report of the Chairman of the board of directors prepared in accordance with article L. 225-37 of the French Commercial Code.

Other disclosures

We hereby attest that the report of the Chairman of the board of directors includes the other disclosures required by article L. 225-37 of the French Commercial Code.

Courbevoie and Neuilly-sur-Seine, February 24, 2011

The Statutory Auditors

French original signed by

MAZARS		ERNST & YOUNG et Autres	
David Chaudat	Lionel Gotlib	Jean-François Ginies	Gilles Puissochet

4.F. Statutory Auditors' special report on related-party agreements and commitments

General Meeting of Shareholders to approve the financial statements for the year ended December 31, 2010

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 professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby report on certain related-party agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the terms and conditions of those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement. We are not required to comment as to whether they are beneficial or appropriate or to ascertain the existence of any such agreements and commitments. It is your responsibility, in accordance with Article R.225-31 of the French Commercial Code (*Code de commerce*), to evaluate the benefits resulting from these agreements and commitments prior to their approval.

In addition, we are required, where applicable, to inform you in accordance with Article R.225-31 of the French Commercial Code (*Code de commerce*) concerning the implementation, during the year, of the agreements and commitments already approved by the General Meeting of Shareholders.

We performed those procedures which we considered necessary to comply with professional guidance issued by the French auditing body (*Compagnie Nationale des Commissaires aux Comptes*) relating to this type of engagement. These procedures consisted in verifying that the information provided to us is consistent with the documentation from which it has been extracted.

AGREMENTS AND COMMITMENTS SUBMITTED FOR APPROVAL BY THE GENERAL MEETING OF SHAREHOLDERS

Agreements and commitments authorized during the year

We hereby inform you that we have not been advised of any agreements or commitments authorized in the course of the year to be submitted to the General Meeting of Shareholders for approval in accordance with Article 225-38 of the French Commercial Code (*Code de commerce*).

Agreements and commitments authorized after closing

We have been advised of certain related party agreements and commitments which received prior authorization from your Board of Directors after closing.

Severance payment for Jacques Aschenbroich

On the recommendation of the Appointment, Compensation and Governance Committee, and subject to the renewal by the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2010 of Jacques Aschenbroich's terms of office as Director and Chief Executive Officer, the Board of Directors' meeting of February 24, 2011, decided to renew the severance payment that would be payable to Jacques Aschenbroich if he were forced to leave his position following a change of control or strategy (except in the event of gross professional misconduct when performing his duties) by setting it at 24 months of his fixed and variable remuneration from 2013.

The severance payment to which Jacques Aschenbroich would be entitled if he left his position are described in the Company's 2010 management report.

AGREEMENTS AND COMMITMENTS ALREADY APPROVED BY THE GENERAL MEETING OF SHAREHOLDERS

Agreements and commitments approved in previous years which continued to be implemented during the last fiscal year

In accordance with Article R.225-30 of the French Commercial Code *(Code de commerce)*, we have been advised that the implementation of the following agreements and commitments which were approved by the General Meeting of Shareholders in prior years continued during the year.

Brand licensing agreements

The brand licensing agreements signed in 2005 between Valeo and several operational subsidiaries continued to be implemented in 2010.

These agreements allow some of the Group's operational entities to identify themselves as belonging to the Group by making available to them all of the Group's knowledge, values, and business and employee-related potential. They are renewable by tacit agreement on an annual basis.

Consideration for the service is based on sales of the Product Family. The amounts billed to the operational entities for 2010 were as follows:

Company (in millions of euros)	**Amounts invoiced**
VALEO Vision	3.9
VALEO Equipements Electriques Moteur	2.9
VALEO Systèmes d'Essuyage	2.1
VALEO Sécurité Habitacle	1.4
VALEO Interior Controls	3.4
TOTAL	**13.7**

Agreement signed with Pardus Capital Management L.P.

In 2008, an agreement was signed with Pardus Capital Management L.P. (hereafter referred to as Pardus) concerning:

- the appointment of a representative of Pardus on Valeo's Board of Directors;
- the fair dealings of Pardus and its representative towards Valeo and its Board of Directors;
- dealings between Pardus and Valeo's competitors;
- Pardus' stake in Valeo's capital;
- Pardus' participation in Valeo's Shareholders' Meetings;
- Pardus' disposal of Valeo shares;
- the term of the agreement.

Pardus informed the AMF and Valeo on August 13, 2010, that following different transfers of securities it only held 7.58% of Valeo's share capital and 7.36% of its voting rights from this date.

Since Pardus' interest fell to below 8% of Valeo's share capital, in accordance with the agreement between Pardus, Behdad Alizadeh and Valeo, Behdad Alizadeh resigned as a Director with effect from August 17, 2010.

Pardus sent Valeo notice of termination of the agreement dated August 17, 2010. In accordance with the provision of the agreement, it was automatically terminated after a four-month notice period, i.e. on December 18, 2010.

Agreements and commitments involving Jacques Aschenbroich, Chief Executive Officer

Life insurance

The commitment made to Jacques Aschenbroich in 2009 for life insurance covering death, disability or any consequences of an accident during a business trip continued in 2010. Valeo paid a premium of 2,300 euros inclusive of VAT for the period from April 30, 2010 to April 30, 2011.

Pension plan

The commitment made to register Jacques Aschenbroich in 2009 with the new defined benefits pension plan applicable to the Group's Senior Corporate Executives from January 1, 2010 by according him five years' length of service continued in 2010. The main characteristics of this plan are as follows:

- cap according to type of plan: supplementary pension of 1% of the reference salary for each year of service, capped at 20%;
- cap on the base for calculating rights: the supplement, all plans combined, cannot exceed 55% of the reference salary, which is only based on the fixed salary.

Agreements and commitments approved during the past fiscal year which were not implemented during the past fiscal year

In addition, we have been advised that the following agreements and commitments which were approved by the General Meeting of Shareholders on June 3, 2010, based on the statutory auditors' report dated May 17, 2010 were not implemented during the year.

Termination benefits and non-competition payments

The agreements granting Jacques Aschenbroich termination benefits if he were forced to leave his position following a change of control or strategy (except in the event of gross professional misconduct when performing his duties) and a non-competition payment if he left the Company were authorized by the Board of Directors' meeting of February 24, 2010 and presented in the Statutory Auditors' special report to the Shareholders' Meeting on June 3, 2010.

The severance indemnity and non-competition payment to which Jacques Aschenbroich is entitled if he leaves the Company are described in the Company's 2010 management report.

Courbevoie and Neuilly-sur-Seine, February 24, 2011

The Statutory Auditors

MAZARS

David Chaudat Lionel Gotlib

ERNST & YOUNG et Autres

Jean-François Ginies Gilles Puissochet

5

FINANCIAL AND ACCOUNTING INFORMATION

The elements of the annual financial report can be clearly identified in the table of contents using the AFR pictogram

5.A. Analysis of 2010 consolidated results

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 5, section 5.B.6, Note 1.

5.A.1. Sales and profitability

5.A.1.1. Review of operations

During 2010, automotive production growth for each region was as follows [1]:

- Sales in Europe (and Africa) climbed 15%, despite the discontinuation of the vehicle scrappage incentive scheme in certain countries, and a fall in new registrations in 2010 (down 4% on 2009). The increase in sales mainly reflects the impact of destocking in 2009 which did not recur in 2010, and an increase in exports outside Europe;
- Sales in Asia (and others) jumped 28% year on year, due mainly to continued growth in China (up 31%);
- Sales in North America surged 39% compared to 2009, reflecting the severe impact of the decline in production in the comparison period;
- Sales in South America advanced 12% year on year.

Taking advantage of the favorable environment in the automotive market and the outperformance of Valeo's original equipment business compared to its main markets, in 2010 the Group posted consolidated sales of 9,632 million euros, up 28% compared with 2009 (7,499 million euros). On a like-for-like basis [2], **consolidated sales** advanced by 24%.

The four Business Groups, corresponding to its four reportable segments for accounting purposes, contributed equally to Group **consolidated sales growth** in 2010.

Sales for each Business Group broke down as follows:

Revenue *(in millions of euros)*	**2010**	**2009**	**Change 2010/2009**
Comfort and Driving Assistance Systems	1,704	1,344	+27%
Powertrain Systems	2,683	2,011	+33%
Thermal Systems	2,933	2,258	+30%
Visibility Systems	2,354	1,938	+21%
Eliminations (intra-Business Group revenue and other)	(42)	(52)	
Consolidated sales	9,632	7,499	+28%

Sales of original equipment stood at 7,952 million euros (83% of consolidated revenue), breaking down as 7,529 million euros for original equipment passenger car segment and 423 million euros for original equipment non-passenger car segment. Compared with 2009, original equipment passenger car sales advanced 26% (on a like-for-like basis [2]), thereby outperforming global automotive production (up 25% year on year), and sales for the original equipment non-passenger car segment surged by 58%. This stellar performance by the original equipment business was observed across the Group's main production regions.

(1) Source: JD Power Global Automotive Production Forecast, January 2011.

(2) Data on a constant exchange rate basis is obtained by recalculating sales for the current year on the basis of the average exchange rate used for the preceding year.
Data on a constant Group structure basis is obtained by (1) adding to sales for the previous year, the share of sales arising from the additional interests acquired in an entity, during a period comparable to the period during which the entity was owned in the most recently elapsed year; (2) by eliminating from sales for the current year, sales attributable to recently acquired or non-consolidated entities during the most recently elapsed year; and (3) by eliminating from sales for the previous year, sales of entities sold during the most recently elapsed year.
When a change in Group structure occurs, the previous year is restated using the consolidation method adopted for the most recently elapsed year.

Due to their momentum, each Business Group posted growth in original equipment sales in line with or in excess of the uptrend in global automotive production (up 25% over 2010):

- Comfort and Driving Assistance Systems: up 27% on a like-for-like basis [(1)];
- Powertrain Systems: up 31% on a like-for-like basis [(1)];
- Thermal Systems: up 23% on a like-for-like basis [(1)];
- Visibility Systems: up 24% on a like-for-like basis [(1)].

Aftermarket sales totaled 1,445 million euros (15% of consolidated revenue), up 16% compared with 2009 (1,242 million euros).

Miscellaneous sales and tooling revenue amounted to 235million euros (up 3% compared with 2009).

Europe and Africa accounted for the largest proportion of Valeo's sales in 2010 (60%), followed by Asia, the Middle East and the Pacific (19%), North America (13%) and South America (8%).

Original equipment passenger car sales in Europe (and Africa) came in at 4,472 million euros, up 20% compared with 2009 and outperforming growth in local automotive production, which advanced 15% over the same period. This segment accounts for 59% of total original equipment sales, compared with 64% for 2009. This decrease is essentially related to the high production volumes observed in 2009 following the implementation of the scrappage incentive scheme in the main European countries.

Original equipment passenger car sales in Asia, the Middle East and the Pacific totaled 1,461 million euros, i.e., 19% of total original equipment passenger car sales (17% in 2009), up 48% compared with the same year-ago figure. On a like-for-like basis[1], sales advanced by 36% (48% in China). Over the same period, passenger car production grew by 28% in Asia (31% in China).

Original equipment passenger car sales in North America amounted to 995 million euros, a leap of 69% compared with the same year-ago period. North America accounted for 13% of total original equipment passenger car sales (10% in 2009). On a like-for-like basis [(1)], original equipment sales in North America surged 60% compared with 2009, thereby outperforming growth in local automotive production, which advanced 39% over the same period.

Original equipment passenger car sales in South America stood at 601 million euros, up by 27% compared with 2009, reflecting the sharp appreciation in the value of the Brazilian real against the euro in 2010. This segment accounted for 8% of total original equipment passenger car sales (8% in 2009). On a like-for-like basis[1], original equipment sales in South America grew by 8% compared with 2009, thereby underperforming growth in local automotive production, which advanced 12% over the same period.

5.A.1.2. Results

Thanks to higher sales, improved productivity and optimized investments, the Group recorded an improvement in its **gross margin**, which came in at 18% of sales (or 1,735 million euros) versus 15.8% before the crisis, and 15.2% in 2009 (1,138 million euros).

Research and Development expenses totaled 537 million euros, or 5.6% of sales (versus 5.7% in 2007, before the crisis, and 6.3% in 2009). The Group is focusing on projects in the area of fuel consumption and CO_2 emissions reduction, and active security improvement.

Thanks in particular to the implementation of the new organization, administrative expenses were limited to 410 million euros, or 4.3% of sales (versus 5% in 2009). Consequently, administrative and selling expenses totaled 581 million euros, or 6% of sales (versus 7.1% during the same period in 2009).

The Group's operating margin [(2)] therefore totaled 617 million euros, or 6.4% of sales (versus 133 million euros or 1.8% of sales in 2009).

EBITDA [(3)] amounted to 1,150 million euros, or 11.9% of sales (versus 670 million euros in 2009).

(1) Data on a constant exchange rate basis is obtained by recalculating sales for the current year on the basis of the average exchange rate used for the preceding year.
Data on a constant Group structure basis is obtained by (1) adding to sales for the previous year, the share of sales arising from the additional interests acquired in an entity, during a period comparable to the period during which the entity was owned in the most recently elapsed year; (2) by eliminating from sales for the current year, sales attributable to recently acquired or non-consolidated entities during the most recently elapsed year; and (3) by eliminating from sales for the previous year, sales of entities sold during the most recently elapsed year.
When a change in Group structure occurs, the previous year is restated using the consolidation method adopted for the most recently elapsed year.

(2) Operating income before other income and expenses (see Note 4.5 to the consolidated financial statements, Chapter 5, section 5.B.6).

(3) EBITDA corresponds to operating income before amortization, depreciation, impairment losses and other income and expenses (see Note 3.2 to the consolidated financial statements, Chapter 5, section 5.B.6).

All the Business Groups contributed to the improvement in the Group's operating performance in 2010.

EBITDA % of sales	2010	2009	Change 2010 / 2009
Comfort and Driving Assistance Systems	11.5	7.9	+3.6pts
Powertrain Systems	11.1	10.3	+0.8pts
Thermal Systems	12.5	8.0	+4.5pts
Visibility Systems	11.2	7.5	+3.7pts

Other income and expenses represented net other expense of 27 million euros, or -0.3% of sales, including provisions for employee-related costs in connection with implementation of the new organization announced in March 2010.

The Group's **operating income** amounted to 590 million euros, or 6.1% of sales (versus 84 million euros or 1.1% of sales in 2009).

Income before taxes came in at 490 million euros versus a pre-tax loss of 67 million euros in 2009 :

- the cost of net debt amounted to 67 million euros, up 12% versus 2009, despite the decrease in net debt during 2010. This is a reflection of the poor returns on liquidity generated by the Group during the year, as well as the rise in the cost of gross debt;
- other financial income and expenses showed a net financial expense of 32 million euros, versus a net financial expense of 57 million euros in 2009, including losses on currency and commodities hedges in an amount of 17 million euros.

The effective tax rate came out at 21% thanks to the recognition of deferred tax assets in certain countries.

After taking into account net income attributable to minority interests in an amount of 19 million euros, **net income attributable to owners of the Company** for 2010 stood at 365 million euros, or 3.8% of sales, versus a net loss of 153 million euros for 2009.

5.A.2. Financial position

5.A.2.1. Stockholders' equity

At December 31, 2010, stockholders' equity amounted to 1,770 million euros versus 1,284 million euros at December 31, 2009. This 486 million euro increase corresponds mainly to net income for the period, i.e. 384 million euros, and to a favorable foreign exchange impact for 164 million euros, linked primarily to the appreciation of the yen and the Brazilian real against the euro. Moreover, Valeo did not pay a dividend in 2010.

5.A.2.2. Provisions

The statement of financial position at December 31, 2010 showed total provisions of 1,183 million euros (including a non-current portion of 806 million euros), compared with 1,113 million euros at the previous year-end (including a non-current portion of 749 million euros).

Total provisions for reorganization expenses and employee-related costs fell by 57 million euros year-on-year to 107 million euros. This decrease corresponds mainly to utilizations during the year and to the reversal of surplus provisions related to the headcount adjustment plan covering 5,000 redundancies announced at the end of 2008, and for which a provision was set aside.

Provisions for pensions and other post-employment benefits amounted to 651 million euros at year-end, i.e., a 41 million euro increase compared with end-2009. Actuarial gains and losses had a positive 30 million euro impact on provisions in 2010, while the fall in the discount rates adopted for each geographic area contributed to the increase in the benefit obligation.

Other provisions increased from 339 million euros at December 31, 2009 to 425 million euros at December 31, 2010. They included 170 million euros for customer warranties and 255 million euros for other risks and disputes, primarily of an employee, environmental, tax and legal nature.

5.A.2.3. Cash flows and debt

Cash flow from operating activities amounted to 997 million euros, compared with 599 million euros in 2009. This significant increase reflects both the strong improvement in the Group's net income in 2010, and strict management of working capital.

Excluding changes in Group structure, investing activities represented net cash outflows of 490 million euros in 2010, remaining broadly in line with the net cash outflows of 487 million euros recorded in 2009.

Changes in Group structure represented net cash inflows of 22 million euros, corresponding to the sales of the headlamp levelling device and electromagnetic retarder businesses for 15 million euros and 7 million euros, respectively. In 2009, changes in the scope of consolidation resulted in net outflows of 10 million euros.

Financing activities represented net cash outflows of 84 million euros, and included 36 million euros in stock buybacks and the payment of 65 million euros in interest.

In 2009, financing activities generated net cash inflows of 176 million euros, and included 195 million euros from the subscription to the European Investment Bank (EIB) loan. It should be noted that Valeo did not pay a dividend in 2009 or 2010.

In view of the items above, and including the impact of exchange rate movements, the year-on-year increase in consolidated cash and cash equivalents was 452 million euros, compared with an increase of 292 million euros in 2009.

At December 31, 2010, net debt (the sum of debt, short-term loans and bank overdrafts, less cash and cash equivalents and loans and other long-term financial assets) stood at 278 million euros representing a significant decrease on end-December 2009, when it stood at 722 million euros. The ratio of net debt to stockholders' equity (excluding minority interests) was 16% at December 31, 2010, compared with 59% at December 31, 2009.

The high levels of net cash generated in 2010 enabled the Group to reduce its debt to a particularly low level at December 31, 2010.

5.A.2.4. Commitments

The main commitments given are as follows:

(in millions of euros)	**2010**	**2009**	**2008**
Lease commitments	121	103	100
Sureties, endorsements and guarantees	4	2	2
Irrevocable commitments to purchase assets	144	88	93
Other commitments given	148	141	140
TOTAL	**417**	**334**	**335**

These commitments are described in Chapter 5, Section 5.B.6, Note 6.3 to the 2010 consolidated financial statements.

5.B. 2010 Consolidated financial statements

In accordance with Article 28 of European Regulation no. 809/2004 of April 29, 2004, the present document incorporates by reference the following information:

- the consolidated financial statements and the statutory auditors' report concerning the financial year ended December 31, 2009 on pages 125 to 187 and 188 to 189 of the Registration Document registered with the Autorité des marchés financiers on March 23, 2010 under number D.10-0149;
- the consolidated financial statements and the statutory auditors' report concerning the financial year ended December 31, 2008 on pages 115 to 173 and 174 to 175 of the Registration Document registered with the Autorité des marchés financiers on March 17, 2009 under number D.09-0128.

5.B.1. Consolidated statement of income

(in millions of euros)	*Notes*	**2010**	**2009**
CONTINUING OPERATIONS			
NET Revenue	*4.1*	**9,632**	**7,499**
Cost of sales	*4.2*	(7,897)	(6,361)
GROSS MARGIN		**1,735**	**1,138**
% of net revenue		18.0%	15.2%
Research and Development expenditure, net	*4.4*	(537)	(473)
Selling expenses		(171)	(156)
Administrative expenses		(410)	(376)
OPERATING MARGIN		**617**	**133**
% of net revenue		6.4%	1.8%
Other income and expenses	*4.5*	(27)	(49)
OPERATING INCOME		**590**	**84**
Interest expense	*4.6*	(83)	(69)
Interest income	*4.6*	16	9
Other financial income and expenses	*4.7*	(32)	(57)
Share in net earnings (losses) of associates	*5.4*	(1)	(34)
INCOME (LOSS) BEFORE INCOME TAXES		**490**	**(67)**
Income taxes	*4.8*	(104)	(79)
INCOME (LOSS) FROM CONTINUING OPERATIONS		**386**	**(146)**
DISCONTINUED OPERATIONS			
Income (loss) from discontinued operations, net of tax		(2)	-
NET INCOME (LOSS) FOR THE YEAR		**384**	**(146)**
Attributable to:			
■ Owners of the Company		365	(153)
■ Minority interests		19	7
Earnings (loss) per share:			
■ Basic earnings (loss) per share *(in euros)*	*4.9.1*	4.86	(2.04)
■ Diluted earnings (loss) per share *(in euros)*	*4.9.2*	4.86	(2.04)
Earnings (loss) per share from continuing operations:			
■ Basic earnings (loss) per share *(in euros)*		4.89	(2.04)
■ Diluted earnings (loss) per share *(in euros)*		4.89	(2.04)

The Notes are an integral part of the consolidated financial statements.

5.B.2. Consolidated statement of comprehensive income

(in millions of euros)	2010	2009
Net income (loss) for the year	**384**	**(146)**
Translation adjustment	164	48
o/w income taxes	-	-
Actuarial gains (losses) on defined benefit plans	(20)	(13)
o/w income taxes	*10*	*3*
Cash flow hedges:		
■ gains (losses) taken to equity	10	12
■ (gains) losses transferred to income (loss) for the period	(14)	8
o/w income taxes	-	*(2)*
Remeasurement of available-for-sale financial assets	(1)	4
o/w income taxes	-	-
Other comprehensive income for the year, net of tax	**139**	**59**
Total comprehensive income (loss) for the year	**523**	**(87)**
Attributable to:		
■ Owners of the Company	496	(93)
■ Minority interests	27	6

The Notes are an integral part of the consolidated financial statements.

5.B.3. Consolidated statement of financial position

(in millions of euros)	*Notes*	**12/31/2010**	**12/31/2009**
ASSETS			
Goodwill	*5.1*	1,210	1,146
Other intangible assets	*5.2*	544	535
Property, plant and equipment	*5.3*	1,655	1,665
Investments in associates	*5.4*	104	94
Non-current financial assets		107	74
Deferred tax assets	*5.5*	198	117
Non-current assets		**3,818**	**3,631**
Inventories	*5.6*	621	482
Accounts and notes receivable	*5.7*	1,449	1,251
Other current assets (1)		200	180
Taxes recoverable		10	15
Other non-current financial assets		24	13
Assets held for sale		2	1
Cash and cash equivalents	*5.10.4*	1,316	860
Current assets		**3,622**	**2,802**
TOTAL ASSETS		**7,440**	**6,433**
LIABILITIES AND EQUITY			
Share capital	*5.8.1*	236	235
Additional paid-in capital	*5.8.2*	1,412	1,402
Retained earnings and other	*5.8.4*	60	(404)
Stockholders' equity		**1,708**	**1,233**
Minority interests	*5.8.7*	62	51
Stockholders' equity including minority interests		**1,770**	**1,284**
Provisions - long-term portion	*5.9*	806	749
Debt - long-term portion	*5.10.2*	1,097	1,526
Subsidies and grants - long-term portion		19	25
Deferred tax liabilities	*5.5*	22	25
Non-current liabilities		**1,944**	**2,325**
Accounts and notes payable		1,987	1,648
Provisions - current portion	*5.9*	377	364
Subsidies and grants - current portion		9	13
Taxes payable		53	18
Other current liabilities (1)		703	663
Current portion of long-term debt	*5.10.2*	505	40
Other current financial liabilities:		15	5
Short-term debt	*5.10.3*	77	73
Current liabilities		**3,726**	**2,824**
TOTAL LIABILITIES AND EQUITY		**7,440**	**6,433**

(1) The presentation of the statements of financial position at December 31, 2009 is different from that published in February 2010. VAT recoverable and payable have been adjusted to reflect the net position of each legal entity.

The Notes are an integral part of the consolidated financial statements.

5.B.4. Consolidated statement of cash flows

(in millions of euros)	*Notes*	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) for the year		384	(146)
Equity in net earnings (losses) of associates		1	34
Net dividends received from associates		4	2
Expenses (income) with no cash effect	*5.11.1*	524	445
Cost of net debt		67	60
Income taxes (current and deferred)		104	79
Gross operating cash flows		**1,084**	**474**
Income taxes paid		(118)	(89)
Changes in working capital	*5.11.2*	31	214
Net cash provided by operating activities		**997**	**599**
CASH FLOWS FROM INVESTING ACTIVITIES			
Outflows relating to acquisitions of intangible assets		(153)	(150)
Outflows relating to acquisitions of property, plant and equipment		(323)	(304)
Inflows relating to disposals of property, plant and equipment		12	10
Net change in non-current financial assets		(26)	(43)
Impact of changes in scope of consolidation	*5.11.3*	22	(10)
Net cash from (used in) investing activities		**(468)**	**(497)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		-	-
Dividends paid to minority interests in consolidated subsidiaries		(13)	(7)
Issuance of share capital		8	1
Sale (purchase) of treasury stock		(36)	8
Issuance of long-term debt		28	228
Interest paid		(65)	(52)
Interest received		13	4
Repayments of long-term debt		(11)	(6)
Acquisition of minority interests		(8)	-
Net cash from (used in) financing activities		**(84)**	**176**
Effect of exchange rate changes on cash		**7**	**14**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**452**	**292**
Net cash and cash equivalents at beginning of year		**787**	**495**
Net cash and cash equivalents at end of year		**1,239**	**787**
O/w:			
■ Cash and cash equivalents		1,316	860
■ Short-term debt		(77)	(73)

The Notes are an integral part of the consolidated financial statements.

5.B.5. 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 including minority interests: Stockholders' equity	Minority interests	Total
75,557,498	**Stockholders' equity at January 1, 2010**	**235**	**1,402**	**74**	**(478)**	**1,233**	**51**	**1,284**
	Dividends	-	-	-	-	-	(14)	**(14)**
(886,519)	Treasury stock	-	-	-	(31)	(31)	-	**(31)**
	Capital increase	1	10	-	-	11	-	**11**
419,181	Share-based payment	-	-	-	6	6	-	**6**
	Other movements	-	-	-	(7)	(7)	(2)	**(9)**
	Transactions with owners	**1**	**10**	**-**	**(32)**	**(21)**	**(16)**	**(37)**
	Net income (loss) for the year	**-**	**-**	**-**	**365**	**365**	**19**	**384**
	Other comprehensive income (loss), net of tax:							
	Translation adjustment	-	-	156	-	156	8	**164**
	Actuarial gains and losses	-	-	-	(20)	(20)	-	**(20)**
	Gain (loss) on cash flow hedges recognized in equity	-	-	-	10	10	-	**10**
	(Gain) loss on cash flow hedges taken to income (loss) for the year	-	-	-	(14)	(14)	-	**(14)**
	Remeasurement of available-for-sale financial assets	-	-	-	(1)	(1)	-	**(1)**
	Total other comprehensive income (loss)	**-**	**-**	**156**	**(25)**	**131**	**8**	**139**
	Total comprehensive income (loss)	**-**	**-**	**156**	**340**	**496**	**27**	**523**
75,090,160	**Stockholders' equity at December 31, 2010**	**236**	**1,412**	**230**	**(170)**	**1,708**	**62**	**1,770**

						Stockholders' equity including minority interests		
Number of shares	*(in millions of euros)*	**Share capital**	**Additional paid-in capital**	**Translation adjustment**	**Retained earnings**	**Stockholders' equity**	**Minority interests**	**Total**
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.

5.B.6. Notes to the consolidated financial statements

CONTENTS

Note 1. Accounting policies

The consolidated financial statements of the Valeo Group for the year ended December 31, 2010 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 at 43, rue Bayen, 75017 Paris.

Valeo's consolidated financial statements were authorized for issue by the Board of Directors on February 24, 2011.

They will be submitted for approval to the next Annual General Meeting of shareholders.

1.1. Accounting standards applied

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and endorsed by the European Union. The IFRS as adopted by the European Union can be consulted on the European Commission website [1].

1.1.1. Standards, amendments and interpretations adopted by the European Union and obligatorily applicable for reporting periods beginning on or after January 1, 2010

- **IFRS 3 (revised) – "Business Combinations" and IAS 27 (revised) – "Consolidated and Separate Financial Statements"**

IFRS 3 – "Business Combinations" is applicable prospectively to all business combinations for which the designated acquisition date is on or after December 31, 2009. IAS 27 (revised) – "Consolidated and Separate Financial Statements" is effective as from January 1, 2010. The application of these two revised standards does not have a material impact on the Group's financial statements at December 31, 2010.

- **Other amendments and interpretations obligatorily applicable for reporting periods beginning on or after January 1, 2010 as well as the annual improvements to IFRS published in April 2009, do not have a material impact on the Group's financial statements.**

1.1.2. Standards, amendments and interpretations published by the International Accounting Standards Board (IASB) but not obligatorily applicable for reporting periods beginning on or after January 1, 2010 and not early adopted by the Group

The Group has not early adopted any standards, amendments or interpretations published by the IASB but not obligatorily applicable as of January 1, 2010. No such standards, amendments or interpretations are expected to have a material impact on the Group's financial statements.

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 (IAS19). 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 fully vested at January 1, 2005 (IFRS 2).

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 general accounting principles of IFRS:

- true and fair view;
- going concern;

(1) http://ec.europa.eu/internal_market/accounting/ias/standards_en.htm

- accrual basis of accounting;
- consistency of presentation;
- materiality and aggregation;
- no offsetting.

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 Chapter 2, section 2.A.1), as well as more general risks to which the Group is exposed on account of its industrial operations across the globe. After a 12% drop in worldwide automotive production in 2009, the industry saw a significant upturn in 2010, with a 25% jump in worldwide output. In this far more upbeat environment, many of the Group's indicators have improved.

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, 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, 2010 chiefly concern:

- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 4.5.3);
- the amount of provisions (see Note 5.9), particularly regarding restructuring costs and employee benefits obligations;
- the measurement of deferred tax assets (see Note 5.5).

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 at least 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 of fully integrated companies 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 carrying amount of the investments with the initial cost of the acquisition, plus or minus the Group's equity in the associate's earnings after the acquisition date, adjusted where appropriate in order to comply with Group accounting principles.

Companies acquired during the period are consolidated as from the date the Group exercises (sole or joint) control or significant influence.

1.4. Foreign currency translation

Foreign currency financial statements

The Group's consolidated financial statements are presented in euros.

The financial statements of each consolidated Group company are presented in its functional currency. The functional currency is the currency of the principal economic environment in which it operates, and is generally the local currency.

The financial statements of foreign subsidiaries whose functional currency is not the euro are translated into euros as follows:

- 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 and losses arising from the translation of the financial statements of foreign subsidiaries are recorded through other comprehensive income.

Foreign currency transactions

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 a 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 adjustment 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.

1.5. Net revenue

Net revenue 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.

1.6. Gross margin, operating margin and operating income

Gross margin is defined as the difference between net revenue 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 expenditure, 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.

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".

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 interest rate hedging transactions;
- 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;
- the expected return on pension and other employee benefit plan assets.

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, other temporarily non-deductible provisions and capitalized development expenditure. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the temporary differences reverse, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Taxes relating to items recognized directly in other comprehensive income are also recognized in other comprehensive income and not in income.

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 approved in December 2009 introduced a new tax called *Contribution Économique Territoriale* (CET) 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.

1.9. Earnings per share

Basic earnings per share (before dilution) are 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). When funds are received on the exercise of these rights (as is the case with subscription options), 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.

1.10. Business combinations and transactions with minitory interests

The acquisition price corresponds to the fair value, at the date of exchange, of the assets transferred, liabilities assumed and equity instruments issued by the acquirer. This does not include acquisition-related costs, which are included in expenses in the period in which they are incurred.

All identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at their fair value at the date control is transferred to the Group (acquisition date). Fair value is calculated in the currency of the acquiree. Any excess of the acquisition cost over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the acquisition date, is recorded in assets as goodwill. Goodwill arising on the acquisition of associates is included in the carrying amount of shares in associates. Goodwill is not amortized but is tested for impairment at least once a year and whenever there is an indication that it may be impaired. Impairment tests are carried out as described in Note 1.13. Impairment losses recognized against goodwill in the income statement cannot be reversed.

The revised IAS 27 has modified the accounting treatment applicable to minority interests. Changes in minority interests that do not result in a change of control are now recognized in equity. In the event of an acquisition of additional shares in an entity already controlled by the Group, the difference between the acquisition price of the shares and the additional interest acquired by the Group in consolidated equity is recorded in stockholders’ equity. The value of the entity’s identifiable assets and liabilities (including goodwill) for consolidation purposes remains unchanged.

1.11. Intangible assets

Separately acquired intangible assets are initially recognized at cost in accordance with IAS 38. Intangible assets acquired in a business combination are recognized at fair value separately from goodwill. Intangible assets are subsequently carried at cost, less accumulated amortization and accumulated impairment losses.

Intangible assets are tested for impairment using the methodology described in Note 1.13.

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 on a straight-line basis over a maximum period of four years as from the start of volume production.

Other intangible assets are amortized on a straight-line basis over their expected useful lives:

software	3 to 5 years
patents and licenses	based on their useful lives
other intangible assets (excluding customer relationships)	3 to 5 years
customer relationship intangibles	up to 25 years

1.12. Property, plant and equipment

Property, plant and equipment are carried at cost less any depreciation and impairment losses recognized. Cost includes expenses directly attributable to the acquisition of the asset and the estimated cost of the Group's obligation to rehabilitate certain assets, where appropriate. 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 is carried in inventories (until it is sold) if no such control exists.

Any financing received from customers in respect of tooling is recognized in statement of financial position liabilities and taken to income proportionately to the depreciation charged against the related assets.

Finance leases transferring substantially all the risks and rewards related to ownership of the leased asset to the Group, are accounted for as follows:

- the leased assets are recognized in property, plant and equipment in the Group's statements of financial position at the inception of the lease, at an amount equal to the lower of their fair value and the present value of future minimum lease payments. This amount is then reduced by depreciation and any impairment losses recognized as described in Note 1.13;
- the corresponding financial obligation is recorded in debt;
- minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

Leases in which the lessor retains substantially all the risks and rewards related to ownership of the leased asset to the Group are classified as operating leases. Lease payments under an operating lease are recognized as an operating expense on a straight-line basis over the lease term.

All property, plant and equipment except land are depreciated over their estimated useful lives using the components approach. Depreciation is calculated on a straight-line basis over these estimated useful lives:

buildings	20 years
fixtures and fittings	8 years
machinery and tooling	4 to 8 years
other property, plant and equipment	3 to 8 years

1.13. Impairment of assets

Property, plant and equipment and intangible assets with definite useful lives are tested for impairment whenever objective indicators exist that they may be impaired. The main impairment indicators used by the Group for Cash-Generating Units (CGUs) are described in Note 4.5.3. Goodwill, other intangible assets with indefinite useful lives and intangible assets not yet ready to be brought into service are tested for impairment at least once a year and whenever there is an indication that they may be impaired.

■ **Impairment tests**
Impairment tests compare the recoverable amount of a non-current asset with its net carrying amount. 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.

■ **Cash-Generating Units (CGUs)**
CGUs are operating entities generating independent cash flows. Based on the Group's organizational structure in 2010, CGUs generally correspond to groups of production sites belonging to the same Product Line or Product Group.

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.

Impairment tests are carried out as follows:

- 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 entities. The projections are based on past experience, macroeconomic data for the automotive market, order books and products under development;
- cash flows beyond the five-year period are extrapolated using a perpetuity growth rate;
- cash flows are discounted based on a rate which reflects current market assessments of the time value of money and the risks specific to the asset (or group of assets). This rate corresponds to a post-tax weighted average cost of capital (WACC). The use of a post-tax rate results in recoverable amounts that are similar to those that would have been obtained by applying pre-tax rates to pre-tax cash flows.

The growth rates and discount rates used for impairment testing in the period are set out in Note 4.5.3.

Any impairment recognized against the assets in the CGU is allocated first, to reduce the carrying amount of any goodwill allocated to the CGU, and then to the other CGU assets in proportion to their carrying amounts.

■ **Goodwill**
Due to changes in the Group's organizational structure in 2010, the Group tested goodwill for impairment at the level of the Business Groups defined in Note 3 on segment reporting.

Goodwill is tested for impairment using the same methodology and assumptions as those described above for CGUs.

■ **Reversal of impairment**
Impairment losses recognized on goodwill can never be reversed.

Impairment losses recognized on assets other than goodwill may only be reversed if there are indicators that the impairment may no longer exist or may have decreased. If this is the case, the carrying amount of the asset is increased to its revised estimated recoverable amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset.

1.14. Financial assets and liabilities

Recognition and measurement principles regarding financial assets and liabilities are defined in IAS 32 and IAS 39.

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 in income for the period in the event of a significant or prolonged decline in fair value. The fair value of investments listed on an active market is their market value.

Unlisted investments whose fair value cannot be estimated reliably are carried at cost, and are classified in non-current financial assets.

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.

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.

1.14.4. Current financial assets and liabilities

Current financial assets and liabilities include trade receivables and payables, derivative financial instruments, and cash and cash equivalents.

Trade receivables and payables

Trade receivables and payables are initially recognized at fair value and subsequently carried 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 item of these assets or liabilities is stated at fair value. The change in fair value relating to the effective portion of the hedge is recognized through income and offset by symmetrical changes in the fair value of the hedging instrument;
- for future cash flow hedges, the change in fair value of the derivatives relating to the effective portion of the hedge is recognized directly in other comprehensive income, while the ineffective portion is taken to other financial income and expenses;

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 the 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 income and expenses.

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 other comprehensive income, while changes relating to the ineffective portion are recognized in income. Amounts carried in other comprehensive income in respect of the effective portion of the hedge are taken to income as the interest expenses hedged themselves affect income.

Certain interest rate derivatives are not designated as hedging instruments within the meaning of IAS 39. Changes in the fair value of these derivatives are recognized in other financial income and expenses for the period.

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.

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.

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.

As indicated in Note 1.12, tooling specific to a given project is recorded in inventories until it is sold, when control over the future economic benefits and risks associated with the assets are transferred back to the constructor. A provision is made for any potential loss on the tooling contract (corresponding to the difference between the customer's contribution and the cost of the tooling) as soon as the amount of the loss is known.

1.16. Share-based payment

Some Group employees receive compensation in the form of 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.). The Group regularly reviews the number of potentially exercisable options. Where appropriate, the impact of any changes in these estimates is recorded in income.

1.17. Pensions and other employee benefits

Pensions and other employee benefits are measured in accordance with IAS 19.

Short-term benefits

Group employees are entitled to short-term benefits such as paid annual leave, paid sick leave, bonuses and other benefits (such as termination benefits), payable within 12 months of the end of the period in which the corresponding services are rendered by employees.

These benefits are recorded in current liabilities.

Post-employment and other long-term benefits

These cover two categories of employee benefits:

- post-employment benefits, which include statutory retirement bonuses, supplementary pension benefits, and coverage of certain medical costs for retirees and early retirees;
- other long-term benefits payable (during employment), corresponding primarily to long-service bonuses.

Benefits offered to each employee depend on local legislation, collective bargaining agreements, or other agreements in place in each Group entity.

These benefits are broken down into:

- defined contribution plans, under which the employer pays fixed contributions on a regular basis and has no legal or constructive obligation to pay further contributions: these are recognized in expenses based on calls for contributions;
- defined benefit plans, under which the employer guarantees a future level of benefits.

An obligation is recognized in respect of defined benefit plans under liabilities in the statements of financial position.

The provision for pensions and other employee 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. An asset is only recognized on overfunded plans if it represents future economic benefits that are available to the Group.

The provision for long-term benefits is equal to the present value of the benefit obligations. The expected cost of these benefits is recorded in personnel expenses over the employee's working life in the company.

The calculation of these provisions is based on valuations performed by independent actuaries using the projected unit credit method and final salaries. These valuations incorporate both macroeconomic assumptions specific to each country in which the Group operates (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.

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. Expected long-term returns on plan assets are estimated taking into account the structure of the investment portfolio for each country. The rates for 2010 are disclosed in Note 5.9.2.

The effects of differences between previous actuarial assumptions and what has actually occurred (experience adjustments) and the effect of changes in actuarial assumptions (assumption adjustments) give rise to actuarial gains and losses. Actuarial gains and losses arising on long-term benefits payable during employment are recognized immediately in income. However, actuarial gains and losses arising on post-employment benefits are taken directly to other comprehensive income net of deferred tax, in accordance with the option available under IAS 19.

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 vested pension obligations are recognized in income, while past service costs relating to non-vested obligations are amortized on a straight-line basis over the average period remaining until the corresponding rights are vested by employees.

The expense recognized in the income statement includes:

- service cost for the period, the amortization of past service cost, and the impact of any plan curtailments or settlements recorded in operating income;
- the impact of unwinding the discount on the obligation and the expected return on plan assets recognized in financial income and expenses.

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. Provisions are measured in accordance with IAS 37 and taking into account assumptions deemed most probable.

Commitments resulting from restructuring plans are recognized when an entity has a detailed formal plan and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or by announcing its main features.

A provision for warranties is set aside to cover the estimated cost of returns of goods sold, on a statistical basis or based on specific quality risks. Statistical warranty provisions cover risks related to contractual warranty obligations, and are determined based on both historical data and probability calculations. Provisions for specific quality risks cover costs arising in specific situations not covered by usual warranties. The corresponding expense is recognized in cost of sales.

A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received by the Group under said contract.

This caption includes provisions intended to cover commercial, labor and tax risks arising in the ordinary course of operations.

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.

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 liabilities in the statements of financial position and subsequently taken to income under operating margin as the costs to which they relate materialize.

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 its 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 or 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.

1.21. 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 the 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 the first-time adoption of new standards);
- corrections of accounting errors.

Note 2. Changes in the scope of consolidation

2.1. Transactions carried out in 2010

2.1.1. Acquisition of minority interests in Indian Electrical Systems firm

On May 19, 2010, Valeo increased its take in the Indian Electrical Systems firm based in Pune to 100%. This firm was previously 66.7%-owned by Valeo and 33.3%-owned by N.K. Minda, and was already fully consolidated in the Group’s financial statements. The entity manufactures starters and alternators for passenger vehicles, and has changed its name to Valeo Engine and Electrical Systems India Private Ltd. In accordance with the revised IAS 27, this acquisition of minority interests led to a decrease of 8 million euros in consolidated equity at December 31, 2010.

2.1.2. Sale of headlamp levelers business

At June 30, 2010, Valeo sold its lighting modules business – consisting primarily of headlamp levelers – to European investment fund Syntegra Capital. This transaction generated a capital gain of 7 million euros, recorded under the caption “Other income and expenses”. The business contributed 9 million euros to consolidated net revenue for the first six months of 2010 (12 million euros for the year ended December 31, 2009).

2.1.3. Sale of speed controller business

On August 31, 2010, Valeo sold Telma, a manufacturer of electromagnetic retarders, to Torque Industry (Holding) Limited. The sale did not have a material impact on the Group's financial statements. The business contributed 30 million euros to consolidated net revenue in the first eight months of 2010 (39 million euros in the year to December 31, 2009).

2.2. Transactions carried out in 2009

2.2.1 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 was 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 did not have a material impact on the Group's financial statements for the year ended December 31, 2009.

Note 3. 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.

Four reportable segments were identified, corresponding to Valeo's organization into Business Groups. This organization, set up in 2009, was rounded out in 2010 with the creation of 16 Product Groups. There is no aggregation of operating segments.

The Group's four reportable segments are:

- Comfort and Driving Assistance Systems, comprising four Product Groups: Driving assistance, Interior controls, Interior electronics and Access mechanisms. These systems improve safety and driving comfort by offering easy access and enhanced 360° visibility around the vehicle, while creating an ergonomic, intuitive relationship with one's environment;
- Powertrain Systems, comprising five Product Groups: Electrical systems, Transmission systems, Engine management systems, Air management systems and Hybrid and electric vehicle systems. This Business Group develops innovative solutions to reduce fuel consumption and CO_2 emissions, while maintaining driving pleasure. These solutions include a complete range of products for the electrification and hybridization of vehicles;
- Thermal Systems, comprising four Product Groups: Climate control, Powertrain thermal systems, Compressors and front-end modules. The technologies developed by this Business Group contribute to optimizing cabin comfort and to reducing energy consumption;
- Visibility Systems, comprising three Product Groups: Lighting systems, Wiper systems and Wiper motors. These systems offer better visibility solutions for all weather and driving conditions. The systems developed by this Business Group contribute to safety by improving the visibility of both the vehicle and the driver, while saving energy.

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.

Holding companies, disposed businesses and eliminations between the four operating segments defined above are shown in the "Other" segment.

The key performance indicators for each segment are:

- net revenue;
- EBITDA, which represents operating income (loss) before depreciation and amortization of property, plant and equipment and intangible assets, impairment losses recorded in operating margin, and other income and expenses (see Note 1.6);
- net Research and Development expenditure;
- investments in property, plant and equipment and intangible assets;
- segment assets, comprising property, plant and equipment and intangible assets (including goodwill), and inventories.

3.1. Key segment performance indicators

The key performance indicators for each segment are shown below:

2010

(in millions of euros)	Comfort and Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Net revenue						
■ segment (excluding Group)	1,675	2,660	2,910	2,326	61	**9,632**
■ intersegment (Group)	29	23	23	28	(103)	**-**
EBITDA	**196**	**297**	**367**	**264**	**26**	**1,150**
Research and Development expenditure, net	(140)	(146)	(133)	(121)	3	**(537)**
Investments in property, plant and equipment and intangible assets	127	158	88	89	6	**468**
Segment assets	862	1,170	1,033	929	36	**4,030**

2009

(in millions of euros)	Comfort and Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Net revenue						
■ segment (excluding Group)	1,315	1,999	2,243	1,922	20	**7,499**
■ intersegment (Group)	29	12	15	16	(72)	**-**
EBITDA	**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	112	167	86	110	4	**479**
Segment assets	800	1,127	908	959	34	**3,828**

3.2. Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating income:

(in millions of euros)	2010	2009
EBITDA	**1,150**	**670**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses [(1)]	(533)	(537)
Other income and expenses	(27)	(49)
Operating income	**590**	**84**

(1) Impairment losses recorded in operating margin only.

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	2010	2009
Segment assets	**4,030**	**3,828**
Accounts and notes receivable	1,449	1,251
Other current assets	200	180
Taxes recoverable	10	15
Assets held for sale	2	1
Financial assets	1,551	1,041
Deferred tax assets	198	117
Total Group assets	**7,440**	**6,433**

3.3 Reporting by geographic area

2010

(in millions of euros)	External net revenue by market	Net revenue by production area	Non-current assets (1)
France	1,360	2,476	746
Other European countries and Africa	4,424	3,693	721
North America	1,215	1,099	237
South America	756	721	147
Asia	1,877	1,947	452
Eliminations	-	(304)	-
TOTAL	**9,632**	**9,632**	**2,303**

2009

(in millions of euros)	External net revenue by market	Net revenue by production area	Non-current assets (1)
France	1,208	2,161	785
Other European countries and Africa	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**

(1) Non-current assets consist of property, plant and equipment and intangible assets (excluding goodwill) and investments in associates. Goodwill balances cannot be broken down by geographical area as they are allocated to Business Groups which belong to several areas.

3.4 Breakdown of revenue by major customer

Three major global auto makers represent 43.6% of the Group's revenue (45.5% in 2009), and each of these individually accounts for more than 10% of the Group's revenue.

Note 4. Notes to the statement of income

4.1. Net revenue

Group net revenue rose 28.4% to 9,632 million euros in 2010 from 7,499 million euros in 2009. Revenue growth results chiefly from the rise in worldwide automotive production. It includes a negative impact of 0.2% resulting from changes in the scope of consolidation and a positive foreign currency impact of 4.6%.

On a comparable Group structure and exchange rate basis, consolidated net revenue for 2010 climbed 24.0% year-on-year.

4.2. Cost of sales

Cost of sales can be analyzed as follows:

(in millions of euros)	**2010**	**2009**
Raw materials consumed	(5,365)	(4,115)
Labor	(1,297)	(1,125)
Direct production costs and production overheads	(883)	(764)
Depreciation and amortization (1)	(357)	(365)
Other	5	8
Cost of sales	**(7,897)**	**(6,361)**

(1) This amount does not include amortization charged against capitalized development costs, which is recognized in net Research and Development expenditure.

4.3. Personnel expenses

	2010	**2009**
Total employees at December 31 (1)	**57,930**	52,110

(1) Including temporary staff.

The statements of income present operating expenses by function. Operating expenses include the following personnel-related expenses:

(in millions of euros)	**2010**	**2009**
Wages and salaries (1)	1,638	1,451
Social charges	404	358
Share-based payment	6	7
Pension expenses under defined contribution schemes	71	79

(1) Including temporary staff.

Pension expenses under defined benefit schemes are set out in Note 5.9.2.

4.4 Research and Development expenditure, net

(in millions of euros)	2010	2009
Research and Development expenditure	(754)	(688)
Contributions received and subsidies	197	182
Capitalized development expenditure	143	147
Amortization and impairment of capitalized development expenditure	(123)	(114)
Research and Development expenditure, net	**(537)**	**(473)**

4.5. Other income and expenses

(in millions of euros)	2010	2009
Claims and litigation	(8)	(19)
Restructuring costs	(18)	(4)
Impairment of fixed assets	(9)	(23)
Other	8	(3)
Other income and expenses	**(27)**	**(49)**

4.5.1. Claims and litigation

The amount of 8 million euros recognized on the "Claims and litigation" line for the year ended December 31, 2010 mainly includes additions to provisions for disputes with current or former employees.

4.5.2. Restructuring costs

In March 2010, the Group announced that its new-look organization based around four Business Groups, new shared service centers and the more prominent role given to National Directorates, would lead to a restructuring plan. Most staff departures under this plan will take place in 2011. Restructuring costs associated with this plan were recorded in first-half 2010 and partially offset by a write-back of the remaining provisions set aside for the worldwide staff reduction plan launched in December 2008.

4.5.3. Impairment of fixed assets

■ Property, plant and equipment and intangible assets (excluding goodwill)

Year ended December 31, 2010

The main impairment indicators used by the Group as the basis for impairment tests of Cash-Generating Units (CGUs) include a negative operating margin for 2010 or a fall of more than 20% in revenue between 2009 and 2010. The scope of the CGUs to be tested for impairment is defined at the end of October and may be extended at the end of the period if events occur that could have an adverse impact on the assets concerned.

The tests are carried out using the following assumptions:

- perpetuity growth rate of 1%: this rate is the same as that used in 2009, and remains below the average long-term growth rate for the Group's business sector;
- post-tax discount rate (WACC) of 8.9% (8.5% in 2009): this rate was calculated using the method defined in 2007 by an independent expert, and is based on a sample selection of 20 automotive suppliers.

No impairment losses were recognized by the Group as a result of these tests.

Impairment for a total of 9 million euros in 2010 chiefly results from impairment tests carried out on specific intangible assets belonging to the Engine management systems Product Group for which impairment losses were identified.

Year ended December 31, 2009

The Group recorded net write-downs of 16 million euros against CGUs as a result of impairment tests in 2009, 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).

Sensitivity of CGU impairment tests to the discount rate

An increase and a decrease of 1% in the discount rate would have had no impact on the results of these impairment tests in 2010 and 2009.

Goodwill

No impairment losses were recognized against goodwill for the year ended December 31, 2010 as a result of impairment tests.

In light of the planned sale of the electromagnetic retarders business at December 31, 2009 (see Note 2.1.3), a 7 million euro write-down had been recognized against a portion of goodwill allocated to this CGU in order to reflect the entity's market value.

Sensitivity of goodwill impairment tests to the discount rate

A 1% increase in the discount rate or a one-year push-back in medium-term business plans would have no impact on the results of goodwill impairment tests in the year ended December 31, 2010.

4.5.4. Other

In 2010, this item mainly includes capital gains on the disposal of the headlamp levelers business (see Note 2.1.2).

4.6. Cost of net debt

(in millions of euros)	2010	2009
Interest expense (1)	(83)	(69)
Interest income	16	9
Cost of net debt, net	**(67)**	**(60)**

(1) Including 9 million euros in 2010 finance costs on undrawn credit lines.

The cost of net debt increased in 2010 despite the fall in debt over the period. This reflects a sharpe wise in the carry rate due to the decline in risk-free returns on the Group's liquidity.

4.7. Other financial income and expenses

(in millions of euros)	2010	2009
Interest expense on unwinding of discount on pension obligations (1)	(48)	(48)
Expected return on plan assets (1)	20	16
Currency gains (losses) on cash flow hedges	-	-
Currency gains (losses) on other transactions	(2)	(12)
Gains (losses) on commodity transactions (trading and ineffective portion)	1	(5)
Gains (losses) on fair value hedges (interest rate)	-	-
Additions to provisions for credit risk	(2)	(3)
Gains (losses) on disposals of financial assets	-	-
Unwinding of discount on provisions (excluding pension obligations)	(1)	(4)
Miscellaneous	-	(1)
Other financial income and expenses	**(32)**	**(57)**

(1) See Note 5.9.2.

4.8. Income taxes

4.8.1. Income tax expense

(in millions of euros)	2010	2009
Current taxes	(173)	(75)
Deferred taxes	69	(4)
Income taxes	**(104)**	**(79)**

4.8.2. Effective tax rate

The Group recognized income tax expense of 104 million euros in 2010.

(in millions of euros)	2010	2009
Net income (loss) before income taxes excluding equity in net earnings (losses) of associates	**491**	**(33)**
Standard tax rate in France	(34.4)	(34.4)
Theoretical income taxes	**(169)**	**11**
Impact of:		
■ unrecognized deferred tax assets and unused tax losses (current year) (1)	20	(110)
■ income taxed at other rates	40	22
■ utilization of prior-year tax losses	3	9
■ permanent differences between book income and taxable income	8	(6)
■ tax credits	6	4
■ other impacts (2)	(12)	(9)
Group income taxes	**(104)**	**(79)**

(1) No deferred tax assets are recognized in France and in the United States. The income tax expense for 2010, reflecting an effective tax rate of 21.2%, takes into account deferred tax assets recognized in certain countries for 69 million euros due to legal restructuring measures or an improvement in economic outlook.

(2) At the end of 2009, Valeo considered that the Cotisation sur la Valeur Ajoutée des Entreprises (CVAE) tax met the definition of income tax set out in IAS 12. Accordingly, a provision for deferred tax was set aside against income for 9 million euros in the year ended December 31, 2009. Income tax in 2010 includes a net expense of 12 million euros in respect of the CVAE.

4.9. Earnings per share

4.9.1. Basic earnings per share

	2010	2009
Net income (loss) attributable to owners of the company *(in millions of euros)*	365	(153)
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	75,168	75,312
Basic earnings (loss) per share *(in euros)*	**4.86**	**(2.04)**

4.9.2. Diluted earnings per share

	2010	2009
Net income (loss) attributable to owners of the company *(in millions of euros)*	365	(153)
Weighted average number of shares outstanding *(in thousands of shares)*	75,168	75,312
Stock options *(in thousands of options)*	49	-
OCEANE bonds *(in thousands of options)*	2	-
Weighted average number of shares used for the calculation of diluted earnings (loss) per share *(in thousands of shares)*	75,219	75,312
Diluted earnings (loss) per share *(in euros)*	**4.86**	**(2.04)**

4.10. Income (loss) from discontinued operations

Discontinued operations did not have a material impact on consolidated income in either 2010 or 2009.

Note 5. Notes to the statement of financial position

5.1. Goodwill

(in millions of euros)	2010	2009
Net goodwill at January 1	**1,146**	**1,154**
Acquisitions during the year	-	1
Price adjustments in respect of acquisitions made in previous years	1	-
Disposals, net (1)	(5)	-
Translation adjustment	68	(2)
Impairment losses	-	(7)
Net goodwill at December 31	**1,210**	**1,146**
Including accumulated impairment losses at December 31	-	(7)

(1) See Note 2.1.3.

Year-on-year changes in goodwill chiefly result from translation adjustment due to fluctuations in the Japanese yen and US dollar.

The impairment loss recognized in 2009 related to the planned divestment of the electromagnetic retarders business, which had a carrying amount that was 7 million euros above its estimated market value at the end of that year.

The main goodwill balances are broken down as follows:

(in millions of euros)	2010	2009
Comfort and Driving Assistance Systems	311	305
Powertrain Systems	271	267
Thermal Systems	343	301
Visibility Systems	284	272
Other	1	1
TOTAL	**1,210**	**1,146**

5.2. Other intangible assets

	2010			2009
(in millions of euros)	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
Software	185	(170)	**15**	21
Patents and licenses	84	(57)	**27**	24
Capitalized development expenditure	1,018	(630)	**388**	360
Customer relationship intangibles and other intangible assets	179	(65)	**114**	130
Intangible assets	**1,466**	**(922)**	**544**	**535**

Customer relationship intangibles were valued within the context of acquisitions mostly carried out in 2005. Similarly, patents and licenses include assets relating to technology acquired. Impairment losses were recognized in 2010 on certain assets acquired as part of a business combination (see Note 4.5.3).

Changes in intangible assets in 2010 and 2009 are analyzed below:

2010

(in millions of euros)	Software	Patents and licences	Capitalized development expenditure	Other intangible assets	Total
Gross at January 1, 2010	**177**	**63**	**865**	**182**	**1,287**
Accumulated amortization and impairment	(156)	(39)	(505)	(52)	**(752)**
Net at January 1, 2010	**21**	**24**	**360**	**130**	**535**
Acquisitions	2	-	143	5	**150**
Disposals	-	-	(1)	(1)	**(2)**
Changes in scope of consolidation	-	-	(1)	-	**(1)**
Impairment	1	(2)	(17)	(9)	**(27)**
Amortization	(11)	(7)	(106)	(8)	**(132)**
Translation adjustment	1	1	10	9	**21**
Reclassifications	1	11	-	(12)	**-**
Net at December 31, 2010	**15**	**27**	**388**	**114**	**544**

2009

(in millions of euros)	Software	Patents and licences	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**

5.3. Property, plant and equipment

	2010			2009
(in millions of euros)	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	164	(14)	**150**	137
Buildings	1,057	(669)	**388**	390
Plant and equipment	3,671	(2,951)	**720**	711
Specific tooling	1,308	(1,183)	**125**	153
Other tangible assets	420	(365)	**55**	63
Tangible assets in progress	220	(3)	**217**	211
TOTAL	**6,840**	**(5,185)**	**1,655**	**1,665**

No material amounts of property, plant and equipment had been pledged as security as December 31, 2010.

Finance leases included within property, plant and equipment can be analyzed as follows:

(in millions of euros)	2010	2009
Land	-	-
Buildings	-	-
Plant and equipment	5	5
Specific tooling	-	-
Other	2	2
Non-current assets in progress	-	-
TOTAL	**7**	**7**

Changes in property, plant and equipment in 2010 and 2009 are analyzed below:

2010

(in millions of euros)	Land	Buildings	Plant and equipment	Specific tooling	Other tangible assets	Tangible assets in progress	Total
Gross carrying amount at January 1, 2010	**151**	**1,001**	**3,471**	**1,298**	**415**	**214**	**6,550**
Accumulated depreciation and impairment	(14)	(611)	(2,760)	(1,145)	(352)	(3)	**(4,885)**
Net carrying amount at January 1, 2010	**137**	**390**	**711**	**153**	**63**	**211**	**1,665**
Acquisitions	-	12	96	35	13	162	**318**
Disposals	(3)	(2)	(1)	(2)	-	(3)	**(11)**
Changes in scope of consolidation	-	(1)	(5)	(1)	-	(1)	**(8)**
Impairment	-	-	-	(1)	-	(1)	**(2)**
Depreciation	(1)	(46)	(217)	(90)	(27)	-	**(381)**
Translation adjustment	16	19	34	7	3	10	**89**
Reclassifications	1	16	102	24	3	(161)	**(15)**
Net carrying amount at December 31, 2010	**150**	**388**	**720**	**125**	**55**	**217**	**1,655**

2009

(in millions of euros)	Land	Buildings	Plant and equipment	Specific tooling	Other tangible assets	Tangible assets in progress	Total
Gross carrying amount 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 carrying amount 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 carrying amount 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” in the statements of financial position.

5.4. Investments in associates

Changes in the “Investments in associates” caption can be analyzed as follows:

(in millions of euros)	2010	2009
Investments in associates at January 1	**94**	**133**
Share in net earnings (losses) of associates	(1)	(34)
Dividend payments	(4)	(3)
Impact of changes in scope of consolidation	-	-
Translation adjustment (1)	17	(6)
Other	(2)	4
Investments in associates at December 31	**104**	**94**

(1) In 2010, translation adjustments mainly reflect the impact of the appreciation in the yen on interests in Ichikoh.

	Ownership interest *(%)*		Carrying amount *(in millions of euros)*	
	2010	2009	2010	2009
Ichikoh	31.6	31.6	70	63
Faw Valeo Climate Control	36.5	36.5	28	25
Other	-	-	6	6
Investments in associates	**-**	**-**	**104**	**94**

Ichikoh industries Ltd. is listed on the Tokyo Stock Exchange. The market value of Valeo’s interest in Ichikoh is 66 million euros at December 31, 2010 (33 million euros at December 31, 2009). The carrying amount of the investment is justified by its value in use for Valeo.

Summarized financial data in respect of associates are set out below:

(in millions of euros)	2010	2009
Total assets	722	618
Total liabilities	536	495
Net revenue	981	731
Net income (loss) for the year	**(4)**	**(109)**

5.5. Deferred taxes

Deferred taxes broken down by temporary differences are shown below:

(in millions of euros)	**2010**	**2009**
Loss carryforwards	894	846
Capitalized development expenditure	(98)	(93)
Pensions and other employee benefits	162	147
Other provisions	91	87
Inventories	27	25
Provisions for reorganization costs	32	38
Tooling	-	1
Non-current assets	(2)	(14)
Other	100	80
Deferred taxes, gross	**1,206**	**1,117**
Unrecognized deferred tax assets	(1,030)	(1,025)
Deferred taxes	**176**	**92**
O/w:		
■ Deferred tax assets	198	117
■ Deferred tax liabilities	(22)	(25)

At December 31, 2010, deferred tax assets not recognized by the Group can be analyzed as follows:

(in millions of euros)	**Tax basis**	**Potential tax saving**
Tax losses available for carryforward from 2011 through 2014	17	4
Tax losses available for carryforward in 2015 and thereafter	1,108	418
Tax losses available for carryforward indefinitely	1,241	425
Current tax loss carryforwards	**2,366**	**847**
Unrecognized deferred tax assets on temporary differences	-	183
Total unrecognized deferred tax assets	**-**	**1,030**

The unrecognized deferred tax assets shown above chiefly concern France and the United States.

5.6. Inventories

At December 31, 2010, inventories break down as follows:

	2010			**2009**
(in millions of euros)	**Gross carrying amount**	**Impairment**	**Net carrying amount**	**Net carrying amount**
Raw materials	274	(46)	**228**	162
Work-in-progress	73	(9)	**64**	49
Finished goods, supplies and specific tooling	382	(53)	**329**	271
Inventories, net	**729**	**(108)**	**621**	**482**

Impairment losses taken against inventories amounted to 108 million euros at December 31, 2010 (105 million euros at December 31, 2009) including an allowance (net of reversals) of 10 million euros during the period.

Allowances to provisions for impairment of inventories net of reversals in 2009 amounted to 14 million euros.

5.7. Accounts and notes receivable

(in millions of euros)	2010	2009
Accounts and notes receivable, gross	1,471	1,277
Impairment	(22)	(26)
Accounts and notes receivable, net	**1,449**	**1,251**

At December 31, 2010, gross accounts and notes receivable not yet due and less than one month past due totaled 1,400 million euros and 39 million euros, respectively, and represent 98% of total gross accounts and notes receivable (see Note 6.2.3.).

5.8. Stockholders' equity

5.8.1. Share capital

At December 31, 2010, share capital totaled 236 million euros, comprising 78,628,798 shares of fully paid-up common stock with a par value of 3 euros. Shares that have been registered in the name of the same holder for at least four years carry double voting rights (2,299,257 shares at December 31, 2010).

Valeo's share capital would rise to 239 million euros (79,581,590 shares) in the event that the stock subscription options granted to Valeo Group employees were exercised.

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 to prevent the net debt to equity ratio from exceeding 100% on a long-term basis.

The Group may be required to buy 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 Chapter 6, Section 6.E).

- **The following employee stock subscription, stock purchase and free share plans approved by the Group's Annual General Meeting were outstanding at December 31, 2010:**

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 *(in euros)* (1)	Number of shares not yet issued at December 31, 2010 (2)	Expiration date
2003	700,000	23.51	161,259	2011
2003	780,000	32.91	282,490	2011
2004	1,123,200	28.46	509,043	2012
TOTAL	**2,603,200**		**952,792**	

(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 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 *(in euros)* (1)	Number of shares not yet issued at December 31, 2010 (2)	Expiration date
2003	500,000	32.91	188,519	2011
2004	280,800	32.74	144,081	2012
2005	650,000	32.32	323,730	2013
2006	187,000	33.75	187,000	2014
2006	1,309,250	32.63	759,007	2014
2007	250,000	36.97	250,000	2015
2007	1,677,000	36.82	1,194,500	2015
2008	426,750	31.41	343,500	2016
2010	1,000,000 (3)	24.07	984,450	2018
TOTAL	**6,280,800**		**4,374,787**	

(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 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.
(3) Including 611,635 shares granted contingent on the Group meeting performance conditions.

Terms and conditions of free share awards

Year in which plan was set up	Number of free shares	Number of shares not yet issued at December 31, 2010	Year of vesting
2010	400,000 (1)	388,494	2012/2014
TOTAL	**400,000**	**388,494**	

(1) Including 178,112 shares granted contingent on the Group meeting performance conditions.

Movements in these plans can be analyzed as follows:

2010

	Number of options and free shares granted	Weighted average exercise price
Options not exercised at January 1	**5,513,419**	**32.68**
Options granted / Free shares to be issued	1,400,000	17.19
Options cancelled	(148,191)	27.42
Options expired	(209,740)	41.06
Options exercised	(852,552)	27.95
Options not exercised / Free shares not issued at December 31 (1)	**5,702,936**	**29.34**
Options which can be exercised at December 31	**3,986,492**	**33.33**

(1) The number of shares does not include the impact of the public share buyback offer and simplified public tender offer in 2005.

2009

	Number of options and free shares granted	Weighted average exercise price
Options not exercised at January 1	**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	**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.

- **The principal data and assumptions underlying the valuation of equity instruments at fair value are provided below for 2010 only, since no new plan was awarded in 2009:**

	2010				
	Free shares			Stock options	
	France	Italy	Other countries	France	Other countries
Share price at grant date *(euros)*	23.81	23.81	23.81	23.81	23.81
Expected volatility *(%)*	-	-	-	40.9	40.9
Risk-free rate *(%)*	1.3	1.3	1.8	1.8	1.3
Dividend rate *(%)*	2.3	2.4	-	1.8	1.3
Duration of the option *(years)*	-	-	-	8	8
Fair value of equity instruments *(euros)*	**21.3**	**20.1**	**22.1**	**6.9**	**5.2**

Expected volatility is determined as being the implicit volatility at the grant date. The maturity used (four years for options allotted to employees in France and two years for other options) 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 6 million euros was booked in 2010 in respect of stock options plans and free share awards (7 million euros in 2009).

5.8.2. 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.

5.8.3. Translation adjustment

At December 31, 2010, this caption primarily includes gains arising from the translation of the net assets of Valeo's Brazilian and Japanese subsidiaries.

5.8.4. Retained earnings

Retained earnings include income for the year of 384 million euros prior to appropriation.

5.8.5. Dividends per share

The balance of the parent company's distributable retained earnings amounts to 1,540 million euros in 2010 (1,455 million euros in 2009), before appropriation of 2010 net income.

No dividends were paid in either 2010 or 2009.

5.8.6. Treasury stock

At December 31, 2010, Valeo owns 3,538,638 of its own shares, representing 4.5% of share capital (December 31, 2009: 2,652,119 shares, representing 3.4% of share capital).

5.8.7. Minority interests

Changes in minority interests can be analyzed as follows:

(in millions of euros)	2010	2009
Minority interests at January 1	**51**	**51**
Equity in net earnings	19	7
Dividends paid	(14)	(7)
Capital increase	-	1
Translation adjustment	8	(1)
Changes in scope of consolidation	(2)	-
Minority interests at December 31	**62**	**51**

5.9. Provisions

Changes in provisions can be analyzed as follows:

(in millions of euros)	Provisions for restructuring costs	Provisions for pensions and other employee benefits	Other provisions	Total
Provisions at January 1, 2009	**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**
Amounts used during the year	(69)	(59)	(56)	**(184)**
Impact of changes in scope of consolidation	-	(2)	(1)	**(3)**
Translation adjustment	4	23	16	**43**
Reclassification	(8)	-	10	**2**
Additions	53	26	165	**244**
Unwinding of discount	1	28	-	**29**
Reversals	(38)	(5)	(48)	**(91)**
Actuarial gains and losses recognized through equity	-	30	-	**30**
Provisions at December 31, 2010	**107**	**651**	**425**	**1,183**
Of which current portion (less than 1 year)	69	63	245	**377**

5.9.1. Provisions for restructuring costs

Provisions for restructuring costs amount to 107 million euros at December 31, 2010 and 164 million euros at December 31, 2009. The decrease in this caption over the period mainly reflects expenses and reversals of residual amounts set aside in respect of the announced plan to cut 5,000 jobs worldwide, for which a provision had been set aside at the end of 2008.

5.9.2. 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 (France, Germany, 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

To calculate discount rates for the year ended December 31, 2010, 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 *(%)*		2010 Basis	2009 Basis
iBoxx Euro-Corporate AA 10-year+	Euro zone	4.8	5.3
iBoxx £-Corporate AA 15-year+	United Kingdom	5.5	5.7
Citigroup Pension Discount Curve	United States	5.2	5.7
10-year government bonds	Japan	1.5	2.0
10-year government bonds	South Korea	4.5	5.3

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 are estimated taking into account the structure of the investment portfolio for each country, and are as follows for the Group's principal plans:

(%)	2010	2009
United States	7.3	8.0
United Kingdom	5.7	6.7
Japan	2.2	2.7

The weighted average long-term salary inflation rate was 3.5% at December 31, 2010, unchanged from December 31, 2009.

The rate of increase for medical costs in the United States used to value the Group's main obligations at December 31, 2010 was 9.9% in 2010 and 9.7% in 2011, gradually reducing to 5% by 2032. This assumption is largely similar to that used in 2009.

Breakdown of obligations

2010

(in millions of euros)	France	Other European countries	North America	Asia	Total
Present value of unfunded obligations	133	249	102	45	**529**
Present value of funded obligations	19	64	323	53	**459**
Market value of plan assets	(3)	(42)	(245)	(40)	**(330)**
Deficit	**149**	**271**	**180**	**58**	**658**
Unrecognized past service cost	(7)	-	-	-	**(7)**
Provisions recognized at December 31, 2010	**142**	**271**	**180**	**58**	**651**
Permanent employees at December 31, 2010 (1)	12,180	16,858	4,837	8,949	**42,824**

(1) Permanent employees shown in the tables above do not include permanent staff in South America, for whom no obligation was recognized in respect of pensions or other long-term benefits in 2009 or 2010. The Group's pension obligations in North America are significant, since a significant portion of these obligations relate to retired personnel or employees having left the Group.

2009

(in millions of euros)	France	Other European countries	North America	Asia	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**
Permanent employees at December 31, 2009 (1)	13,072	16,588	3,931	7,047	**40,638**

(1) Permanent employees shown in the tables above do not include permanent staff in South America, for whom no obligation was recognized in respect of pensions or other long-term benefits in 2009 or 2010. The Group's pension obligations in North America are significant, since a significant portion of these obligations relate to retired personnel or employees having left the Group.

Movements in provisions

(in millions of euros)	France	Other European countries	North America	Asia	Total
Provisions at January 1, 2009	**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*	*8*	*3*	*1*	*7*	***19***
■ *Interest cost*	*8*	*15*	*22*	*3*	***48***
■ *Past service cost*	*(1)*	-	-	-	***(1)***
■ *Expected return on plan assets*	-	*(2)*	*(13)*	*(1)*	***(16)***
■ *Other*	*(3)*	-	*(1)*	*(1)*	***(5)***
Provisions at December 31, 2009	**133**	**248**	**175**	**54**	**610**
Actuarial gains and losses recognized through equity	6	19	11	(6)	**30**
Amounts used during the year	(9)	(15)	(28)	(7)	**(59)**
Impact of changes in scope of consolidation	(2)	-	-	-	**(2)**
Reclassification	-	-	-	-	**-**
Translation adjustment	-	1	14	8	**23**
Expenses (income) for the year:	**14**	**18**	**8**	**9**	**49**
■ *Service cost*	*8*	*6*	*1*	*9*	***24***
■ *Interest cost*	*7*	*15*	*23*	*3*	***48***
■ *Past service cost*	*4*	-	-	*(2)*	***2***
■ *Expected return on plan assets*	-	*(3)*	*(16)*	*(1)*	***(20)***
■ *Other*	*(5)*	-	-	-	***(5)***
Provisions at December 31, 2010	**142**	**271**	**180**	**58**	**651**
Of which current portion (less than 1 year)	16	13	29	5	**63**

An expense of 49 million euros was recognized in 2010 in respect of pensions and other employee benefits (45 million euros in 2009). In accordance with the method described in Note 1.17, 24 million euros were included in operating items and 28 million euros in other financial income and expenses. Other income and expenses include a write-back of 3 million euros on pension obligations in France following the restructuring plan announced in 2010 (Note 4.5.2.).

Movements in obligations

2010

(in millions of euros)	France	Other European countries	North America	Asia	Total
Benefit obligations at January 1, 2010	**142**	**285**	**372**	**87**	**886**
Service cost	8	6	1	9	**24**
Interest cost	7	15	23	3	**48**
Benefits paid	(8)	(16)	(21)	(7)	**(52)**
Actuarial gains and losses	6	21	21	(7)	**41**
Impact of changes in scope of consolidation	(2)	-	-	-	**(2)**
Reclassification	(1)	-	-	-	**(1)**
Other	-	-	-	(2)	**(2)**
Translation adjustment	-	2	29	15	**46**
Benefit obligations at December 31, 2010	**152**	**313**	**425**	**98**	**988**

Changes in actuarial gains and losses, resulting in an increase in the benefit obligation, stem mainly from the fall in interest rates in countries where the Group's obligations are the most significant, in particular the United States, Germany, France and the United Kingdom.

2009

(in millions of euros)	France	Other European countries	North America	Asia	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 adjustment	-	3	(13)	-	**(10)**
Benefit obligations at December 31, 2009	**142**	**285**	**372**	**87**	**886**

Movements in plan assets

2010

(in millions of euros)	France	Other European countries	North America	Asia	Total
Plan assets at January 1, 2010	**2**	**37**	**197**	**33**	**269**
Expected return on plan assets	-	3	16	1	**20**
Contributions paid to external funds	2	3	21	3	**29**
Benefits paid	(1)	(4)	(14)	(3)	**(22)**
Actuarial gains and losses	-	2	10	(1)	**11**
Translation adjustment	-	1	15	7	**23**
Plan assets at December 31, 2010	**3**	**42**	**245**	**40**	**330**

The fair value of plan assets continued to rise in 2010, reflecting equity market trends and translation adjustment mainly recognized on assets in the United States and Japan for 23 million euros. The actual return on plan assets was 31 million euros in 2010 compared to 51 million euros in 2009. Experience adjustments generated on plan assets in an amount of 11 million euros reflect the difference between actual and estimated returns on these assets. These actuarial differences were credited to equity at December 31, 2010.

Contributions of 29 million euros were paid to external funds in 2010. Contributions in 2011 are estimated at 28 million euros.

The Group is not exposed to margin calls on its pension obligations due to the nature of its plan assets.

2009

(in millions of euros)	France	Other European countries	North America	Asia	Total
Plan assets at January 1, 2009	**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 adjustment	-	2	(7)	(2)	**(7)**
Plan assets at December 31, 2009	**2**	**37**	**197**	**33**	**269**

Breakdown of plan assets

(in millions of euros)	France	Other European countries	North America	Asia	Total
Cash at bank	-	-	12	7	**19**
Shares	3	26	144	13	**186**
Government bonds	-	8	32	20	**60**
Corporate bonds	-	8	57	-	**65**
Breakdown of plan assets at December 31, 2010	**3**	**42**	**245**	**40**	**330**
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**

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)	2010	2009	2008	2007	2006
Obligations	988	886	843	933	1,074
Financial assets	(330)	(269)	(225)	(300)	(301)
Net obligations	**658**	**617**	**618**	**633**	**773**
Actuarial (losses) gains recognized in other comprehensive income (1)	(30)	(16)	(56)	79	27

(1) Actuarial gains and losses recognized in oher comprehensive income in 2010 for 30 million euros mainly include 49 million euros of actuarial losses due to changes in assumptions regarding pension obligations and 11 million euros of actuarial gains due to experience adjustments on financial assets.

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. A 0.5% rise in discount rates would reduce the projected benefit obligation by around 57 million euros and service cost by around 2 million euros in 2011. A 0.5% fall in discount rates would increase the projected benefit obligation by around 62 million euros and service cost by around 2 million euros in 2011.

A 1% rise or fall in the rate of increase for medical costs in the US would not have a material impact on the obligation or expense for the period.

Sensitivity of plan assets to rates of return

A decrease of 1% in the expected return on plan assets would reduce the financial income recognized on these assets in 2011 by around 3 million euros. An increase of 1% in the expected return on plan assets would have the opposite effect.

5.9.3. Other provisions

(in millions of euros)	2010	2009
Provisions for product warranties	170	156
Other	255	183
Other provisions	**425**	**339**

In 2010, the "Other" caption includes provisions for tax risks (79 million euros) and provisions for site rehabilitation or environmental obligations (22 million euros). The balance of this caption is intended to cover disputes with current or former employees, commercial litigation and other operational risks.

5.10. Debt

5.10.1. Gross debt

At December 31, 2010, the Group's gross debt can be analyzed as follows:

(in millions of euros)	2010	2009
Long-term debt (Note 5.10.2)	1,097	1,526
Current portion of long-term debt (Note 5.10.2)	505	40
Short-term debt (Note 5.10.3)	77	73
Gross debt	**1,679**	**1,639**

5.10.2. Long-term debt

Analysis of long-term debt

(in millions of euros)	2010	2009
Bonds	598	597
OCEANE bonds	463	453
Syndicated loans	223	223
European Investment Bank loan	201	197
Lease obligations	8	7
Other borrowings	81	61
Accrued interest	28	28
Long-term debt	**1,602**	**1,566**

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 9,975,454 bonds with a nominal value of 46.4 euros each. The interest on these bonds was 2.375% per annum payable in arrears on January 1 of each year. Bearers of the bonds could request conversion and/or exchange into common stock until December 23, 2010, on the basis of 1.013 Valeo share for one bond. The effective interest rate of the OCEANE bonds is 4.54% (4.46% excluding the call). These bonds were redeemed in full on January 3, 2011;
- two seven-year syndicated loans for a total amount of 225 million 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 was 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 variable rate, hedged by a derivative which has identical characteristics to those of 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 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 and was recognized within liabilities in the statements of financial position. It is booked against Research and Development expenditure at the same time as the completion of the projects it is intended to finance. The impact on income in 2010 is 3 million euros. The loan is carried at amortized cost for an amount of 201 million euros at December 31, 2010, and has an effective interest rate of 6.10%.

Covenants relating to borrowings and debt are detailed in Note 6.2.2.

Maturities of long-term debt

(in millions of euros)	2012	2013	2014	2015	2016 and beyond	Total
Bonds	-	598	-	-	-	**598**
Syndicated loans	223	-	-	-	-	**223**
EIB loan	-	38	53	55	55	**201**
Lease obligations	1	1	1	1	-	**4**
Other borrowings	28	5	6	7	25	**71**
TOTAL	**252**	**642**	**60**	**63**	**80**	**1,097**

Current portion of long-term debt

(in millions of euros)	2010	2009
OCEANE	463	-
Lease obligations	4	2
Other borrowings	10	10
Accrued interest	28	28
Current portion of long-term debt	**505**	**40**

The current portion of long-term debt relates mainly to OCEANE bonds for 463 million euros, redeemed in January 2011, and accrued interest not yet due of 28 million euros, of which 12 million euros relates to bonds and 11 million euros to the OCEANE bond issue.

5.10.3. Short-term debt

(in millions of euros)	2010	2009
Commercial paper	13	5
Short-term loans and overdrafts	64	68
Short-term debt	**77**	**73**

The 64 million euros recorded on the “Short-term loans and overdrafts” line are mainly overdraft facilities.

5.10.4. Cash and cash equivalents

(in millions of euros)	2010	2009
Marketable securities	981	633
Cash	335	227
Cash and cash equivalents	**1,316**	**860**

Marketable securities consist of money market funds (SICAV) for 981 million euros.

5.10.5. Net debt

Net debt is defined as all long-term debt, short-term debt and bank overdrafts, less loans, other non-current financial assets and cash and cash equivalents.

Breakdown of net debt

(in millions of euros)	2010	2009
Long-term debt (Note 5.10.2)	1,097	1,526
Current portion of long-term debt (Note 5.10.2)	505	40
Loans and other non-current financial assets	(85)	(57)
Long-term debt	**1,517**	**1,509**
Short-term debt (Note 5.10.3)	77	73
Cash and cash equivalents (Note 5.10.4)	(1,316)	(860)
Net cash and cash equivalents	**(1,239)**	**(787)**
Net debt	**278**	**722**

Loans and other non-current financial assets relate mainly to investments in Brazil, consisting of certificates of deposits maturing after three months.

5.10.6. Analysis of net debt by currency

Net debt can be analyzed as follows by currency:

(in millions of euros)	2010	2009
Euro	528	876
US dollar	(26)	(35)
Yen	(13)	4
Brazilian real	(81)	(67)
Korean won	(59)	(21)
Chinese yuan	(27)	(24)
Other currencies	(44)	(11)
TOTAL	**278**	**722**

5.11. Breakdown of cash flows

5.11.1. Expenses (income) with no cash effect

(in millions of euros)	2010	2009
Expenses (income) with no cash effect		
Depreciation, amortization and impairment of non-current assets	543	560
Net additions to (reversals from) provisions	(21)	(127)
Losses (gains) on sales of non-current assets	(4)	5
Expenses related to share-based payment	6	7
TOTAL	**524**	**445**

5.11.2. Changes in working capital

(in millions of euros)	**2010**	**2009**
Changes in working capital		
Inventories	(110)	69
Accounts and notes receivable	(138)	(79)
Accounts and notes payable	275	193
Other receivables and payables	4	31
TOTAL	**31**	**214**

5.11.3. Impact of changes in the scope of consolidation

Changes in the scope of consolidation in 2010 had a positive impact of 22 million euros on consolidated cash flows. This amount relates mainly to sales of the headlamp levelers business (Note 2.1.2) and the electromagnetic retarders business (Note 2.1.3).

At December 31, 2009, changes in the scope of consolidation had a negative impact of 10 million euros. This amount mainly resulted from:

- 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 previously proportionately consolidated and is now fully consolidated, generating a cash outflow of 4 million euros.

Note 6. Additional disclosures

6.1. Financial instruments

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.

	2010	2010 carrying amount under IAS 39			2009
(in millions of euros)	Carrying amount	Amortized cost	Fair value through equity	Fair value through income	Carrying amount
ASSETS					
Non-current financial assets:					
■ Investments in non-consolidated companies	**3**	-	3	-	2
■ Loans	**85**	85	-	-	57
■ Deposits and guarantees	**17**	-	-	17	12
■ Other non-current financial assets	**2**	-	-	2	3
Accounts and notes receivable	**1,449**	1,449	-	-	1,251
Other current financial assets:					
■ Hedging derivatives	**17**	-	17	-	10
■ Trading derivatives	**7**	-	-	7	3
Cash and cash equivalents	**1,316**	-	-	1,316	860
LIABILITIES					
Bonds	**598**	598	-	-	597
OCEANE convertible bonds (debt component)	**463**	463	-	-	453
Syndicated loans	**223**	223	-	-	223
EIB loan	**201**	201	-	-	197
Other long-term debt	**117**	117	-	-	96
Accounts and notes payable	**1,987**	1,987	-	-	1,648
Other current financial liabilities:					
■ Hedging derivatives	**13**	-	11	2	3
■ Trading derivatives	**2**	-	-	2	2
Short-term debt	**77**	77	-	-	73

The principal terms and conditions of borrowings (bonds, OCEANE convertible bonds, syndicated loans and the EIB loan) are detailed in Note 5.10.2, 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 610 million euros at December 31, 2010 and 568 million euros at December 31, 2009.

The fair value of the 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 1.28% for the syndicated loans and 1.30% for the EIB loan (source: Markit Reuters). These reflect the spread on Valeo 1.3-year and 5-year credit default swaps respectively. At December 31, 2010, the fair values of these instruments are estimated at 232 million euros for the EIB loan and 234 million euros for the syndicated loans (228 million euros and 240 million euros, respectively, at December 31, 2009).

When the OCEANE convertible bonds matured, the price of the Valeo share was below the exercise price of the convertible option. As a result, the value of the bond's option component was close to zero, while the bond component approximated par. As only a relatively small number of bondholders chose to exercise their conversion option, the bonds were legitimately valued at par, i.e. 463 million euros at December 31, 2010. The fair value of these bonds was estimated at 453 million euros as of December 31, 2009. The fair value of other debt components is equal to their carrying amount.

6.1.2. Fair value of derivatives

At December 31

(in millions of euros)	2010	2009
ASSETS		
Hedging derivatives:		
■ Foreign currency derivatives	1	-
■ Commodity derivatives	16	10
Trading derivatives:		
■ Foreign currency derivatives	7	2
■ Commodity derivatives	-	1
Total other current financial assets	**24**	**13**
LIABILITIES		
Hedging derivatives:		
■ Interest rate derivatives	(13)	(3)
■ Commodity derivatives	-	-
Trading derivatives:		
■ Foreign currency derivatives	(2)	(2)
■ Commodity derivatives	-	-
Total other current financial liabilities	**(15)**	**(5)**

The impact of financial instruments on income (loss) for the years ended December 31, 2010 and December 31, 2009 is set out in Note 4.7.

6.1.2.1. Fair value of foreign currency derivatives

At December 31

(in millions of euros)	2010 Nominal	2010 Fair value	2009 Nominal	2009 Fair value
Forward foreign currency purchases	41	2	15	1
Forward foreign currency sales	(22)	-	(28)	-
Currency swaps	(289)	6	128	1
TOTAL ASSETS	**(270)**	**8**	**115**	**2**
Forward foreign currency purchases	12	-	31	(1)
Forward foreign currency sales	(30)	(1)	(9)	-
Currency swaps	30	(1)	69	(1)
TOTAL LIABILITIES	**12**	**(2)**	**91**	**(2)**
Net impact	**-**	**6**	**-**	**-**

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 then discounted using the interest rate of the functional currency. This method corresponds to level 2 in the fair value hierarchy.

6.1.2.2. Fair value of commodity (metals) derivatives

At December 31

(in millions of euros)	2010 Nominal	2010 Fair value	2009 Nominal	2009 Fair value
Swaps – Purchases	105	16	85	11
Swaps – Sales	-	-	-	-
TOTAL ASSETS	**105**	**16**	**85**	**11**
Swaps – Purchases	4	-	5	-
Swaps – Sales	-	-	(3)	-
TOTAL LIABILITIES	**4**	**-**	**2**	**-**
Net impact	**-**	**16**	**-**	**11**

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.

6.1.2.3. Fair value of interest rate derivatives

At December 31

(in millions of euros)	2010 Nominal	2010 Fair value	2009 Nominal	2009 Fair value
Interest rate swaps	450	(13)	450	(3)
TOTAL LIABILITIES	**450**	**(13)**	**450**	**(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.

6.2. Risk management policy

A detailed description of the Group's risk management policy is provided in Chapter 2, sections 2.A.4, 2.A.5 and 2.A.6.

6.2.1. Market risks

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 Chapter 2, section 2.A.4.1.

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 within the meaning of IAS 39. Exceptionally, the Group applies hedge accounting to highly probable future cash flows from the date the derivatives are contracted.

At December 31, 2010, a gain of 1 million euros was recognized in stockholders' equity in respect of derivatives used as hedging instruments.

The Group's net exposure to foreign currency risk based on notional amounts arises on the following main currencies (excluding entities' functional currencies):

	2010				2009
(in millions of euros)	USD	JPY	EUR	Total	Total
Accounts and notes receivable	69	10	301	**380**	369
Other financial assets	360	1	139	**500**	388
Accounts and notes payable	(51)	(25)	(327)	**(403)**	(366)
Long-term debt	-	(44)	(365)	**(409)**	(403)
Gross exposure	**378**	**(58)**	**(252)**	**68**	**(12)**
Forward sales	(394)	(10)	(30)	**(434)**	(341)
Forward purchases	58	66	9	**133**	73
Net exposure	**42**	**(2)**	**(273)**	**(233)**	**(280)**

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 – which are financed in euros by Valeo SA.

At December 31, 2009, the breakdown by currency of the net exposure in the statements of financial position for a negative amount of 280 million euros is as follows:

- 21 million euros relating to the US dollar;
- 13 million euros relating to the yen;
- (314) 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 1.34 US dollars, 108.65 Japanese yen and 26.06 Czech koruna to 1 euro at December 31, 2010 (USD 1.44, JPY 133.15 and CZK 26.47, respectively, at December 31, 2009).

An increase of 10% in the value of the euro against these currencies at December 31, 2010 and December 31, 2009 would have the following impacts:

2010

(in millions of euros)	Income gain (loss)	Equity gain (loss)
USD exposure	(4)	-
JPY exposure	-	-
EUR exposure	(4)	(24)
TOTAL	**(8)**	**(24)**

2009

(in millions of euros)	Income gain (loss)	Equity gain (loss)
USD exposure	(2)	-
JPY exposure	(1)	-
EUR exposure	(5)	(26)
TOTAL	**(8)**	**(26)**

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 these currencies would have the opposite effect to the one shown above.

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 Chapter 2, section 2.A.4.2.

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.

Volumes of non-ferrous metals hedged at December 31, 2010 and December 31, 2009 break down as follows:

(in tons)	2010	2009
Aluminium	28,000	22,000
Secondary aluminium	9,000	8,000
Copper	7,000	9,000
Zinc	4,000	5,000
TOTAL	**48,000**	**44,000**

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized gain of 16 million euros related to existing hedges was recognized directly in other comprehensive income in accordance with IAS 39.

An unrealized gain of 11 million euros recognized in other comprehensive income at December 31, 2009 and arising on commodity hedges purchased in second-half 2009 was reclassified in full to operating income in the first half of 2010.

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, 2010 and 2009.

	2010		2009	
(in millions of euros)	Income gain (loss)	Equity gain (loss)	Income gain (loss)	Equity gain (loss)
Impact of a 10% rise in metal futures prices	-	10	-	8
Impact of a 10% fall in metal futures prices	-	(10)	-	(8)

For the purposes of the sensitivity analysis, it is assumed that all other variables remain unchanged over the period.

6.2.1.3. Interest rate risk

Exposure to interest rate risk

The Group's policy for managing interest rate risk is detailed in Chapter 2, section 2.A.4.3.

The Group uses interest rate swaps to convert the interest rates on its debt into either a variable or a fixed rate, either at origination or during the term of the loan. Cash and cash equivalents are mainly invested in 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 EIB loan. 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 other comprehensive income until the hedged interest falls due. At December 31, 2010, the impact in stockholders' equity of changes in the fair value of this swap was a negative 9 million euros.

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, 2010

	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
(in millions of euros)	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	505	77	749	295	25	56	1,279	428	**1,707**
Loans	-	-	-	(85)	-	-	-	(85)	**(85)**
Cash and cash equivalents	-	(1,316)	-	-	-	-	-	(1,316)	**(1,316)**
Net position before hedging	**505**	**(1,239)**	**749**	**210**	**25**	**56**	**1,279**	**(973)**	**306**
Derivative instruments	-	-	62	(62)	56	(56)	118	(118)	**-**
Net position after hedging	**505**	**(1,239)**	**811**	**148**	**81**	**-**	**1,397**	**(1,091)**	**306**

At December 31, 2009

	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
(in millions of euros)	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	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	-	-	(112)	112	113	(113)	1	(1)	**-**
Net position after hedging	**40**	**(787)**	**1,203**	**172**	**137**	**-**	**1,380**	**(615)**	**765**

Analysis of sensitivity to interest rate risk

At December 31, 2010, 85% of long-term debt is at fixed rates (72% at December 31, 2009).

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:

2010

(in millions of euros)	Income gain (loss)	Equity gain (loss)
Impact of a 1% rise in interest rates	10	9

2009

(in millions of euros)	Income gain (loss)	Equity gain (loss)
Impact of a 1% rise in interest rates	6	9

Similarly, at December 31, 2010, a sudden 1% fall in interest rates would have the opposite impacts for the same amount.

6.2.1.4. Equity risk

A detailed description of the Group's policy for managing equity risk is provided in Chapter 2, section 2.A.4.4.

The assets making up pension funds are detailed in Note 5.9.2.

The Group's cash and cash equivalents are set out in Note 5.10.4.

6.2.2. Liquidity risk

A detailed description of the Group's policy for managing liquidity risk is provided in Chapter 2, section 2.A.5.

The Group borrows long-term funds either through banks or public debt markets. In 2003, Valeo issued 463 million euros worth of bonds convertible for new shares and / or exchangeable for existing shares ("OCEANE") maturing in 2011. In 2005, it issued a 600 million euros Medium Term Note maturing in 2013. It also took out two syndicated loans for a total of 225 million euros maturing in 2012, and contracted a loan with the European Investment Bank (EIB) for 225 million euros maturing in 2016.

At December 31, 2010, Valeo has 1,316 million euros in cash, less the amounts needed to redeem the OCEANE convertible bonds at January 3, 2011. The Group had 860 million euros in cash at December 31, 2009. Its other liquidity sources are:

- confirmed bank credit lines totaling 1.1 billion euros with an average maturity of two years. None of these credit lines had been drawn down at December 31, 2010 or December 31, 2009;
- 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 remains restricted since its short-term debt is still rated "not prime". On July 29, 2010, Valeo's rating was upgraded from Ba2 to Ba1 with a stable outlook, and then upgraded from a stable to a positive outlook on December 9, 2010. However, Valeo's debt is still not classified as investment grade;
- a loan agreement for 75 million euros signed in October 2010 with the European Investment Bank (EIB). Under this agreement, Valeo can borrow 75 million euros up to March 2012 at a variable rate of interest over seven years, repayable in four annual instalments after a grace period of four years. This 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. This loan had not been drawn down at December 31, 2010.

Covenants: The credit lines, two syndicated loans, EIB loan and 75 million euro credit facility are subject to an early repayment clause related to the Group's net debt/EBITDA ratio, which must not exceed 3.25 at December 31, 2010 or 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 - and the syndicated loans and EIB loan to be repaid. At December 31, 2010, the ratio calculated over 12 months was 0.25.

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 maturities of non-derivative financial instruments can be analyzed as follows:

Future cash flows presented below, both interest payments and reimbursements are not discounted. The forward interest rate curve at December 31, 2010 was used for variable-rate interests.

At December 31, 2010

	Carrying amount	Contractual cash flows	Contractual cash flows Payment schedule					
(in millions of euros)		**Total**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016 and beyond**
Bonds	598	**669**	23	23	623	-	-	-
OCEANE bonds	463	**474**	474	-	-	-	-	-
Syndicated loans	223	**243**	10	233	-	-	-	-
EIB loan	201	**273**	8	9	67	66	63	60
Other long-term debt	117	**117**	42	29	6	7	8	25
Accounts and notes payable	1,987	**1,987**	1,987	-	-	-	-	-
Short-term debt	77	**77**	77	-	-	-	-	-

The cash available to the Group allowed Valeo to meet the redemption obligations on its OCEANE convertible bonds on January 3, 2011.

Residual contractual maturities of derivative financial instruments can be analyzed as follows:

The European Central Bank (ECB) closing rates and forward rates at December 31, 2010 have been used to value foreign exchange derivatives. The London Metal Exchange (LME) forward rates at December 31, 2010 were used for commodity derivatives, while the forward interest rate curve at December 31, 2010 was used for interest rate swaps.

At December 31, 2010

	Carrying amount	Contractual cash flows	Contractual cash flows payment schedule					
(in millions of euros)		Total	2011	2012	2013	2014	2015	2016 and beyond
Forward foreign currency contracts used as hedges:								
■ Assets	2	**2**	2	-	-	-	-	-
■ Liabilities	(1)	**(1)**	(1)	-	-	-	-	-
Currency swaps used as hedges:								
■ Assets	6	**6**	6	-	-	-	-	-
■ Liabilities	(1)	**(1)**	(1)	-	-	-	-	-
Commodity derivatives:								
■ Assets	16	**16**	16	-	-	-	-	-
■ Liabilities	-	**-**	-	-	-	-	-	-
Interest rate swaps:								
■ Assets	-	**-**	-	-	-	-	-	-
■ Liabilities	(13)	**(14)**	(6)	(5)	(2)	(1)	-	-

6.2.3. Credit risk

A detailed description of the Group's policy for managing credit risk is provided in Chapter 2, section 2.A.6.

Credit risk can be analyzed as follows:

Counterparty risk

The Group is exposed to counterparty risk on financial market transactions carried out for the purposes of managing risks and cash flows. 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 had a tough year in 2009 but has since benefited from a more favorable economic climate. Nevertheless, Valeo continues to closely monitor default risk. The average days' sales outstanding stood at 56 days at December 31, 2010, compared to 61 days at December 31, 2009.

At December 31, 2010, Valeo's largest customer accounts for 18% of the Group's accounts and notes receivable.

The table below presents an aged analysis of accounts and notes receivable:

(in millions of euros)	Gross carrying amount 2010	Gross carrying amount 2009
Not yet due	1,400	1,208
Less than 1 month past due	39	39
More than 1 month but less than 1 year past due	22	22
More than 1 year past due	10	8
TOTAL	**1,471**	**1,277**

Past-due balances were impaired totaling 22 million euros (26 million euros in 2009).

6.3 Off-balance sheet commitments

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.

6.3.1. Off-balance sheet commitments relating to the consolidated Group

6.3.1.1. Put options

At December 31, 2010, 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, 2010, the joint venture had total equity of 49 million euros prior to appropriation of income.

6.3.1.2. Other commitments given

Other commitments given relate to guarantees granted by Valeo in connection with divestments.

(in millions of euros)	**2010**	**2009**
Other commitments given	139	134
TOTAL	**139**	**134**

6.3.2. Off-balance sheet commitments relating to Group financing

Off-balance sheet commitments relating to Group financing are detailed in Note 6.2.2. on liquidity risk.

6.3.3. Off-balance sheet commitments relating to operating activities

6.3.3.1. Lease commitments

Future minimum lease commitments in force at December 31, 2010 (excluding capital leases) are as follows:

(in millions of euros)	**2010**	**2009**
Less than 1 year	38	38
1 to 5 years	66	54
More than 5 years	17	11
TOTAL	**121**	**103**

Lease rentals recognized in expenses in the year are as follows:

(in millions of euros)	**2010**	**2009**
Rent	51	51

Lease commitments in respect of capital leases are as follows at December 31:

(in millions of euros)	2010	2009
Future minimum lease payments		
Less than 1 year	3	3
1 to 5 years	6	5
More than 5 years		1
TOTAL FUTURE MINIMUM LEASE PAYMENTS	**9**	**9**
Of which interest charges	(1)	(2)
Present value of future lease payments		
Less than 1 year	4	2
1 to 5 years	4	5
More than 5 years	-	-
TOTAL PRESENT VALUE OF FUTURE LEASE PAYMENTS	**8**	**7**

6.3.3.2. Other commitments given

Valeo has also given the following commitments:

(in millions of euros)	2010	2009
Guarantees given	4	2
Non-cancelable asset purchase commitments	144	88
Other commitments given	9	7
TOTAL	**157**	**97**

The following items recognized in assets in the Group's statements of financial position have been pledged as security:

(in millions of euros)	2010	2009
Property, plant and equipment	1	1
Financial assets	13	12
TOTAL	**14**	**13**

6.3.3.3. Commitments received

No material commitments were granted to Valeo in 2010.

6.4. 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 therefore have a significant adverse impact on the Group's net income.

6.5. 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 training hours per year.

The cumulative volume of training hours corresponding to Group employees' vested rights under the French statutory training entitlement was 1,131,693 hours at December 31, 2010 (1,034,000 hours at December 31, 2009), representing a usage rate of around 5.2%.

6.6. Related party transactions

6.6.1. Management remuneration

Management is comprised of the 15 members of the Group's Operating Committee. Remuneration paid to management in 2010 and 2009 is shown in the table below:

(in millions of euros)	2010	2009
Salaries and other short-term benefits	9	7
TOTAL	**9**	**7**

The Group recognized 2 million euros in respect of stock subscription and purchase options and free share awards in 2010 (1 million euros in 2009). It also recorded expenses in relation to pension obligations for management personnel in an amount of 1 million euros (2 million euros in 2009). At December 31, 2010, provisions included in the Group's statements of financial position in respect of these pension obligations amounted to 12 million euros (10 million euros at December 31, 2009).

6.6.2. Transactions with associates

The consolidated financial statements include transactions carried out in the normal course of business between the Group and its associates. These transactions are carried out at market prices.

(in millions of euros)	2010	2009
Sales of goods and services	18	11
Purchases of goods and services	(9)	(10)
Interest and dividends received	4	3

(in millions of euros)	2010	2009
Operating receivables	5	3
Operating payables	4	7

6.6.3. Transactions with joint ventures

The consolidated financial statements include transactions carried out in the normal course of business between the Group and joint ventures. These transactions are carried out at market prices.

(in millions of euros)	2010	2009
Sales of goods and services	27	17
Purchases of goods and services	(30)	(14)
Interest and dividends received	19	16

(in millions of euros)	**2010**	**2009**
Operating receivables	12	9
Operating payables	9	6
Net debt	11	7

6.7. 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)	**2010**	**2009**
Non-current assets	100	84
Current assets	215	154
Non-current liabilities	27	22
Current liabilities	162	110
Net revenue	457	315
Operating expenses	419	289

6.8. Events after the reporting period

On February 23, 2011 Valeo announced the signing of an agreement with RHJ International SA and Nissan to acquire 100% of the Japanese automotive supplier Niles. The transaction amounts to 320 million euros (enterprise value). This operation would reinforce Comfort and Driving Assistance Systems Business Group and strengthen the Group's position in Asia.

The agreement is subject to various preconditions such as approval of the anti-trust authorities, before it can enter into effect.

Note 7. List of consolidated companies

Company	2010 % voting rights	2010 % interest	2009 % voting rights	2009 % interest
EUROPE				
France				
Valeo (parent company)				
DAV	100	100	100	100
Équipement 1	100	100	100	100
Équipement 11	100	100	100	100
Équipement 2	100	100	100	100
SC2N	100	100	100	100
Société de Participations Valeo	100	100	100	100
Telma (3)	-	-	100	100
Valeo Bayen	100	100	100	100
Valeo Embrayages	100	100	100	100
Valeo Équipement Électriques Moteur	100	100	100	100
Valeo Études Électroniques	100	100	100	100
Valeo Finance	100	100	100	100
Valeo Four Seasons (2)	50	50	50	50
Valeo Interior Controls (3)	-	-	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 (3)	-	-	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. (3)	-	-	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. (3)	-	-	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 2010 and fully consolidated in 2009.
(4) Company consolidated on a proportionate basis in 2009 and fully consolidated in 2010.
(5) Company sold or wound up in 2010 and accounted for by the equity method in 2009.

	2010		2009	
Company	**% voting rights**	**% interest**	**% voting rights**	**% interest**
Portugal				
Cablagens Do Ave	100	100	100	100
Italy				
Valeo Commutazione S.r.l. (3)	-	-	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. (3)	-	-	99.9	99.9
Valeo, S.p.A.	100	100	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 (3)	-	-	100	100
Valeo GmbH	100	100	100	100
Valeo Grundvermögen 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 (3)	-	-	100	100
Valeo (UK) Limited	100	100	100	100
Valeo Climate Control Limited	100	100	100	100
Valeo Engine Cooling UK Limited	100	100	100	100
Valeo Management Services UK Limited	100	100	100	100
Valeo Service UK Limited	100	100	100	100
Ireland				
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
Luxembourg				
Coreval	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 2010 and fully consolidated in 2009.
(4) Company consolidated on a proportionate basis in 2009 and fully consolidated in 2010.
(5) Company sold or wound up in 2010 and accounted for by the equity method in 2009.

	2010		2009	
Company	**% voting rights**	**% interest**	**% voting rights**	**% interest**
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. (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 SA	100	100	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 (5)	-	-	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
Valeo Tunisie S.A.	100	100	-	-
Morocco				
Cablinal Maroc S.A.	100	100	100	100
Egypt				
Valeo Interbranch Automotive Software Egypt	100	100	100	100
South Africa				
Valeo Systems South Africa (Proprietary) Ltd.	51	51	51	51

(1) Company accounted for by the equity method.
(2) Company consolidated on a proportionate basis.
(3) Company sold or wound up in 2010 and fully consolidated in 2009.
(4) Company consolidated on a proportionate basis in 2009 and fully consolidated in 2010.
(5) Company sold or wound up in 2010 and accounted for by the equity method in 2009.

Company	2010		2009	
	% voting rights	% interest	% voting rights	% interest
NORTH AMERICA				
United States				
Telma Retarder Inc. (3)	-	-	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	100	100
Valeo Friction Materials, Inc. (3)	-	-	100	100
Valeo Front End Module, Inc.	100	100	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, 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 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 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
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

(1) Company accounted for by the equity method.
(2) Company consolidated on a proportionate basis.
(3) Company sold or wound up in 2010 and fully consolidated in 2009.
(4) Company consolidated on a proportionate basis in 2009 and fully consolidated in 2010.
(5) Company sold or wound up in 2010 and accounted for by the equity method in 2009.

Company	2010 % voting rights	2010 % interest	2009 % voting rights	2009 % interest
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 HWAInternational Co. 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 (3)	-	-	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) Co. Ltd (3)	-	-	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	100	100
Valeo Engine Cooling (Shashi) Co. Ltd	100	100	100	100
Valeo Compressor (Changchun) Co. Ltd	100	100	100	100
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
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 Ltd (2)	50	50	50	50
Valeo India Private Ltd (formely Valeo Engineering Center (India) Private Ltd)	100	100	100	100
Valeo Friction Materials India Limited	60	60	60	60
Valeo Lighting Systems (India) Private Ltd	100	100	95	95
Valeo Engine and Electrical Systems India Private Ltd. (formerly Valeo Minda Electrical Systems India Private Ltd)	100	100	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 2010 and fully consolidated in 2009.
(4) Company consolidated on a proportionate basis in 2009 and fully consolidated in 2010.
(5) Company sold or wound up in 2010 and accounted for by the equity method in 2009.

5.B.7. Statutory auditors' report on the consolidated financial statements

For the year ended December 31, 2010

This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit 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 balances, transactions or disclosures. This report also includes information relating to the specific verification of information given in the group's management report.

This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

In compliance with the assignment entrusted to us by your annual general meeting, we hereby report to you, for the year ended December 31, 2010, on:

- the audit of the accompanying consolidated financial statements of Valeo;
- the justification of our assessments;
- the specific verification required by law.

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 as at December 31, 2010 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 Note 1.1.1 to the consolidated financial statements, which describes the new standards and interpretations which have been applied by your company as from January 1, 2010.

2. Justifications of our assessments

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:

- Notes 1.13 and 4.5.3 of the notes to the consolidated financial statements set out the methods implemented by the company to test acquisition goodwill, assess whether there is any indication of impairment of the fixed assets and, where applicable, perform an impairment test for these same assets. Our work consisted in examining the methods and assumptions used by Valeo during the implementation of these tests and verifying that the notes to the consolidated financial statements provide appropriate information.

- Notes 1.17 and 5.9.2 of the notes to the consolidated financial statements specify the methods of valuing pension commitments and similar benefits. Our work consisted in reviewing the actuarial data and assumptions used as well as the calculations made and verifying that the notes provide appropriate information.
- Note 1.18 of the notes to the consolidated financial statements describes the methods for valuing provisions intended to cover Valeo's obligations in respect of guarantees granted to its clients and specific quality risks. Our work consisted in examining the available documentation and the translation into figures of the assumptions used and assessing the reasonableness of the estimates used.

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, we have also verified, in accordance with professional standards applicable in France, 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.

Courbevoie and Neuilly-sur-Seine, February 24, 2011

The Statutory Auditors

MAZARS		ERNST & YOUNG et Autres	
David Chaudat	Lionel Gotlib	Jean-François Ginies	Gilles Puissochet

5.C. Subsequent events and outlook

5.C.1. Subsequent events

Acquisition of Niles: Valeo signs agreement to purchase the Japanese company Niles

Valeo announced on February 23, 2011 the signing of an agreement with RHJ International SA and Nissan to acquire Niles, a Japanese automotive supplier which would reinforce Valeo's Comfort and Driving Assistance Systems Business Group. The transaction amounts to 320 million euros (enterprise value). Valeo intends to use this acquisition to strengthen its competitive positioning on the human machine automobile interfaces market and in Asia (Japan, China, Taiwan) and with Japanese manufacturers notably Nissan. This acquisition is part of the strategy which was presented to shareholders in 2010.

The agreement is subject to various preconditions, such as approval of the anti-trust authorities, before it enters into effect.

Movements in the share capital

Pardus Investments Sarl declared that it had crossed on January 12, 2011 under the threshold of 5% of Valeo's share capital. Further to this transaction, Padus Investments Sarl held 4.96% of the capital and 4.82% of the voting rights.

Appointment

Christophe Périllat-Piratoine has been appointed as the Group's Chief Operating Officer with effect from March 1, 2011. He will replace Luc Blériot who has occupied this position since 2005 and who is retiring. Marc Vrecko will become President of the Comfort and Driving Assistance Systems Business Group.

Bond issuance

Valeo announced on March 10, 2011 that among the options it is considering in the context of managing its debt maturity profile is a possible issuance of bonds in an amount of approximately €500 million, which could be carried out along with a partial redemption of its bonds maturity on June 24 2013. Both of these scenarios would be subject to market conditions.

At the date of publication of this document and to the best of Valeo's knowledge, no other event has occurred since December 31, 2010 that is likely to have a material impact on the business, financial position, earnings or assets and liabilities of the Group.

5.C.2. Outlook

Outlook announced on February 24, 2011 in 2010 results press release

In 2011, Valeo forecasts an increase in global automotive production of 5%, broken down by region as follows:

- Europe, 0%;
- Asia, +5%;
- North America, +8%;
- South America, +7%.

Based on these market assumptions, indexation clauses and commodity hedges in place, Valeo sets as its objectives for 2011:

- to outperform original equipment market sales in its main regions of production;
- to achieve full-year operating margin slightly higher than 2010.

Outlook announced on March 9, 2011 during an investor day in Paris

As announced when its 2010 results were released last February 24, Valeo is ahead of the 2013 targets set in March 2010, which included:

- around €10 billion in revenue;
- Operating margin rate [1] of 6-7%;
- Return on capital employed [2] of more than 30%.

Valeo intends to step up the strategy presented in March 2010 and is setting new targets for 2015.

Based on the record €12.5 billion in orders booked last year, Valeo is confident in its ability to outperform automotive production by an average 3% per year over the 2011-2015 period, thanks to:

- innovation and new products, particularly in CO_2 emissions reduction;
- expansion in Asia and emerging markets.

Consequently, assuming growth in global automotive output of around 5% a year over the 2011-2015 period, of which around 4.4% per year in Europe and Africa, 4.7% in North America, 5.3% in South America and 5.8% in Asia [3] and barring any exogenous macroeconomic events impacting its industry, Valeo now expects to achieve in 2013 and in 2015, through organic growth, the following financial targets:

	2013	2015
Revenue	≈ €12 bn	€14 bn
Operating margin [1]	≈ 7%	> 7%
Free cash flow [4]		+€1.8 bn Period 2011-2015
Capital turnover [5]	5	> 5
ROCE [2]	> 30%	> 30%

All of the assumptions are described in detail in Robert Charvier's presentation at the March 9, 2011 Investor Day, which may be downloaded from the Publications section of the www.valeo.com website.

Lastly, Valeo wants to play an active role in any industry consolidation, while maintaining a disciplined financial strategy aligned with its commitment to restoring its investment grade rating.

(1) Operating income before other income and expenses.

(2) Operating margin/capital employed before goodwill, over the last 12 months.

(3) These assumptions are based on output forecasts by specialized firms JD Power and Associates and IHS Global Insight, as well as on Valeo's own analysis of the market outlook.

(4) Free cash flow corresponds to net operating cash flow less net disbursements on tangible/intangible assets.

(5) Sales / capital employed before goodwill, over the last 12 months.

5.D. Analysis of Valeo's results

Having incorporated its activities as operating subsidiaries in 2002, Valeo SA is now the Group's holding and cash management company and does not carry on any operating activities.

Valeo announced an operating loss of 23 million euros in 2010 compared with an operating loss of 11 million euros in 2009. The increase in the Valeo share price resulted in the recognition of provisions in respect of the stock option and free share plans within operating expenses in 2010.

Financial items represented net financial income of 159 million euros in 2010, compared to net financial expense of 32 million euros in 2009. This change was mainly due to a steep fall in impairment charges and provisions for non-consolidated investments following a significant improvement in the forecasts and outlook for subsidiaries and investments as a result of the more favorable economic environment.

Non-recurring items represented net expense of 19 million euros in 2010 compared with net expense of 6 million euros one year earlier, primarily reflecting provisions for tax and employee-related disputes.

Income tax expense for 2010 amounted to 9 million euros, compared with income tax benefit of 19 million euros in 2009. In 2010, Valeo recognized income in respect of tax consolidation in an amount of 15 million euros, less provisions set aside for the risk of paying tax benefits back over to tax-consolidated entities.

Valeo's net income amounted to 126 million euros, versus a net loss of 30 million euros in 2009.

Valeo recognized no sumptuary expenses that were not deductible for tax purposes in 2010.

At December 31, 2010, Valeo SA's stockholders' equity stood at 3,317 million euros, up 137 million euros compared with end-December 2009. Valeo did not pay a dividend in 2010.

Since January 1, 2009, Valeo has applied the new payment terms in its dealings with suppliers, as required under the French 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, 2010 stood at 6 million euros, payable in full in January 2011. At 31 December 2009, the trade payables balance was 6.4 million euros, including 0.1 million euros payable before December 2009 and 6.3 million euros payable in January 2010.

6

VALEO AND ITS SHAREHOLDERS

The elements of the annual financial report can be clearly identified in the table of contents using the AFR pictogram

6.A. Stock market data

	2010	2009	2008	2007	2006
Market capitalization at year-end *(in billions of euros)*	3.34	1.92	0.83	2.21	2.45
Number of shares	78,628,798	78,209,617	78,209,617	78,209,617	77,580,617
Highest share price *(in euros)*	45.70	25.46	28.60	45.89	35.40
Lowest share price *(in euros)*	20.07	8.00	9.22	27.75	25.00
Average share price *(in euros)*	29.035	15.546	20.93	37.71	30.58
Share price at year-end *(in euros)*	42.47	24.53	10.615	28.20	31.53

6.A.1. Per share data

(in euros)	2010	2009	2008	2007
Earnings per share	4.86	(2.04)	(2.73)	1.06
Dividend	1.20 (1) (2)	0	0	1.20 (2)

(1) Dividend of 1.20 euros proposed at the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2010

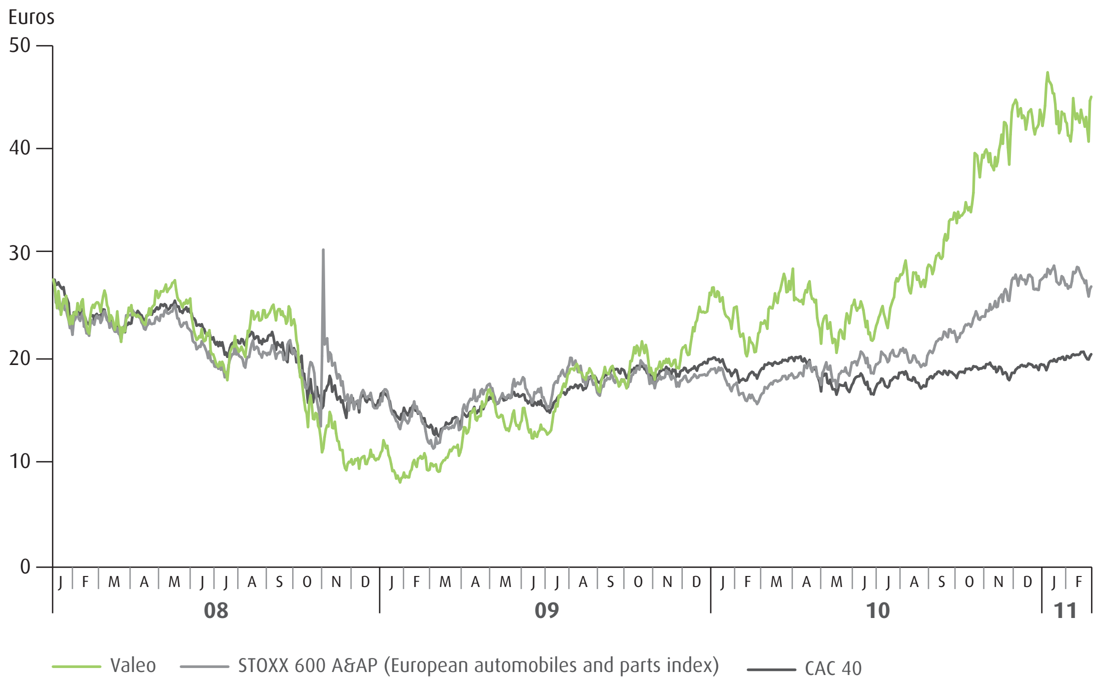
(2) Eligible for the 40% tax allowance provided for in Article 158-3-2° of the French General Tax Code (Code général des impôts – CGI) or, at the choice of the shareholder, subject to the 19% flat-rate withholding tax provided for in Article 117 quater i.1 of said Code.

6.A.2. Share performance over 18 months

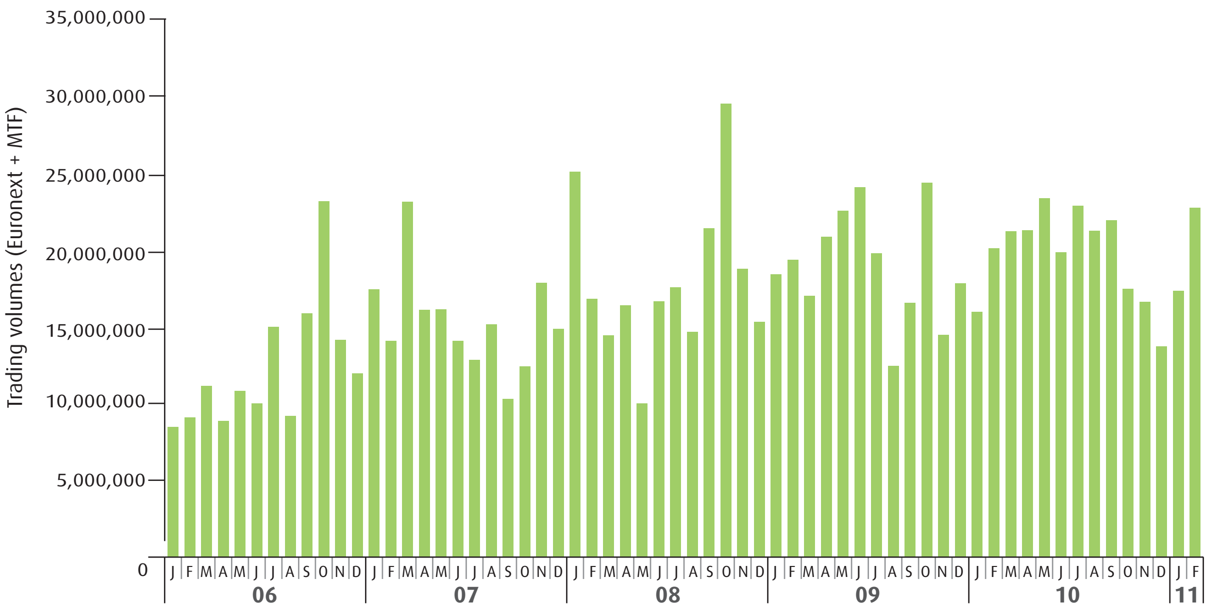
Date	Price *(in euros)* High	Low	Closing (average)	Trading volume (no. of shares) Volume on Euronext	Volume on MTFs	Trading volume *(in millions of euros)*
September 2009	19.90	16.52	18.157	13,081,870	3,808,407	245.28
October 2009	22.52	17.05	19.796	20,416,315	4,557,680	418.72
November 2009	20.16	17.65	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	12,477,765	3,912,015	318.84
February 2010	25.38	20.07	22.138	15,745,391	4,887,052	363.37
March 2010	28.59	22.00	25.240	16,700,529	5,148,935	430.63
April 2010	27.83	24.65	26.044	15,127,021	6,808,338	396.13
May 2010	25.77	20.36	22.806	16,926,314	7,136,536	387.79
June 2010	25.75	21.43	24.049	14,735,613	5,724,020	366.14
July 2010	27.89	21.55	24.312	16,148,464	7,418,492	416.14
August 2010	29.92	26.13	27.696	15,021,508	6,848,101	439.07
September 2010	34.44	27.79	30.618	13,488,158	6,036,819	436.12
October 2010	40.22	32.78	35.528	12,753,820	5,233,118	473.28
November 2010	43.96	37.25	39.893	12,346,390	4,767,890	506.64
December 2010	45.70	39.00	43.181	10,170,964	3,963,922	446.86
January 2011	47.80	41.20	44.209	11,872,521	5,994,268	529.46
February 2011	45.67	40.00	42.830	15,560,437	7,869,447	679.05

Source: Euronext Paris and CA Cheuvreux

6.A.3. Share price from January 1, 2008 through February 28, 2011



6.A.4. Monthly trading volumes



6.B. 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.B.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 2010, this service dealt with over 140 calls, mainly relating to Valeo's share price and the Shareholders' Meeting;
- the www.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 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 2010, in May and December;
- the share registrar service has been provided by Société Générale since the end of 2000. This service, used by almost 3,700 shareholders – 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.

6.B.2. Institutional shareholder relations

Valeo places great importance on holding frequent meetings with investors and analysts. These meetings are organized in major global financial centers (Europe and North America). They take various forms, including one-on-one meetings, group events, conference calls, themed or general investor conferences, and site visits. In all, some 650 institutional investors participated in these events, either individually or in small groups, with almost 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, financial targets and the ways of achieving them.

Contact:

Thierry Lacorre
Investor Relations Director

Valeo
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F-75848 Paris Cedex 17
France
Tel.: +33 (0) 1 40 55 37 93
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E-mail: thierry.lacorre@valeo.com

Provisional financial communication calendar:

- First-quarter net sales for 2011: April 21, 2011
- First-half results for 2011: July 27, 2011
- Third-quarter net sales for 2011: October 20, 2011
- Full-year results for 2011: second half of February 2012

6.C. Dividend

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)*
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		0
2009	0		0

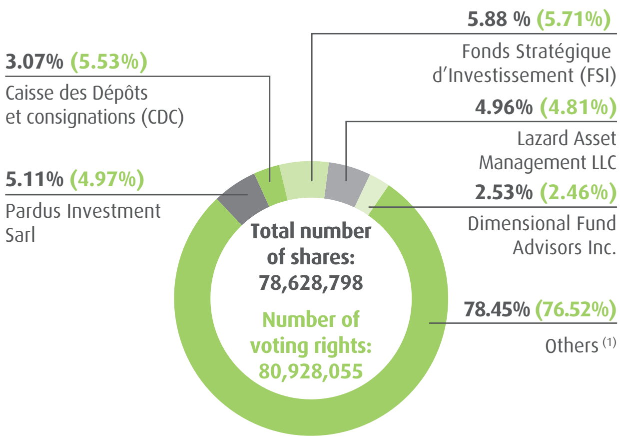
At the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2010, Valeo's Board of Directors will recommend payment of a dividend of 1.20 euros for each share eligible for dividends.

6.D. Capital ownership

6.D.1. Ownership structure

6.D.1.1. Ownership structure at December 31, 2010

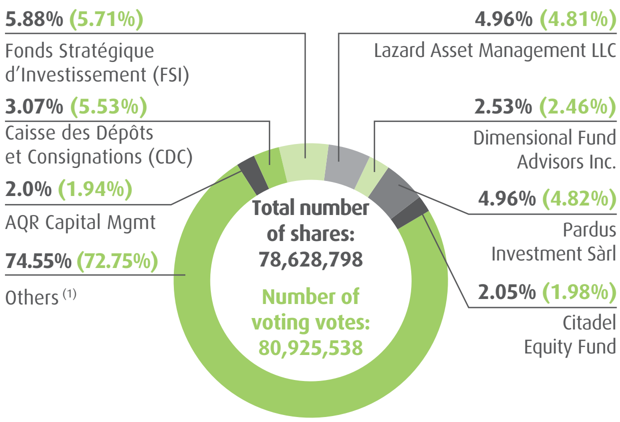
% of capital (% of voting rights)



(1) Including 3,538,638 treasury shares (4.5% of the share capital).

6.D.1.2. Ownership structure at February 24, 2011

% of capital (% of voting rights)



(1) Including 3,419,127 treasury shares (4.35% of the share capital).

6.D.2. 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)

To the best of the Company's knowledge, 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 *(Code de commerce)*, 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 of the three years – 2008, 2009 and 2010 – under consideration, and on February 24, 2011. The Company's share capital at December 31, 2010 was divided into 78,628,798 shares, representing 80,928,055 voting rights, including 3,538,638 shares held as treasury shares.

	12/31/2008				12/31/2009			
	Number of shares	**%**	**Number of voting rights (2)**	**%**	**Number of shares**	**%**	**Number of voting rights (2)**	**%**
Pardus (1)	15,450,000	19.75	15,450,000	18.99	15,450,000	19.75	15,450,000	19.18
Caisse des dépôts et consignations	4,681,559	5.99	6,748,860	8.29	2,410,992	3.08	4,478,293	5.56
Fonds stratégique d'investissement					4,620,567	5.91	4,620,567	5.74
Barclays Global Investors UK. Holding Limited (3)					3,798,812	4.86	3,798,812	4.72
AQR Capital Management, LLC	1,582,308	2.02	1,582,308	1.94	1,533,743	1.96	1,533,743	1.90
UBS (4)					2,422,556	3.10	2,422,556	3.01
M&G Investment Management Limited	1,780,731	2.28	1,780,731	2.19	1,416,450	1.81	1,416,450	1.76
Morgan Stanley (5)	2,949,810	3.77	2,949,810	3.63				
The Goldman Sachs Group, Inc. (5)	3,468,372	4.43	3,468,372	4.26				
Employee share ownership (6)	940,328	1.20	940,328	1.16	123,746	0.16	247,492	0.31
Treasury shares (7)	3,142,499	4.02			2,652,119	3.39		
Other	44,214,010	56.54	48,441,626	59.54	43,780,632	55.98	46,575,612	57.82
Total	**78,209,617**	**100**	**81,362,035**	**100**	**78,209,617**	**100**	**80,543,525**	**100**

(1) *As part of a reorganization of its equity holdings, Pardus Special Opportunities Master Fund L.P. transferred its Valeo stock to its subsidiary Pardus Investments Sàrl (filing dated June 30, 2008).*
(2) *Registered shares held by the same shareholder for four or more years carry double voting rights (see Chapter 7, section 7.A.11).*
(3) *Stockholdings at December 31, 2008 below the thresholds for mandatory reporting set by legislation.*
(4) *Stockholdings at December 31, 2008 below the thresholds for mandatory reporting set by company bylaws and legislation.*
(5) *Stockholdings at December 31, 2009 below the thresholds for mandatory reporting set by company bylaws and legislation.*
(6) *For more information on employee share ownership, see section 6.D.4.*
(7) *For more information on treasury shares, see section 6.E.4.*

	12/31/2010				02/24/2011			
	Number of shares	%	Number of voting rights [(3)]	%	Number of shares	%	Number of voting rights [(3)]	%
Fonds stratégique d'investissement	4,620,567	5.88	4,620,567	5.71	4,620,567	5.88	4,620,567	5.71
Caisse des dépôts et consignations	2,410,992	3.07	4,478,293	5.53	2,410,992	3.07	4,478,293	5.53
Pardus Investment Sàrl	4,021,044	5.11	4,021,044	4.97	3,902,445	4.96	3,902,445	4.82
Lazard Asset Management LLC	3,896,190	4.96	3,896,190	4.81	3,896,190	4.96	3,896,190	4.81
Dimensional Fund Advisors	1,989,654	2.53	1,989,654	2.46	1,989,654	2.53	1,989,654	2.46
Citadel Equity Fund					1,614,159	2.05	1,614,159	1.98
AQR Capital Management					1,573,489	2.00	1,573,489	1.94
Employee share ownership [(1)]	94,900	0.12	189,800	0.23	94,900	0.12	189,800	0.23
Treasury shares [(2)]	3,538,638	4.50			3,419,217	4.35		
Other	58,056,813	73.83	61,732,507	76.29	56,629,150	70.09	58,660,941	72.49
TOTAL	**78,628,798**	**100**	**80,928,055**	**100**	**78,628,798**	**100**	**80,925,538**	**100**

(1) For more information on employee share ownership, see section 6.D.4.
(2) For more information on treasury shares, see section 6.E.4.
(3) Registered shares held by the same stockholder for four or more years carry double voting rights (see Chapter 7, section 7.A.12).

To the best of the Company's knowledge, there were not any stockholders other than Fonds stratégique d'investissement (FSI), Caisse des dépôts et consignations (CDC), Pardus Investments Sàrl, Lazard Asset Management LLC and Dimensional Fund Advisors, with direct or indirect holdings of 2% or more of the Company's share capital and voting rights at December 31, 2010.

To the best of the Company's knowledge, there were not any stockholders other than FSI, CDC and Pardus Investments Sàrl with direct or indirect holdings of 5% or more of the Company's share capital and voting rights at December 31, 2010.

To the best of the Company's knowledge, there were not any stockholders other than FSI, CDC, Pardus Investments Sàrl, Lazard Asset Management LLC, Dimensional Fund Advisors, Citadel Equity Fund and AQR Capital Management, with direct or indirect holdings of 2% or more of the Company's share capital and voting rights at February 24, 2011.

To the best of the Company's knowledge, there were not any stockholders other than FSI and CDC with direct or indirect holdings of 5% or more of the Company's share capital and voting rights at February 24, 2011.

To the best of the Company's knowledge, CDC directly held at February 24, 2011, 2,410,992 shares in the Company, i.e. 3.07% of the capital, and 4,478,293 voting rights, i.e. 5.53% of the total voting rights, and it held indirectly via the FSI 4,620,567 shares, i.e. 5.88% of the capital and 5.71% of the voting rights. CDC's direct and indirect holdings through FSI now represent 8.95% of the share capital and 11.24% of the Company's voting rights.

In a filing received June 1, 2010, Pardus Investments Sàrl reported that it had reduced its interest in the Company's capital and voting rights below the 15% disclosure threshold on May 28, 2010, and that it held 11,640,456 shares, representing as many voting rights, i.e., 14.88% of the capital and 14.45% of the voting rights. This reduction was the result of a distribution of 1,903,894 shares in the Company held by Pardus Investments Sàrl to investors in Pardus Special Opportunities Master Fund LP. In a filing received July 20, 2010, Pardus Investments Sàrl reported that it had reduced its interest in the Company's voting rights below the 10% disclosure threshold on July 15, 2010, to 7,830,908 shares in the Company, representing as many voting rights, i.e., 10.01% of the capital and 9.72% of the voting rights. This reduction was the result of a distribution of 1,904,774 shares held by Pardus Investments Sàrl to investors in Pardus Special Opportunities Master Fund LP. In a filing received August 13, 2010, Pardus Investments Sàrl reported that it had reduced its interest in the Company's capital and voting rights below the 10% disclosure threshold on August 12, 2010, to 5,926,134 shares, representing as many voting rights, i.e., 7.58% of the capital and 7.36% of the voting rights. This reduction was the result of a distribution of 1,904,774 shares held by Pardus Investments Sàrl to investors in Pardus Special Opportunities Master Fund LP. In a filing received September 17, 2010, Pardus Investments Sàrl reported that it had reduced its interest in the Company's voting rights below the 5% disclosure threshold on September 13, 2010, to 4,021,044 shares, representing as many voting rights, i.e., 5.14% of the capital and 4.99% of the voting rights. This reduction was the result of a distribution of 1,905,090 shares in the Company held by Pardus Investments Sàrl to investors in Pardus Special Opportunities Master Fund LP. In a filing received January 14, 2011, Pardus Investments Sàrl reported that it had reduced its interest in the Company's capital and voting rights below the 5% disclosure threshold on January 12, 2011, to 3,902,445 shares, representing as many voting rights, i.e., 4.96% of the capital and 4.82% of the voting rights. This reduction was the result of a sale of the Company's shares on the market.

In a letter received July 29, 2010, Lazard Asset Management LLC, acting on behalf of funds it manages and clients under mandate, reported that it had raised its interest in the Company's capital and voting rights above the 5% disclosure threshold on July 28, 2010, and held, on behalf of the said funds and clients, 4,041,498 shares in the Company, representing as many voting rights, i.e., 5.17% of the capital and 5.02% of the voting rights. This increase was the result of an acquisition of the Company's shares on the market. In a letter received September 20, 2010, Lazard Asset Management LLC, acting on behalf of funds it manages and clients under mandate, reported that it had reduced its interest in the Company's capital and voting rights below the 5% disclosure threshold on September 17, 2010, and held, on behalf of the said funds and clients, 3,896,190 shares in the Company, representing as many voting rights, i.e., 4.96% of the capital and 4.81% of the voting rights. This reduction was the result of the closure of an account managed by Lazard Asset Management LLC.

To the best of the Company's knowledge, Dimensional Fund Advisors holds 1,989,654 shares in Valeo, i.e., 2.53% of the capital and 2.46% of the voting rights.

To the best of the Company's knowledge, Citadel Equity Fund holds 1,614,159 shares, i.e., 2.05% of the capital and 1.98% of the voting rights.

To the best of the Company's knowledge, AQR Capital Management holds 1,573,489 shares, i.e., 2% of the capital and 1.94% of the voting rights.

6.D.3. Directors' interests

At December 31, 2010, 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 4, section 4.A.1.2.

6.D.4. Employee share ownership

At December 31, 2010, employees held a total of 94,900 shares under Group employee share ownership plans, directly or through two mutual funds, representing 0.12% of the Company's share capital. At December 31, 2009, they held 123,746 shares, or 0.16% of the share capital.

In addition, during its meeting of June 24, 2010 the Board of Directors decided to award 1,000,000 stock purchase options and 400,000 free shares to the Company's employees, with some of these options and shares being reserved for the CEO, members of the Liaison Committee and high potential categories.

6.E. Share buyback program

6.E.1. Current share buyback program

In the fourteenth resolution of the Ordinary and Extraordinary Shareholders' Meeting held on June 3, 2010, 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 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 purchase options pursuant to the provisions of Articles L.225-177 *et seq*. of the French 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 French Labor Code (Code du Travail), (iii) to grant free shares in accordance with the provisions of Articles L.225-197-1 *et seq*. of the French 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, (vi) to allocate shares (as exchange, payment or otherwise) in connection with external growth transactions, a merger, demerger or contribution, (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 French financial markets authority (*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 subsequently in respect of a merger, demerger or contribution, may not exceed 5% of the capital.

The purchase price may not exceed 45 euros per share.

This authorization was given for an 18-month period as of the Shareholders' Meeting of June 3, 2010 and superseded the unused portion of previous authorizations given to the Board of Directors to carry out share buyback programs.

A description of the 2010 renewal of the Company's share buyback program was drawn up in accordance with Articles 241-1 *et seq*. of the AMF's General Regulations.

In 2010 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 Shareholders' Meeting of June 3, 2010.

During the year, the Company purchased 2,271,770 shares at an average price of 29.67 euros and sold 2,233,770 shares at an average price of 28.98 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 (Association française des entreprises d'investissement, AFEI) (for more details, see section 6.E.4.).

At December 31, 2010, Valeo held 3,538,638 treasury shares, representing 4.50% of the Company's capital. At that date, each of the shares had a unit value of 28.219 euros. At December 31, 2009, Valeo held 2,652,119 treasury shares representing 3.39% of the share capital.

The number of shares held in treasury at December 31, 2010 broke down as 3,454,638 shares to be allocated on the exercise of stock purchase options and 84,000 to be used in connection with the above-mentioned liquidity agreement.

6.E.2. Share buyback program submitted to the next Annual Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2010.

The Ordinary and Extraordinary Shareholders' Meeting that will be called on June 8, 2011 will be asked to repeal the fourteenth resolution approved by the Annual Shareholders' Meeting of June 3, 2010 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 of the AMF General Regulation and European Commission Regulation 2273/2003 of December 22, 2003.

The features of the new share buyback program are as follows:

6.E.2.1. Number of shares and percentage of capital held by the issuer

At January 31, 2011, Valeo directly or indirectly held 3,511,411 shares, representing 4.47% of the Company's capital.

6.E.2.2. Breakdown of shares owned by Valeo by purpose

At January 31, 2011:

- 3,453,411 shares to be allocated on the exercise of stock purchase options;
- 58,000 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 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 the AMF on October 1, 2008).

6.E.2.3. Purposes of the new share buyback program

Under the new share buyback program, which will be submitted to the Ordinary and Extraordinary Shareholders' Meeting on June 8, 2011, Valeo would like to buy back, directly or indirectly, its own shares, for the following purposes:

- to allocate shares on the exercise of stock purchase options pursuant to the provisions of Articles L.225-177 *et seq.* of the French Commercial Code; or
- to grant free shares in accordance with the provisions of Articles L.225-197-1 *et seq.* of the French Commercial Code; or
- to award or sell shares to employees by way of profit-sharing bonuses and in connection with company savings (or related) plans on the terms stipulated by law, particularly Articles L.3332-1 *et seq.* of the French Labor Code; or
- generally, to meet the company's obligations in connection with stock options or other share allocation programs for employees or corporate officers of the issuer or a related company; or
- to allocate shares on exercise of rights attached to securities providing access to equity by redemption, conversion, exchange, presentation of a warrant, or any other method; or
- to cancel some or all of the shares thus acquired, subject to the adoption of another resolution by the Extraordinary Shareholders' Meeting, regarding the delegation to the Board of Directors with a view to reducing share capital by canceling treasury shares and in the terms indicated therein; or
- to allocate shares (as exchange, payment or otherwise) in connection with external growth transactions, a merger, demerger or contribution; 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; or
- to allow the implementation of any market practice that may be authorized in the future by the AMF and, more generally, the implementation of any other operation which complies with the regulation in force.

6.E.2.4 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. 78,628,798 shares at January 31, 2011).

Pursuant to Article L.225-210 of the French Commercial Code, the number of shares that Valeo may hold at any time may not represent over 10% of the Company's capital.

Given the number of shares the Company currently owns, i.e. 3,511,411 shares at January 31, 2011 (4.47% 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 Ordinary and Extraordinary Shareholders' Meeting on June 8, 2011, a total of 4,351,468 shares (5.53% of the Company's registered capital at January 31, 2011) could be available for purchase.

The securities covered by the buyback program are exclusively shares.

6.E.2.5. Maximum unit purchase price

The purchase price of shares under the new share buyback program may not exceed 70 euros per share. This price could be adjusted in the event of a change in the nominal share price, capital increase by capitalization of reserves, a free share grant, a stock split or reverse stock split, distribution of reserves, or any other assets, redemption of the share 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 546 million euros, fees and commissions included. Valeo reserves the right to use the full amount authorized under the program.

6.E.2.6. Term of the new share buyback program

In accordance with the resolution that will be submitted to the Ordinary and Extraordinary Shareholders' Meeting for approval on June 8, 2011, the new share buyback program would be authorized for an 18-month period as of the meeting, i.e. until December 8, 2012.

6.E.3. Cancellation of treasury shares

In the thirteenth resolution of the Ordinary and Extraordinary Shareholders' Meeting of June 9, 2009, the Company's shareholders gave the Board of Directors a 26-month authorization to reduce the Company's capital by canceling treasury shares. Under this authorization, the number of shares cancelled in any given 24-month period may not exceed 10% of the Company's share capital.

6.E.4. Treasury shares

At December 31, 2010 the Company held, directly or indirectly, 3,538,638 treasury shares (4.50% of the share capital) with a unit value based on the purchase price of 28.219 euros and a par value of 3 euros. On December 31, 2009, Valeo held 2,652,119 treasury shares (3.39% of the share capital).

The shares purchased in 2010 were used exclusively for:

- covering stock option plans or other share allocations to employees; and
- implementing a liquidity agreement.

The share purchases were made in accordance with authorizations granted by the Shareholders' Meetings of June 9, 2009 and June 3, 2010 to the Board of Directors to buy back Company shares. The seventh resolution of the Shareholders' 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 so as to:

- implement any Company stock purchase option plans under the provisions of Articles L.225-177 et seq. of the French Commercial Code; or
- award or sell shares to employees by way of profit-sharing bonuses and implement employee savings plans under the provisions of Articles L.3332-1 et seq. of the Labor Code; or
- allocate free shares under the provisions of Articles L.225-197-1 et seq. of the French Commercial Code; or
- to allocate shares on the exercise of rights attached to securities giving access to the capital by redemption, conversion, exchange, presentation of a warrant or any other method; or
- cancel some or all shares bought back subject to approval by the Extraordinary Shareholders' Meeting of the thirteenth resolution relative to the delegation to the Board of Directors to reduce the share capital by canceling treasury shares pursuant to the relevant terms; or
- allocate shares (as exchange, payment or otherwise) in connection with external growth transactions, a merger, demerger or contribution; or
- ensure liquidity in the secondary market for the Company's share under a liquidity agreement entered into with an investment services provider that complies with the Code of Ethics approved by the AMF.

The fourteenth resolution of the Ordinary and Extraordinary Shareholder Meeting of June 3, 2010 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 carry out the aforementioned operations (but allowed the cancelation of bought back shares without requiring the adoption of another resolution).

At December 31, 2010 the number of treasury shares to be allocated upon exercise of stock options stood at 3,454,638 compared with 2,606,119 at December 31, 2009.

The remaining treasury shares (84,000 at December 31, 2010 versus 46,000 at December 31, 2009) are earmarked for use under a liquidity agreement that complies with the Code of Ethics of AFEI signed with an investment services provider on April 22, 2004. At December 31, 2010, 84,000 shares and 11,929,673.68 euros had been allocated to this liquidity agreement compared with 46,000 shares and 9,635,328.31 euros at December 31, 2009. On the date the liquidity agreement was signed, 220,000 Valeo shares and 6,600,000 euros were allocated for its implementation.

Under the liquidity agreement and via an investment services provider, Valeo acquired 2,271,770 shares at an average price of 29.67 euros and sold 2,233,770 shares at an average First-In-First-Out price of 28.98 euros. Trading and transaction fees incurred under the liquidity agreement totaled 175,000 euros, with no change from 2009. These shares were not reallocated to other purposes provided for under the share buyback program.

6.F. Additional disclosures

6.F.1. Changes in share capital

At December 31, 2010 Valeo's share capital comprised 78,628,798 shares with a par value of 3 euros each, fully paid-up and traded on Euronext Paris. The share capital was increased on December 31, 2010 by 1,257,543 euros through the issuance of 419,181 shares as a result of the exercise of stock options during 2010.

At December 31, 2010 a potential maximum of 952,792 shares could be issued upon exercise of stock options awarded to the Group's employees and corporate officers. At that date, 9,974,244 OCEANE bonds were outstanding and convertible or exchangeable in circulation, all of which were redeemed by Valeo on January 3, 2011.

To the best of the Company's knowledge, none of these shares have been pledged.

Changes in the Company's capital since December 31, 2006 are as follows:

		Changes *(in millions of euros)*				
Year	**Type of operation**	**Par value**	**Premium**	**Total**	**Number of shares**	**Total number of shares**
2006	Issuance of shares on exercise of stock subscription options	-	2	2	70,260	77,580,617
2007	Issuance of shares on exercise of stock subscription options	2	15	17	629,000	78,209 ,617
2008	-	-	-	-	-	78,209,617
2009	-	-	-	-	-	78,209,617
2010	Issuance of shares on exercise of stock subscription options	1	10	11	419,181	78,628,798

6.F.2. Authorized, unissued capital

Authorizations granted Date of Shareholders' Meeting (duration of authorization and expiration date)	Maximum amount of issue	Utilization of authorizations during the year
1. Authorization to increase capital with pre-emptive rights		
Issuance of shares and/or share equivalents (A) Shareholders' Meeting 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) + (F) combined ceiling = 132 million euros	None
Capital increase by capitalization of reserves, profits or additional paid-in capital (B) Shareholders' Meeting 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. Authorization to increase capital without pre-emptive rights		
Issuance of shares and/or share equivalents (C) Shareholders' Meeting 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 share ownership plan (D) Shareholders' Meeting of June 3, 2010 – 17th resolution Expiring on August 3, 2012 (26 months)	5 million euros Included in combined ceiling	None
3. Authorization to increase capital with or without pre-emptive rights		
Overallocation option as part of capital increase with or without pre-emptive rights (E) Shareholders' Meeting of June 9, 2009 – 11th resolution (authorization given for a maximum of 26 months, expiring on August 9, 2011)	The ceiling for each issuance is specified in the applicable regulation (currently 15% of the initial issuance) Included in ceiling for (C) Included in combined ceiling	None
4. Authorization to allocate stock purchase options and free shares		
Allocation of stock purchase options Shareholders' Meeting of June 3, 2010 – 15th resolution Expiring on July 3, 2011 (13 months)	Maximum number of shares allocated under the option: 1,000,000	Board of Directors' Meeting of June 24, 2010 Allocation of 1,000,000 stock options
Allotment of free shares, existing shares or share to be issued to Group employees and corporate officers (F) Shareholders' Meeting of June 3, 2010 – 16th resolution Expiring on August 3, 2012 (26 months)	Maximum number of shares (existing or to be issued) allocated: 400,000 Included in combined ceiling	Board of Directors' Meeting of June 24, 2010 Allotment of 400,000 free shares
5. Treasury shares		
Authorization to trade in the Company's shares Shareholders' Meeting of June 3, 2010 – 13th resolution Expiring on December 3, 2011 (18 months)	Maximum number of shares that may be acquired: 10% of the capital Maximum number of shares that can be held by the Company: 10% of the capital Maximum amount allocated to share buyback program: 350 million euros Maximum repurchase price: 45 euros	Total purchased since the start of the program at December 31, 2010 2,350,825 shares
Capital decrease through the cancellation of treasury shares Shareholders' Meeting of June 9, 2009 – 13th resolution Expiring on August 9, 2011 (26 months)	Maximum number of shares that can be cancelled over 24 months: 10% of the capital	None

6.F.3. Other securities giving access to the capital

6.F.3.1. Bonds convertible into new shares and/or exchangeable for existing shares (OCEANE)

Under the terms of the authorization granted by the 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 matured on January 1, 2011 – are quoted on Euronext Paris. They bore interest at 2.375% per annum and since August 4, 2003, may be exerciced 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 the 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 shares for 1 bond.

On December 31, 2010, the holders of 1,510 OCEANE bonds had requested conversion/exchange for a total of 1,530 shares (after the adjustment of the exercise conditions related to the public share buyback and simplified public tender offer).

On January 3, 2011 all of the OCEANE bonds still in circulation were redeemed.

6.F.3.2. Stock option plans and allotment of free shares

The policy for governing the allocation of stock options, and the policy on the allotment of free shares are described in Chapter 4, section 4.D.2.12.

The table below presents the stock option plans in force since 2002.

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, 2010, 4,371,450 stock purchase options were outstanding, exercisable for 4,374,787 shares (of which 3,337 related to the public share buyback offer and the simplified public tender offer). In addition, 942,992 stock subscription options were outstanding, exercisable for 952,792 new shares (including 9,800 related to the public share buyback offer and the simplified public tender offer).

Share subscription option plans in force at December 31, 2010

Shareholders' Meetings			Plan characteristics				Options granted				
Date of Share-holders' Meeting	No. of option	Term	Date (1)	Exercise price	No. of grantees	No. of Options	o/w granted to corporate officers	o/w granted to exec mgrs and corpo-rate officers	o/w granted to exec mgrs excl corpo-rate officers	o/w granted to the top 10 grantees (2)	Conditional options
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	1,500,000	8 years	03/31/2003	€ 23,51	755	700,000	160,000	100,000	52,750	44,000	0
			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 SHARE SUBSCRIPTION PLANS						**3,623,200**	**381,000**	**321,000**	**502,116**	**459,995**	**0**

(1) Date of Board of Directors/Supervisory Board /Management Board meeting.
(2) Including directors who are not corporate officers.

Stock purchase option plans in force at December 31, 2010

Shareholders' Meetings			Plan characteristics				Options granted				
Date of Share-holders' 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 corpo-rate officers	o/w granted to exec mgrs excl corpo-rate officers	o/w granted to the top 10 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
06/03/2010	1,000,000	8 years	06/24/2010	€ 24,07	728	1,000,000	0	100,000 (i) (iii)	177,500 (iii)	150,000 (iii)	611,365 (iii)
TOTAL STOCK PURCHASE PLANS						**6,280,800**	**579,000**	**679,000**	**1,077,684**	**765,105**	**785,615**

(1) Date of Board of Directors/Supervisory Board /Management Board meeting.
(2) Including directors who are not corporate officers.
(i) Share purchase options subject to the holding period described in Chapter 3, section 3.H.1.5 of the 2008 Registration Document.
(ii) O/w 50% conditional (50% for the chairman and COO and 25% for other directors): subject to the Group achieving 2008 operating margin at least 3.8% of operating revenue, with proportional and linear allocation of between 3.8 and 4.1%.
(iii) O/w 100% conditional (CEO and Liaison Committee), 50% or 25% (other Directors). Criteria: 2010 operating margin targets (see Chapter 4, section 4.D.2.12.1).

	Exercise date and conditions		Number of subscription option plans							
Impact of tender offers (56,330 at June 21, 2005	**Start**	**Expiration date**	**Options outstanding on 12/31/2009**	**Exercised in 2010 (year)**	**Exercised at 12/31/2010 (cumulative)**	**Cancelled in 2010 (year)**	**Cancelled at 12/31/2010 (cumulative)**	**Options outstanding on 12/31/2010**	**Number of shares to be subscribed (options + buyback)**	**Residual grantees**
2,724	50% – 2 years; 100% – 3 years	06/30/2010	172,200 1,722	0 0	0	172,200 1,722	420,000 2,724	0 0	0	0
4,568	50% – 2 years; 100% – 3 years	11/24/2010	100,960 1,009	63,420 635	338,210 3,231	37,540 374	261,790 1,337	0 0	0	0
6,022	50% – 2 years; 100% – 3 years	03/30/2011	215,830 2,172	53,840 549	363,755 3,536	2,330 24	176,585 887	159,660 1,599	161,259	101
7,185	50% – 2 years; 100% – 3 years	11/05/2011	390,624 4,359	105,961 1,139	197,469 2,063	5,333 60	303,201 1,962	279,330 3,160	282,490	317
10,682	50% – 2 years; 100% – 3 years	11/07/2012	702,420 7,027	191,718 1,919	258,918 2,592	6,700 67	360,280 3,049	504,002 5,041	509,043	453
31,181			**1,582,034 16,289**	**414,939 4,242**	**1,158,352 11,422**	**224,103 2,247**	**1,521,856 9,959**	**942,992 9,800**	**952,792**	**-**

	Exercise date and conditions		Number of stock purchase option plans							
Impact of tender offers (56,330 at June 21, 2005	**Start**	**Expiration date**	**outstanding on 12/31/2009**	**exercised in 2010 (year)**	**exercised at 12/31/2010 (year)**	**cancelled in 2010 (year)**	**cancelled at 12/31/2010 (cumulative)**	**outstanding on 12/31/2010**	**No. of stocks to be purchased (Options + buyback)**	**No. of residual grantees**
4 263	50% – 2 yrs; 100% – 3 yrs	11/05/2011	250,780 2,562	60,747 624	118,441 1,214	3,417 35	194,943 1,146	186,616 1,903	188,519	317
2,787	50% – 2 yrs; 100% – 3 yrs	11/07/2012	176,605 1,783	32,133 327	46,208 515	1,825 22	91,945 838	142,647 1,434	144,081	453
	50% – 2 yrs; 100% – 3 yrs	11/16/2013	422,750	89,990	90,455	9,030	235,815	323,730	323,730	525
	50% – 2 yrs; 100% – 3 yrs	03/02/2014	187,000	0	0	0	0	187,000	187,000	2
	50% – 2 yrs; 100% – 3 yrs	11/19/2014	928,500	144,243	144,243	25,250	406,000	759,007	759,007	679
	50% – 2 yrs; 100% – 3 yrs	03/06/2015	250,000	0	0	0	0	250,000	250,000	2
	100% – 3 yrs	11/14/2015	1,270,750	31,500	31,500	44,750	451,000	1,194,500	1,194,500	993
	100% – 3 yrs	03/19/2016	366,000	0	0	22,500	83,250	343,500	343,500	481
	100% – 2 yrs	06/23/2018	1,000,000	0	0	15,550	15,550	984,450	984,450	715
7,050			**4,852,385** 4,345	**358,613** 951	**430,847** 1,729	**122,322** 57	**1,478,503** 1,984	**4,371,450** 3,337	**4,374,787**	

Free shares in force on December 31, 2010

Shareholders' Meetings			Plan characteristics				Options granted				
Date of Share-holders' 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 corporate officers**	**o/w granted to exec mgrs excl corporate officers**	**o/w granted to the top 10 grantees (2)**	**Conditional options**
5th March 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
06/03/2010	400,000	-	06/24/2010	-	723	267,000	0	50,000 (i)	55,500 (i)	47,500 (i)	178,022 (i)
				-	44,333	133,000	0	3 (i)	39 (i)	30 (i)	90 (i)
TOTAL FREE SHARE GRANTS						**1,263,000**	**50,000**	**100,003**	**209,989**	**139,380**	**514,612**

(1) Date of Board of Directors/Supervisory Board /Management Board meeting.
(2) Including Directors who are not corporate officers.
(i) O/w a portion is subject to achieving operating margin targets for 2010 and a portion to an operating margin target for 2011.

Date and conditions		Number of Shares							
Start of exercise period	Expiration date	Remaining to be transferred at 12/31/2009	Ownership transferred in 2010 (year)	Ownership transferred at 12/31/2010 (cumulative)	Cancelled in 2010 (year)	Cancelled at 12/31/2010 (cumulative)	O/w ownership remains to be transferred at 12/31/2010	No. of shares that could be transferred	Residual grantees
Vesting period: 2yrs 3mths 50% cond 1/2 on 2006 perf, half on 2007 perf (*)	-	0	0	223,575	0	376,425	0	0	0
Vesting period: 2yrs 3mths 50% cond partly 2006 perf partly on 2007 perf (*)	-	0	0	26,500	0	36,500	0	0	0
Vesting period: 3 yrs	-	0	0	65,750	0	34,250	0	0	0
Vesting period: 3 yrs	-	79,000	79,000	79,000	0	21,000	0	0	0
Vesting period: France : 2 yrs Other countries: 4 yrs	-	0	0	0	3,510	3,510	263,490	263,490	710
Vesting period: France : 2 yrs Other countries: 4 yrs	-	0	0	0	7,996	7,996	125,004	125,004	41,668
	-	**79,000**	**79,000**	**394,825**	**11,506**	**479,681**	**388,494**	**388,494**	

(*) Performance 2006 consolidated Group operating margin before non-recurring expenditure as a % of total operating revenue at least 4.5%.
(*) Performance 2007 consolidated Group operating margin before non-recurring expenditure as a % of total operating revenue at least 5%.

6.F.4. Other securities

The company has had access to a Euro Medium Term Notes (EMTN) program since October 2002, last renewed on April 1, 2010. 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.F.5. Other information on the capital

6.F.5.1. 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.F.5.2. Capital under option

At the date of this Registration Document, no capital of any member of the Group was under option or agreed conditionally or unconditionally to be put under option.

6.F.5.3. Disclosure thresholds

In accordance with Article L.233-7 of the French Commercial Code, any individual or legal entity, acting alone or in concert, that holds a number of shares representing over 5%, 10%, 15%, 20%, 25%, 30%, 33.33%, 50%, 66.66%, 90% or 95% of the Company's 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 within five trading days from of the date when the threshold is exceeded and must also state the total number of shares and voting rights held by the shareholders concerned. The disclosures are subsequently published by the AMF. This disclosure obligation also applies when an interest in the Company's 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 Shareholders' Meetings held within the two-year period from the date when the omission is remedied.

Since the 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 days 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 Shareholders' Meeting.

6.F.5.4. Shareholder identification

Registered and bearer shares are recorded in shareholders' accounts in accordance with applicable laws and regulations.

However, a bank, broker or other intermediary may register on behalf of shareholders who are domiciled outside France in accordance with Article 102 of the French Civil Code (*Code Civil*). This registration may be made in the form of a joint account or several individual accounts, each corresponding to one shareholder. Any such intermediary must inform the Company or the intermediary managing the Company's account that it is holding the shares on behalf of another party.

The Company is entitled to identify all holders of shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at Shareholders' Meetings, in accordance with the procedure provided for in Article L.228-2 *et seq*. of the French Commercial Code.

In order to identify holders of bearer shares, in accordance with the applicable laws and regulations, the Company is entitled to request, at any time, from the central depository responsible for its 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 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 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 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.

6.F.6. Factors likely to be material in the event of a public tender offer

6.F.6.1. 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" (Chapter 2, section 2.A.5. "Liquidity risk"), the bond issue of 600 million euros, maturing on June 24, 2013 and issued as part of a medium and long-term Euro Merdium Term Notes financing program capped at 2 billion euros, includes 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.

6.F.6.2. 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 Chapter 4, section 4.B.1.2.7, Jacques Aschenbroich, the Chief Executive Officer, is eligible for termination benefits equal to between 6 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 of 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 further details, see Chapter 4, section 4.B.1.2.7.

6.F.6.3. Agreements that could restrict the transfer of shares and the exercise of voting rights

6.F.6.3.1. 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 Shareholders' 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.

6.F.6.3.2. Agreement with Pardus

On May 21, 2008, the Company signed an agreement with Pardus Capital Management LP (hereafter, "Pardus") and Behdad Alizadeh, which was submitted to and approved by the Shareholders' Meeting of June 20, 2008. The purpose of this agreement was to: (i) establish the conditions for the appointment of a Pardus representative to the Board of Directors, (ii) define certain rules of conduct and loyalty for Pardus and its representative towards Valeo and its Board of Directors, (iii) limit Pardus' interest in the Company's capital, and (iv) set out certain conditions for the sale of Valeo shares by Pardus. In a letter dated August 17, 2010, Pardus sent Valeo notice of the cancelation of this agreement, which was accordingly terminated *ipso jure* after a period of four months, i.e., December 18, 2010. This termination had no consequences for the Company's shareholders.

7

ADDITIONAL INFORMATION

The elements of the annual financial report can be clearly identified in the table of contents using the AFR pictogram

7.A. Principal legal and statutory provisions

7.A.1. Company name and headquarters

The name of the Company is Valeo and its headquarters are located at 43, rue Bayen, 75017 Paris, France, tel.: +33 (0) 1 40 55 20 20.

7.A.2. Legal structure and governing law

Valeo is a Limited 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 (*Code de Commerce*) and various provisions of the regulatory section of the French Commercial Code.

7.A.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 the report of the Chairman of the Board of Directors on the composition of the Board, the application of the principle of gender equality, 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 (section 4.D).

7.A.4. Date of incorporation and term

The Company was incorporated on February 10, 1923 and its term was extended for a further 99 years on February 10, 1972.

7.A.5. Corporate purpose

The Company's corporate purpose is as follows (Article 3 of the articles of association):

- the research, manufacturing, sale, trade and supply of all products, equipment and services for the industrial and retail sectors, that may be manufactured and developed by factories of the Company or of companies of its Group or that may be of interest to their customers;
- and more generally, engaging in any transactions whatsoever, including industrial, commercial, financial, real estate and other property transactions, sales, acquisitions, capital contributions, etc., directly or indirectly related to the corporate purpose or contributing to its extension or development.

7.A.6. Registration particulars

The Company is registered at the Paris Companies Registry under the number 552 030 967 RCS Paris.

7.A.7. Fiscal year

The Company's fiscal year covers a twelve-month period from January 1 to December 31.

7.A.8. Dividends

Each share entitles its holder to a proportion of income equal to the proportion of capital represented by the share.

Distributable income is composed of net income for the year less any prior year losses and amounts appropriated to the legal reserve, plus any income carried forward. Furthermore, shareholders in an Annual General Shareholders' Meeting may decide to distribute amounts taken from available reserves and/or retained earnings. In this case, the related resolution approved by the Annual General Shareholders' Meeting must clearly specify the reserve account from which the distributed amounts are to be taken.

Shareholders may resolve to pay out a dividend only after approving the financial statements for the year and noting that amounts are available for distribution. The dividend payment terms are defined by the Annual General Shareholders' Meeting or by default, the Board of Directors.

The Board of Directors may decide to pay an interim dividend for the current year or the year-ended before the financial statements are approved, subject to the conditions set down by law.

At the Annual General Shareholders' 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 State.

7.A.9. Liquidation surpluses

Liquidation surpluses are allocated between the shareholders in proportion to their interests in the Company's capital.

7.A.10. 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 Shareholders' Meetings subject to submitting evidence of ownership of their shares. Share ownership is evidenced by an entry in Valeo's share register in the name of the shareholder (or of the intermediary acting on their behalf) or in the register of bearer shares held by an accredited intermediary. Such entries must be recorded by 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 Shareholders' Meetings provided they have settled all capital calls related to their shares.

Shareholders who are unable to attend a meeting in person may choose one of the following three options:

- 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 Annual General Shareholders' Meetings either in paper format or, if authorized by the Board of Directors in the notice of meeting, in electronic form.

In accordance with Article R.225-79 of the French Commercial Code, amended by decree on June 23, 2010, a change in the articles of association will be voted on by shareholders during the Ordinary and Extraordinary Shareholders' Meeting of June 8, 2011 to allow for notification of the appointment and revocation of corporate officers via electronic means.

Minutes of Shareholders' Meetings are drawn up, and copies and extracts thereof are certified and delivered, in accordance with the law.

7.A.11. Double voting rights

Each shareholder has a number of votes corresponding to the number of shares held or represented by proxy.

However, since the Shareholders' Meeting of June 16, 1992, Article 23 of the Company's articles of association provides that double voting rights are attached to all fully-paid shares that have been registered in the name of the same holder for at least four years. In the case of a capital increase paid up by capitalizing reserves, 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 General Shareholders' Meeting, subject to the approval of shareholders entitled to double voting rights, at a special meeting held for that purpose.

7.A.12. Changes in share capital and rights attached to shares

Any changes in the Company's share capital or voting rights attached to shares are subject to the applicable law as the articles of association do not contain any specific provisions in relation to such operations.

7.B. Information on subsidiaries and affiliates

The overall legal and operational structure of the Group is described in Chapter 1, section 1.C.1.

Following the creation of subsidiaries for its industrial activities in 2002, Valeo is now solely a holding and cash management company for the Group. As such, Valeo centralizes the management of market risks to which its operating subsidiaries are exposed, including changes in interest rates and fluctuations in exchange rates and the prices of quoted commodities. 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 Groups involved in the production process. The commercial activities of the Business Groups/Product Groups with a given customer are coordinated by the networks of the Sales and Business Development Function, described in Chapter 1, section 1.C.2.3. A list of consolidated companies (including their geographic location) is given in the notes to the consolidated financial statements, Chapter 5, section 5.B.6, Note 7.

MAIN INDUSTRIAL AND COMMERCIAL ENTITIES

Direct and indirect interests by country where the Group is established
(as a % of interest at December 31, 2010)

Industrial

Commercial

European Union				Europe outside EU	Africa	North America
France	Germany, Belgium, UK, Eire, Netherlands	Italy Spain	Hungary, Poland Czech Republic Roumania, Slovakia	Turkey Russia	Tunisia South Africa Egypt	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 SERVICE ITALIA S.p.A. 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 ESPAÑA S.A. 100	VALEO SERVICE EASTERN EUROPE Sp.zo.o. (Poland) 100	VALEO CLIMATE CONTROL TOMILINO LLC (Russia) 95	VALEO SYSTEMS SOUTH AFRICA (Proprietary) Limited 51	VALEO ELECTRICAL SYSTEMS, INC. 100
VALEO SÉCURITÉ HABITACLE 100	VALEO KLIMASYSTEME GmbH 100	VALEO ILUMINACIÓN S.A. (Spain) 99.8	VALEO AUTOSYSTEMY Sp.zo.o. (Poland) 100	VALEO SERVICE LIMITED LIABILITY COMPANY (Russia) 100	VALEO INTERBRANCH AUTOMOTIVE SOFTWARE (Egypt) 100	VALEO CLIMATE CONTROL CORP. 100
VALEO SYSTÈMES D'ESSUYAGE 100	VALEO COMPRESSOR EUROPE GmbH 100	VALEO SISTEMAS ELÉCTRICOS S.L. (Spain) 100	VALEO VYMENIKY TEPLA k.s. (Czech Republic) 100			VALEO SYLVANIA LLC 50
VALEO VISION 100	VALEO SERVICE DEUTSCHLAND GmbH 100	VALEO CLIMATIZACIÓN S.A. (Spain) 100	VALEO AUTOKLIMATIZACE k.s. (Czech Republic) 100			VALEO SWITCHES & DETECTION SYSTEMS, INC. 100
DAV 100	VALEO VISION BELGIQUE 100	VALEO SERVICE ESPAÑA S.A 100	VALEO COMPRESSOR EUROPE S.r.o. (Czech Republic) 100			VALEO RADAR SYSTEMS, INC. 100
SC2N 100	VALEO SERVICE BELGIQUE 100	VALEO TÉRMICO, S.A. (spain) 100	VALEO LIGHTING ASSEMBLY S.r.l. (Roumania) 100			VALEO ENGINE COOLING, INC. 100
VALEO FOUR SEASONS 50	VALEO SERVICE UK LIMITED (UK) 100		VALEO LIGHTING INJECTION S.A. (Roumania) 100			VALEO FRONT END MODULE, INC. 100
VALEO SERVICE 100	VALEO ENGINE COOLING UK Ltd (UK) 100		VALEO SISTEME TERMICE S.r.l. (Roumania) 100			VALEO COMPRESSOR NORTH AMERICA, INC. 100
VALEO SYSTÈMES THERMIQUES 100	CONNAUGHT ELECTRONICS LIMITED (Eire) 100		VALEO SLOVAKIA S.r.o. (Slovakia) 100			
VALEO SYSTÈMES DE CONTRÔLE MOTEUR 100	VALEO SERVICE BENELUX B.V. (Netherlands) 100					
VALEO ÉTUDES ÉLECTRONIQUES 100						

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

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 Co. Ltd – 50
- HUADA AUTOMOTIVE AIR CONDITIONER Co. Ltd – 30
- VALEO LIGHTING HUBEI TECHNICAL CENTER Co. Ltd – 100
- VALEO INTERIOR CONTROLS (SHENZHEN) Co. Ltd – 100
- VALEO AUTOMOTIVE SECURITY SYSTEMS (WUXI) Co. Ltd – 100
- VALEO COMPRESSOR (CHANGCHUN) Co. Ltd – 100
- VALEO ENGINE COOLING (FOSHAN) 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

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 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
- MINDA VALEO SECURITY SYSTEMS PRIVATE LIMITED – 50
- VALEO INDIA PRIVATE LIMITED – 100
- VALEO ENGINE AND ELECTRICAL SYSTEMS INDIA PRIVATE LIMITED – 100
- VALEO LIGHTING SYSTEMS (India) PRIVATE Ltd – 100

7.C. Major contracts

In 2009 the Group received financing from the EIB for its R&D projects designed to reduce fuel consumption and CO2 emissions and to improve active safety. This financing involved two loans for a total of up to 300 million euros.

In March 2010, Valeo sold its speed controller business, Telma.

In May 2010, Valeo acquired the N.K. Minda Group's minority interest in the joint venture specialized in the production of electrical systems in Pune, India.

With the exception of the above-mentioned contracts, neither Valeo nor any of the Group's companies signed any major contracts in the last two years other than those related to the normal course of their activity.

7.D. Consultation of documents

7.D.1. Documents made public by Valeo

The Company's press releases and annual Registration 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 headquarters.

In accordance with Article 221-3 of the AMF General Regulations, the regulated information defined in Article 221-1 of these 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 articles of association, minutes of Shareholders' Meetings, statutory auditors' reports and all other corporate documents are availble at Valeo's headquarters in accordance with the law and the Company's articles of association.

7.D.2. 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 (*Code monétaire et financier*) and Article 222-7 of the General Regulations of the AMF. It lists the information published or made public by Valeo between March 7, 2010 and March 10, 2011.

Annual, interim and quarterly financial information, share buyback programs, and other information (www.valeo.com)

March 7, 2011	Monthly press release containing weekly share buyback statements - February 2011 statement
February 7, 2011	Monthly press release containing weekly share buyback statements - January 2011 statement
January 10, 2011	Monthly press release containing weekly share buyback statements - December 2010 statement
January 6, 2011	Interim statement regarding the liquidity agreement at December 31, 2010
December 13, 2010	Implementation of the share buyback authorization
December 6, 2010	Share buyback authorization
December 6, 2010	Monthly press release containing weekly share buyback statements - November 2010 statement
November 8, 2010	Monthly press release containing weekly share buyback statements - October 2010 statement
October 18, 2010	Implementation of the partial share buyback management agreement
October 9, 2010	Monthly press release containing weekly share buyback statements - September 2010 statement
September 13, 2010	Partial management of the share buyback agreement
September 3, 2010	Monthly press release containing weekly share buyback statements - August 2010 statement
August 2, 2010	Monthly press release containing weekly share buyback statements - July 2010 statement
July 29, 2010	Interim results for first-half 2010
July 28, 2010	Press release: First-half 2010 results
July 7, 2010	Interim statement regarding the liquidity agreement
July 6, 2010	Monthly press release containing weekly share buyback statements - June 2010 statement
June 7, 2010	Monthly press release containing weekly share buyback statements - May 2010 statement
May 9, 2010	Monthly press release containing weekly share buyback statements - April 2010 statement
April 22, 2010	Press release: First quarter 2010 results
April 5, 2010	Monthly press release containing weekly share buyback statements - March 2010 statement
March 24, 2010	2009 review of operations
March 24, 2010	2009 Registration Document
March 7, 2010	Monthly press release containing weekly share buyback statements - February 2010 statement

Disclosure thresholds (published on the AMF website www.amf-france.org)

January 14, 2011	Pardus Investments reports reducing its interests in Valeo's capital and voting rights below the 5% disclosure threshold
September 17, 2010	Lazard Asset Management LLC, acting on behalf of funds managed by it and for discretionary clients, reports reducing its interests in the capital and voting rights of Valeo below the 5% disclosure threshold
September 13, 2010	Pardus Investments reports reducing its interests in Valeo's voting rights below the 5% disclosure threshold
August 12, 2010	Pardus Investments reports reducing its interests in Valeo's capital and voting rights below the 10% disclosure threshold
July 28, 2010	Lazard Asset Management LLC, acting on behalf of funds managed by it and discretionary clients, reports having increased its interests in Valeo's capital and voting rights above the 5% disclosure threshold
July 15, 2010	Pardus Investments reports reducing its interests in Valeo's voting rights below the 10% disclosure threshold
May 28, 2010	Pardus Investments reports reducing its interests in Valeo's capital and voting rights below the 15% disclosure threshold

Information relating to the company's total share capital and voting rights (www.valeo.com)

Information covering the period March 1, 2010 through February 24, 2011, updated monthly and available on the company's website under Investor Relations/Regulated Information.

http://www.valeo.com/en/home/investor-relations/regulated-information.html

Information published by Valeo in *Bulletin des annonces légales obligatoires* (BALO) and available on the BALO website (www.journal-officiel.gouv.fr/balo)

December 1, 2010	Notice of redemption to holders of Oceanes (convertible/exchangeable bonds)
June 30, 2010	Approval of the 2009 parent company and consolidated financial statements by the Annual General Shareholders' Meeting on June 3, 2010
May 5, 2010	Convening notice for the Annual General Shareholders' Meeting of June 3, 2010
March 31, 2010	Notice of the Annual General Shareholders' Meeting of June 3, 2010

Information published by Valeo in financial publications

February 24, 2011	Press release in *Les Echos* announcing the second-half and full-year 2010 results
October 22, 2010	Press release in *Les Echos* announcing quarterly revenue
July 27, 2010	Press release in *Les Echos* announcing the interim results
May 20, 2010	Press release in *Les Echos* announcing quarterly revenue

Press releases published on the Valeo website (www.valeo.com)

March 2011	
March 10, 2011	Valeo announces a possible issuance of bonds in an amount of approximately 500 million euros
March 9, 2011	Valeo publishes its new medium-term targets
February 2011	
February 24, 2011	Valeo: 2010 second-half results
February 23, 2011	Valeo signs agreement to acquire Japanese company Niles
February 14, 2011	Appointment of Fabienne de Brébisson as Corporate Communications Vice-President
February 4, 2011	Valeo files record number of patents in 2010
January 2011	
January 17, 2011	Valeo appoints Christophe Périllat-Piratoire Chief Operating Officer
December 2010	
December 20, 2010	New electric demo car developed by Valeo and BAIC
December 16, 2010	Signature of a cooperation agreement between Valeo and Ibeo Automotive Systems
December 13, 2010	Valeo and IFP Énergies nouvelles sign a framework contract for powertrains
December 10, 2010	Moody's affirms Valeo's Ba1 rating and upgrades its outlook from "stable" to "positive"
October 2010	
October 21, 2010	Valeo revises upwards its operating margin guidance for 2010 : The Group forecasts a second-half margin higher than that of the first-half
September 2010	
September 30, 2010	Valeo and Orange present an innovative concept for easy vehicle sharing.
September 30, 2010	Valeo: partners Modulowatt on its project for automatic docking to a battery charging station
September 30, 2010	Valeo full-LED headlamps on two concept cars
September 30, 2010	Valeo's new multifunction faceplate and hands-free access and start system to equip the future Peugeot 508

September 30, 2010	■ A world first for Valeo's Park4U® on the new Volkswagen Touran and Sharan
September 30, 2010	■ First launch for Valeo's BeamAtic® Premium lighting system with Volkswagen
September 30, 2010	■ Valeo-Ichikoh Alliance equips the Nissan Leaf Electric Vehicle with LED low beam headlamps
September 30, 2010	■ A world first for Valeo's 360Vue® system on the new Volkswagen Touareg
September 30, 2010	■ Valeo unveils its specific technologies for electric vehicles featured on its show car at the Paris Motor Show
September 27, 2010	■ Valeo: Valeo revises upwards automotive production estimates for 2010
September 22, 2010	■ Valeo unveils its Electric Show Car at the Paris Motor Show
September 7, 2010	■ Valeo launches first dual direct drive wiper system on the market
August 2010	
August 19, 2010	■ Valeo's Board of Directors takes note of Behdad Alizadeh resignation and of termination by Pardus of the May 21, 2008 Agreement
July 2010	
July 27, 2010	■ Valeo: 2010 first-half results
July 26, 2010	■ Valeo enters North American automatic transmission market with torque converter produced in new plant in Mexico
July 12, 2010	■ Valeo presents visibility and driving assistance technologies at the eSafety Challenge 2010
June 2010	
June 9, 2010	■ New Valeo micro-hybrid system to equip PSA Peugeot Citroën e-HDi diesel models
June 3, 2010	■ Valeo: 2010 Combined Annual Meeting of Shareholders
June 2, 2010	■ Valeo specifies its results outlook for the first-half 2010
May 2010	
May 26, 2010	■ Valeo announces the creation of an Advisory Board to support the Group in the implementation of its strategy
May 20, 2010	■ Valeo: Annual General Meeting of Shareholders: supplementary information concerning certain resolutions
May 19, 2010	■ Valeo acquires 100% of its electrical systems entity in India
May 5, 2010	■ Publication of the Meeting Notice for the 2010 Valeo Annual General Shareholders' Meeting
April 2010	
April 22, 2010	■ Valeo: 2010 first quarter results

7.E. Information related to the Statutory Auditors

7.E.1. Statutory Auditors and Alternate Statutory Auditors

Statutory Auditors:

- 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
  - Term of office began: Shareholders' Meeting of June 3, 2010 (first term)
  - End of current term of office: term expires at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2015;
- 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
  - Term of office began: Shareholders' Meeting of June, 3 2010 (first term)
  - End of current term of office: Term expires at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2015.

The term of the statutory auditors PricewaterhouseCoopers Audit and Salustro Reydel, member of KPMG, was not renewed at the Ordinary and Extraordinary General Shareholders' Meeting of June 3, 2010 called to approve the financial statements for the year ended December 31, 2009.

Alternate Statutory Auditors:

- 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 de Versailles
  - Term of office began: Shareholders' Meeting of June 3, 2010 (first term)
  - End of current term of office: Term expires at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2015;
- Philippe Castagnac – 44 rue de la Faisanderie – 75116 Paris, France
  - Member of the *Compagnie régionale des Commissaires aux comptes de Paris*
  - Term of office began: Shareholders' Meeting of June 3, 2010 (first term)
  - End of current term of office: Term expires at the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2015.

7.E.2. Fees paid to the Statutory Auditors

2010 *(in millions of euros)*	Ernst & Young	%	Mazars	%
AUDIT				
Issuer	0.0		0.0	
Consolidated subsidiaries	3.1		2.1	
Statutory audit and contractual audits	**3.1**		**2.1**	
Issuer	0.0		0.0	
Consolidated subsidiaries	0.2		0.0	
Audit-related services	**0.2**		**0.0**	
SUB-TOTAL AUDIT	**3.3**	**94%**	**2.1**	**95%**
OTHER SERVICES PROVIDED BY MEMBERS OF THE AUDITORS' NETWORKS TO CONSOLIDATED SUBSIDIARIES				
Legal and tax advisory services	0.1		0.1	
Other	0.1		0.0	
SUB-TOTAL OTHER SERVICES	**0.2**	**6%**	**0.1**	**5%**
TOTAL	**3.5**	**100%**	**2.2**	**100%**

2009 *(in millions of euros)*	PwC	%	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%**

7.F. Person responsible for the Registration Document

7.F.1. Name of the person responsible for the Registration Document containing the annual financial report

Jacques Aschenbroich, Chief Executive Officer of Valeo

7.F.2. 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 this Registration Document is, to the best of my knowledge, in accordance with the facts and contains no omissions likely to affect its import.

I further declare that, to the best of my knowledge, the accounts have been prepared in accordance with applicable accounting standards and that they give a true and fair view of the assets, liabilities, financial position, and results of the Company and of all the companies included in the consolidation scope, and that the information provided in the Management Report in Chapter 8, section 8.D gives a fair and true view of the activity, results and financial position of the Company and of all the companies in the consolidation scope, and of the main risks and uncertainties to which they are exposed.

I obtained a statement from the Statutory Auditors at the end of their engagement in which they affirm 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 ended December 31, 2010 are the subject of a report by the Statutory Auditors which appears in Chapter 5, section 5.B.7. of the present Registration Document, which contains observations of a purely technical nature.

The consolidated financial statements for the year ended December 31, 2009 are the subject of a report by the Statutory Auditors which appears in Chapter 4, section 4.G. of the Registration Document filed with the *Autorité des Marchés Financiers* (AMF) on March 23, 2010, reference number D.10-0149, which contains observations of a purely technical nature.

The parent company financial statements for the year ended December 31, 2008 are the subject of a report by the Statutory Auditors, which appears in Chapter 5, section 5.E. of the French version of the Registration Document filed with the *Autorité des Marchés Financiers* (AMF) on March 17, 2009, reference number D.09-0128, which contains an observation."

Paris, March 28, 2011

Jacques Aschenbroich

Chief Executive Officer

8

CROSS-REFERENCE TABLES

The elements of the annual financial report can be clearly identified in the table of contents using the AFR pictogram

8.A. Cross-reference table for the Registration Document

This cross-reference table lists the main headings provided for by European Commission Regulation 809/2004 of April 29, 2004 (the "Regulation") and gives reference to the sections and, when appropriate, the chapters in this document where information can be found regarding each of these headings. It also refers to the Registration Document sections and chapters of the fiscal year ended December 31, 2009, registered with the French financial markets authority (*Autorité des Marchés Financiers-AMF*) on March 23, 2010, under number D.10-149 ("RD 2009") and, where necessary, to the Registration Document sections and chapters of the fiscal year ended December 31, 2008, registered with the AMF on March 17, 2009 under number D.09-128 ("RD 2009").

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections
1.	**Persons responsible**	
1.1	Names and functions of persons responsible	7.F.1
1.2	Declaration by persons responsible	7.F.2
2.	**Statutory Auditors**	
2.1	Name and address of the Statutory Auditors	7.E.1
2.2	Information on the resignation of the Statutory Auditors	N/A
3.	**Selected financial information**	
3.1	Selected historical financial information	1.B and 5.F.1
3.2	Selected financial information for interim periods	N/A
4.	**Risk factors**	2
5.	**Information relating to the issuer**	
5.1.	History and development of the issuer	
5.1.1	Legal and commercial name of the issuer	7.A.1.
5.1.2	Place of registration and registration number	7.A.6.
5.1.3	Date of incorporation and length of life	7.A.4.
5.1.4	Registered office, legal form, legislation under which the issuer operates, its country of incorporation, and the address and telephone number of its registered office	7.A.1 and 7.A.2
5.1.5	Important events in the development of the issuer's business	1.A.1.
5.2.	Investments	
5.2.1	Principal investments made	1.C.5
5.2.2	Principal investments in progress	1.C.5
5.2.3	Principal future investments	1.C.5
6.	**Business overview**	
6.1.	Principal activities	
6.1.1	Nature of the issuer's operations and its principal activities	1.D
6.1.2	New products	1.D
6.2.	Principal markets	1.E.1
6.3.	Exceptional factors	N/A
6.4.	Dependence on patents, licenses, contracts and manufacturing processes	1.C.3 and 2.A.3.1
6.5.	The basis for any statements made by the issuer regarding its competitive position	1.E.2
7.	**Organizational structure**	
7.1.	Brief description of the Group	1.C.1 and 7.B
7.2	List of significant subsidiaries	7.B and 5.B.6 (Note 7)
8.	**Property, plant and equipment**	
8.1.	Material property, plant and equipment	1.C.4
8.2	Environmental issues that may affect the issuer's utilization of property, plant and equipment	1.C.4.2, 2.A.2 and 3.A

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections
9.	**Operating and financial review**	
9.1.	Financial position	5.A.2. Chapters 1-3 of RD 2009 Chapters 1-3 of RD 2008
9.2.	Operating results	5.A.1 and 5.D Chapters 1-3 of RD 2009 Chapters 1-3 of RD 2008
9.2.1	Significant factors materially affecting the issuer's income from operations	5.A and 2.A.1.1
9.2.2	Explanation of material changes in net sales or revenues	5.A
9.2.3	Any policies or factors that have materially affected or could materially affect, directly or indirectly, the issuer's operations	5.A and 2.A.1.1
10.	**Capital resources**	
10.1.	Issuer's capital resources	5.A.2.1, 5.A.2.2, 5.B.5, 5.B 6 (Notes 5.8, 5.10 and 5.11), 6.F.1 and 6.F.2
10.2.	Source and amounts of cash flows	5.A.2.3, 5.B.4, and 5.B.6 (Note 5.11)
10.3.	Information on the borrowing requirements and funding structure	5.A.2.3, 2.A.5 and 5.B.6 (Notes 5.10, 6.1, 6.2)
10.4.	Restrictions on the use of capital resources	2.A.5 and 5.B.6 (Note 6.2.2)
10.5.	Anticipated sources of funds	2.A.5 and 5.B.6 (Note 6.2.2)
11.	Research and development, patents and licenses	1.B.4, 1.C.3, 1.D.6, 5.B.6 (Note 5.2)
12.	**Trend information**	
12.1	Most significant recent trends in production, sales and inventory, and costs and selling prices since the end of the last fiscal year	5.C
12.2	Known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the issuer's prospects	5.C
13.	**Profit forecasts or estimates**	
13.1	Statement setting out the principal assumptions upon which the issuer has based its forecasts or estimate	N/A
13.2	Report prepared by the auditors	N/A
13.3	Preparation of the profit forecast or estimate	N/A
13.4	Statement on the validity of a forecast previously included in a prospectus	N/A
14.	**Administrative, management and supervisory bodies, and senior management**	
14.1.	Members - statements	4.A.1, 4.A.2, 4.A.3.3, 4.D.1 and 4.D.2.7
14.2.	Conflicts of interest	4.A.3.1
15.	**Compensation and benefits**	
15.1.	Compensation and benefits in kind	4.B, 4.D.2.12, 4.D.2.13 and 5.B.6 (Note 6.6.1)
15.2.	Retirement and similar benefits	4.B.1.1.6, 4.B.1.2.6, 4.B.3, 4.B.3.2, 5.A.2.2 and 5.B.6 (Note 5.9.2)
16.	**Board practices**	
16.1.	Terms of office of members of the Board of Directors	4.A.1.2.
16.2.	Service contracts with members of the administrative bodies	4.A.3.2.
16.3.	Information about the Audit Committee and Compensation Committee	4.C.4 and 4.D.2.5
16.4.	Statement regarding corporate governance	4.D.3 and 7.A.3
17.	**Employees**	
17.1.	Number of employees	1.C.1.1, 1.C.4.1 and 3.B.1.1
17.2.	Shareholdings and stock options	4.A.1.2, 4.B.1.1.5, 4.B.1.2.5, 4.B.3.1 and 4.D.2.12
17.3.	Arrangements for involving employees in the capital of the issuer	3.B.6.2.3 and 6.D.4

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections
18.	**Major shareholders**	
18.1.	Identification of principal shareholders	6.D
18.2.	Existence of differing voting rights	6.D.2 and 7.A.1.1
18.3.	Control of the issuer	6.D.2
18.4.	Arrangements which may result in a change in control of the issuer	6.F.5.1
19.	**Related party transactions**	4.D.2.8, 4.D.2.9, 4.F, 5.B.6 (Note 6.6) and 6.F.6.3 Sections 3.J.4-4.F.6.7-5.A.2.8-5.A.2.9 of RD 2009 Sections 3.J.4-4.F.5.8 -5.A.2.8-5.A.2.9 of RD 2008
20.	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**	
20.1.	Historical financial information	5.B Chapters 1-4 of RD 2009 Chapters 1-4 of RD 2008
20.2.	Pro forma financial information	N/A
20.3.	Financial statements	5.D
20.4.	Auditing of historical annual financial information	
20.4.1	Statement that the historical financial information has been audited	5.B.7 Sections 4.G-7.B of RD 2009 Sections 4.G-7.B of RD 2008
20.4.2	Other information audited by the Auditors	4.E and 4.F Sections 5.B of RD 2009 Sections 5.B of RD 2008
20.4.3	Source of financial data not extracted from the issuer's audited financial statements	N/A
20.5.	Age of latest financial information	12/31/2010
20.6.	Interim and other financial information	
20.6.1	Half-yearly or quarterly financial information	N/A
20.6.2	Interim financial information	N/A
20.7	Dividend policy	7.A.8
20.7.1	Amount of dividends	6.C
20.8.	Legal and arbitration proceedings	2.A.3.3, 5.B.6 (Notes 4.5.1 and 6.4)
20.9.	Significant change in the financial or trading position	5.B.6 (Note 6.8) and 5.C.1

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/Sections
21.	**Additional information**	
21.1.	Share capital	
21.1.1	Amount of issued capital	6.D.2 and 6.F.1
21.1.2	Shares not representing capital	6.F.4
21.1.3	Shares held by the issuer itself	6.D.2 and 6.E.4
21.1.4	Convertible securities, exchangeable securities and securities with warrants	6.F.3
21.1.5	Information about the terms and conditions of any acquisition rights and/or obligations over authorized but unissued capital or an undertaking to increase the capital	6.F.2
21.1.6	Information about any capital of any member of the group which is under option or agreed conditionally or unconditionally to be put under option	6.F.5.2
21.1.7	Share capital history	6.F.1
21.2.	Memorandum and Articles of Association	
21.2.1	Description of the issuer's objects and purposes	7.A.5.
21.2.2	Summary of any provision on the issuer's articles of association, statutes, charter or bylaws with respect to the members of the administrative, management and supervisory bodies	4.C and 4.D.2
21.2.3	Description of the rights, preferences and restrictions attaching to each class of shares	7.A.8, 7.A.9 and 7.A.11
21.2.4	Description of the actions necessary to amend the rights of the shareholders	7.A.12
21.2.5	Description of the conditions governing the manner in which annual shareholders' meetings and extraordinary shareholders' meetings are called	7.A.10
21.2.6	Description of any provision that would have an effect of delaying, deferring, or preventing a change in control of the Company	6.F.6.3
21.2.7	Indication of any provision governing the ownership threshold above which shareholder ownership must be disclosed	6.F.5.3
21.2.8	Description of the conditions governing changes in the capital, where such conditions are more stringent than is required by law	7.A.12
22.	**Material contracts**	7.C
23.	**Third party information and statement by experts and declarations of interest**	
23.1	Statement or report attributed to a person as an expert	N/A
23.2	Information from a third party	N/A
24.	**Documents on display**	7.D
25.	**Information on holdings**	1.A.2, 5.B.6 (Notes 2, 5.4 and 7) and 7.B

8.B. Cross-reference table with employment and environmental disclosures required by the New Economic Regulations Act, introduced by Decree no. 2002-221

Disclosures made pursuant to Art. R. 225-104 and R. 225-105 of the French Commercial Code		Chapters/sections
Art.1	**Company information**	
1°	Total workforce, hirings, recruitment problems if any, layoffs and reasons, overtime, contracted labor	3.B.1 and 3.B.2
	Workforce reduction, employment protection plans, redeployments, rehiring and support measures	N/A
2°	Organization of the work week, workday of full-time employees, workday of part-time employees, absenteeism and reasons	3.B.2
3°	Compensation and changes in compensation, employer payroll contributions, application of employment law regarding profit-sharing, stock ownership and employee savings plans, and gender parity	3.B.3 and 3.B.6
4°	Labor relations and collective bargaining agreements	3.B.4
5°	Health and safety conditions	3.B.5
6°	Training	3.B.7 and 3.B.11
7°	Employment and integration of workers with disabilities	3.B.8
8°	Social welfare initiatives	3.B.9
9°	Extent of subcontracting and the promotion and observance by subsidiaries of the core conventions of the International Labour Organization	3.B.10
Art.2	**Environmental information**	
1°	Consumption of water, raw materials and energy Measures taken to improve energy efficiency Use of renewable energy Conditions for land use Emissions into the air, water and ground that seriously impact the environment and appear on official lists prepared by ministries concerned with the environment and industry Sound or smell pollution Waste	3.A.2.3
2°	Measures taken to mitigate negative impacts on biological diversity, natural environments and protected animal and plant species	3.A.2.3
3°	Environmental assessments and certification efforts	3.A.1.3.4
4°	Measures taken to ensure that the Company's business operations comply with environmental legislation and regulations	3.A.1.3.3
5°	Total environmental protection expenditure	3.A.3
6°	Internal organization, training and information given to employees and programs implemented with regard to the environment	3.A.1 3.A.2.3.9 3.A.3
7°	Amount of provisions and guarantees for environmental risks	3.A.3
8°	Amount of fines paid during the year for non-compliance with environmental laws and regulations and action taken to repair damages caused	3.A.3
9°	Extension of standards 1 to 6 to subsidiaries	3.A (introduction)
10°	Account taken of the impact of operations on employment and regional development in France Description of relationships maintained with equal-opportunity groups, educational institutions, environmental-protection groups, consumer groups and neighboring local communities	3.B.8, 3.B.9, 3.B.10 and 3.B.11

8.C. Cross-reference table for the Annual Financial Report

	Annual financial report	Chapters/sections
1.	**Parent company financial statements**	5.D
2.	**Consolidated financial statements**	5.B
3.	**Management report (French Monetary and Financial Code)**	
	Article L.225-100 of the French Commercial Code	
	Analysis of business trend	5.A.1
	Analysis of results	5.A.1
	Analysis of financial position	5.A.2
	Principal risks and uncertainties	2.A
	Summary table of powers currently delegated by the Annual General Shareholders' Meeting to the Board of Directors with respect to capital increases	6.F.2
	Article L.225-100-3 of the French Commercial Code	
	Factors likely to be material in the event of a public tender offer	6.F.6
	Article L.225-211 of the French Commercial Code	
	Buyback by the Company of its own shares	6.E
4.	**Declaration by the person responsible for the Registration Document**	7.F.2
5.	**Statutory Auditors' report on the financial statements**	N/A
6.	**Statutory Auditors' report on the consolidated financial statements**	5.B.7
7.	**Statutory Auditors' special report on related-party agreements and commitments**	4.F
8.	**Fees paid to the Statutory Auditors**	7.E.2
9.	**Report by the Chairman of the Board on corporate governance, internal controls and risk management (Article L.225-37 of the French Commercial Code)**	4.D
10.	**Statutory Auditors' report on the Chairman's Report**	4.E

8.D. Cross-reference table of the Management Report as provided for by Articles L. 225-100 *et seq.* of the French Commercial Code

	Management Report - French Commercial Code	Chapters/sections
	Operations report	
1.	Financial position and operations of the Company in the past year	5.D
2.	Results of operations of the Company, its subsidiaries and companies under its control	5.A.1
3.	Key financial performance indicators	1.B
4.	Review of the business, results of operation and financial position	5.A
5.	Material events occurring between the balance-sheet date and the date the report was prepared	5.C.1
6.	Developments and outlook	5.C.2
7.	Research and Development activity	1.C.3
8.	Supplier payment cycles	5.D
9.	Changes in the presentation of the annual parent company financial statements and methods of measurement	5.A, 5.B.3, 5.B.6 (Note 1.21)
10.	Description of major risks and uncertainties	2.A
11.	Information on facilities classified as high-threshold Seveso sites	N/A
12.	Use of financial instruments	5.B.6 (Notes 1.14, 6.1 and 6.2)
13.	Investments over the past three years	1.C.5
14.	Material investments or controlling interests taken during the year in companies with registered offices in France	1.C.5.1
	Corporate Social Responsibility	
15.	Information on how the Company takes into account the social and environmental consequences of its operations	8.B
16.	Key environmental and social indicators	8.B
	Governance	
17.	General Management body of the Company	4.A.1.1
18.	List of all directorships and positions held in companies by each corporate officer during the past fiscal year	4.A.1.2
19.	Compensation and benefits in kind paid to each corporate officer during the past fiscal year	4.B
20.	Breakdown into the fixed, variable and extraordinary components of such compensation and benefits, and the calculation method	4.B.1.1, 4.B.1.2 and 4.D.2.13.2
21.	Commitments given on behalf of executive corporate officers and other Group executive managers	4.B.1 and 4.B.3
22.	Terms and conditions for transferring free shares to executive corporate officers during their term of office	4.B.1.2.5 and 4.B.2.12
23.	Transactions in the company’s shares carried out by Directors and by those with whom they have close relationships	4.A.4
	Share ownership structure and share capital	
24.	Share ownership structure and changes during the fiscal year	6.D and 6.F.1
25.	Status of employee stock-ownership plans	6.D.4
26.	Treasury shares bought and sold by the Company	6.E
27.	Name of companies controlled and equity interest	5.B.6 (Note 7)
28.	Stock disposals to adjust reciprocal shareholdings	N/A

	Management Report - French Commercial Code	Chapters/sections
29.	Amount of dividends and other distributed earnings paid during the past three fiscal years	6.C
30.	Disclosures likely to be material in the event of a public tender offer	6.F.6
	Other disclosures	
31.	Sumptuary expenses	5.D
32.	Five-year financial summary	N/A
33.	Injunctions or monetary penalties for anti-competitive practices	N/A
34.	Information on stock option plans granted to corporate officers and employees	4.B.3.1, 4.D.2.12.1
35.	Information on free shares granted to corporate officers and employees	4.B.3.1, 4.D.2.12.2
36.	Summary table of powers currently delegated by the Annual Shareholders' Meeting to the Board of Directors with respect to raising new equity and the use made of such delegations during the year	6.F.2

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