2011
Registration Document
containing the annual financial report

Automotive technology, naturally

Contents

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

2011 Registration Document

containing **the annual financial report**

This Registration Document was filed with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2012, pursuant to Article 212-13 of the AMF's General Regulations. It may only be used in connection with a corporate finance transaction when accompanied by a prospectus 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 Registration Documents 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, 2010, and the Statutory Auditors' special report on related-party agreements in respect to 2010 included in the Registration Document filed with the AMF on March 29, 2011, under number D.11-0191;
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, 2009, and the Statutory Auditors' special report on related-party agreements relating to 2009 included in the Registration Document filed with the AMF on March 23, 2010, under number D.10-0149.

Group profile

Valeo is an independent Group whose sole focus is the design, manufacturing and marketing of components, integrated systems and modules for the automotive industry, primarily to reduce CO_2 emissions. It is one of the world's leading suppliers in the automotive industry.

The Group has 124 plants, 21 research centers, 40 development centers, and 12 distribution platforms, spread across 28 countries and employing 68,000 people.

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

valeo added™

Interview with Jacques Aschenbroich, Chief Executive Officer of Valeo

Jacques Aschenbroich
Chief Executive Officer

How does 2011 stand out for you at Valeo?

J.A.: Our financial results for 2011 were a further sign of our strong momentum. Thanks to the growing success of our new technologies, we have reinforced our positions in the main production regions and each of our businesses by once again outpacing the global growth trend in automotive production.

We were able to report solid, high-quality results for 2011 despite the rising price of raw materials, most notably rare-earth metals, the tragic events that hit Japan and Thailand, and the temporary saturation of production capacity at some of our plants. Sales rose by 13% to 10.9 billion euros. Operating margin came out at 6.5%, showing once again that we know how to keep margins on target. Net attributable income surged by 17% to 427 million euros.

We also generated free cash flow of 232 million euros, while our return on capital employed exceeded 30% for the second year running.

However, the best news from 2011 was the record order intake of 14.9 billion euros, representing an increase of 19% over 2010. This testifies to the trust that customers have placed in our products, in particular our innovations in CO_2 emissions and ability to grow organically in the main automotive production regions and each of our Business Groups.

Lastly, thanks to a strong balance sheet, this year we can propose a dividend of 1.40 euros per share, an increase of 17% over 2010.

How do you explain these strong results?

J.A.: Our 2011 results were fueled by a development strategy aimed at cutting CO_2 emissions and by business growth in Asia and emerging economies, together with our new leaner business structure – which is a key component for future growth and profitability. Another boost to earnings came from the strengthening of R&D initiatives, leading to the development of innovative products accounting for over 30% of our order intake in 2011.

In a nutshell, we have stepped up the shift towards the fastest-growing geographic areas and customer categories. Asia has today come to represent 25% of our original equipment sales, keeping us on track to reach a target of “over 30%” by 2015. Asian customers have become our foremost customers alongside German firms, with each accounting for 29% of original equipment sales.

Amid this strong recovery, our strict cost management policy also enabled us to lower our breakeven point to below levels seen prior to the 2009 economic downturn.

We are today better equipped to grow profitably over the long run.

The acquisition of Niles is a milestone in Valeo’s expansion into Asia. What are your first impressions regarding the integration of this Japanese firm into the Group’s activities?

J.A.: The acquisition of Niles, an automotive parts manufacturer, in late June 2011 has quickened the incursion of our activities into high-growth markets, most notably in Asia, in keeping with our aim to develop business in this region. Integration has been extremely smooth in terms of both people and operations. The contribution of Niles to our sales and earnings, as of end-2011, exceeded our expectations. The acquisition enhanced earnings right from the first six months.

What are your expectations for 2012 and what new targets have you set yourself?

J.A.: With economic conditions uncertain, especially in Europe, world automotive output could grow by 3% to 4% in spite of a 5% drop in European production and broad stability in the prices of basic materials relative to current levels. Based on this outlook, we may experience another year of above-market growth in 2012 for the main production areas, and achieve an operating margin (in millions of euros) of the same magnitude as 2011.

Our new product portfolio, combined with a dual focus on developing products that reduce CO_2 emissions and expanding our business activities in Asia and emerging economies, means that we are perfectly equipped to continue on our growth trend and demonstrate sustainable financial performance. ”

Jacques Aschenbroich

Chief Executive Officer

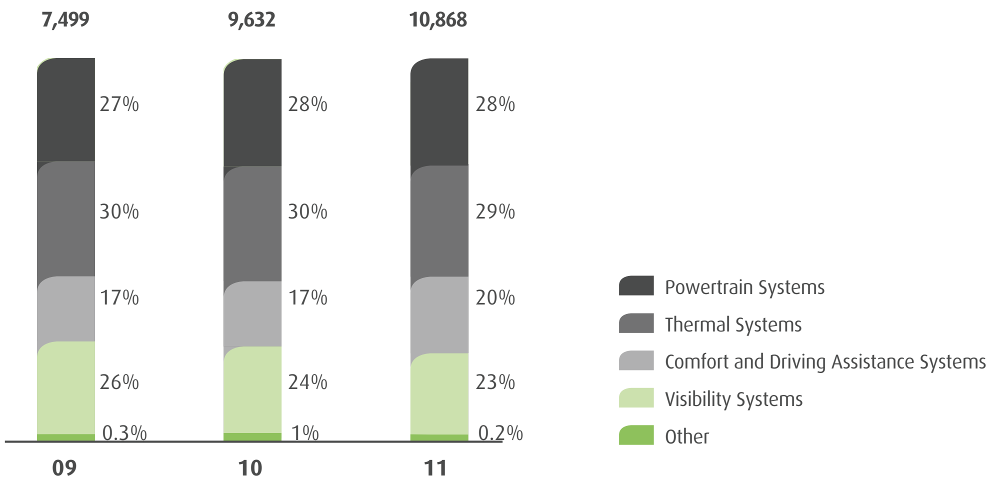
1 PRESENTATION OF VALEO AND ITS BUSINESSES

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

1.1 Key figures

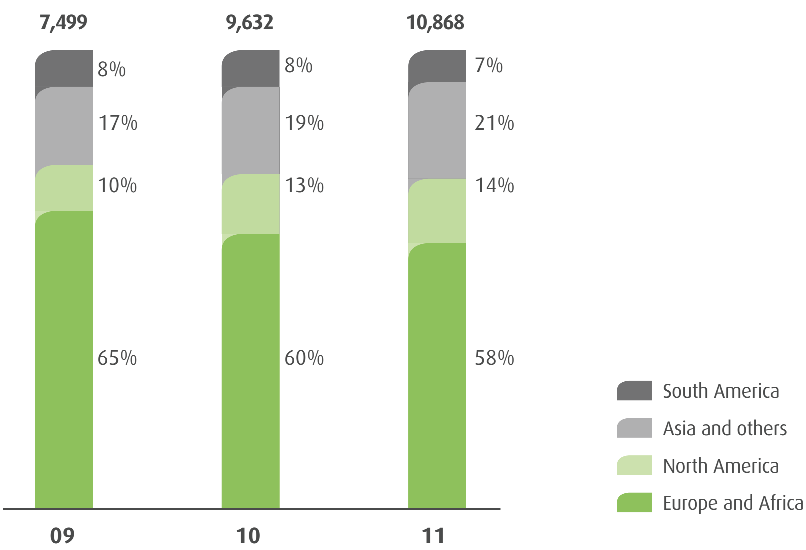
1.1.1 Sales by Business Group

In millions of euros and as a % of sales



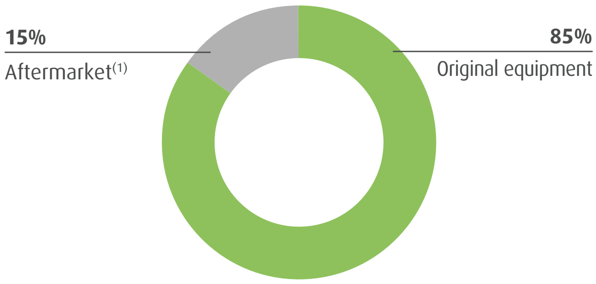
1.1.2 Sales by region

In millions of euros and as a % of sales



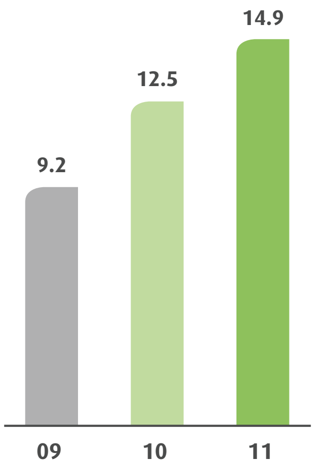
1.1.3 Sales by market

As a % of sales



1.1.4 Order intake

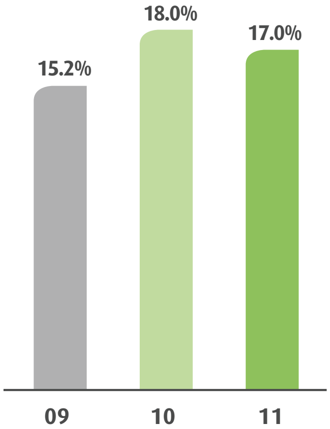
In billions of euros



(1) Including miscellaneous sales and tooling.

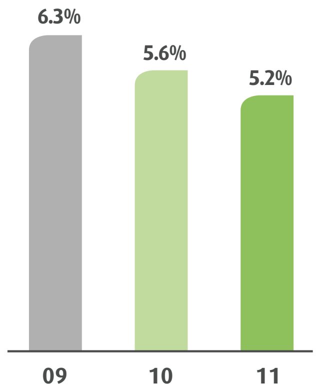
1.1.5 Gross margin

As a % of sales



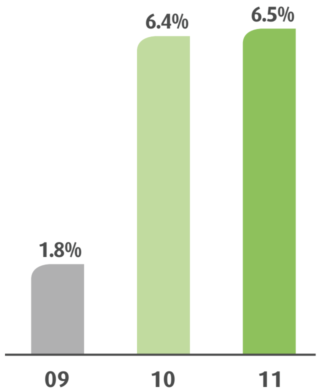
1.1.6 Research and development costs

As a % of sales, net of customer contributions, grants and research tax credits



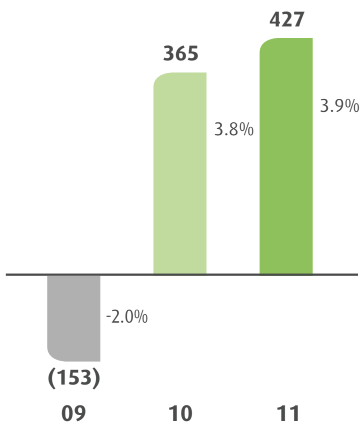
1.1.7 Operating margin(1)

As a % of sales



1.1.8 Net attributable income

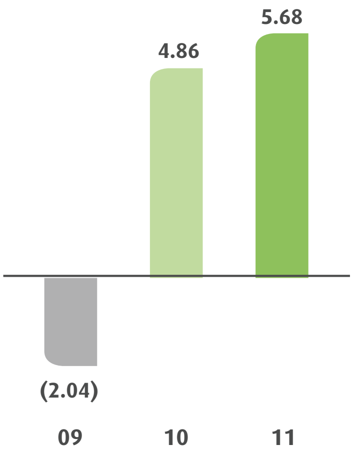
In millions of euros and as a % of sales



(1) Operating margin corresponds to operating income before other income and expenses (see Chapter 5, section 5.2.6, Note 4.5 to the consolidated financial statements, page 212).

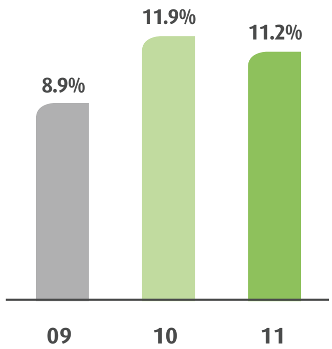
1.1.9 Earnings per share

(basic earnings per share - euro/share)



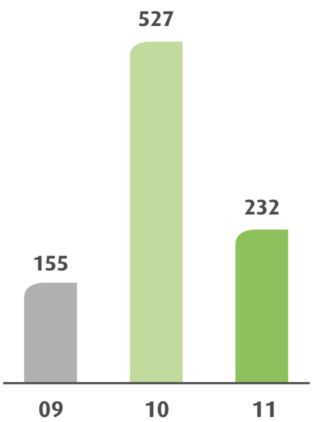
1.1.10 EBITDA[(1)]

As a % of sales



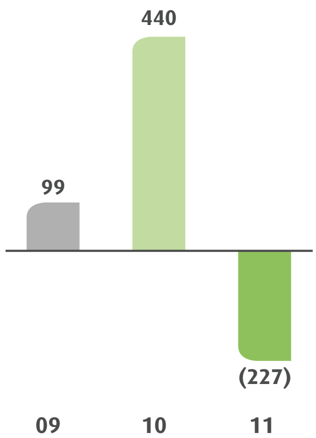
1.1.11 Free cash flow[(2)]

In millions of euros



1.1.12 Net cash flow[(3)]

In millions of euros



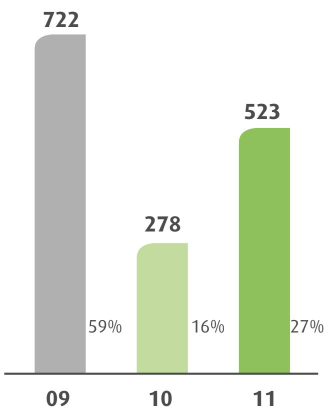
(1) EBITDA corresponds to operating income before depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses and other income and expenses (see Chapter 5, section 5.2.6, Note 3.2 to the consolidated financial statements, page 209).

(2) Free cash flow corresponds to net cash from operating activities less net outflows on property, plant and equipment and intangible assets.

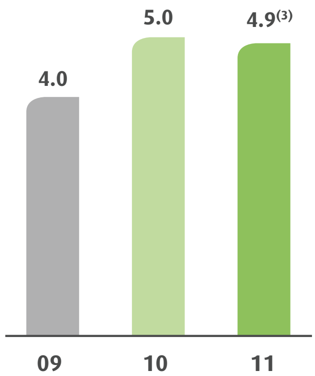
(3) Net cash flow corresponds to free cash flow less financial expenses and after taking into account the payment of dividends and financial flows relating to mergers and acquisitions.

1.1.13 Net debt[1]

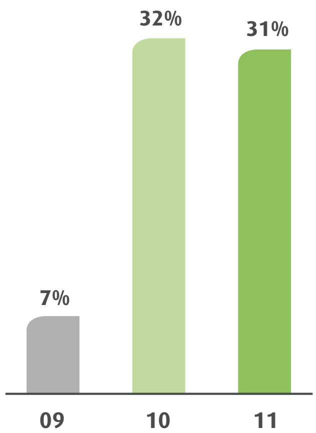
In millions of euros and as a % of stockholders' equity



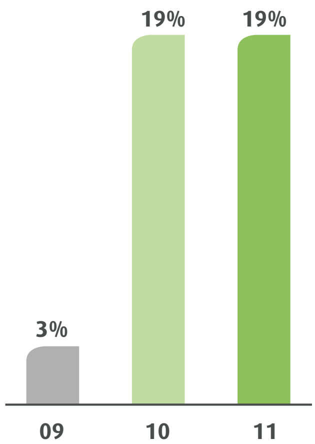
1.1.14 Capital turnover[2]



1.1.15 ROCE (Return on capital employed)[4]



1.1.16 ROA (Return on assets)[5]



(1) Net debt comprises all long-term debt, short-term debt and bank overdrafts, less loans and other non-current financial assets and cash and cash equivalents (see Chapter 5, section 5.2.6, Note 5.10.5 to the consolidated financial statements, page 235).

(2) Sales/capital employed excluding goodwill calculated over 12 months.

(3) Pro forma full year data based on Group structure at the year-end.

(4) Operating margin/capital employed excluding goodwill calculated over 12 months.

(5) Operating margin/capital employed including goodwill.

1.2 Valeo's strategy

1.2.1 Latest trends in the automotive industry

Valeo's strategy is fashioned after two issues that have come to the fore in today's rapidly changing automotive industry: the reduction of CO_2 emissions and strong growth in Asia and emerging countries.

In order to better anticipate these trends, Valeo is using a marketing intelligence system to monitor shifts in the market, in terms of both technology and consumer behaviour, across all world regions (see Chapter 1.3.4, Research and development section, page 29). This system is unrivaled in the automotive equipment sector.

Lower CO_2 emissions

The main technological development in today's automotive market concerns the reduction of CO_2 emissions, which is something that both consumers and the population in general have been demanding.

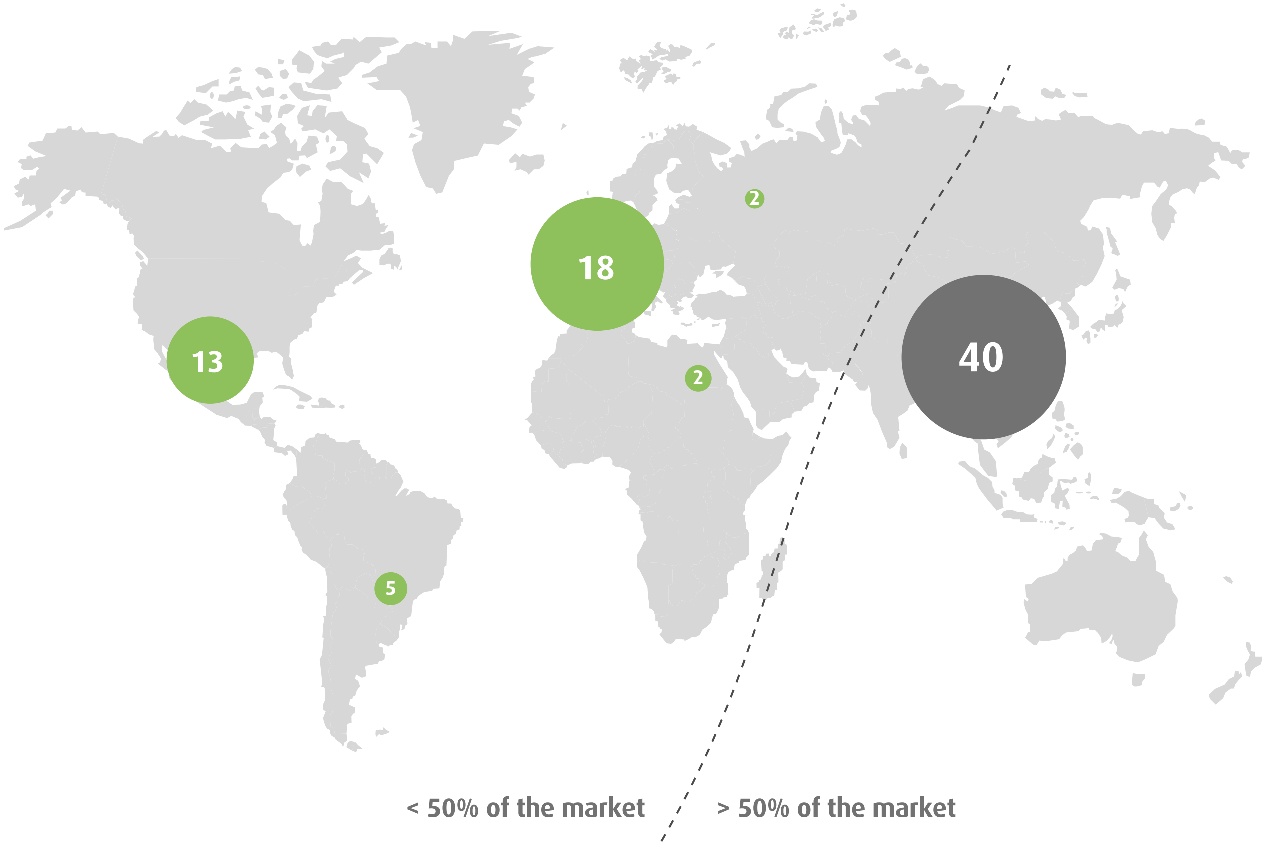
Politically speaking, the question takes a different form depending on the region. For example, Europe has become gripped by the awareness of global warming, while the US and China have focused on the issue of energy dependency. Yet governments are voicing the same message, namely that the transportation industry must find all kinds of business solutions to reduce consumption of petroleum products or, in other words, reduce their carbon footprints. As a result, ever-tighter rules have been decreed all over the globe, starting in Japan and Europe, then spreading to the US followed by China and India.

Additionally, consumers themselves are keen to have technology that can cut fuel consumption, not only for the sake of the environment but also due to rising energy costs. Consequently, technologies developed by the automotive industry must have a substantial economic benefit and convey a positive image in terms of environmental protection, style or driving comfort.

Asia and emerging countries

The second underlying trend is the shift in the automotive industry's epicenter from the western world to Asia. Asia today represents over 50% of world automotive production. China, which represented 23% of the global market in 2011, now ranks as the largest market ahead of Europe, accounting for 130% of growth in global automotive production between 2007 and 2011 (other countries have yet to revert to pre-crisis levels).

Regional breakdown of automotive production in 2012
(In millions of vehicles)



Given the growth outlook in Asia and emerging countries in general, together with low levels of car ownership in these countries, there is no reason why this trend should swing into reverse.

Total quality and presence across all continents

In addition to these shifts in the market, it still should be said that fundamentals in the automotive industry are unchanged. The focus is still on quality, innovation, global platforms, and providing service on every continent. Valeo must therefore ensure the highest quality for its automaker customers, whether for the products that it delivers or in the development of new technologies and applications. It must also be capable of delivering the same products to identical standards of quality and reliability in every market, on every continent, because its customers are themselves looking to produce vehicles in all regions developed on global modular platforms.

With regard to innovation, automotive suppliers are becoming increasingly responsible for the development of new technologies. Since 2004, automotive suppliers in Europe have increased R&D spending three times as much as automakers. Moreover, marketing drives for vehicles focus increasingly on technologies developed by automotive suppliers such as stop-start systems, LED headlamps, and semi-automatic parking.

1.2.2 Presentation of Valeo's strategy

Faced with these changes within the automotive industry, Valeo has built its growth strategy on the following:

- the reduction of CO_2 emissions and innovation;
- expansion within high-growth regions, most notably in Asia and emerging countries.

The reduction of CO_2 emissions and innovation

The purpose of most technological developments is to reduce fuel consumption by increasing the efficiency of internal combustion engines, electrifying powertrains, lowering systems' energy consumption, and developing lighter components. For example, the following technologies have met with a favorable reception by both automakers and consumers:

- stop-start systems, which automatically shut down the engine when the vehicle is idling (e.g., at a red traffic light), saving as much as 15% in fuel consumption in dense urban traffic conditions; advanced hybrid solutions ranging from regenerative braking to enabling vehicles to run for several kilometers on electric power alone;
- vehicle thermal management, for increasing efficiency in internal combustion engines and reducing the energy needed to ensure passenger comfort;
- LED headlamps, used for example in daytime running lights, consume less energy and offer new style possibilities to car designers;
- driving assistance systems, ranging from the detection of obstacles to fully automated parking and systems that provide an aerial view around the vehicle, useful during low-speed maneuvering.

Geographical presence in high-growth regions

Besides the promotion of innovative technologies, marketing and manufacturing efforts are primarily being focused on attracting new customers and winning market share in high-growth regions such as China (today the largest automotive market) as well as India, which is expected to grow at a similar rate to China over the coming years. Other key markets are South-East Asia, South America, Turkey and Russia.

These regions have furthermore become focal points for the installation of new production facilities on account of their lower costs and the need to meet surging demand in these markets. In the countries where Valeo was not previously represented, production units have been set up on multi-activity sites so that fixed costs can be shared, risks minimized and profitability strengthened immediately, from the first few months of operations.

1.2.3 2015 Strategic Plan

At the Investor Day event on March 9, 2011, spurred on by these observations and strategic choices while counting on the dedication of its staff and adapted operating structure, Valeo set the following ambitious targets:

- sales growth exceeding the market rate by 3 points on average annually between 2011 and 2015;
- an operating margin of between 6% and 7% by 2013 and higher than 7% by 2015;
- a return on capital employed of 30% between 2013 and 2015;
- generation of free cash flow amounting to 1.8 billion euros over the 2011-2015 period.

These objectives are based on assumptions of growth for the global automotive market in the region of 5% per year between 2011 and 2015, breaking down per region as an annual growth rate of 4.4% in Europe and Africa, 4.7% in North America, 5.3% in South America and 5.8% in Asia, and on there being no external macro-economic shocks to the industry.

All the assumptions underpinning the 2015 Strategic Plan can be found in the presentation by Robert Charvier, the Group's Chief Financial Officer, on March 9, 2011, which is available on Valeo's website under Publications.

1.2.4 The 5 Axes that support the strategy

Valeo's corporate culture is forged around excellence in operations, which stems from world-class quality standards, the values adhered to by all Valeo employees, and its strong commitment to social and environmental issues.

To ensure customer satisfaction in terms of costs, quality and delivery, Valeo has developed its 5 Axes methodology, which is applied by all sites. The foundation of the 5 Axes is the continuous improvement and the principle of getting things "right the first time". At Valeo, Total Quality sums up the mindset that is applied by all employees, at all levels and at all times. These 5 Axes – Involvement of Personnel, Valeo Production System, Constant Innovation, Supplier Integration and Total Quality – are fundamental in enabling the Group to implement its strategy and achieve its goals.

Involvement of Personnel

Involvement of Personnel, which helps company performance by placing value on human resources and optimizing staff efficiency, is the foundation of the other 4 Axes.

Human Resources must prepare and accompany the Group's growth, through a dynamic hiring policy – especially in high-growth regions.

This aim of this recruitment policy is to identify the key skills that Valeo requires and attract, develop and retain talent, both in emerging countries and in Valeo's traditional markets. Additionally, as innovations represented 30% of order intake in 2011, recruiting engineers and technicians is a challenge owing to stretched job markets in some countries and regions.

Valeo has opted for a global policy that goes beyond financial compensation as the sole criteria, one which encompasses fixed and variable remuneration along with career development, personal levels of autonomy, and training. Another aim of this policy is to emphasize the Group's values as well as its determination and initiatives in favor of well-being at work and a better life-work balance among its employees.

Involvement of Personnel is essential for improving Group profitability, especially in support functions. When putting the new organizational structure in place in 2010, the Group set up shared service centers in various regions. Cash management, accounting, human resources, logistics, and quality have been grouped together in each country to unlock synergies and reduce general and administrative overheads. The target is to reduce these costs to 3.5% by 2015.

Valeo Production System

The Valeo Production System is acknowledged throughout the industry for its effectiveness in quality and cost management. Its foremost aim is to produce quality products with the deadlines – decisive criteria for ensuring customer satisfaction. This lays the foundation for profitable operations today and growth tomorrow.

The second aim of the Valeo Production System is reducing manufacturing costs, labor expenses, inventories and capital expenditure.

Installing production facilities in emerging countries reduces inventories and logistics costs (when delivering locally), cuts costs and capital expenditure. Altogether, Valeo each year dedicates between 50% and 60% of capital expenditure to Asia and emerging countries.

Constant Innovation

To meet the requirements of its various customers and retain its technological advantage, Valeo must constantly develop new products and systems that meet the demands of different global markets. There is no "one size fits all" solution, for example, when it comes to reducing fuel consumption for small or large vehicles, whether entry level or premium, or in differing driving conditions.

Valeo regularly analyzes its R&D portfolio and market developments to ensure that it is offering or developing the products and solutions that will form the foundation of the vehicle of tomorrow. Valeo is paving the way for profitable growth in the future through high levels of net R&D expenditure in the coming years.

Aside from upstream research centers, most of which are located in France, Germany and Japan, Valeo has developed a network of technical and commercial offices located close to its customers so that their needs can be better catered to. Product development and manufacturing work in close collaboration so as to ensure the compatibility between these innovations and production processes.

Lastly, Valeo relies on shared resource centers in low-cost countries to enhance synergies and cut development costs. One such center is the software development center in Cairo (Egypt). Other centers develop electronic circuits in Shenzen (China), or provide mechanical design and simulations in Chennai (India). Another, in Wuhan (China), specializes in lighting systems.

To ensure product design, quality and product robustress, throughout the world, Valeo has developed standards applicable to all products, in every region. A procedure for monitoring these standards, as well as their application, was implemented in 2010 and is already producing results. This aims to reduce both delivered non quality and warranty-related costs.

Supplier Integration

Valeo relies on a unique financial model with a strong capital turnover (approximately five) and a negative working capital requirement, made possible by the close integration of suppliers into the value chain and continual analysis of best solutions for in-house production or the purchasing of submodules (make or buy). One key criterion in this analysis – aside from the potentially strategic nature of a component – is return on invested capital. For example, Valeo has a low degree of vertical integration relative to competitors in areas such as tooling and metal casting. Furthermore, it relies heavily on suppliers for developing better, lighter, and more cost-efficient new products.

To optimize procurement, the Group implemented a new purchasing organization improving coordination between various purchasing teams. Each Business Group is still responsible for its own procurement, which is a sizable cost component (58% of sales in 2011), but buyers in different regions offer support in helping to find competitively priced suppliers. The central purchasing network lays down strategic priorities for the purchasing of each commodity.

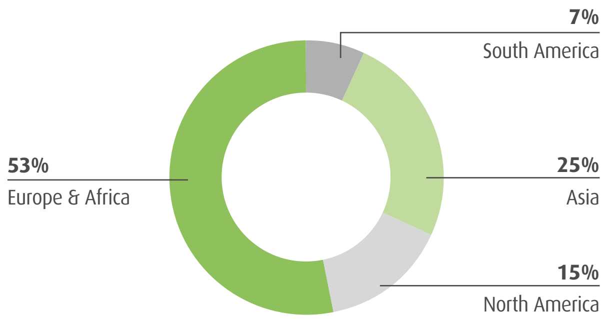
Total Quality for customer satisfaction

Whatever we do, whichever process is at work, customers are the focal point. Their full satisfaction is what underpins growth and profitability at Valeo, both today and tomorrow.

For example, it was at the request of its customers that the Group set up production facilities all around the world. Initially, the aim was to better serve its long-standing customers in Europe, the US and Japan. Today, however, Valeo is equally keen to meet the needs of new players, in particular those in China and India.

New regional positioning

Original equipment sales in H2 2011 after the acquisition of Niles



To guarantee this level of service and this international footprint, Valeo must stake a claim as a key player in the automotive market. For this reason, the Group is focusing growth plans on existing business activities. Today, Valeo ranks either first or second globally in each of its primary Product Lines.

Automakers rely on global platforms to optimize development and boost procurement volumes. Vehicle models are then adapted to the regional markets. To meet the requirements of its major customers, Valeo needs the support of development and production capacities in every world region. A singular sales organization was put into place in 2010 with the aim of offering a global interface to major customers' headquarters together with local interfaces for each one of their regional bases.

Valeo's products are designed for specific vehicle applications and must be available throughout a vehicle's lifetime, long after the production of the model in question has actually ceased. The service offered to customers starts with product development, then moves on to actual production and lastly encompasses spare parts, sold through automaker dealerships or the independent aftermarket.

1.2.5 Confident that targets will be met

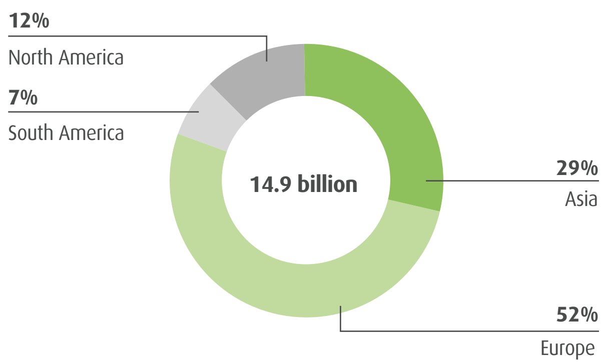
Valeo is confident that its medium-term targets will be achieved thanks to a strong order book, its customer portfolio, healthy balance of regions and products, and its new organizational structure, which has now been fully implemented.

Growth

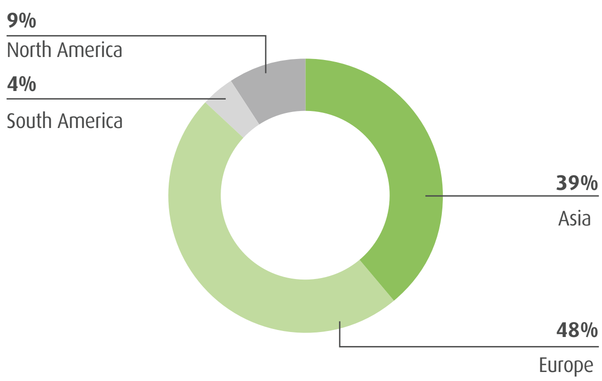
The order book stands at a record 14.9 billion euros, equating to an orignal equiment book-to-bill ratio of over 1.6 in 2011. This means that 78% of the original equipment sales target for 2015 is already in the order book.

The order book shows a healthy breakdown by region and customer. Asia represented 29% of the order book in 2011 compared with Europe's 52%, in line with the targeted breakdown of sales in 2015 that was outlined at the Investor Day event in March 2011. In order to support this growth, 39% of the Group's new R&D hires last year were located in Asia.

Regional breakdown of order intake in 2011



Regional breakdown of R&D hiring in 2011[1]



Valeo's product positioning and technological edge in each of its markets, coupled with continuing R&D investment, guarantee a strong order intake in the years ahead.

Profitability

Aside from tight management of day-to-day operations, the new organizational structure, implemented in 2010, has improved Valeo's profitability. In addition to the direct benefit to the Group's general and administrative overheads, the new organization has led to a less capital-intensive production policy within Valeo, with a better distribution across regions. Expenditure on production facilities was kept at 80% of depreciation charges in 2009 and 2010 and lifted to 5% of sales in 2011. Investment in the coming years will be focused on growth, in keeping with "lean manufacturing" principles.

Return on capital employed

Continual rotation between in-house manufacturing and outsourcing keeps a lid on capital expenditure. Through the optimized management of inventories and cross-continent logistics kept to the lowest level possible, Valeo is able to operate with a negative working capital requirement. As a result, capital turnover shows a ratio of around 5. The return on capital employed increased to over 30% in 2010 and remained there in 2011.

Group financing

Through two bond issues, in 2011 and early 2012, the average maturity on debt has been extended to 4.42 years. This covers the Group's financing needs for the next five years. The next large repayment of bond debt is now due in 2017.

In late 2011, the ratio of net debt over EBITDA was 0.4 while the gearing ratio[2] came to 27%.

Valeo holds all the resources to sustain growth in all business lines and key automotive production regions: a clear-cut strategy, innovative products, a solid balance sheet, a worldwide industrial footprint, and talented dedicated staff. Valeo is confident that targets for 2015 are within reach.

(1) On a constant scope basis.

(2) Net debt over equity excluding non-controlling interests.

1.3 Presentation of Valeo

1.3.1 History and development of the Group

The Group's origins date back to the creation of Société Anonyme Française du Ferodo (SAFF) in **1923**, 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 was a time of development for SAFF 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 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 trucks in the United States).
- Creation of the Valeo Acustar Thermal Systems Inc. joint venture (climate control in the United States).

1989

- Acquisition of Delanair (climate control in the United Kingdom).
- 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 and horns) in 1990.

The 1990s

The Group implemented a powerful strategy based on:

- a new industrial culture: the Group adopted its "5 Axes" method in 1991;
- a sustained Research and Development drive: in 1992, the Group set up an electronics research center in Créteil (France) and an electronic module production site at Meung-sur-Loire (France). In 1993, Valeo opened 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' heat exchanger 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 portion 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

- Acquisition of 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 and Valeo Zexel China Climate Control). This gave Valeo control of the entire share capital of its climate control and compressor production businesses.
- Increase in Valeo's stakes in two Thai companies, Siam Zexel Co., Ltd. and Zexel Sales Thailand Co., Ltd. – specializing in climate control systems – to 74.9%.
- Creation of 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.
- Creation of 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.
- Increase in its stake in Ichikoh, the Japanese manufacturer of automotive lighting systems and mirrors to 28.2%.

2006

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

- Sale of its truck engine cooling division to EQT, a Northern European investment fund.
- Creation of a joint venture with the Russian company Itelma, which supplies automotive parts to Russian manufacturers, in which Valeo holds a 95% stake.

- Creation of a joint venture with the Anand group to produce lighting systems in India. The new company, called Valeo Lighting Systems India Private Limited, is majority owned by Valeo.
- Strengthening of strategic links with Ichikoh with the signing of a new agreement on operational management and corporate governance.

2009

- On March 20, 2009, Pascal Colombani and Jacques Aschenbroich were appointed Chairman of the Board of Directors and Chief Executive Officer, respectively.
- 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: Powertrain Systems; Thermal Systems; Comfort and Driving Assistance 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 electromagnetic retarder business 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%.

2011

- Acquisition of the Japanese automotive supplier Niles from RHJ International SA and Nissan. The Group thus became the world leader on the interior controls market. The company was integrated into the Comfort and Driving Assistance Systems Business Group under the name Valeo Niles.
- A new multi-activity site was opened in Nizhny Novgorod, in Russia (lighting systems, access mechanisms and wiper systems).
- Acquisition of a subsidiary of UK automotive technology development company Controlled Power Technologies (CPT), which develops VTES (Variable Torque Enhancement System) technology. With this move, Valeo became the first automotive supplier to offer its customers a range of electric superchargers. This company was renamed Valeo Air Management UK and was integrated into Valeo's Powertrain Systems Business Group.
- Acquisition of Standard Motor Product Inc.'s entire interest in the French company Valeo Four Seasons, which sells compressors on the aftermarket as well as for trucks and special vehicles.
- Acquisition of an 80% shareholding in the Chinese company Wuhu Ruby Automotive Lighting Systems, renamed Wuhu Valeo Automotive Lighting Systems.
- Acquisition of a controlling interest in two Korean companies Valeo Pyeong Hwa Co. Ltd and Valeo Pyeong Hwa Co. Ltd International Co. Ltd, through the granting of an additional seat on the boards of these companies and changes to their governance.

1.3.2 Description and structure

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 trucks. It serves both the original equipment market and the aftermarket. It ranks among the world's leading automotive suppliers.

At December 31, 2011, the Group had 124 plants, 21 research centers, 40 development centers and 12 distribution platforms and employed 68,000 people in 28 countries worldwide.

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 and 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 group.

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

The Group's structure

The Group's operational structure is based on four Business Groups, the Valeo Service Aftermarket Business, and the National Directorates.

Operational structure

The **Group** defines the strategic direction and reviews and oversees the Business Groups. It defines the Group's standards and policies and ensures their implementation with the support of the functional networks. It allocates resources between the Business Groups, and ensures the consistency of 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 propose technological road maps to the Group. They coordinate between Product Groups and Product Lines, with support from National Directorates, 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 four Business Groups is structured to reinforce cooperation and stimulate growth for all 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.

The Aftermarket Business, Valeo Service, operates under the responsibility of the Group's Operations Department. In cooperation with the Business Groups/Product Groups, it supplies original equipment spare parts to automakers and replacement parts to the independent aftermarket.

See Chapter 1.4 for more information on the Business Groups and the Aftermarket Business.

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

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, information systems and risk, insurance and the environment;
- the **Human Resources Department** is centered on labor relations, career development, training and skills management and involvement of personnel;
- the **Operations Department** is responsible for the four operational Business Groups and Valeo Service, and also oversees the Industrial, Logistics, Purchasing and Quality functions;
- the **Sales and International 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 geographic area, and an International Development Department for each Business Group;
- the **Research & Development and Product Marketing Department** directs the Group's innovation program as well as product development method and tools;
- 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 departments, as well as the heads of the Business Groups and of Valeo Service are members of an Operations Committee (see Chapter 4, section 4.1.1, page 130).

1.3.3 Operational excellence

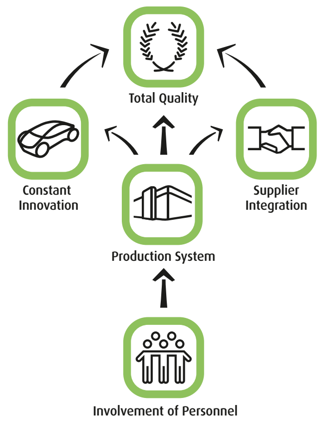
Operational excellence is of critical importance to Valeo. The controlled development of the Group's business takes place through the daily implementation of a guiding principle: obtaining cost-effective total quality from the outset, whether this involves process engineering, manufacturing, projects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

The 5 Axes

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

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



FOR CUSTOMER SATISFACTION

Awards

In 2011, the Group enjoyed widespread recognition from its customers and partners for the quality of its products and services, attesting to the Group's operational excellence.

Innovation rewarded

The 2011 Nissan Global Innovation Award was awarded to Valeo for the LED headlamp for the Leaf, Nissan's electric car. It is the first LED low beam headlamp module on the market and only consumes 50 watts of energy.

Outstanding operational excellence

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

- Supplier of the year award from General Motors, awarded to the Powertrain Systems Business Group for its torque converters.
- Best supplier award from Group Auto International, in the logistics category, awarded to Valeo Service.
- Best supplier award, in the technical innovation category, from JAC (Jianghuai Automobile Co. Ltd.) awarded to the Wuxi site (China), Access Mechanisms Product Group.
- Best supplier award from Geely, awarded to the Wuhan (China) site, Lighting Systems Product Group.
- Supplier award from PSA Peugeot Citroën for the delivery of spare parts, awarded to the Martos site (Spain), Lighting Systems Product Group.

- Volkswagen commercial excellence award, awarded to the Electrical Systems Product Group in South America.
- Temot International best sales and marketing award, awarded to Valeo Service.
- Toyota Europe certificate of recognition awarded in the supply category to the Amiens site (France), Transmission Systems Product Group; in the cost management category to the Valeo Group; in the quality category to the Czechowice site (Poland), Electrical Systems Product Group; and to the Mondeville site (France), Engine Management Systems Product Group.

1.3.4 Presentation of the functional networks

Human Resources Department

The main responsibilities of Human Resources are adjusting and managing skills (recruitment, compensation, internal mobility, training and team motivation), ensuring compliance with the Group's values and coordinating industrial relations (relations with labor organizations and authorities).

It supports the Group's international development by devising a global policy that is implemented in accordance with the characteristics of local employment markets.

Valeo strives to strengthen its "employer brand" outside the Group, and within the Group to further strengthen employee commitment at every level and in every region. To accomplish these goals, the Group is particularly attentive to factors that help motivate employees and seeks to promote work/life balance.

Special attention is given to the quality of local management, which is seen as the best liaison for disseminating and receiving information.

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.

Management development

The Group continues to improve the HR network's ability to develop its most talented staff, which is one of the function's essential activities. To this end, the role of the HR teams at the country level has been extended and the teams have been strengthened in several countries (Germany, Brazil, China, India, Mexico and 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 to perform their day-to-day work but also to achieve the Group's strategic objectives. It was fully revised in 2011, for the first time since it was created in 2004. Six leadership skills were integrated and cross-business skills were updated to keep pace with changes within the Group's organization in crucial areas such as co-management and teamwork.

The three major constituents of the management development strategy are (i) external recruitment, which also includes relations with higher education establishments; (ii) internal mobility and personal development; and (iii) 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 markets, in particular in 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, which was fully revised in 2011, explains the Group's operating culture and the key messages to communicate to applicants, and 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. A new tool to identify tranversal skills was also added to this kit, making it possible to focus the selection of applicants more on these specific skills.

This new recruitment kit was rolled out in October 2011, and all managers will receive recruitment training by the end of 2012.

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 corporate identity guidelines for press and web communication in order to improve the visibility of its brand on the employment markets. In 2011, Valeo recruited 13,000 employees throughout the world (of whom 8,000 are on permanent contracts including over 3,000 engineers and managers), bringing to the Group new skills that will support its international development.

Valeo has maintained its relations with higher education establishments, in particular by developing targeted partnerships with universities and schools of international renown, and fostering diversity within its workforce. In 2011, the Group participated in a large number of events where it was able to make contact with future graduates during school forums: 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 (including in Shanghai, Wuhan and 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 program.

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 and university students by sponsoring events where job areas were presented with the aid of the Valeo sponsors.

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

Finally, Valeo sponsors the student association ShARE, for students from the most prestigious Asian universities, and played a role in organizing the association's international seminar held in Bangalore (India) in December 2011.

Internal mobility and individual development

To offer attractive career prospects to the 13,611 engineers and managers employed by Valeo, the Group's policy requires that at least three out of four positions are filled internally.

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. The process was strengthened in 2011. Succession plans were drawn up in the main countries where the Group operates to promote the development and mobility of local talent.

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 interview method to help identify potential career development for each engineer and manager, based on an analysis of their personal and professional interests.

Using these tools, nearly 3,500 engineers and managers benefited from career development actions in 2011.

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 2011 of 80 new Experts, the promotion of 15 Experts to a higher status, and the renewal of 132 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.

Opinion survey

In order to identify the priorities to strengthen the commitment of employees after the 2010 reorganization plan and the 2008-2009 economic crisis, the Group conducted a large-scale global opinion survey in mid-2011. All of the Group's engineers and managers were asked to respond to the survey, which had a very high level of participation (72%). This was the second time that the Group's "leaders" were surveyed, as an initial survey was conducted in 2008. The 2011 survey showed very significant progress in terms of confidence in the Group's strategy and future, the leadership style and the quality of internal communication. The survey findings from the other employees surveyed were very positive as regards their work environment, their relationship with their manager, their day-to-day work and the relevance of the Group's organizational structure. The results also showed there is a need to further improve internal communication and career development prospects. Each of the Group's entities identified its five priorities, communicated its detailed results and implemented an action plan to improve its results.

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, Poland, Mexico and Thailand, while also adapting its employee benefits in countries like Morocco. Valeo's human resources rules are constantly reviewed and updated to adapt to countries in which the Group is newly established.

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 also a crucial factor in making the Group an attractive employer and retaining talent.

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 across all sites and through Valeo's 5 Axes schools based in Europe and Asia.

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

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

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

A regional approach, particularly through coordination at country level, is used to make it possible to share Group training and ensure that local training policies correspond to what employees really need.

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. Improving skills and keeping them up to date, 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, IT skills, management, technical knowledge, personal development and communications. It is regularly enhanced with new modules, mainly designed in-house. E-learning is rapidly expanding in developing countries.

All new training programs include a pre-learning phase, with e-learning prerequisites. This pertains in particular to management programs, which now include programs that offer support to managers and their teams as they face new challenges: change management, co-management and inter-cultural management, leadership skills development and entrepreneurship. Valeo has therefore rolled out new manager training programs with the CEDEP (European Centre for Executive Development, working with INSEAD) to develop the entrepreneurial spirit and support growth within emerging countries.

The Code of Ethics

The Valeo Group 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, dignity and worth of the human being, respect for the private lives of employees and equality of rights between men and women.

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

In 2005, these commitments led to the drawing up and global 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.

In 2011, the Group decided to launch a new ethics awareness campaign. All Group employees were asked to reaffirm their commitment to the principles set out in this Code.

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 be informed of any unethical behavior. For each alert, an inquiry 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 during his/her annual appraisal. 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.

Lastly, the Code of Ethics also refers to the Group's determination to carry on its operations and pursue its worldwide development with the utmost respect for laws and regulations. That is why Valeo has created an Ethics and Compliance Department, charged with putting in place a compliance program combining training sessions, tools and procedures. Its aim is to raise awareness among Valeo's employees and thereby allow them to take day-to-day ownership of the specific compliance rules set out by Valeo.

The relevance and effectiveness of the program will be measured on a regular basis, and the results used to define corrective measures and improvements.

Alongside the management team, the Ethics and Compliance Department will work closely with the other stakeholders in the ethical field, especially the Human Resources, Legal and Internal Audit Departments.

Well-being at work

Since 2010, the Group's employees in France have been covered by an agreement on "Well-being at work" that was signed with the trade unions. This agreement aims to:

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

The social climate survey launched at the end of 2010 within all the Group's French sites made it possible for each "Well-being at work" committee to define and start implementing local action plans.

A video to raise awareness of psychosocial risks among employees and managers is being shown to all employees in France.

At the end of 2011, the Group's Management rolled out this approach to all the countries where Valeo operates.

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, reindustrialization within the Group's units or the employment regions, and local economic development initiatives.

Employee representatives are regularly informed and consulted on these operations.

In 2011, Valeo finalized the implementation of its new organization, based on four major Business Groups. The new organization was rolled out without any major incidents as regards the social climate, and the impact on jobs was small.

The Group's social indicators are set out in Chapter 3, section 3.4. "Valeo's social performance", pages 93 to 114.

Operations Department

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, to implement extremely rigorous selection processes for new suppliers, to apply the total quality and innovation approach to suppliers and subcontractors, and to establish close partnerships with the most innovative and best performing suppliers.

The new Purchasing Department was rolled out successfully across the Group in 2011.

It is based on two major priorities:

- a commodities/segments priority, focusing on the specific purchasing strategy for these commodities, that involves a global approach that makes it possible to consolidate purchasing, giving the Group significant negotiating power, to have a single voice with regard to suppliers and to implement a consistent policy for the Group's supply base, in particular with sourcing committees when business is allocated.

  The six commodities, divided into segments, are:
  - Steel and transformation;
  - Plastics and transformation;
  - Non-ferrous metals and transformation;
  - Electromechanics;
  - Electronics;
  - Indirect purchases.
- A project and mass production priority, focusing on day-to-day operations that makes it possible to start projects with cost-effective parts and to manage technical manufacturing efficiencies and re-sourcing needed to maintain the Group's competitive edge, particularly as regards manufacturing efficiencies that it must grant customers during the product lifecycle.

The market was extremely difficult in 2011. It was a sellers' market, as strong demand made it more difficult to find available capacity, raw materials were on the rise and the euro was rather weak. Prices for steel and plastic resin increased sharply.

Prices for rare earths, used in alternator magnets and also to a lesser extent in other components (EGR valves, wiper systems, etc.) have risen significantly since 2010. Purchasing, Sales, R&D and Quality were particularly active in reducing the impact of these increases by negotiating, seeking out and implementing alternative solutions whenever possible. Rare-earth prices have fallen rather significantly recently; however, this does not offset the price increases.

Copper and aluminum prices were relatively stable over the second half of the year, and were lower than prices in 2010 and the first half of the year.

Despite this difficult context, Valeo held up well and was able to reduce its net purchasing costs as manufacturing efficiencies offset to a large extent higher raw material prices.

Valeo has continued to deploy resources to help its suppliers improve their own quality processes. 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.

Thanks to the results obtained, Valeo is able to integrate a growing number of these suppliers at the earliest stages in new projects.

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.

A supplier risk plan aimed at anticipating the consequences of the economic crisis on sourcing, led by the Supplier Risk Committee under the authority of the Group Purchasing Department, was rolled out to 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 possible shortages. This was particularly true following the earthquake, tsunami and nuclear disaster in Japan, and the floods in Thailand.

Valeo is vigilant that its suppliers comply with its Code of Ethics, focusing special attention on labor rights, human dignity and environmental protection.

The presence of the Purchasing network at Valeo's sites throughout the various regions of the world where its customers are based enables the Group to develop its sourcing from competitive-cost regions.

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 the costs of production and fixed assets. The optimization of industrial operations and the deployment of Valeo standards and tools concerning logistics and production are a crucial part of the Group's industrial mission.

In 2011, Valeo defined and implemented a regional organization for the supply chain and the VPS (Valeo Production System): nine shared services centers specialized in the optimization of flows and transport were set up, continuous improvement programs were created, and sites received support for their tools and processes. The new organization has made it possible to accelerate conversion programs at regional level. Optimizing transport at regional level has generated significant savings by optimizing supplier pick-up routes, improving trailer and container loads, and increasing volumes to reduce transport costs.

In terms of the supply chain, 2011 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 the "truck image" technique for managing stocks of finished products. The goal of extending the use of VRO to 75% of volumes purchased was achieved.

Shared services centers also continued to coordinate the improvement of TPM (Total Productive Maintenance) by launching a program to reduce machine downtime caused by breakdowns and short failures. This program (ERIM - Equipment Reliability Improvement Management) made it possible to exceed the objectives in terms of equipment utilization rates.

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

The implementation of sequential flows has also started at several sites at the request of customers and is becoming a standard for automotive suppliers.

These operational standards have made it possible to capitalize on experience, cut product development lead times, stabilize new production lines quickly while avoiding start-up problems.

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 Axes methodology and an integral part of the Group's culture.

Total Quality is not just a question of methodology; above all, it is a state of mind. It therefore requires the involvement of everyone at all times and in all circumstances. At Valeo, this approach is the responsibility of 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, providing training and support, validating the lessons learned, and sharing them to avoid 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 within the quality anticipation strategy, in order to preempt 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 life cycle, 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 implementation of control plans as well as work instructions. He or she also acts as the "voice of the customer" for all quality incidents to ensure the customer's total satisfaction;
- the Quality Manager builds the Quality network, and develops its skills and abilities by instilling the QRQC (Quick Response Quality Control) spirit into the teams making up all the networks through QRQC Step 3, which is a method of coaching in problem-solving tools.

Over the last several years, Valeo has implemented a program of resident engineers in order 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 staff at Valeo, so that actions can be defined immediately to protect the customer. At the end of 2011, the Group had 82 resident engineers: 54 in Europe, 12 in North America, 12 in Asia and 4 in South America. A warranty resident engineer program and other projects have also been rolled out since 2010, which has allowed 12 engineers to join customer teams.

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

- the implementation of the RAISE process (Robustness Accountability Innovation Standardization Expertise) aimed at making product and process standards more robust, in order to improve warranty results. There is a dedicated team of product and process experts within each Product Group. The standards are always validated during Standardization Committee meetings, and the LLCs (Lessons Learned Cards) from incidents are integrated into the standards. Throughout development, the application of standards is checked using RAISE design reviews. Finally, training has been developed within the various Valeo Technical Institutes to teach teams about standards and how they are used;
- the roll out of ten tools used to strengthen the application of the Quality system, which is based on the 5 Axes and covers three topics:
- **attitude**: the QRQC (Quick Response Quality Control) approach;
- **conditions for producing Quality**: 5S (a system for the proper organization and management of work areas), work instructions and operator certification, zero rework, stop scrap, change management;
- **anticipation**: testing of SPPC (Special Product and Process Characteristics), controlling project launches, Standardization Committees/Technical Committees, verifying the *Genba* (where and when a problem arises) of the processes involving analyses of fault modes, their effect and their critical nature.

At the end of 2011, the Group's quality level was 13,100 PPB (defective parts per billion). A total of 27% of the Group's sites were at 0 PPB and 76% were at less than 10,000 PPB, which represents an improvement of almost 30% compared with the situation in the previous year. At the same time, total non-quality costs (direct costs, special transport and warranty costs) were stable.

Sales and International Development Department

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 its customers in developing their markets, throughout the world.

Automaker customers

In 2011, German customers were the Group's leading customers, representing 29% of sales. French customers (excluding Nissan) and American customers (including Chrysler) represented 20% and 17% of Group sales respectively.

Asian customers (including Nissan) represented 25% of Group sales, showing how much Valeo has expanded in Asia particularly with the recent acquisition of Niles in July 2011, but also with Valeo's steady growth with Korean and Chinese customers.

The Group's biggest customer represents 19% of Valeo's sales.

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

- BMW
- BYD Auto
- Chery
- Daimler
- Fiat/Chrysler
- FAW
- Ford Motor Company
- Geely/Volvo Cars
- General Motors
- Great Wall
- Honda
- Hyundai/Kia
- JAC
- MAN
- Mazda
- Mitsubishi
- PSA Peugeot Citroën
- Renault-Nissan
- SAIC
- Scania
- Subaru
- Suzuki
- Tata Motors/Jaguar/Land Rover
- Toyota
- Volkswagen Group/Porsche
- Volvo Trucks

Strategy and organization

In 2011, the sales and international development strategy focused on:

- **generating new orders:** 2011 was a record year for order intakes once again after 2010 (14.9 billion euros in 2011 compared with 12.5 billion euros in 2010), reflecting the success of the Group's strategy for its two growth priorities, which are (i) selling innovative products which reduce CO_2 emissions and (ii) expanding in emerging countries, particularly in Asia. Order intakes, which accounted for 1.6 times the original equipment sales for the year, increased substantially once again in all regions: Europe, North America, South America and Asia, especially in China and South Korea;
- **concentrating efforts on development in high-growth countries:** in 2011, the sales and international development network once again stepped up its efforts among customers in high-growth countries, mainly in India, China, ASEAN (Association of South-East Asian Nations), Russia and Turkey, with a number of achievements in all these areas, both with its traditional customers, by following their international growth, and with local automakers, in particular in China and India;
- **sales of products aimed at reducing CO_2 emissions** have been very successful, in particular in the Group's traditional markets, as well as in Asia. There were also significant orders in 2011 for innovative driving assistance products.

Two key factors for the Group's success in terms of order intake in 2011 were the reorganization of the Sales and International Development function in 2010 and the determination of the Group and its sales teams to focus on growth worldwide.

In line with this strategy, the Sales and International Development function is organized around:

- **Sales and International Development network**, consisting of four Sales Directors attached to each of the four Business Group's General Management teams, as well as the Sales Directors for each Product Group. This network is responsible for defining the sales strategy to be implemented, and 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 13 Sales Directors responsible for the key automaker customers. Each represents Valeo in its dealings with a given automaker and coordinates relations with this customer across all 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 geographic area and, if necessary, resolve any legal or labor issues at a local level. There are thirteen National Directorates, based in Germany, North America, South America, China, South Korea, Spain, India, Italy, Japan, Poland, Turkey, Thailand for ASEAN countries and Russia.

  The role of the National Directorates was reinforced in 2010 and 2011, with the aim of optimizing the Group's presence among national automakers;
- **an International Development network**, which consists of four International Development Directors for the Group's four Business Groups. It identifies market opportunities in high-growth countries, defines and implements the external growth strategy for the Business Groups and manages relations with external partners.

By continually improving its organization to better meet its customers' expectations, the Sales and International Development function is able to respond to market challenges, by adopting a global and/or local approach in its relations with automakers while always focusing on an objective of profitable growth for the Group.

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 and Development (R&D) strategy.

Innovation is at the heart of the Group's development strategy. Valeo engineers develop solutions that offer real valne added for drivers and present them to automakers, enabling mobility solutions that are environmentally friendly and safe while being comfortable and offering high performance. 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 the 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 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 on 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 2011, the Group had 21 research centers and 40 development centers, with a total headcount of over 7,600.

In 2011, R&D expenses, net of customer contribution, subsidies and tax credits, represented 5.2% of sales, and 639 new patents were filed. Less than 4% of the Group's sales relies on external patents or licenses.

Research and development policy

In line with market expectations, Valeo's Research and Development policy is focused on three 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 powertrains (direct injection, supercharged downsized engines), with the objective of meeting 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 recirculation), engine cooling management and transmissions (acyclism filtering solutions, especially with 3-cylinder engines),
  - a second research priority is the electrification of devices such as pumps, valves, compressors, etc., with the aim of strictly limiting consumption to need, and to significantly improve alternator efficiency,
  - Valeo is now an indisputable player in the hybridization of internal combustion engine field, with its micro-hybrid solutions (i-StARS integrated alternator/starter and Re-Start reinforced starter) and more recently mild-hybrids (8-15kW) associated with new electrical energy management strategies and associated storage devices (batteries or ultra-capacitors). Valeo strengthened its position with the acquisition of CPT's supercharger business. These systems offer a particularly efficient alternative hybrid design,
  - in the area of rechargeable electric and hybrid vehicles, Valeo 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 the 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 footprint:
  - 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 (underhood technical plastics, light alloys, etc.), develop new designs to increase mass or volume power ratings (electric motors, power electronics, etc.) and 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 footprints with the use of virtual simulation platforms. This approach enables overall optimization of the vehicle energy footprint, taking into account operations and synergies between the different systems while in use (for example, between the engine and its thermal system and/or the cabin air conditioning system). The ability to use simulation makes it possible to precisely analyze the impact of future approval cycles and makes Valeo a key systems partner for automakers. Accordingly, as new technological solutions emerge, new strategies are proposed;
- Smart driving, for which the main levers are as follows:
  - Valeo is continuing to develop its range of components and systems (ultrasonic 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®, 360Vue®) adding increasingly sophisticated driving assistance features in order to increase comfort and safety in an urban environment. The presentation of the Park4U Remote® concept (parking maneuver control using a smart phone) received a great deal of attention at the IAA Frankfurt Motor Show in September 2011. In the near future, these driving modes will also take into account minimum energy consumption targets in line with the powertrain system, thereby helping reduce CO_2 emissions,
  - Valeo is also working with various partners to develop innovative human-machine interfaces (HMI) that will accompany the imminent emergence of the connected and

communicating vehicle, for example, devices that are smart phone connected and controlled by an on-board touch screen, 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.

Valeo listens to consumers

In order to anticipate consumer needs and societal changes, and to refocus its product strategy accordingly, Valeo takes a proactive approach 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’s 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.

Actions taken in 2011

In 2011, Valeo continued its R&D efforts, taking the following actions:

- faced with an increasingly 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 skills 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 in France such as l’École des Mines – ParisTech and ESIGELEC for electronics;
- Valeo proposed projects for “competitive clusters” on themes relating to energy, powertrains, 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 has also become involved in the governance of some of these groups (MOVEO, System@tic Paris-Région), which enables it to help bring universities, industry and research closer together. In 2011, Valeo proposed more than 50 thesis and postdoctoral topics;
- in 2011, Valeo participated in more than 50 collaborative research programs, having received a subsidy, of which more than half were related directly to CO_2 reduction and low-CO_2 vehicles. More than 60 partners – research laboratories or innovative small and medium sized companies – participated in these programs alongside Valeo;
- at the end of 2011, Valeo had four Group Technical Service Centers serving the entire Group (i) in Egypt, at the Cairo site for software development; (ii) in India at the Chennai site for mechanical design and simulation; (iii) in China at the Wuhan sites for mechanical design and simulation dedicated to lighting; and (iv) in China at the Shenzhen site for electronic circuit design. These sites have continued to grow significantly.

Risk, insurance, environment, health and safety

Risk management and insurance

Valeo’s risk management policy is based on a network of specialists, rigorous procedures, management systems and applications for improving performance, as well as regular internal and external audits.

The Group Risk Insurance Environment Department has instituted a dedicated structure which relies on Health, Safety and Environment (HSE) managers assigned to each Business Group, their sites and each country where Valeo operates. The Risk Management Committee, whose members are the Business Group HSE managers, the France HSE manager, the Director, and as needed the country HSE managers, 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: (i) complying with obligations imposed by national legislation as well as those defined by Group policy (which exceed the requirements of national regulations in many fields); (ii) identifying risks, evaluating their impact, setting objectives and implementing action plans to reduce – or where possible to eliminate – risks; and (iii) monitoring regularly the 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 Group insurance programs.

To achieve these 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, as well as 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 such as geology, seismic risks, flood risk areas, etc. Actions to be undertaken and related action plans are established on the basis of these audits.

A risk management tool is used to track changes to site action plans resulting from external audit recommendations and also enables the HSE functions of the Business Groups and the Risk Insurance Environment Department to carry out real-time controls of the actions implemented or to be implemented by the sites. A self-assessment tool, in the form of a roadmap, allows each site to assess its own performance and compliance with the Group's procedures. It also allows Business Group HSE managers to monitor the progress made by the sites to meet the requirements set out in the Group's procedures.

The Business Group HSE managers and the Risk Insurance Environment Department also use a reporting procedure to measure the performance of reporting sites. 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 2.1.2, page 54.

Each site HSE manager is responsible for implementing the Group's risk management policy.

The country HSE manager, who is also the HSE manager of a site of the country that he/she represents, coordinates the initiatives related to risks specific to the country concerned. This manager is also in charge of providing information and training to all new HSE managers who join a Valeo site in the country concerned. In addition, this role involves ensuring that experience is shared among the HSE managers within the sites of the country concerned.

The HSE manager of each Business Group ensures that the policy established at Group level by the Risk Insurance Environment Department is disseminated, and contributes to the continuous improvement of risk management within the Business Group by offering technical expertise.

Environment

Environmental protection is based on a number of initiatives which are, by definition, long term. Valeo has been committed to this effort for over 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), lowering greenhouse gas emissions, particularly CO_2, decreasing or even eliminating the consumption of dangerous products, reducing waste and achieving maximum recyclability of all products, as well as offering an industrial environment that is both safe and pleasant to work in.

- In 2011, Valeo expanded the scope of the indicators reported by each of its sites taking into account the new French regulatory requirements from the Grenelle environmental measures and the requirements from the Global Reporting Initiative (GRI). The GRI is a non-profit organization that provides companies with sustainable development guidelines to help them improve the quality of their environmental reporting.
- Valeo always incorporates an environmental approach into 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 has been working towards reducing 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 research involves 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 them on the market.
- Valeo has also created a reference database of substances that are banned or restricted in the automotive industry. Updated in 2011 and scheduled for further reviews in 2012, 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.
- In 2011, Valeo published a manual of good practices to help all Group sites conserve resources and improve energy efficiency. These good practices are organized by topic and are based on feedback and experience from Valeo "Excellence Centers". They provide ways to reduce energy consumption by using efficient methods that are not costly.
- 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. The Group adopted ISO 14001 certification, the international standard in terms of environmental management systems. **At the end of 2011, 98% of sites were ISO 14001 certified,** the same level as at the end of 2010. 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 3.3.2, "Key environmental performance indicators", pages 81 to 90.

Health and safety

Health and safety at work is a priority for Valeo, which is constantly striving for "zero accidents". This policy is based on rigorous procedures using indicators to measure the effectiveness of actions taken, feedback through 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 2011, 93% of Valeo sites were OHSAS 18001 certified, compared with 89% at the end of 2010. Like the ISO system, this health and safety management system is based on continuous improvement.

1.3.5 Industrial resources and real estate portfolio

Plants, R&D centers and distribution platforms

Geographic footprint at December 31, 2011

	Plants	Research centers	Development centers	Distribution platforms	Number of employees
Western Europe					
Germany, Belgium/Netherlands, Spain, France, Ireland, Italy, United Kingdom	42	16	14	5	24,451
Eastern Europe					
Hungary, Poland, Czech Republic, Romania, Russia, Slovakia, Turkey	15	-	4	3	10,910
North America					
United States, Mexico	14	1	5	1	8,029
South America					
Argentina, Brazil	8	-	4	2	4,249
Asia					
China, South Korea, India, Japan, Thailand	41	4	12	1	18,713
Africa					
South Africa, Egypt, Morocco, Tunisia	4	-	1	-	1,648
TOTAL	**124**	**21**	**40**	**12**	**68,000**

Real estate portfolio

At December 31, 2011, the net carrying amount of the Group's real estate portfolio (land and buildings) was 595 million euros (see Chapter 5, section 5.2.6 and Note 5.3 to the consolidated financial statements, page 217). The portfolio is largely composed of production sites, the majority of which are wholly owned.

The net carrying amount of the Group's equipment, which is largely made up of technical facilities, material and tools was 940 million euros at December 31, 2011, excluding fixed assets under construction (see Chapter 5, section 5.2.6, and Note 5.3 to the consolidated financial statements, page 217).

Environmental constraints result from the regulations applicable in this area to all Group establishments (see Chapter 1, section 1.3.4 "Risk, insurance, environment, health and safety", page 31, Chapter 2, section 2.1.2. "Industrial and environmental risks", page 54, and Chapter 3, section 3.3.1 "Environmental management of Valeo's sites", page 76).

1.4 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 Operations Department are responsible for ensuring the growth and profitability of the Product Groups across all markets.

Section 1.1.1 of this chapter (page 6) sets out sales broken down by Business Group.

1.4.1 Powertrain Systems

- **Sales:** 3.1 billion euros, or 28% of the Group's sales.
- **EBITDA:** 268 million euros.

Description of the Business Group

The objective of the Powertrain Systems Business Group is to develop innovative powertrain solutions aimed at reducing fuel consumption and CO_2 emissions, without compromising on the pleasure and dynamics of driving. These innovations cover a complete product range, from the optimization of internal combustion engines, the varying levels of electrification of vehicles, stop-start systems to the electric car.

Powertrain Systems has five Product Groups:

- Electrical Systems;
- Transmission Systems;
- Engine Management Systems;
- Air Management Systems;
- Hybrid & Electric Vehicles Systems.

Electrical Systems

This Product Group offers electrical systems which control the vehicle's key functions, such as electric power generation and management. This Product Group's traditional products are starters and alternators.

Numerous innovations complement this range:

- high performance alternators;
- stop-start systems. Valeo offers two stop-start technologies: one based on a reinforced starter and the other based on a starter-alternator. The first type of technology uses a reinforced starter that can handle six times as many restarts as a standard starter. The second type of technology uses a belt-driven starter-alternator that makes it easier to restart the vehicle and offers very significant fuel consumption benefits. Since 2010, Valeo has been selling the second generation of the i-StARS micro-hybrid system (i-Starter

Alternator Reversible System), which is characterized by the integration of electronics in the electrical machine;

- mild hybrid systems, which add regenerative braking functions in order to reuse the energy generated in acceleration phases and make it possible to optimize the efficiency of the internal combustion engine, are also developing significantly. Valeo offers a range of electric motors ranging in power from 5kW to 15 kW and in voltage from 48V to over 100V, depending on customers' specific needs and integration constraints. In particular, Valeo offers a 48V "affordable hybrid" solution.

Transmission Systems

The Transmission Systems Product Group develops and produces systems that transfer torque from the engine to the transmission. The solutions it offers incorporate innovative systems that dampen noise, vibrations and jolting.

- This Product Group covers all types of transmission: manual, automatic, dual clutch and hybrid. Among the technologies developed, the dual dry clutch is one of its key innovations. The dual clutch transmission represents 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 fuel consumption by 4% to 6%.
- In addition, the optimization of torque converters with a lock-up function, wide travel damper and an optimized hydraulic circuit are associated with the market for automatic and continuously variable 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 various clutch mechanisms (clutches with and without self-adjusting technology, clutch discs with a new generation of multi-louver vibration dampers, environmentally friendly clutch facings, release bearings with built-in automatic self-centering, hydraulic clutch actuators), flexible flywheels and dual mass flywheels.

Engine Management Systems

This Product Group specializes in electronic management systems for internal combustion engines that continually improve engine performance and thus help 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 range of components, including:

- 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 components 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 purge valves.

Air Management Systems

The air circuit management systems, from air intake to exhaust, designed and produced by this Product Group 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 gases. These components 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 Tier 2 Bin 5 standards.

The product range is broken down as follows:

- single and dual air intake throttles;
- 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.

Hybrid & Electric Vehicles Systems

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

Valeo is also focused on developing an innovative electronic power module concept that makes it possible to:

- propose competitive offers and excellent inverter, charger and voltage-converter efficiency;

- combine these three components into one using an innovative electronic architecture that reduces the cost of the system significantly;
- propose electronic and thermal battery management modules.

These solutions considerably increase the travel range of rechargeable electric and hybrid vehicles.

Valeo also develops the same products for low-voltage electric architectures – from 48V to 100V – dedicated to mild hybrid vehicles.

2011 highlights

Electrical Systems

- Orders continued for stop-start systems based on the Re-Start starter model, from major European, Asian and American automakers.
- Significant increase in order volumes and two new strategic orders from Asian automakers, for the new generation of the i-StARS micro-hybrid system based on a belt-driven alternator-starter.
- Major orders for the new ranges of high efficiency alternators with synchronous rectification that reduce CO_2 emissions.
- Numerous orders in China, India and South Korea that strengthened the Electrical Systems Product Group’s position in these markets.
- The first order of electric motors for hybrid vehicles with a European automaker.

Transmission Systems

- Strong increase in torque converter business for automatic transmissions in North America, in particular with new applications for high efficiency gasoline engines.
- All-time record order intake in 2011, which confirmed the prospects for strong growth within the Product Group, particularly in Asia and Europe.
- Several new production orders in Europe and Asia for the dual dry clutch, the corresponding dual mass flywheel and the electro-mechanical actuators.
- In the manual transmission field, wide travel damper clutches saw an extension of their applications in Europe for 3- and 4-cylinder gasoline and diesel engines for passenger vehicles and light commercial vehicles.

Air Management Systems

- Several new orders for EGR valves and air intake throttles for European and Asian automakers.

Hybrid & Electric Vehicles Systems

- Contract extended with two European automakers for an inverter for the next generation of electric vehicles.
- Increased market share for electronic power modules, with a new contract for electro-mechanical power steering systems for luxury vehicles made by two German automakers.

Air Charging Systems

- In December 2011, Valeo acquired the electric supercharger business of the UK company CPT that became the **Air Charging Systems Product Line**. It offers an innovative electric compressor concept with a switched reluctance motor that makes it possible to help downsize engines, which contributes significantly to reducing fuel consumption.

Market trends

The market trends observed in previous years were confirmed in 2011, the objective being to reduce both CO_2 emissions and fossil fuel consumption.

These goals are based on three priorities:

- engine downsizing with the emergence and development of small direct injection turbo-compressor engines and variable valve actuation;
- the automation of transmissions with the development of automatic and dual clutch transmissions with eight or more gears;
- the electrification of engines with the widespread implementation of stop-start systems in 2011 and the development of more important hybrid solutions for certain vehicle segments.

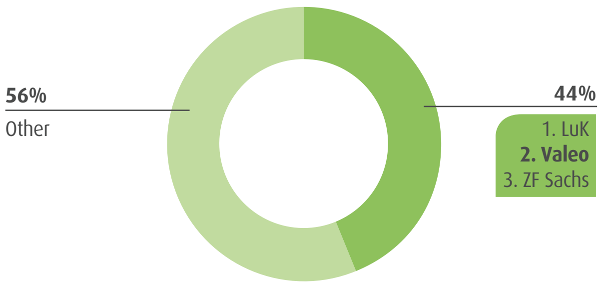
As such, the Group’s opportunities are closely linked to its technological choices as well as the growth of the worldwide market, especially in emerging markets. The Business Group has a clear advantage given that it operates in all regions of the world: Europe, North and South America, as well as Japan, China, South Korea and India.

The Business Group is the world leader in electrical systems and ranks second in transmission systems, with significant market share in all regions of the world where the automotive industry operates.

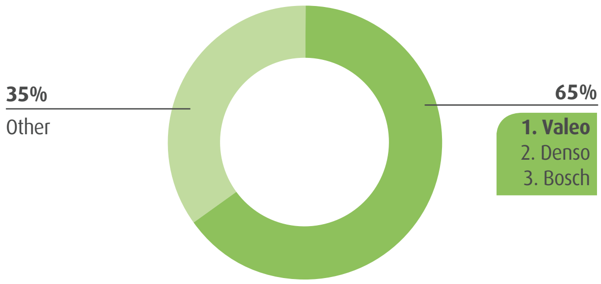
The number of orders placed and the percentage of innovative products composing these orders demonstrate the Business Group's customers strong interest in its products and technologies, which bodes well for the further growth of Powertrain Systems.

Main competitors on the transmission systems and electrical systems market(1)

Transmission Systems



Electrical Systems



Outlook

In order to meet customer requirements and ensure optimum, customized product specifications, the Business Group will reorganize its five Product Groups in 2012:

- in light of the synergies and integration of engine components, the Engine Management Systems and Air Management Systems Product Groups will be combined into one Product Group called Combustion Engine Systems. The two Product Groups will become Product Lines, and the Air Charging Systems Product Line, created following the acquisition of a subsidiary of CPT, will be added to the new Combustion Engine Systems Product Group;
- the transversality of hybrid and electric architectures, and the impact across all Product Groups will be assessed and defined at the Business Group level. The Hybrid & Electric Vehicle Systems Product Group will be renamed Electronics, and will be in charge of designing and selling power electronics for hybrid and electric vehicles, as well as handling electronic integration for all the Business Group's components.

This new organization will strengthen the Business Group's goal of expanding based on three areas for development of powertrain systems that help to reduce CO_2 emissions: engine downsizing, automation of transmissions and electrification.

The Business Group also seeks to step up the development of its business in China and India. It has already gained a strong foothold in both of these countries in electrical systems and transmissions, where it has been operating since 1997. The aftermarket will also benefit from the growing number of vehicles on the road, particularly in these two emerging countries (up 12% in China and 10% in India in 2011). The Business Group's market share has increased significantly in the aftermarket thanks to its expanded product range and strong distribution network. The aftermarket contributes significantly to generating profitable growth for the Business Group.

(1) In market share, with no major changes from 2010.
Source: Valeo.

1.4.2 Thermal Systems

- **Sales:** 3.1 billion euros, or 29% of the Group's sales.
- **EBITDA:** 359 millions euros.

Description of the Business Group

The Thermal Systems Business Group develops and manufactures systems, modules and components to ensure thermal energy management of the powertrain and comfort for each passenger during all phases of vehicle use.

These systems help to significantly reduce fuel consumption, CO_2 emissions and other pollutants and harmful particles from vehicles equipped with internal combustion engines. They also help increase travel range and battery life for hybrid and electric vehicles.

Thermal Systems has four Product Groups:

- Climate Control;
- Powertrain Thermal Systems;
- Climate Control Compressors;
- Front End Modules.

Climate Control

The systems developed within this Product Group ensure passenger comfort and provide thermal management solutions for batteries for hybrid and electric vehicles. The Heating, Ventilation and Air Conditioning (HVAC) system is one of the crucial elements to ensure passenger comfort in the vehicle. This system distributes filtered heated or chilled air.

- The HVAC system is tailored to each type of vehicle. It can consist of simple heaters with mechanical manual controls or complex automatic electronic controls. These systems are used to constantly regulate the air flow, temperature and humidity, based on the needs of the user and the outside weather conditions. These units may have a multizone function, in order to be adjusted for individual passenger comfort.
- The main components of an HVAC system are the heat exchangers, the additional electric heating module used mainly while starting, the fan unit which blows the air through the exchangers, the distribution shutter systems, the fan and shutter control electronics and the air filter. Additional modules, such as fragrance diffusers or anti-allergen filters help improve air quality inside the vehicle.
- In vehicles with an internal combustion engine, the heat exchanger (radiator) uses engine heat loss for cooling. The evaporator is connected to another heat exchanger – the condenser placed in the front end of the vehicle – as well as a compressor that circulates the refrigerant between these heat exchangers. All the components of the climate control circuit are compatible with the new refrigerant R1234yf, which complies with the most stringent environmental standards.
- The emergence of the electric drivetrains has led to the disappearance of the thermal energy used for heating the passenger compartment and has created a new need for temperature regulation of other components, such as the electric motor itself, as well as its power electronics and the batteries.
- System architectures have been developed by Valeo that are perfectly adapted to these changes. Those based on

the heat pump system thus minimize the need for power drawn from the batteries. Comfort in the passenger compartment is thus guaranteed while reducing the loss of the vehicle's range between successive charges.

- A broad selection of technologies is also available to make it possible to regulate battery temperature, which is crucial for the proper functioning of batteries and battery life. The solution chosen depends on the strategy of the automakers. It may involve climate control using air or water circulation, direct cooling using a refrigerant or reversible hot or cold conditioning using thermoelectricity.

Powertrain Thermal Systems

This Product Group is composed of various systems and modules:

- engine temperature management systems, the main components of which are fan/motor units, high and/or low temperature cooling radiators and regulation valves. These components play a part in optimizing engine performance. The THEMIS™ system in particular, thanks to its zero output function, enables a marked reduction in fuel consumption;
- heat exchangers incorporated into exhaust gas recirculation systems (EGR), developed by the Powertrain Systems Business Group. They help reduce pollutant emissions;
- air- or water-cooled charge air cooler systems, air intake cooling modules with heat exchangers, air distributors, valves and manifolds.

The air intake module developed by Valeo offers a new design: heat exchange does not take place using the traditional air/air model. It works using air/water exchange, which offers more efficient cooling and shorter air flow for a more dynamic supercharged engine.

Valeo supplies the water-cooled charge air coolers for the Volkswagen 1.4TSI engine in Europe and Asia, the largest mass production of an engine equipped with this technology;

- finally, the innovative design of the Ultimate CoolingTM system, optimizes system efficiency. The reduction in the number of exchangers in the front end of the vehicle, the efficient distribution of the other exchangers within the engine compartment (made possible by using a single heat transfer fluid) indeed significantly improves the performance of the exchangers. This architecture is also perfectly adapted to the thermal energy management needs of other types of powertrains. Its modular nature allows automakers to significantly simplify management of various engine types.

Climate Control Compressors

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

- economic, low displacement, mechanically-driven compressors (with pistons, rotary vane, fixed or variable displacement);
- external control compressors, which reduce fuel consumption substantially;
- electric compressors, based on scroll technology, for hybrid and electric drivetrains.

Front End Modules

These modules are an integral part of the vehicle structure. They usually house the fan/motor unit and some of the heat exchangers. The integration of electronically controlled shutters which regulate the air flow entering the vehicle helps reduce fuel consumption while increasing the efficiency of the heat exchangers and improving the aerodynamics of the vehicle. The Safe4U® system offers a structure which provides increased protection for pedestrians in the event of a crash.

2011 highlights

The Thermal Systems Business outperformed the market, with an 8%[1] increase in sales in 2011 compared with 2010, and high order intake once again in 2011.

The production of light vehicles increased by 4% worldwide. China, Russia, India and Brazil drove growth with an increase in production of 8.7%. The Business Group was able to take advantage of strong growth in emerging countries thanks to its extensive customer portfolio, its worldwide operations and its innovative new products. It consolidated its global position with its top customer (offering this partner support in Russia), added new customers including major players in the Chinese market, and continued to break into the Indian and ASEAN country markets. The Business Group also consolidated its positions in other countries, in particular it received worldwide orders from a major US automaker. The Business Group consequently received a large number of orders, which will enable it to continue to outperform the market over the coming years.

The Business Group reacted very quickly to the natural disasters that hit Asia and was able to avoid any interruptions in deliveries.

(1) Like-for-like (constant scope and exchange rates).

Market trends

Today's race to reduce polluting emissions and the continued growth of emerging markets remain the key factors for the Business Group's growth.

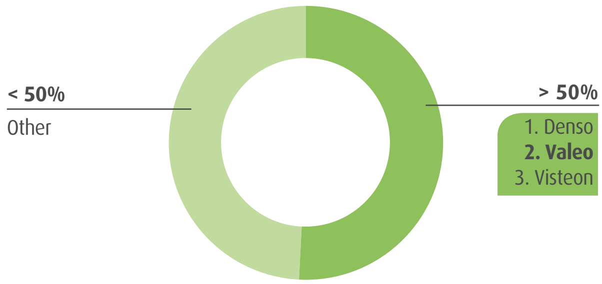
Ever stricter environmental legislation has led to important changes for powertrain systems. It has resulted in the downsizing of internal combustion engines and the development of hybrid and electric drivetrains. With these changes, it is necessary to continuously rethink the current thermal management systems to provide not only better performance, but also to optimize the energy consumption of these systems. This requires creating new systems and new components. Only global players like Valeo's Thermal Systems Business Group has the capacities to define these systems and design and produce these new components.

Emerging countries are continuing to grow; local players are gaining ground, and European, American, Japanese and Korean automakers are stepping up their investments in these countries. Several factors will enable the Business Group to benefit from growth in these markets: (i) its innovation programs developed with automakers who are technological leaders; (ii) its presence in China, Brazil and Russia; and (iii) its ability to manage global platforms.

More affordable vehicles also represent an opportunity for growth for this Business Group that has the expertise innovation necessary to develop systems and components that are tailored to all vehicle segments.

This wide-ranging global customer portfolio enables the Business Group to strengthen its positions relative to its main competitors: Denso, Visteon, Delphi, Sanden and Behr.

Main competitors on the powertrain thermal systems market(1)



Outlook

The Business Group continues to strengthen its initiatives in line with its two main strategic priorities: developing technology that reduces pollutant emissions and outperforming the market.

The Business Group's goals in the area of technology are to maintain its leadership position in the charge air cooler systems sector, whose growth is driven by the trend in engine downsizing, and to become the leader in thermal energy management solutions, which can be matched to every type of motorization, as well as in the promising area of heat recovery. These two goals represent the driving forces for growth within new thermal systems.

The Business Group intends to take advantage of strategic orders received in India to strengthen its presence in this market and step up its development in the ASEAN countries to be a fully global player.

(1) In market share, with no major changes from 2010.
Source: Valeo.

1.4.3 Comfort and Driving Assistance Systems

- **Sales:** 2.1 billion euros, or 20% of the Group's sales.
- **EBITDA:** 264 millions euros.

15,672 employees

30 plants

10 research centers

13 development centers

Description of the Business Group

The Comfort and Driving Assistance Systems Business Group develops interface systems between the driver, the vehicle and the environment, helping to improve comfort and safety. The Business Group focuses on intuitive driving, with four complementary priorities.

These four priorities consist of easy, ergonomic **interaction** with the vehicle for the user (central console, controls in the steering wheel switches, etc.); driving **agility** with better visibility of the surrounding environment (systems to help with maneuvering and parking, etc.); **connectivity** available for the user with complete safety (smart key, computer telephone integration module, etc.); **safe, personalized access** to the vehicle and to vehicle and user data (hands-free access and start systems, etc.).

Comfort and Driving Assistance has four Product Groups:

- Interior Controls;
- Driving Assistance;
- Interior Electronics;
- Access Mechanisms.

Interior Controls

The Interior Controls Product Group became the world leader in human-machine interfaces in 2011. Relying on long experience and in-depth knowledge of vehicle architectures, this Product Group develops high perceived quality, innovative, robustly-designed solutions for premium 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 central electronics system. Valeo was the first supplier to have integrated a "FlexRay" system in a top column module (communication protocol used in the automobile industry for security-related systems). Valeo's acquisition of Niles in June 2011 boosted the Group's competitiveness in entry-level modules, which are essential for emerging markets;
- driver and passenger interface systems (human-machine interface), ranging from simples switches to systems integrating touch screens. These interfaces manage air-conditioning systems and multimedia applications and are ergonomically designed for ease of use while ensuring optimal safety;
- steering sensors (angle and torque sensors).

Driving Assistance

Valeo is the only global automotive supplier 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: ultrasonic sensors, 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:

- ultrasonic and infrared sensors are used in the Park4U® system for semi-automatic parking, and its multifunctional sensors activate the rain/light/humidity detection system. 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;
- cameras offer total vision around the vehicle with the 360Vue® multi-camera system. Front cameras give a view in front of the vehicle at a blind crossing or on leaving a parking lot.

Emergency braking features for urban environments will also be enhanced with new technology such as laser scanners.

These assistance systems make driving safer in urban environments and help reduce CO_2 emissions by easing the flow of traffic.

Interior Electronics

- Interior Electronics covers the full range of access and start systems: remote controls, receivers and immobilizers, hands-free entry and start systems which are experiencing strong growth on all markets.
- This Product Group also offers innovative systems capable of communicating with the car by radio frequency within several hundred meters. The Key Bridge, a smart phone compatible key, connects the vehicle for example to a cell phone. Using this interface, the smart phone receives information selected by the driver and allows the driver to change certain configurations. For instance, the driver can adjust his/her seat to a preselected position or turn on the air conditioning if it is extremely hot. Interior Electronics also includes body controllers, which equip vehicles of the PSA and Renault-Nissan groups.

Access Mechanisms

The Valeo Access Mechanisms Product Group offers solutions that bring together safety and intuitive vehicle access. This Product Group is a worldwide player with a strong leadership position in Europe, South America and India, as well as an important foothold in China and North America, and new operations in Russia. The Product Group's portfolio covers the entire range of mechatronic access systems and components, in particular:

- handles, which can be adapted using many shapes or finishes, and all types of locks for doors, tailgates, trunks and the steering column. In addition to well-crafted style, Valeo's solutions offer compatibility with the latest access features (e.g., smart keys) and comply with the strictest safety and security requirements worldwide;
- latches and motorized opening and closing systems. These products are an integral part of the body of the vehicle and have evolved to meet the growing demands of automakers for modular standardization. The design of these products can be adapted, and today covers entry-level models (optimized costs and weight) all the way up to premium models (differentiation through innovative features).

2011 highlights

The Comfort and Driving Assistance Systems Business Group multiplied the value of its new orders outside Europe by 2.7. This performance is in line with the major priorities of the Group's strategy.

- The results recorded in 2011 are linked to a major order placed by a European automaker for a new human-machine interface design.
- Valeo also strengthened its foothold in top column modules in China, including with national automakers.
- Valeo confirmed it position as the worldwide leader in the driving assistance segment with significant new orders for parking assistance products. This performance was driven by the Park4U® (semi-automatic parking) system, which is the current reference.

  In the radar segment, following its first order in South Korea for the blind spot detection feature, Valeo is now developing systems based on this technology with automakers in North America, South Korea, Japan and Europe.

  As regards camera systems, Valeo strengthened its position for its multi-camera 360Vue® systems and for multifunction front cameras with significant orders, especially in Europe and the United States.
- Significant new orders were also recorded during the year, for steering sensors particularly in the Chinese, American and European markets.
- Business related to interior electronics was driven by new orders placed by a Chinese automaker for a hands-free access and start system.

  A major order was also recorded in China for body controllers.
- Access mechanisms were a big success in 2011, recording a record year for orders in terms of volume, geographic spread and the diversity of customers. A number of agreements were signed for handles and locks, especially rear access modules, expanding the scope of tailgate handles to include other features (license plate lighting, cameras, etc.). Valeo also received a major worldwide order for folding keys and locks with flexible coatings for various brands and models for one of the top three automakers worldwide.

The Group experienced two more successes with innovations aimed at emerging markets: a new generation of ultra light steering locks that is 40% lighter without compromising on the tamper-resistance of the locks, and an electric steering column lock for a Chinese automaker, based on the new standard for emerging markets.

Valeo has expanded its worldwide coverage of the Optimum latch in China and Brazil with contracts with new automakers. The Group was also selected by a premium German automaker for the strategic pre-development of the next generation of its assisted opening and closing systems.

- In addition to its commercial success in 2011, the Business Group also experienced the following highlights:
  - on June 30, 2011, Valeo acquired the Japanese company Niles from RHJ International SA and Nissan, becoming the world leader on the interior controls market[1]. This acquisition allows Valeo to strengthen it positioning with respect to long-standing customers, especially Nissan, and to strengthen its foothold in Asia, particularly in Japan, China and Thailand, where development is planned for Nile's industrial base and in line with the Group's goal of generating more than 30% of its sales in Asia by 2015. The company was integrated into the Business Group and as from the third quarter of the year, synergies made it possible to bring in major orders,
  - in September 2011, Valeo unveiled the Park4U® Remote system at the IAA Frankfurt Motor Show. This parking assistance system is completely automatic and can be used to park a vehicle without any help from the driver. The system can be activated from inside the vehicle or outside the vehicle using a smart phone. Live demonstrations of the Park4U® Remote vehicle helped significantly strengthen Valeo's position as world leader in parking assistance solutions[1]. The impact on the general public and in the press show that these demonstrations were a success.

  Also at the IAA Show, Valeo presented the FreePass, its intuitive opening system for trunks and tailgates, which drew the attention of many automakers.
- In December 2011, Valeo became one of the main members of the Car Connectivity Consortium, or the CCC. This organization drives innovation for phone-centric car connectivity solutions based on smart phones. By joining the CCC, Valeo will help develop new solutions using smart phones in cars.
- The Wemding site in Germany produced its 200 millionth ultrasonic sensor in December 2011. The year 2011 also marked the 20th anniversary of the production of ultrasonic sensors which equip vehicles worldwide and have been a real success for the Driving Assistance Product Group.

Market trends

The widespread use of smart phones and their continuous use in vehicles are changing the automotive industry: cars must be adapted to incorporate this new technology and must meet the expectations of drivers.

The wide-scale use of telephones in cars has again brought to the fore regulatory concerns about the need to limit or prohibit telephone use, highlighting the main concern of the players in the automotive industry: limiting driver distraction. The new challenge therefore involves finding a balance between the new features offered and how they are used, while keeping the driver, passengers and other people on the road safe.

Drivers' expectations focus on telephone network access, the quality of the connection, the applications available, easy use of the telephone in the car, as well as easy use of the car's features. However, the number of automotive applications and their level of customization are out of step with the world of electronics for the general public, and therefore with users' expectations. Today automakers are divided between strong expectations for customization and style, and the constraints they face in terms of profitability that lead them to standardize their systems while striving to maintain customized features.

Another worldwide trend is affecting the market – the widespread use of screens particularly in central consoles. Valeo has anticipated this trend, which applies to all ranges of vehicles. The Interior Controls Product Group thus has a strategic position to take advantage of the many opportunities that currently exist.

Congestion in the urban centers of industrialized and emerging countries is pushing automakers to offer semi-automatic systems for urban traffic. This congestion also concerns parking spaces and will lead to the development of new automatic parking solutions that significantly reduce the space needed to park vehicles.

Driving assistance systems are experiencing dynamic worldwide growth across all geographic areas with an offer for alert or low-speed anti-collision systems that is quickly growing. The emergence of new mobility concepts, such as vehicle sharing, have made it necessary to revisit access systems incorporating related security and customization constraints. Finally, rising crime rates in certain geographic areas have made anti-theft systems a priority.

With a record number of orders in 2011 and a leadership position in the market and in terms of technology, in several Product Groups, the Comfort and Driving Assistance Systems Business Group has become an indisputable player in this segment, perfectly equipped to take advantage of dynamic emerging markets.

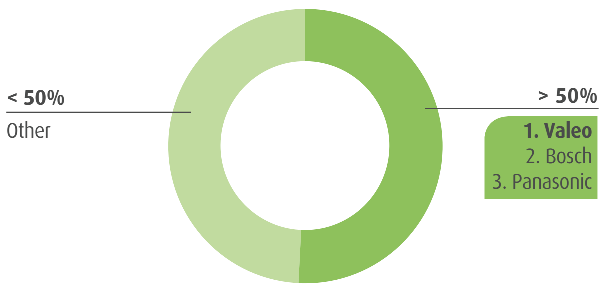
(1) Source: Valeo.

Since the acquisition of Niles, Valeo has become the world leader[1] on the interior controls market, strengthening its presence in Asia and its position with its long-standing customers.

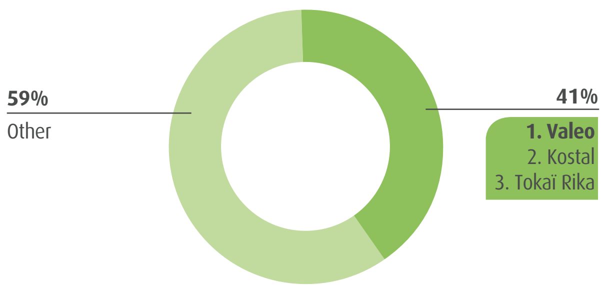
Valeo is also the world leader[1] for solutions to help with maneuvering and parking based on three technologies for detection around the vehicle. When the Range Rover Evoque came onto the market in 2011, Valeo was able to further highlight its expertise, as the Evoque was the first vehicle equipped with a combination of ultrasonic sensors, cameras and radars.

Main competitors on the driving assistance and interior controls market[1]

Driving Assistance Systems[2]



Interior Control Systems



Outlook

The acquisition of Niles boosted the Internal Controls Product Group, turning it into a world leader[1] and opening it up to emerging markets, particularly in Asia. The Business Group seeks to promote synergies generated to develop its presence outside Europe, in order to confirm its position as the world leader in driving assistance. This vision means having a dynamic approach to orders and extending its product range for all product lines designed, developed and produced by the Business Group in its operations worldwide.

(1) In market share. Source: Valeo.

(2) With no major changes from 2010. Source: Valeo.

1.4.4 Visibility Systems

- **Sales:** 2.5 billion euros, or 23% of the Group's sales.
- **EBITDA:** 279 millions euros.

17,613 employees

32 plants

5 research centers

17 development centers

Description of the Business Group

The role of Visibility Systems is to design and produce efficient and innovative systems which support the driver at all times, day and night, so that the driver has perfect visibility, thus improving the safety of the driver and passengers.

Visibility Systems has three Product Groups:

- Lighting Systems;
- Wiper Systems;
- Wiper Motors.

Lighting Systems

In order to offer a solution for each category of front lighting systems, Valeo – together with Ichikoh and Valeo Sylvania, its partners in the Lightning Alliance – has developed three major lines of LED lighting technology: PeopLEDTM, FullLED and PremiumLED.

- Valeo developed the PeopLED concept based on several LED low beam modules for basic models. This concept offers a real alternative to halogen lighting systems, with much lower energy consumption and energy savings of over 1g of CO_2 per kilometer for the entire vehicle (33% of driving time using low beams). The performance of PeopLED low beams far exceeds the performance of the best halogen low beams.
- The modular FullLED solutions for low beam and high beam functions offer an ecological alternative to xenon modules. The BiLEDTM, projector or reflector modules are dual-function systems that offer performance equal to that of xenon systems with lower energy consumption. At the same time, to meet the requirements of designers seeking ultra-compact lighting systems, Valeo has developed PowerFullLED 40TM low beam and high beam modules that are 40 millimeters high.
- Given the positive market response to the Valeo BeamAticTM Premium xenon headlamps and the flexibility that LED offers in terms of style and electronic control, Valeo has developed an exclusive range of LED technologies – BeamAticTM Premium LED – that further improves the performance of camera-directed adaptive headlamps, making night-time driving safer.
- These LED lighting systems are largely associated with LED daytime running lights for which Valeo has developed a range of high efficiency light guide solutions that make it possible to develop even bolder vehicle designs, at reasonable costs.
- Rear signaling systems are another key area of innovation for Valeo and its partners. Style is the main criterion for these products. As such Valeo analyzes market trends and offers its customers, in the vehicle pre-development stage, technology that meets the designers' expectations such as LED MicroOptic™, LED 3DEffect™ and LED SeeThrough™.
- As a world leader in the fog lamps market, Valeo continues to develop its offer with modular or customized LED fog lamps, which help define the vehicle's identity and improve safety.
- As a major player in the cigar lighter sector and 12V power supplies, Valeo has expanded its product portfolio to include multimedia ports and external power outlets with charge indicators for electric vehicles.

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 windshield and the rear window while minimizing CO_2 emissions. Products from this Product Group include:

- latest generation flat/traditional arm and blade sets for automakers' original equipment and the aftermarket;
- fully electronic wiper systems using direct drive blades or with mechanisms;
- windshield 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 washer system.

Wiper Motors

The main characteristics of Valeo wiper motors are standardization, range coverage, innovative vehicle installation solutions, integrated electronics and reduction of weight and energy consumption. These systems include:

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

2011 highlights

Visibility Systems ended 2011 with its sights on pursuing its growth strategy worldwide. Production operations continued to grow, with the expansion of production sites and new openings over the year including in Russia, Romania and Morocco. Valeo continues to expand around the world, particularly with its acquisition of an 80% shareholding in the Chinese company Wuhu Ruby Automotive Lighting Systems.

Market trends

The visibility systems market has been influenced by two major trends: automakers' widespread implementation of lighting systems with LED low beams and growing interest in electronic wiper systems.

LED lighting systems will gradually replace halogen and xenon lighting technologies. This change to LED is one of the major trends in the automotive market that involves reducing energy consumption and improving driver comfort. LED lighting offers a great deal of flexibility in terms of style, allowing automakers to create unique lighting solutions to differentiate brand identity.

To seize their new opportunities, Valeo is developing three major lines of LED lighting technology – LED low beam headlamps, modular LED solutions and customized selective headlamps.

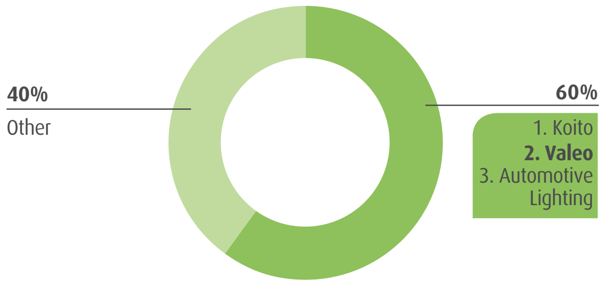
Valeo is also developing fully electronic wiper systems using direct drive blades or with mechanisms, responding to growing interest in the market for wiper systems that offer more precise and quieter wipers.

Thanks to its full range of innovative lighting and wiper systems – lighting systems with LED low beams, LED front and rear signaling systems, LED fog lamps and electronic wiper systems, the AquaBlade® system, etc. – Valeo is already a major player in these two market segments, ranking number two in the lighting systems market and number one in the wiper systems market.

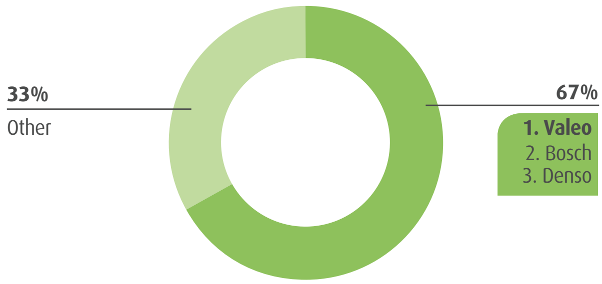
The presence of Valeo's visibility systems in high-growth markets is a key factor for the Group's success and that of the Business Group, which aims to strengthen its position in Asian markets.

Main competitors on the lighting systems and wiper systems market[1]

Lighting Systems



Wiper Systems



Outlook

A significant increase in orders has buoyed the steady growth of this Business Group's results. Firm orders have taken off, showing that the market for Valeo's visibility systems is strong over the long term.

Valeo will soon open new operations, particularly in northern China, to support and expand the activities of the Wuhan site in central China, the Foshan site in the south and the Wuhu site in the eastern part of the country. By covering the key regions for automotive production in China, Valeo will be able to efficiently serve the automakers that operate in these regions.

(1) In market share, with no major changes from 2010.
Source: Valeo.

1.4.5 Aftermarket products and services

Presentation of Valeo Service

Under the responsibility of the Group's Operations Department and in cooperation with the Business Groups/ Product Groups, Valeo Service supplies original equipment spares (OES) to automakers and replacement parts to the independent aftermarket (IAM).

Its role is to offer to all aftermarket channels worldwide a wide range of products and services to help boost the efficiency of repair services and to provide greater safety, comfort and driving pleasure to consumers. 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.

Through its OES customers for numbering around 100 customers including 40 major customers, and its IAM customers, approximately 2,500 major customers, Valeo Service operates in over 100 countries with 13 sales divisions and 12 distribution platforms.

Valeo Service – organized around five markets (Repair, Maintenance, Crash, Post-Equipment and Heavy-Duty Trucks) – offers 278 product lines for light, commercial and industrial vehicles, as well as trucks, covering the following systems: 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 and switches; braking; engine management; engine filtration; and driving and parking assistance systems.

2011 highlights

Customer satisfaction is a priority for Valeo Service. In 2011, Valeo's Aftermarket Business strengthened this commitment in order to offer its customers a genuine experience, based on product expertise related to complete systems and to its ability to create service offers that best suit the use of these systems. Here are some of the highlights from Valeo's aftermarket strategy in 2011:

- Valeo Service opened two new sales divisions: (i) in Japan, to strengthen synergies with its partner PIAA; and (ii) in Argentina, to support growth in this country with dedicated product lines and logistics solutions;
- The OES business bases its strategy on that of Valeo's four Business Groups, rolling out dedicated teams in China and South America to strengthen its product expertise and operate close to its customers in emerging markets;
- Valeo Service won the best sales and marketing support award from the distribution group Temot International;
- Valeo Service won the 2011 best supplier award, in the logistics class from the distribution group Groupauto International;
- Valeo simplified its filter systems and launched an entirely new range of air, oil and fuel filters offering both longer use and greater precision. Valeo focused in particular on making this new range easier to use, by offering the end user packaging that clearly identifies the type of product by color, with smart product reference codes that can be read on five sides of the packaging;
- Valeo Service also introduced an important packaging innovation for replacement parts: QR codes placed on the boxes of the Engine Filter range can be used to access installation videos for each type of product using a cell phone;
- Valeo expanded its range of technical parts for engine management (coils and spark and preheat plugs, EGR [exhaust gas recirculation] valves, injectors and fuel pumps), by including a range of engine sensors to enable players in the Independent Aftermarket to have access to "valeorigin" parts to repair the most recent vehicles;
- special focus was placed on the offer available for parts for the growing number of Asian-made vehicles around the world; Valeo's goal is to make these parts as widely available as for the dedicated ranges for European vehicles, with of course, the same quality and performance standards. This strategy focuses on the alternator, starter, clutch, condenser and wiper blades product lines;
- the alternative cost-effective Valeo CLASSIC range for vehicles over ten years old was launched in 2010, with 100 alternator and starter references. This range was strengthened in 2011: 32 clutch kits and 109 radiator references were added without compromising on quality or the services offered;
- the wiper motor range was updated with 155 new original equipment quality references available for repair professionals covering the best-selling passenger cars and industrial vehicles in Europe;
- a new catalogue was launched for the Valeo Silencio® wiper blade range. This catalogue uses QR codes that can be used to access installation videos from a cell phone and take virtual tours of our test laboratories; this helps improve customers' knowledge about the product, and they are shown how to replace their wiper blades step by step;
- the Uni-Click® universal connection system for wiper blades was rolled out for the respective offers of the Valeo,

SWF, Marchal and PJ brands. This innovative and simple connection system makes it possible to connect the same wiper blade with several types of wiper arms, thereby reducing the number of different parts in the range and thus storage space on distributor customers' premises;

- the range of lamps for lighting and signaling is composed of 43 references divided among five technologies adapted to the various uses of drivers. The range is now available in several countries in Europe and will be extended in 2012. Consumers can quickly identify the right product thanks to the color codes adapted to the different uses of drivers;
- the beep&park™ parking assistance installation kits were updated to include new ultrasonic sensor technology that is more accurate and significantly improves performance for the detection of obstacles in heavy rain;
- beep&park/vision™, the parking assistance system that incorporates a camera and an on-board screen also has this new sensor technology, and gives a very practical view of the parking assistance lines on the on-board screen. These lines give the distance between the vehicle and the obstacle, using a color code that goes from green to orange, and then to red as the distance decreases.

Valeo is a founding member of eXponentia™, which provides technical services to automotive repair professionals to enable them to keep their skills up-to-date, to better meet the needs of the automotive market, to develop their customer service and to make them more competitive, and therefore, to increase their business. In one year, eXponentia™ training has increased by over 50% in nine European countries.

Valeo Service focused on heavy-duty trucks:

- by expanding its clutch kit range for vehicles that recently came out on the market. In order to protect the environment, Valeo has upgraded 150 kits out of the 200 references in the clutch range for heavy-duty trucks;
- by continuing to develop optiPACK™ brake pad kits for heavy-duty trucks that include sets of brake pads as well as all the accessories needed for replacement. This means that distribution customers only have to order and stock one reference, while repair professionals are satisfied to have a complete kit;
- by expanding its offer of FS60 starters for heavy-duty trucks in order to cover more vehicles. This starter technology has been well received in the replacement parts market as it lasts longer, is more reliable and offers better performance, while remaining as compact as possible.

Market trends

The growing number of cars on the road and dynamic local markets across all distribution channels and all product lines, continued to buoy the strong growth in the aftermarket in South America and Asia.

However, Europe and the United States were significantly affected by the allocation of household spending between vehicle maintenance and fuel costs. In Europe, the Independent Aftermarket has benefited as cars on the road have gotten older, while the Original Equipment Spares market has grown more slowly. Europe experienced a drought and milder temperatures than usual, which impacted certain product lines such as wiper products and “crash” products as accidents were down. Finally, growth in the heavy-duty trucks market was very strong worldwide, including in Europe, where this business sector recovered later in 2010 than did the passenger vehicle sector.

Valeo Service, thanks to its extensive product portfolio, was able to balance out its growth in Europe in the fastest growing sectors of the market, and introduced innovative new products and services to offset markets that were declining. New subsidiaries were opened in China, Poland, Turkey and Russia dedicated to replacement parts, and the development of product ranges adapted to the specificities of the local vehicles in those areas also enabled Valeo Service to outperform the market in these countries.

Outlook

The total number of vehicles worldwide, estimated currently at one billion vehicles, increases by an average of 3% to 4% every year, and the total Aftermarket (spare parts) is estimated to be worth 250 billion euros.

The Valeo Group seeks to capture more of this market potential through its four Business Groups – which supply Valeo Service – for which the aftermarket represents an important driver for growth and profitability. This can be achieved by creating new products for mature markets and by responding to the growing need for replacement parts in major emerging countries where the number of both passenger and commercial vehicles is significantly on the rise. The key factors for success are extensive product ranges with innovative marketing services, support for customers in their geographic areas and service rate. These are exactly Valeo Service's strengths.

LED - based head lights fitted on the Nissan Leaf

2 RISK FACTORS

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

2.1 Main risks AFR

2.1.1 Operational risks

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, consumers' access to credit and even natural disasters such as earthquakes, floods and hurricanes. Production volumes are also influenced by government initiatives, especially vehicle purchase incentives, trade agreements, new regulations and industrial action such as strikes and walkouts.

A deterioration in the automotive market could lead to a decline in the Group's earnings and/or to the default of some of its customers or suppliers. It could also affect Valeo's financial position.

Management of risk

Valeo has the necessary expertise and resources to undertake the restructuring measures which would be needed if the automotive market experienced a downturn. In this case, as was the case during the 2009 economic crisis, Valeo would take specific steps enabling it to deal with the difficult economic environment.

Since the Group's sales are considerably diversified in terms of region, customer and product, it is less vulnerable to negative trends in one of its markets.

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 minimum 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 large number of customers and in a very large number of vehicle models.

Risks related to new product development

Risk

Valeo's sales and earnings 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 ability to grow market share hinge on being able to anticipate 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 into the future.

The Group is exposed to the risks inherent in developing and manufacturing new products and, more particularly, the risks of commercial failure, 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 21 research centers and 40 development centers around the world, and net expenditure on research and development represented 5.2% of Group sales in

2011. 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 3, section 3.2, pages 67 to 75.

Supplier risks

Risk

Valeo is highly integrated with its suppliers in an effort 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 interruptions to supplies and prevent the Group from delivering to its customers.

However, manufacturing purchases are made with a broad range of suppliers, with several suppliers for each business and in each region. Ninety-five percent of Valeo's needs are handled by 1,054 suppliers.

Management of risk

The Group ensures the dependability of its supplies through continual financial monitoring of its suppliers based on multiple criteria. The Group keeps a watch list of suppliers at risk, who are constantly monitored. Emergency stockpiles are built up as needed and/or a policy put in place of not relying on a single supplier for any given product.

Risks of political, economic or social unrest

Risk

The Group's operations in certain countries can be affected by various political risks such as war, terrorism, armed conflict and labor unrest.

An economic recession in developed markets such as Europe and North America or a slowdown in emerging markets such as China or Brazil could lead to a deterioration in the automotive market and affect Valeo's operations and financial position (see section 2.1.1.1. above, "Risks associated with the automotive equipment industry").

The recent sovereign debt crisis in Europe could also affect Valeo's operations and financial position, since the region accounted for 53% of the Group's sales in second-half 2011.

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:

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

Valeo has a strong financial structure to help it deal with the European sovereign debt crisis.

Several factors could help mitigate the impact of a fresh economic downturn in Europe on the Group's operations and financial position:

- first, in line with its development strategy, the percentage of Valeo's sales in Europe is decreasing, while sales generated in Asia and other emerging countries are on the rise;
- secondly, since the 2009 financial crisis, the Group has maintained staff flexibility which would allow it to adapt its resources in the event of a slowdown in its European operations;
- thirdly, Valeo derives 13% of its sales from the replacement market, which is less vulnerable to fluctuations in the economic climate;
- lastly, around one-third of Valeo's sales are made with German automakers whose businesses are commercially robust, owing mainly to the high-end positioning of certain brand names in the market.

2.1.2 Industrial and environmental risks

General principles for protecting and managing environmental and industrial risks

The Group has always had a policy of providing the highest level of protection of its sites against natural disasters and technological or environmental risks.

Accidents affecting its installations or stricter regulations could result in the Group having to make additional investments in order to remedy the situation or bring its sites into compliance.

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 more than 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.

Environmental risks

Risk

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.

Management of risk

As described in Chapter 3, section 3.3, "Environmental Policy and Sustainable Development", pages 76 to 92, 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 and Environment organization involving all Group departments. The Group Risk Insurance Environment Department is staffed with 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.

In each country Valeo is located, a country-wide HSE manager – responsible for HSE issues at a given site – is in charge of training newly appointed HSE managers, and for sharing information and feedback from all HSE managers in his or her country.

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

The Group has banned the use of asbestos in products and processes at all production plants for many years now, even in countries that still allow it to be used. Some of the companies in the Group have been sued regarding their use of asbestos and a number of lawsuits have been filed by former employees, primarily in France.

Provisions set aside for site restoration amounted to 22 million euros at December 31, 2011.

Industrial risks: technological and natural disaster risks

Risk

Valeo's production facilities may be exposed to technological risks and/or the risk of natural disasters. Technological risks are those that can result from Valeo's activities, including for example fire, explosions and machine breakages. Natural disaster risks result from severe weather conditions such as floods, cyclones, earthquakes and any other such disasters.

Management of risk

- 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 able 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. There was minimal damage to Valeo's Japanese sites after the earthquake on March 11, 2011.
- Valeo sites are not located in flood zones or, if they are, are equipped with systems that protect them against flood risks. There was no damage to Valeo's sites in Thailand following the floods in the country in late 2011.
- 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.

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 enabling each site to be aware of its potential crisis situations and make effective preparations for dealing with them.

2.1.3 Legal risks

Intellectual property risks (patents and trademarks)

The major intellectual property risk that Valeo faces is counterfeiting, which can have an immediate adverse effect on Group sales and earnings, 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 1.3.4, "Research and development", page 29. These patents, covering the major automotive markets, provide the Group with an effective weapon against counterfeiting.

To identify infringements of its patented rights, for several years the Group has conducted customs surveillance in various countries including China, so that it can be alerted to questionable imported and/or exported products. Besides customs surveillance, whenever products shown at industry trade shows seem to involve the reproduction of patented technologies, Valeo pursues every lawful course available in order to stop and penalize the infringement.

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

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 192 million euros at December 31, 2011.

Although Valeo pursues a policy aimed at achieving quality excellence, the Group may 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 replacing the faulty parts, with the Group bearing the cost of these 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.

Lastly, 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 control of logistics operations 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.

Claims, litigation, and governmental, legal and arbitration proceedings

Proceedings arising within the ordinary course of operations

In the ordinary course of its operations, some companies may be involved in legal proceedings and, more specifically, lawsuits brought by certain current or former employees for asbestos-related damages or for previous asbestos exposure in their capacity as "asbestos workers".

Each of the known cases involving Valeo or a Group company is examined at the end of the reporting period and the provisions deemed necessary based on the advice of legal counsel are set aside to cover the estimated risks.

Even though the outcome of outstanding lawsuits cannot be foreseen, at the date of this report Valeo considers that they will not have a material impact on the Group's financial position. However, Valeo cannot rule out new lawsuits resulting from facts or circumstances that are unknown at present, or where the associated risk cannot as yet be determined and/or quantified. Such lawsuits could have a significant adverse impact on the Group's earnings or image.

Anti-trust proceedings

At the end of July 2011, several anti-trust proceedings had been launched against numerous auto suppliers (including Valeo) by the US, European and Japanese anti-trust authorities in the auto parts and systems industries.

The Group is unable to foresee the outcome of these investigations at the present time. Without prejudice to the outcome of these proceedings, but in view of the fines that may be levied by the authorities and the resulting consequences, these proceedings may have a material adverse impact on the Group's future earnings.

To the best of Valeo's knowledge, and excluding these anti-trust proceedings, 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 – Settlement of the dispute

On June 8, 2011, the Nanterre Commercial Court approved the settlement reached between Valeo and Thierry Morin following the mediation process which began on December 2, 2010. Pursuant to the settlement agreement, Thierry Morin has returned his termination benefits but retained his right to the stock options which had been granted to him in respect of financial years 2002 to 2006. This settlement agreement marks the end of the ongoing dispute between the parties.

2.1.4 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 material prices and interest rates. In general, these risks are managed centrally by Valeo on behalf of all Group companies.

Within the Group, the Treasury 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, currency and commodity 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, as well as details of hedging transactions and their consequences for the fixed rate/variable rate debt mix.

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 instruments. However, on an exceptional basis, the Group sets up 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, 2011.

The Group is also exposed to foreign currency risk when it provides financing to subsidiaries whose functional currency is not the euro.

The bank loan taken out in June 2011 in connection with the acquisition of Niles is hedged by a cross currency swap converting the euro nominal amount of the loan into yen and the interest payable in euros based on the euro interest rate, into interest due in yen based on the Japanese interest rate.

The residual exposure results mainly from loans granted by Valeo to subsidiaries in Eastern Europe not hedged in euros (see the sensitivity analysis for this risk in Note 6.2.1.1 to the 2011 consolidated financial statements in Chapter 5, section 5.2.6, page 240).

The Group's gross and net exposure is shown in Note 6.2.1.1 to the 2011 consolidated financial statements in Chapter 5, section 5.2.6, page 240.

Commodity risk

The Group uses a variety of raw materials for its industrial operations, including non-ferrous metals, steel, plastics and rare-earth metals, amounting to 1,695 million euros in purchases in 2011 (of which 40% non-ferrous metals, 34% steel, 22% plastics and 4% rare-earth metals).

The Group manages its exposure to raw materials by using pass through clauses as far as possible. This is the case particularly for non-ferrous metals and steel, for which pass through clauses respectively cover two-thirds and one-half of the Group's exposure.

Following the recent surge in the cost of rare-earth metals (up 350% in 2011), Valeo has put in place a specific action plan aimed at negotiating pass through clauses with its customers.

Non-ferrous metals are listed on the London Metal Exchange. Residual exposure to non-ferrous metals is hedged with leading banks using plain vanilla hedging instruments that usually have maturities of six months or less. 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, 2011, an unrealized loss of 7 million euros related to these hedges was recognized directly in consolidated stockholders' equity. This loss reflects the sharp correction in commodity prices during second-half 2011. At December 31, 2010, an unrealized gain of 16 million euros was recognized in stockholders' equity.

Steel, plastics and rare-earth metals cannot be hedged as they are not listed on an organized exchange.

Inventory values in the Group's statement of financial position are not significantly affected by the rise in commodity prices because the rapid inventory turnover and optimization of logistics flows reduces their amount. Exposure to commodity risk and an analysis of sensitivity to this risk are dealt with in Note 6.2.1.2 to the 2011 consolidated financial statements in Chapter 5, section 5.2.6, page 241.

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, 2011, 64% of long-term debt was at fixed rates (85% at December 31, 2010).

Exposure to interest rate risk and an analysis of sensitivity to this risk are dealt with in Note 6.2.1.3 to the 2011 consolidated financial statements in Chapter 5, section 5.2.6, page 242.

Equity risk

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 4,435,605 treasury shares in 2011, and the disposal of 3,733,037 shares, led to a decrease of 23 million euros in stockholders' equity at December 31, 2011 compared with December 31, 2010.

A detailed presentation of movements in treasury shares resulting from the liquidity agreement as well as from stock purchase option and free share plans, is provided in Chapter 6, section 6.5.2, "Treasury shares", page 291.

Equity investments for pension funds

Pension fund assets comprised 179 million euros in equities at December 31, 2011, or 51% of the assets invested. Weak markets in 2011 led to a decrease in the value of the funds positioned on this market segment (see Note 5.9.2 to the 2011 consolidated financial statements in Chapter 5, section 5.2.6, page 225). The diversification of the funds among different asset classes is defined by the investment committees or, where appropriate, based on the advice of the trustees acting on recommendations 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.

2.1.5 Liquidity risks

Cash management policy

The Group looks to maintain very broad access to liquidity in order to meet its commitments and investment requirements.

At December 31, 2011, Valeo had 1,295 million euros in cash and cash equivalents (1,316 million euros at December 31, 2010). Cash consists of 560 million euros in bank deposits, while cash equivalents comprise 735 million euros in money market funds (marketable securities).

Other sources of liquidity were as follows:

- confirmed bank credit lines totaling 1.11 billion euros, with an average maturity of 3.4 years. These credit lines, none of which had been drawn down at December 31, 2011, were negotiated with ten leading banks rated A+ 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. In this case, EBITDA is equal to the Group's operating margin, before depreciation, amortization and impairment. It excludes other income and expenses, except for restructuring costs in excess of 50 million euros. The ratio for the 12 months to December 31, 2011 stood at 0.43;
- a short-term commercial paper financing program for a maximum amount of 1.2 billion euros. However, given Valeo's debt rating, the regulations applicable to monetary funds restrict its access to this market.

The Group's gross debt stood at 1,876 million euros at December 31, 2011, consisting of short-term debt totaling 75 million euros and long-term debt totaling 1,801 million euros (96% of the total). The weighted average maturity of long-term debt was 3.7 years at the end of 2011. Debt maturing in over one year included the following:

- two syndicated loans for a total amount of 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 lines of credit, whereby the Group's net debt to EBITDA ratio must be below 3.25 (as described hereafter, these two syndicated loans were repaid on January 30, 2012 in advance of term);
- 600 million euros in bonds issued within the scope of its 2 billion euro Euro Medium Term Notes (EMTN) financing program, redeemable on June 24, 2013. Of this amount, around 200 million euros were redeemed ahead of maturity following the redemption offer launched in May 2011 (as described hereafter, this bond issue was subject to a second redemption for an amount of 89 million euros in January 2012). The EMTN program includes an option allowing bondholders to request early repayment or redemption in the event of a change of control of Valeo leading to the bonds' rating being downgraded to below investment grade, assuming they were 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 (EIB) for 225 million euros, repayable in four equal annual payments starting in August 2013. This loan is subject to the same covenant 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;
- a seven-year loan from the EIB for 75 million euros, repayable in four equal annual payments starting in November 2015. This loan was granted for a similar purpose and under similar conditions as those for the aforementioned EIB loan. It was drawn down in US dollars and swapped for a euro-denominated loan for a similar amount and term;
- a 250 million euro syndicated loan maturing on July 30, 2016. A JPY cross currency swap for 237 million euros was set up on inception of the loan for the same maturity (see "Foreign currency risk", page 57). This loan is also subject to the same net-debt-to-EBITDA covenant as the lines of credit and also allows lenders to request early repayment in the event of a change of control of Valeo;
- 500 million euros worth of bonds issued in May 2011 as part of the 2 billion EMTN financing program on which 400 million euros were drawn at December 31, 2011 (311 million euros at January 31, 2012) (see above). These bonds mature on May 11, 2018 and pay fixed interest of 4.875% (and a 500 million euro bond issued in January 2012, as indicated hereafter). These bonds include an option allowing bondholders to request early repayment or redemption in the event of a change of control of Valeo leading to the bonds' rating being downgraded to below investment grade, assuming they were 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).

On January 19, 2012, Valeo carried out a further 500 million euro bond issue within the scope of its EMTN financing program capped at 2 billion euros. The bonds are redeemable in January 2017 and pay a fixed coupon of 5.75%.

At the same time as this bond issue, Valeo launched a redemption offer for holders of its 2013 bonds. A total of 89 million euros in bonds were redeemed as a result of this offer. After the 200 million euro redemption in May 2011, the outstanding bonds maturing in 2013 totaled 311 million euros.

The new bond issue maturing in 2017 allowed Valeo to repay its two syndicated loans for a total of 225 million euros ahead of term on January 30, 2012. These loans initially fell due on July 29, 2012.

At that date, and taking into account the operations described above, the average maturity of Valeo's debt was 4.42 years.

The Group's bank credit lines and long-term debt include "cross default" clauses. This means that if a given amount of debt is deemed to be in default, then the other debt amounts may also be deemed to be in default. However, 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.

Credit rating

On May 3, 2011, Valeo's short- and long-term debt ratings were revised upwards, from not prime to P3 and from Ba1 to Baa3, respectively, with a stable outlook, thereby placing the Group back in the investment grade category and enabling it to access the bond market on more favorable terms.

2.1.6 Credit and counterparty risks

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, 2011 Valeo's largest customer accounted for around 19% 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 51 days at December 31, 2011, compared to 50 days at end-2010.

Valeo also generates more than 13% of its sales in the aftermarket, with automakers representing 45% and independent dealer networks 55%. The Group's highly diversified customer base of independent dealer networks is constantly monitored and the risk of default is covered by credit insurance policies. These customers accounted for 5% of the Group's trade receivables at December 31, 2011.

For more information on the aging of trade receivables and impairment of doubtful receivables, see Notes 5.7 and 6.2.3 to the 2011 consolidated financial statements in Chapter 5, section 5.2.6.

Credit risk on financial investment instruments

Cash equivalents comprise marketable securities (735 million euros at December 31, 2011), consisting of money market funds invested in highly liquid negotiable debt securities issued by the highest-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 applicable accounting rules, these instruments are valued at their market value, which approximates their carrying amount.

At the end of 2011, pension fund assets allocated to finance medium- and long-term pension liabilities were primarily invested in equities (see section 2.1.4., "Equity risk") and bonds. Bonds comprised sovereign debt (22% of total pension fund assets) issued primarily by the US, UK and Japanese governments, and corporate bonds (25% of total pension fund assets) issued primarily by European and US corporations. These securities are managed by leading asset management companies, but they are still sensitive to trends in the credit market.

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 2.1.5 above, with asset management companies that are also 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.

2.2 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. In the aim of optimizing insurance costs, the Group self-insures risks susceptible to recur and whose amounts are not significant.

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: insured 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 property 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 Business interruption is insured on the basis of loss of gross margin;
- merchandise and equipment transportation and business interruption following transportation incidents;
- liability for all kinds of damage towards customers and third parties;
- liability towards employees for occupational illnesses and accidents;
- liability for workplace risks.

In terms of risks related to its own products, Valeo takes out insurance for the financial consequences of any liability it incurs due to damage of any nature caused by these products.

The Group also takes out insurance to cover the financial consequences of any product recall campaigns that may be carried out by automakers.

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 11 million euros in premiums for its insurance coverage in 2011.

I-Stars alternator/starter motor

3

VALEO AND SUSTAINABLE DEVELOPMENT

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

Message from Jacques Aschenbroich, Chief Executive Officer of Valeo

Jacques Aschenbroich
Chief Executive Officer

"Valeo's commitment to sustainable development is inscribed in the Group's DNA.

Our operations are entirely dedicated to the automotive sector, for which we create value by offering technological solutions to automaker-customers. Valeo develops and markets components that improve energy efficiency and systems that enhance safety and comfort. The Group serves both the original equipment market and the aftermarket. Its activities, design and production processes and manufactured products all contribute to the automotive sector's gradual shift towards a carbon-free energy paradigm. Valeo is also using its technological and innovation firepower to help promote the deployment of mobility-enhancing systems for transportation users. In so doing, the Group has reinforced its position in the marketplace and has become the partner of choice in the quest for mobility networks that are more environmentally respectful and more intelligently connected.

The Group is ever mindful of business and operational imperatives across its manufacturing base. Care is taken to achieve conformity to economic, legal, social and environmental criteria. This commitment is shared unreservedly by the Group's General Management, employees, customers and suppliers. All of the Group's sites and installed systems in 28 countries successfully meet objectives that are increasingly ambitious and subject to regular updating. Commitments are enshrined in charters, codes of conduct and alert measures; they concern the safety, well-being and respectful treatment of all, responsible energy usage, CO_2 emissions reduction, and the moderation of natural resource and raw material consumption.

The activities performed by Valeo's employees are conducted with due regard to the economic, social and environmental aspects of sustainable development as applied to the automotive sector. In addition, the Group is currently in an organic growth phase entailing the widespread deployment of businesses and projects throughout the world, especially in emerging markets. This means that Valeo has to adapt continually to different challenges.

What were the highlights in the sphere of sustainable development in 2011?

In order to ensure operational continuity, we have stepped up our efforts and investment concerning Research and Development for innovative products that reduce vehicle CO_2 emissions and are tailored to emerging markets.

Based on market and customer feedback, we know that automakers are constantly shifting towards the production and marketing of vehicles that are less energy-intensive and ensure security and comfort for users.

This encourages us to focus on economically viable carbon-free technologies, such as hybrid and fully-electric vehicles, with enhanced accident prevention systems and driving assistance systems that make driving safer and more enjoyable.

Thanks to its wide product range, Valeo is well placed to rise to the challenges posed by structural changes in the automotive sector.

In the sphere of corporate social responsibility (CSR), the Group has made huge strides and undertaken new initiatives.

2011 saw the launch of an ambitious program dubbed "Well-being at work". Under the program, managers and operators are asked about their working conditions and their responses serve to inspire concrete solutions to the problems and difficulties encountered in the workplace on a daily basis.

Another program called "Plants Initiatives" gives pride of place to local actions undertaken by our plants. The program was unveiled three years ago at all of our sites worldwide in the form of workplace-related measures for employees and corporate-citizenship measures for the benefit of local communities. Initiatives are scrutinized on an annual basis and plants are requested to launch new actions in subsequent years, while maintaining or improving existing measures.

Accordingly, just over one year ago, I requested that Valeo set up a dedicated Sustainable Development Department to embody and coordinate the Group's vision in this sphere, both internally and externally. The function works in a cross-disciplinary manner within the Group and reports to me directly. It plays a vital role in responding to the increasing requirements imposed by a stakeholder base encompassing customers, employees, shareholders, employee representative bodies and industry associations.

In addition, an Ethics and Compliance Department – reporting directly to me – was set up in a constant effort to ensure that the Group's operations fully comply with laws and regulations. The Department trains our employees and monitors their activities in all of the regions in which the Group operates. The aim is to define and implement in the short term a compliance program comprised of clear instructions, in-depth employee training, as well as procedures and tools to help employees comply with our rules and the relevant legislation on a daily basis. The Department also seeks to continuously improve our program through audits and regular compliance checks.

On the environmental front, Valeo has set out a strategy and ambitious targets for the reduction of natural resource consumption and CO_2 emissions. The Group's second action plan, launched in 2010 and due to end in late 2012, has already permitted the attainment of reduced energy and water consumption targets. A new plan will be implemented towards the year-end for the 2013-2015 period. The policy put in place aims not only to lower energy consumption at our plants, but also to mitigate the use of hazardous substances, systematically emphasize energy efficiency, reduce waste production and increase the proportion of recycled waste.

While the consolidation of our position in the automotive industry is essential, we also recognize that, as an automotive supplier, Valeo is increasingly expected to provide expertise and innovation. The Group is therefore broadening its horizons and actively contributing to the automotive-related research that will help shape mobility solutions in the coming years.

Our commitments in the sphere of sustainable development therefore also enhance our appeal as an employer for new generations, for whom sustainability issues will weigh increasingly heavily in the balance.

In light of these challenges, sustainable development will be a critical source of leverage for meeting our corporate objectives. Valeo, through the efforts of existing and future employees, will continue to work to cement ties with customers and suppliers. Our strategic priorities are to remain on a growth trajectory and to continue working towards responsible, sustainable value creation for the benefit of all stakeholders.

Jacques Aschenbroich

Chief Executive Officer "

3.1 Sustainable development policy

At Valeo, sustainable development is part and parcel of the Group's activities. Valeo's commitment to sustainable development is based on two focus areas:

- promoting a cross-disciplinary approach between the Group's key functions;
- ensuring that Valeo's policy is fully recognized and accepted by its stakeholders.

The Group's sustainable development policy is therefore centered on these two main focus areas.

3.1.1 Valeo's cross-disciplinary approach to sustainable development

The Sustainable Development Department instills its principles and best practices into the Group's functions and teams. The Human Resources and Risk, Insurance, Environment networks provide key support in the communication of these messages.

The Research and Development function also plays a fundamental role in Valeo's sustainable development policy by creating innovative technological solutions that meet customer expectations in terms of vehicle CO_2 emissions reduction. Accordingly, Valeo's sustainable development principles are applied right from the product design stage and the corresponding restrictions and opportunities are therefore taken into account before product development even begins.

At the operational level, several functions are organized around the sustainable development policy in order for them to be well positioned to deal with crisis situations. Consequently, the Purchasing, Quality and Industrial support functions are all concerned by crisis management. This requires, on the one hand, a constant focus on preventing breakdowns in the supply chain and delivery delays and, on the other hand, responsiveness during major crises (such as those in Japan and Thailand) in order to protect and satisfy Valeo customers.

3.1.2 An improved sustainable development performance within and outside the Group

Emphasis on continuous and measurable improvement

Since signing up to the UN Global Compact in 2005, Valeo presents the environmental and social improvements it makes on an annual basis. The Group has phased in a self-evaluation mechanism for continuous and measurable progress at all sites worldwide. Through the "Plants Initiatives" program (see sections 3.4 and 3.5), the Group encourages its sites to implement initiatives for the benefit of its employees and the local communities. This program has met with great success within the Group and each year new initiatives are put forward and subsequently developed into tangible, recurring actions. Accordingly, all employees at the Group's sites and their local communities are enjoying a better quality of life.

Adaptive capacity and development of monitoring indicators

In 2011, Valeo undertook to take account of the impact of its activities on biodiversity by introducing biodiversity monitoring indicators based on the Global Reporting Initiative (GRI) framework. This move is the Group's response to the growing concern about biodiversity expressed by stakeholders and society as a whole, and to associated calls for compliance in this sphere.

Strengthening and deployment of good practices during acquisitions

Within the framework of its external growth strategy, Valeo places great importance on the ability of newly-acquired entities to adhere to the Group's sustainable development approach. The arrival of each new company in the Group presents an occasion to take a fresh look at best practices and to assess the acceptance and effectiveness of these within newly-acquired entities.

Sustainable development: a source of assertive commitment

Some initiatives go even further than Valeo's own sustainable development framework.

The Group finds ways to improve the functioning of the automotive industry by bringing together players from the public and private sectors, automotive-industry practitioners and other parties to reflect on the subject of sustainable mobility. Valeo's participation highlights the Group's commitment to dialogue, collaborative research and effective action in an industrial environment.

In addition, Valeo shares its know-how through "skills sponsorship", an expression of the determination by an industrial player like Valeo to assume responsibilities within wider society. This chapter contains numerous examples of the Group's national and international initiatives on this front.

Finally, the Group strives to increase awareness of sustainable development matters amongst its suppliers with the help of the Purchasing and Quality networks. Valeo's crisis management policy enables it to anticipate and prepare upstream for crises and to overcome any natural disasters that could have an impact on its supply chain. In this context, Valeo aims to nurture solidarity within the supplier base and in a performance culture compatible with the Group's values.

Valeo's established convictions and its confident determination to adapt sustainable development measures to each real-life situation will enable the Group to continue to build and capitalize on the advances achieved to date.

3.2 Research and Development, product innovation and sustainable development

3.2.1 Research and Development: Valeo's vision and innovation policy

To ensure that its products are aligned to market demand and anticipate future needs, Valeo continually analyzes economic, technological and social shifts with the aim of identifying key challenges and priorities.

Ambitious regulations on climate change and atmospheric pollution

Governments' growing awareness of climate change is having major, direct consequences for the automotive sector. Regulations are increasingly exacting, particularly as concerns authorized emission levels for vehicles. The United States, Japan and Europe have instituted regulations aimed at reducing vehicle emissions in the medium term. In Europe, the European Commission has set a CO_2 emissions quota for vehicles of 130g CO_2/km in 2012 and 95g CO_2/km by 2020 (compared with an actual average of 163g CO_2/km in 2007). Non-compliance with quotas will give rise to financial penalties. Regulations in the other main industrialized countries likewise impose ever-larger reductions for other pollutants emitted during the combustion of fossil fuels, such as nitrogen oxides (NOx) and particles.

One of Valeo's aims is to help automakers comply with quota requirements by providing competitively-priced technological solutions or breakthrough innovations for hybrid and electric vehicles.

Growing scarcity of natural resources and raw materials

Consumption of natural resources like water, minerals and oil generally increases with human activity. Given that some resources are limited and non-renewable, there is a risk that global economic development will deplete supply, threatening the ability of future generations to enjoy an environment as diverse as today's.

The prices of commodities like 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 that it makes and the packaging and manufacturing processes used, Valeo consumes natural resources, including water, metals and plastics derived from oil. **The Group is working hard to reduce its environmental footprint and is taking action along two lines by limiting its consumption of raw materials and by making greater use of recyclable and recycled materials.**

Awareness of increasing urbanization

Urban expansion is another key consideration for the automotive sector. Population density in urban areas is on a relentless upward trend. In 1950, 29% of the world's population lived in cities; by 2005, that proportion had risen to 49% and the United Nations expects it to reach 70% by 2050. Cities are currently facing worsening congestion, with economic, social and environmental repercussions. Demographic growth and socio-economic projections suggest that this problem will intensify.

Against this backdrop, Valeo is proving that it is not only an automotive supplier, but also a company capable of engaging in dialogue with automakers and the various stakeholders who shape policy-making in cities.

Another factor is the expected change in mobility behavior as a result of the use of emerging virtual technologies.

Valeo's teams design and develop new solutions to improve urban traffic flow and optimize drivers' safety and comfort, exploiting the possibilities afforded by new "connected" technologies.

The Group's scope of work now extends beyond the traditional boundaries of scientific engineering to include functionalities and services.

Using sustainable development to drive Group strategy

Valeo's strategy is founded on product-related CO_2 emissions reduction and on exploiting growth in Asia and emerging countries, where the development of low-cost, low-priced vehicles represents a formidable challenge. Robust economic growth in such markets is fueling brisk demand for new vehicles. **This means that Valeo needs to adapt existing products to local markets or develop new products that meet the various technical constraints and other requirements encountered in industrialized markets.**

In responding to the above-mentioned market shifts and imperatives, Valeo is guided by four priorities, as follows:

- matching of R&D team skills and locations to growth strategies for products and regions;
- utilization of strategic product marketing and provision of tools, procedures, methodologies and standards to all engineers, in a context of globalized operations;
- provision of a novel and affordable technology for intelligent and less polluting vehicles;
- dialogue with automakers and the various stakeholders who shape policy-making in cities.

3.2.2 Business growth underpinned by organizational processes and a talent pool dedicated to Research and Development

Thanks to the strong rebound in orders in the global automotive market, Valeo's Research and Development teams currently manage nearly 2,000 customer projects. A workload of such magnitude requires coherent organizational processes and a broad spectrum of skills. This is why Valeo initiated measures to fine-tune know-how across its geographic footprint one and a half years ago. To achieve better operational coordination, the Group's network of engineers and technicians around the globe responds to automaker-customers' needs on a local basis.

Worldwide Research and Development organizational structure

In 2011, the number of employees assigned to Research and Development worldwide rose by more than 20% year on year. In Europe, R&D headcount exceeded 4,000. At end-2011, the number of persons assigned to the function in France reached 2,702. With a strong presence in the French market, where almost all its upstream research centers are located, Valeo is pursuing its growth strategy in emerging markets.

The Group has identified five broad types of Research and Development center and has opted for a project- and skills-based organizational set-up. In so doing, Valeo hopes to provide each entity within the new organization with the wherewithal to attain critical mass and fulfill its role within the Group's global network.

Five types of R&D center

- Research centers, currently numbering 21, are dedicated to pure research, advanced engineering and the formulation of new product standards (P2 and P3 projects).
- Development centers, currently numbering 40, adapt standards in line with customer requirements (P1 projects) and coordinate the work of launch and support teams, together with that of front office personnel.
- Launch and support teams are tasked with launching new products and with providing support throughout the production phase.
- Front office personnel work alongside customers, assisting with product definition and providing back-up for project teams.
- The Group technical service centers provide specific skills in a cross-disciplinary manner. Electronics-related skills, for example, are covered by the VIAS centers[(1)] in Egypt, VIPL R&D[(2)] in India and VEHC[(3)] in China, which are all housed in the Group's GEEDS entity[(4)].

For the breakdown of R&D centers by geographic area see section 1.3.5 on page 33.

Recognition by the European Union of the importance of Research and Development projects

Valeo is involved in a large number of projects supported by the European Union.

The European Investment Bank, for example, has provided the Group with a loan in a total amount of 300 million euros – the second part of which was received in 2011 – to fund Research and Development programs devoted to environmental and safety improvements. 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.

(1) Valeo Interbranch Automotive Software.

(2) Technical service center.

(3) Valeo Engineering Hardware China.

(4) Group Electronics Expertise and Development Services.

Recruitment strategy centered on Research and Development skills in high-growth markets

Valeo is steeling itself for the future by laying the foundations of sales expansion in growth markets, notably emerging countries.

The Group's approach is based on the conviction that a sales network must be organized to facilitate the identification of local needs and galvanize action in response to them. Appropriately qualified teams are needed to cover the full range of customer requirements and strengthen the Group's presence in high-growth countries. Valeo strives to attract and retain locally-recruited engineers by offering solid opportunities for professional advancement. Some of the Group's technical centers – for example, in Egypt (software), India (mechanical/mechatronics engineering) and China (hardware) – have already attained a scale that enables them to offer engineers interesting career paths. Recruits have the opportunity to optimize and share their knowledge and gain recognition on the world stage. The VEHC center[1] in Shenzhen, which employs about 100 engineers and plans to recruit an additional 200 by end-2015, has reinforced the Group's position in China.

GEEDS[2], a cross-functional entity composed of three technical centers and focused on Research and Development in electronics, is tasked with meeting the development needs of the various Product Lines. The deployment of project co-management with Product Lines, which is intended to promote seamless interaction between GEEDS centers and Product Lines around the globe, is a particular feature of the network organization practiced by Valeo. The resulting knowledge-sharing enhances the expertise of Research and Development centers located in emerging countries. Among those centers' personnel, Valeo has already identified the first clutch of high-fliers with the potential to win worldwide recognition in their field of research.

The Group is determined to use its network and standards to achieve greater responsiveness, with the aim of providing competitive, task-specific solutions for customers.

Key recruitment information

- R&D headcount in 2011: 7,600 engineers and technicians.
- 2012 recruitment target: +1,000 engineers worldwide.
- Local recruitment: 34% of development projects targeted at emerging markets.
- 60 different skills areas or disciplines.
- Specific needs in electronic and electromechanical engineering: intelligent lighting, driving assistance solutions, electrical systems, transmission systems, electronic drives and electric vehicles.

3.2.3 Natural fit between sustainable development, eco-design and Research and Development

In keeping with the Group's strategic orientations, the Research and Development function takes account of product-related environmental issues. Improving the environmental performance of products throughout the various stages of their life cycle, especially during the in-service phase, begins with the design stage of R&D programs. This approach, called eco-design, has been applied by Valeo since 2007.

Routine assessment of eco-design stewardship to improve the environmental performance of products

In 2007, Valeo adopted an **Eco-design Standard Directive** and **eco-design guidelines by Product Line**. This approach enables engineers to assess all product-specific environmental impacts throughout the product life cycle. Impacts concern:

- the type, number and quantity of raw materials;
- production, packaging, transportation and distribution;
- use and maintenance;
- disassembly, recycling, reuse, recovery and disposal.

Engineers are provided with a tool consisting of a **detailed matrix of improvement measures** and **design guidelines** to help them integrate all relevant dimensions for product development purposes. Six hundred field experts, including 60 international senior experts (one per cross-disciplinary area of expertise as defined by the Group, for example, mechatronics or acoustics and vibration), join forces to define the good practices to be incorporated into standards. The improvement measures included in the matrix relate to design

(1) Valeo Engineering Hardwave China

(2) Group Electronics Expertise and Development Services

and production and cover 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. **2011 saw assertive action to draft and/or revise Product Lifecycle Management (PLM) standards and to institute iterative updating.**

Valeo has also published an **Eco-design checklist** in order to track the application of the criteria to new projects. This easy-to-use tool ensures that eco-design criteria are observed from the start of the product design process and thereafter. This means that products are consistently engineered from the outset with an eye to sustainability compliance.

Compliance with procedures is guided by Product Lifecycle Management standards, which are displayed on screen during the design of parts and systems. Any detected departure from the procedures (for example, the use of non-documented materials) is required to be justified. **This systematic, standards-based approach demonstrates Valeo's determination to embed eco-design into product development as early as possible.**

In 2011, Valeo developed innovative processes for the production of plastic parts, with **grading of recycled plastics and natural materials.**

This work has involved collaboration with an automaker in the field of light-projection solutions.

Valeo also strives to reduce the **impacts of end-of-life products**. The Eco-design Standard Directive establishes requirements in three areas: presence of heavy metals, recyclability and reuse. From the start of the design stage, Valeo seeks to reduce the number of parts and different metals used, facilitate disassembly and emphasize 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 (for example, mercury, lead, cadmium and hexavalent chromium) and to encourage recycling when such metals are used. A French government order of December 24, 2004 sets out the conditions in which such substances may still be used. Valeo has been among the first to use lead-free welding in its electronic housings.

The ELV Directive was amended in February 2010. The exemption granted for the use of lead, in particular for welding purposes, will be reviewed no later than 2014 and that for the use of lead for glass welding in 2012. This means that electronic components with lead welding will be prohibited for vehicles put into circulation after January 1, 2016.

Alongside the eco-design measures for the original equipment market, the Group is increasingly contributing to environmental compliance in the remanufacturing market through **Valeo Service** (aftermarket products and replacement parts).

Valeo, a responsible participant in the remanufacturing market

Valeo is placing its OEM parts design and manufacturing expertise at the service of the remanufacturing market, for which the Group has developed a high-quality, environmentally respectful range of products.

Valeo therefore offers two parts ranges – one new and one remanufactured.

In the case of the remanufactured market, the systems concerned are mainly alternators and starters, with a choice of 1,700 products.

Valeo's eCORPS system for the collection of used parts permits the immediate identification of product references (type of part, origin, size, production year and so forth).

Once parts have been retrieved, Valeo disassembles, inspects and cleans them, in addition to subjecting them to electrical and electronic tests.

The Group then initiates a remanufacturing process, during which all asbestos traces, for example, are eliminated to guarantee human safety. The existence of more than 40 testing points on test benches ensures compliance with original equipment standards and the testing of 100% of remanufactured products prior to packaging for sale in the aftermarket.

This industrial expertise has enabled Valeo to offer a full range of remanufactured parts and thereby champion environmental protection in the remanufacturing market.

The Group is working towards the systematic deployment of eco-design tools and procedures. Another key aim is to ensure that experience feedback from projects serves the cause of continuous improvement in the sphere of Research and Development – and, therefore, eco-design.

Standardization and globalization of Research and Development practices

In October 2010, Valeo began the development of a **methodology** called **RAISE (Robustness, Accountability, Innovation, Standards, Expertise**) for the purpose of guaranteeing the robustness of the Group's products and processes. Dedicated teams (one per Product Group) have been assigned to RAISE on a full-time basis, with the following explicit objectives:

- build standards that are easy to implement, identify, verify, understand and learn. This is critical to guaranteeing proper application within a Group like Valeo, which plays host to a mix of cultures and languages;
- communicate about the standards and disseminate them internally. Knowledge transmission is a central issue for the RAISE teams and care should be taken to ensure that standards are made available in a single, globally-accessible database – the PLM (Product Lifecycle Management) database – and that training in the standards is provided at Valeo's various technical institutes;
- verify that standards are properly implemented. For this purpose, RAISE teams make regular on-the-ground visits (Genba) to review project designs and thereby ensure that standards are correctly implemented. Such visits also serve as a channel for feedback that may be used to enhance standards. The RAISE methodology has been integrated into Valeo's "Continuous Innovation" policy[(1)] and a collaborative approach is vital to its proper application. RAISE is also instrumental to ensuring the adherence of all future recruits to the Group's culture of profitable growth.

Another priority for the Group is the **elimination of hazardous substances contained in the Group's 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 40 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 risks related to their use and, where necessary, restrict or ban their use.

For REACH purposes, the Valeo Group is generally considered to be a user of chemicals. Steps must therefore be taken to ensure safety throughout the Group's supply chain and operations. An inventory must be made of the substances that are used to make products or are needed to keep plants working.

Valeo actively participates in projects conducted by professional associations in Europe and internationally. The Group further observes the recommendations contained in the Automotive Industry Guide published in 2007.

Valeo has adopted a **specific organization** to ensure compliance with REACH. Each entity concerned by the regulation and each plant has a designated REACH representative, who is part of the group-wide **network of 242 REACH managers**. The R&D, Purchasing and Quality departments are responsible for ensuring full product knowledge and for communicating on the subject with external parties (suppliers, customers and the authorities). In 2010, the Purchasing, **Health, Safety, Environment,** and Research and Development departments updated their Internal Procedures to include REACH requirements.

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

In 2011, the Group continued the identification of its products containing SVHC (Substance of Very High Concern)-rated chemicals, as per the lists published by the European Chemicals Agency.

The Group's capacity to adapt to local markets

The standardization of practices does not overlook market specificities. In India, for example, Research and Development activity is focused on dust- and monsoon-resistant products. In China, the emphasis is on the detection of uneven road surfaces and obstacles, and in Japan on enhanced vehicle interior air quality and competitively-priced design solutions. In 2010 and 2011, engineers at the VIPL Research and Development center in India completed their first alternator and starter prototypes. One of the center's key aims is to focus on low-cost projects, for example, in the spheres of clutches and air-conditioning systems specifically for the Brazilian, Russian, Indian and Chinese markets.

(1) For the 5 Axes see section 1.3.3 on page 21.

3.2.4 Development of technical solutions for less polluting vehicles

Valeo's long-standing commitment to environmental protection and the fight against climate change is demonstrated by the Group's decision to **develop environmentally friendly products and systems.**

One of Valeo's key assets is the Group's capacity to calculate the impact of its innovations on overall vehicle emissions with precision, based on vehicle model and utilization scenario. Thanks to the enrichment of related documentation, the Group's **simulation software** now takes account of interactions between a given enhanced parameter and the rest of the vehicle. As a result, Valeo no longer reasons in terms of discrete components' contribution to emissions reduction, which might not yield synergistic outcomes. **Instead, the reductions calculated are those resulting from the impact of innovations on the vehicle as a whole.**

For example, the switch to a windshield wiper control system compatible with a smaller engine size affects a vehicle on several fronts: vehicle weight and engine power are lowered, leading to a reduction in fuel consumption and emissions. Valeo's simulation software quantifies such 'indirect' final reductions alongside direct outcomes.

This simulation capacity enables the Group to select the innovations of most benefit to automaker-customers.

More than half of the products developed by Valeo have a direct impact on CO_2 emissions reduction. **Taken together, Valeo's recent innovations can reduce vehicle fuel consumption and CO_2 emissions by up to 20%.**

Continuous performance improvement for combustion engines

Valeo develops innovative products to optimize flows of electric current, heat and mechanical energy within the vehicle.

The Group is also contributing to the development of new low-consumption engine types (lower-capacity engines, direct-injection engines and supercharged engines) in readiness for forthcoming European requirements, in particular the emissions quota of 95g CO_2/km by 2020. Associated enhancements include new systems for gasoline-engine control, depollution, engine thermal management and transmissions.

The EGR (Exhaust Gas Recirculation) system offered by Valeo effectively reduces nitrogen oxide (NO_x) emissions from diesel-powered vehicles. In the case of gasoline engines, the system reduces fuel consumption and CO_2 emissions by about 6%-8%.

Unlike conventional automatic transmission systems, the **dual dry clutch** concept developed by Valeo meets the twin needs of increased driving comfort and fuel savings. In combination with electromagnetic actuator technology, the concept delivers a higher performance, with fuel savings and CO_2 emissions reduction of about 4% relative to a wet clutch and 8% relative to an automatic gearbox. When devising the concept, Valeo drew on its experience with similarly complex products (for example, torque converters) and came up with a simplified solution for providing a level of comfort during gear shifts akin to that afforded by automatic gearboxes.

Anticipating technological breakthroughs, particularly for electric and hybrid vehicles

It takes 400kg of conventional lead batteries (30Wh/kg) to store the energy contained in 1kg of gasoline or diesel. This amply explains why attempts to market electric vehicles have been unsuccessful to date. However, given the growing appeal of electric vehicles, attributable to their low level of emissions and acoustic and driving comfort, Valeo is working on solutions to enhance the autonomy of such products.

The Group is now an indisputable player in the **hybrid combustion engine field**, with its micro-hybrid solutions and more recent mild-hybrids (8-15kW). These are associated with new electrical energy management strategies and related storage devices (batteries and ultra-capacities).

The **electric engine-combustion engine hybrid solution** offers three functions which deliver **15%-20% fuel savings** for an average gasoline-powered vehicle: **stop-start, engine torque assistance** and **recovery of the kinetic energy generated by braking** as electricity. The recovered energy is used to support the combustion engine during acceleration. This hybridization solution should help automakers meet future European pollution standards by 2020.

Valeo's pioneering stop-start solution shuts the engine off when the vehicle is at a standstill, achieving fuel savings of 6%-15% depending on traffic conditions. The new **i-StARS** (integrated starter-alternator) and **Re-Start** (reinforced starter) versions both improve restart functionality. **i-StARS** even allows an engine to be restarted while it is still rotating.

In the sphere of vehicle electrification, Valeo is also developing accessories (for example, pumps, valves and compressors) strictly for use on an as-needed basis. As a thermal management specialist, Valeo also provides **battery temperature regulation solutions** using a dedicated thermal control circuit to guarantee vehicle autonomy and optimized battery life.

3.2.5 Development of solutions for responsible, connected mobility

In keeping with market expectations and the general shift towards a driving experience that is more enjoyable, more comfortable, easier, safer and more environmentally friendly, Valeo is developing electronic driving-assistance solutions. Such products **enhance safety** (Cross Traffic Alert, LaneVue lateral surveillance and so forth) and some are dedicated to urban driving needs, such as parking assistance.

In 2007, Valeo became the first automotive supplier to introduce active parking-assistance solutions for mid-range vehicles. The **second-generation Park4U®** solution enables drivers to park a car in tight spaces with only 40cm of clearance and to exit with just 25cm at either end. In addition to parallel parking, the system now provides parking assistance around corners, in narrow streets and for reversing into a perpendicular space. In the case of perpendicular parking, the difficulty mainly concerned the accuracy of available-width measurement, as bumper ends are rounded. This problem has been overcome by enhancing the precision of sensor signal processing. In addition, the Cross Traffic Alert system uses radar sensors to detect the presence of approaching vehicles when a car is being backed out of a perpendicular space. This maneuver, sometimes rendered dangerous by restricted visibility, has been made safer thanks to this functionality.

Other applications, such as Inc Sync, allow drivers to use their smartphones for remote consultation of information emitted by vehicles (location, mileage, fuel level and so forth).

Sensor fusion mimics the processes of the human brain and combines the different attributes and reaches of technologies like cameras, radars, ultrasonic and infrared to provide the driver with 360° vision of his or her surroundings from within the vehicle. The combination of data from sensors based on different technologies enriches the information captured and enhances system performance. Here, too, parking assistance is an apt example. Ultrasonic sensors combined with cameras provide the driver with distance-related information and with total vision around the vehicle for increased safety. Advances in the sphere of sensor fusion will engender cutting-edge active safety systems. At end-2011, the 360Vue® system had been installed on 17 models produced by five automakers.

In the sphere of lighting, Valeo is working on all-LED projector systems like **BeamAtic® Premium LED**, which should come to market in 2013. This intelligent, electronically-controlled headlamp adapts its beam to suit driving conditions. For example, if the headlamps are on full beam and an oncoming vehicle is detected, the lighting is automatically adjusted to avoid dazzling the oncoming driver while keeping the rest of the road well illuminated. The technology is twice as efficient as Xenon and power consumption is lower. The replacement of traditional halogen bulbs by LEDs would **save 2.8g of CO_2/km.**

The Valeo-Ichikoh Alliance won the Nissan Global Innovation Award 2011 thanks to the **LED headlamp** for the Leaf, Nissan's electric vehicle. The LED-based low-beam module is the first of its kind on the market and has a power consumption of **just 50 watts.**

Valeo is considering ways of taking vehicle-driver dialogue to the level of connected driver communities with the aim of enhancing comfort and safety and reducing the environmental impact of road travel. The Group continues to improve its driving-assistance systems, which not only help make urban driving safer, but also ensure a more fluid flow of traffic by allowing drivers to avoid traffic jams, optimizing vehicle speed and encouraging a more appropriate driving style.

Outcomes are more efficient vehicle use and a reduction in both fuel consumption and pollution emissions.

3.2.6 In addition to offering technical solutions for vehicles, Valeo is working to ensure that vehicles have their place in sustainable city planning

By participating in various working groups and collaborating on projects, Valeo is striving for a concerted approach to mobility. Attention is devoted not only to vehicle-related issues, but also to interactions between different travel modes, infrastructure, services and associated practices.

The participatory process is intended to aid the emergence of eco-mobility solutions, i.e., a mobility that is environmentally friendly, cost-effective, accessible to all and, consequently, compatible with sustainable development.

Valeo, along with about 40 other partners, is involved in an unprecedented project undertaken in response to the French government’s appeal to Excellence Institutes in the field of carbon-free energies. The envisaged research and demonstration programs concern three themes:

- **the carbon-free electric vehicle**, the aims being to reduce costs by a factor of 5, increase production by a factor of 100, deploy mechatronics more widely and achieve non-reliance on rare resources;
- **smart, fully automated driving solutions and connectivity** for new individual travel modes, combined with optimized intermodal transportation;
- **new practices** associated with shared-mobility services: service delivery and infrastructure need to be reconsidered concurrently and dialogue needs to be pursued with sustainable-city participants (local and regional government, mobility service providers, R&D and training providers and so forth).

Input will have to be sought from many quarters – including physicists, chemists, sociologists and economists – for the purpose of exploring the new practices destined to take root in society.

Valeo is contributing to these nascent exchanges on fresh themes. The objective is to create solutions for tomorrow and thereby usher in a mobility model suited to emerging needs and in which the automobile has its rightful place alongside other transportation modes.

3.3 Environmental performance of Valeo's sites

3.3.1 Environmental management of Valeo's sites

The Risk Insurance Environment Department spearheads the environmental management of Valeo's sites. Environmental commitments and measures as well as occupational health and safety assurance are managed within a dedicated organizational structure, using appropriate tools to achieve the environmental objectives for the 2010-2012 period.

Ambitious objectives for the 2010-2012 period and encouraging results at end-2011

Objectives (1)	2012 target (base = 2009)	2011 result (base = 2009)	Units
Environmental performance of plants			
Reduction in energy consumption	-10%	-12%	MWh/€m
Reduction in water consumption	-7%	-32%	m^3/€m
Reduction in packaging materials consumption	-15%	-5%	kg/€m
Reduction in waste production	-15%	+13.3%	Mt/€m
Waste recovery rate	+15%	+6%	%
Carbon efficiency of infrastructure and logistics			
Reduction of Scope 1 and 2 emissions within Valeo Group's carbon footprint (2)	-10%	-7%	t CO_2/€m
Environmental and occupational health and safety certification (3)			
ISO 14001 certification	100%	98%	% of certifiable sites
OHSAS 18001 certification	100%	93%	

(1) These objectives have been set by reference to the performance for 2009.

(2) The Valeo Group's carbon footprint was initially estimated in 2009 and then in 2010 and 2011 (see section 3.3.2 for a description of the scope of the carbon footprint evaluation). The 10% objective set by Valeo represents the targeted reduction in direct and indirect greenhouse gas (GHG) emissions (Scopes 1 and 2).

(3) Number of certifiable sites: 108.

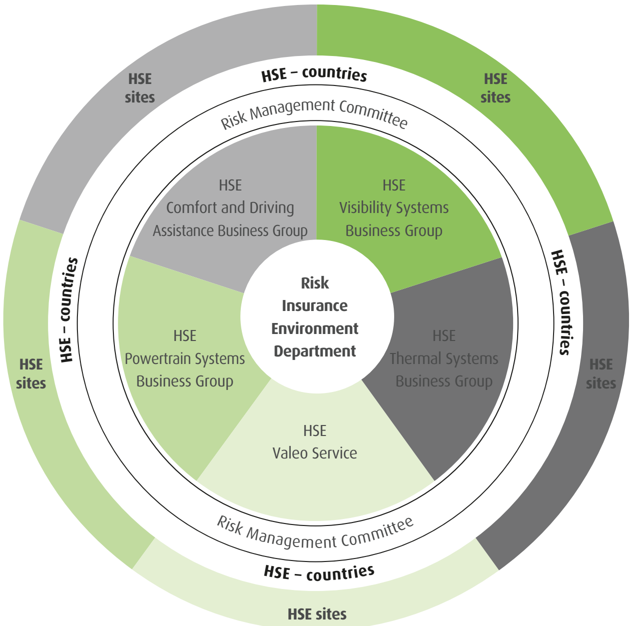
At end-2011, Valeo had achieved its objectives in terms of energy and water consumption reduction. Objectives concerning environmental and occupational health and safety certification, together with targeted reductions in CO_2 emissions, should be attained by end-2012.

Valeo will need to intensify efforts to achieve the targeted cuts in the Group's use of packaging materials and waste production.

Results are discussed in greater detail in section 3.3.2 below.

Valeo's Health, Safety, Environment organization

Valeo's Risk Insurance Environment Department has a specific organizational structure. It houses a network of Health, Safety, Environment (HSE) managers who operate at various organizational levels and are responsible for the implementation and application of the Group's HSE policy.



Risk Management Committee

The **Risk Management Committee** is the Risk Insurance Environment Department's central steering body. It consists of the four HSE managers representing the Business Groups, the HSE manager of the Valeo Service Department and the Group Risk, Insurance and Environment Director. In 2011, the HSE manager for France became a Committee member. Committee members meet at least once every two months to share feedback and further the development of the Group's environmental and industrial risk management policies.

Health, Safety, Environment network

The Risk Insurance Environment Department works closely with the **HSE managers** in each of the four Business Groups and at the Valeo Service Department. These departments provide technical assistance to the site HSE managers who report to them. The departments 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:

- ensuring that Group directives are properly applied and providing technical expertise to sites for that purpose;
- ensuring that the environmental-performance objectives set by the Group are achieved;
- communicating all known good practices to the sites and defending the expenditure requirements identified during site visits;
- passing on conclusions, lessons and action plans resulting from internal on-site audits.

At **each site**, an **HSE manager** is responsible for the practical implementation of the Group directives, contained in the Risk Management Manual, with respect to occupational health and safety, the environment, and the safety and security of buildings and facilities. HSE managers share their expertise with site management, verify conformity to regulations and to Valeo's directives, and train employees in directive-related compliance and good practices.

In 2011, **country HSE** managers were designated to coordinate measures in Valeo's geographic markets. Country HSE managers also have site-related responsibilities. They complement the work of the Business Groups' HSE managers and facilitate the deployment of measures decided by the Group and at their own level. They further help overcome cultural obstacles, as they speak local languages and have forged close local ties by building an on-the-ground presence. Country HSE managers are also particularly well placed to perform cross-functional tasks like local regulatory monitoring.

One of the first tasks for the HSE manager for France was the implementation of a **common regulatory monitoring tool** at all Group sites in the country. The monitoring tool was tested at a number of locations during 2010 and was **rolled out to 17 sites in France during 2011**. The tool is intended to:

- harmonize regulatory monitoring processes across sites;
- facilitate regulatory monitoring by site HSE managers;
- permit better prevention of regulatory risks.

Information feedback is systematically adapted to Valeo's operational context. The monitoring tool thus enables sites to make the acquisition of regulations-related knowledge and regulatory implementation more effective and more reliable. The tool is to set the standard for regulatory monitoring within the Valeo Group.

The regulatory monitoring tool is to be rolled out to other countries where Valeo is present during 2012. The ultimate goal is to have a group-wide monitoring tool in place at all sites.

Work done in 2011 regarding the new country HSE network will be consolidated during 2012 through the strengthening of country HSE managers' role to include:

- the consistent dissemination of good practices based on key themes;
- the improvement of safety- and environment-related communication using new channels, such as seminars bringing together site HSE managers in each country.

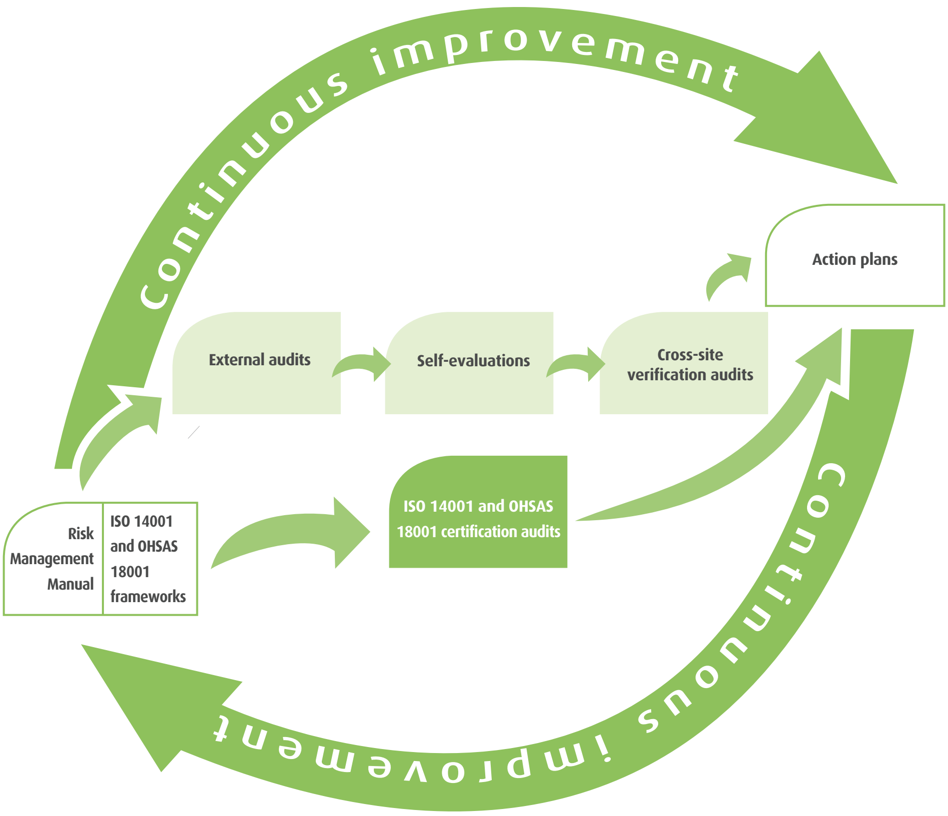
Policy coordination tools

The Risk Management Manual (revised in 2011)

The Risk Management Manual contains all of Valeo's directives with respect to the environment, human health and safety, and the safety and security of facilities. The directives are applied with the same attention to detail at all Group sites and their application has aided continuous performance improvement at Valeo's sites for more than 20 years. External consultants perform regular inspections to verify that the directives are applied in practice.

In 2011, the Group's directives in the spheres of occupational health and safety and the environment were largely revised and deployment of the new version of the Risk Management Manual got under way. The revision process will continue in 2012 and will concern security-related directives.

Regular HSE audits



Audits and self-evaluations

External audits

At the request of the Group Risk Insurance Environment Department, regular **inspections are carried out by independent, external consultants** to verify that the risk management policy and associated directives are correctly applied at Group sites. Valeo's audit program has been in place for nearly 20 years and is instrumental to the Group's risk reduction policy. Each site is audited about once every three years.

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

- environment;
- occupational health and safety;
- ethics;
- safety of buildings and facilities;
- security of facilities and information.

The audits give rise to reports and evaluations, with grading on a scale of 1 to 5. Grades reflect objective criteria that are founded on the criticality of risks for which recommendations are formulated.

The sites draw up action plans based on the audit findings and a rank of these recommendations by reference to risk level. Progress on these action plans is reported to the Group Risk Insurance Environment Department.

Each audit report is input into a risk management tool that enables each site to update its action plan to incorporate recommendations made during an audit. The risk management tool also allows the Business Groups' HSE managers to monitor the implementation of the recommendations concerning sites under their responsibility from start to finish. It further provides the Risk Insurance Environment Director with a compilation of ongoing and completed measures.

Self-evaluation tool

A self-evaluation tool was introduced in 2008 alongside external audits to enable sites to monitor their compliance with Group directives. The tool also provides the Business Groups' HSE managers and the Risk Insurance Environment Director with an overview of the deployment of Valeo directives at the Group's sites.

The self-evaluation tool has been developed by reference to Group directives. Each directive is integrated into the tool in the form of a roadmap and is divided into five stages, each of which is checked off by the site in question once specific actions have been completed. The application of the directives is, therefore, an autonomous process for each site.

Cross-site verification audits

Cross-site verification audits, i.e., audits carried out by HSE managers at sites other than those to which they are assigned, are the third constituent of the Group's audit approach. They permit the verification of methods adopted and of consistency between self-evaluation findings and the practical measures taken in response. As such, they also promote performance improvement, exchanges between sites and skills-sharing.

Qualification criteria for the conduct of such audits were formalized in 2011. New training modules for cross-site auditing have been created with the help of an external specialist and support with deployment will be provided by the country HSE organization. Training courses for aspiring auditors in all countries will begin in 2012.

ISO 14001 and OHSAS 18001 certification audits

To demonstrate its commitment to reducing its environmental footprint and to improving the health and safety of its employees from one year to the next, Valeo has introduced a number of **independently-certified management systems.**

In 2009, the Group started harmonizing its ISO 14001 and OHSAS 18001 management systems with a view to the gradual standardization of systems and procedures to allow for multi-site certifications, when appropriate. Harmonization should permit better risk control and more effective sharing of expertise and best practices, in addition to the application of more stringent requirements to sites.

Quarterly reporting tool for performance indicators

More than 10 years ago, Valeo undertook the deployment of a **purpose-built Internet-based reporting tool** to assess the environmental performance of Group sites around the globe. Every quarter (or on an annual basis for some metrics), the tool compiles and monitors more than 200 indicators. 2011 saw a number of significant tool upgrades:

- new indicators were added to permit a more broad-based measurement of sites' environmental performance and monitoring of changes in Global Reporting Initiative (GRI) indicators;
- the module dealing with greenhouse gas emissions was tailored to the new French regulatory requirements for corporate environmental reporting (Decree no. 2011-829). The module automatically calculates direct emissions (Scope 1) and indirect emissions (Scope 2 and certain Scope 3 items), in accordance with the above-mentioned French regulatory requirements and the Greenhouse Gas (GHG) Protocol (see section 3.3.3.1);
- new data extraction and processing tools were added to allow more granular analysis, notably by geographic region.

The environmental data published in the following section applies to all Valeo Group production and distribution sites worldwide, with the exception of those belonging to affiliates in which the Group has a non-controlling interest. The financial data reported by the Group are checked for consistency against data reported by the sites. Environmental indicators for 2011 cover a total of 117 sites, including eight Valeo Service locations. Note that:

- centers dedicated only to R&D, together with offices and sites acquired, sold or closed during 2011, are not covered by the reporting process;
- data for companies 50%-controlled by Valeo are taken into account in a commensurate proportion and data for companies in which Valeo has an interest of more than 50% are included in full. Since January 2011, data for the 50%-owned Taegu plant in South Korea (VPH) have been included in full for environmental reporting purposes, in line with the practice for financial reporting (full consolidation of financial data since October 2011).

Most indicators are expressed in terms of total quantity and in relative quantity expressed per million euros of sales. Quantity per million euros is calculated by dividing total quantity by total sales for the relevant sites.

Operating levels from one year to the next may impact certain environmental indicators, particularly those expressed in absolute terms. Consequently, it is more meaningful to use sales-based indicators, many of which reflected a significant improvement in environmental performance in 2011.

The representativeness of each indicator is measured by a response rate. The rate is expressed as total sales of relevant sites divided by total sales of all sites in the reporting scope. In 2011, the response rate per indicator was excellent, with readings of 100% for practically all sites. As in previous years, the responses from all sites were consolidated and checked by an independent, external firm in order to ensure quality and representativeness. For this purpose, nearly 180,000 data items were processed and validated. The sales figures used are provided by the Group Finance Department. The Valeo Group's environmental performance in 2011 is presented in section 3.3.2.

3.3.2 Key environmental performance indicators

This section deals with Valeo's overall environmental footprint. The measurement basis is the Group's 2011 results concerning the three themes for which environmental objectives have been established for the 2010-2012 period:

- environmental performance of plants;
- carbon efficiency of infrastructure and logistics;
- certification of environmental and occupational health and safety assurance at sites.

In 2011, the increase in Valeo's production levels and sales led to higher energy and resource consumption. Nevertheless, the sales-based environmental performance improved in nearly all of the Group's priority areas during the year. The particularly commendable performances with regard to water, energy and packaging materials testify to the earnestness of the Valeo Group's endeavors in those essential spheres.

Environmental performance of plants

This section presents the environmental strategy adopted by Valeo for site management with a view to meeting each corporate commitment. The associated charts and comments explain the Group's performance and provide a track record for the preceding five-year period. Examples of actions taken at Group and local levels are given to illustrate the advances made by Valeo. Lastly, the Group's future strategic emphases for environmental stewardship, together with related action stages, are outlined.

The Group's strategy as regards sustainable development is deployed at plants and distribution sites based on the principles contained in the documents explaining the strategy. Many initiatives are carried out at the local level with the aim of reducing operations-related environmental impacts and incorporating sustainability into manufacturing processes to the maximum extent.

Valeo has formalized the application of its sustainable development policy to plants and distribution sites over their life cycle, i.e., from the selection of site location to site construction, site operation and, possibly, closure or sale. Accordingly:

- sites are usually located close to customers' premises. They are located in existing industrial parks or in industrial parks under construction so as to benefit from local infrastructure and skilled subcontractors;
- when choosing site locations, the Group systematically commissions 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;
- the construction or rehabilitation of sites takes account of sustainable development criteria related to construction per se, working conditions for employees, plant operating conditions, regulatory compliance, Valeo risk prevention standards, the optimization of resource consumption and the reduction of emissions and waste;
- in addition to the need to make allowance for the various constraints and specifications (architectural, environmental, organizational and so forth), it is absolutely vital that a "project team" be formed and that it include from the outset members with skills in environmental matters and facility safety. The project team is tasked with applying the best-possible sustainable development solutions for 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 occupational health and safety, the environment, and the safety and security of facilities. If soil or groundwater pollution is suspected during this phase, an investigation is conducted and, if necessary, appropriate remedial action is taken;
- when a business is sold or shut down, the Valeo Group systematically commissions an audit, usually accompanied by 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 prior to sale, all waste, raw materials, products and equipment are removed and site maintenance continues.

The new Biodiversity Directive will be published in 2012 and will present the biodiversity protection measures to be applied during the selection of site locations, site development, site operation and site closure.

Indicators that reflect sites' operations

Valeo monitors a large number of operations-related environmental indicators that mainly concern two categories: consumption and emissions. Emissions resulting from goods transportation and employee travel are also monitored.

2011 marked the first-time 100% consolidation of environmental data for the Taegu plant in South Korea. The plant is 50%-owned by Valeo, but is fully consolidated in the Group's financial statements.

Improving energy efficiency and reducing greenhouse gas emissions for buildings and industrial processes

During 2011, Valeo maintained its campaign, initiated in 2010, to improve the energy efficiency of its buildings and manufacturing processes. Efforts culminated in the publication of a ***guide on good practices for energy conservation at the year-end.***

The guide presents a wide range of actions conducive to the optimal use of energy and resources. Information is also provided concerning the potential return on investment from the proposed solutions, with a view to ensuring that only economically viable options are pursued.

The information provided in the guide is based on energy surveys and audits conducted at sites. It is supplemented by the findings of tests carried out at a number of pilot sites considered to be **Excellence Centers.**

> A large number of initiatives have been launched at the Angers plant by the **Energy Committee,** created in 2007. A continuous improvement program has been unveiled by the Plant Director and the heads of the various functions at the site. Energy consumption readings are recorded every weekend and results are communicated to the Plant Director every Monday. The involvement of senior plant management and of the heads of other functions lends credibility and impetus to the process. Thanks to its commitment, the Angers plant has become a beacon of good practices and is actively participating in practice feedback and deployment at Group level.

The energy-saving measures implemented at Valeo's sites are monitored using the Group's environmental reporting tool. The measures concern more than 80 sites and potential energy savings represent over 39GWh.

Action is focused on consumption related to buildings and manufacturing processes. In order to better identify leeway for improvement and steer consumption behavior in the right direction, Valeo encourages sites to measure energy consumption for buildings and manufacturing processes separately.

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

Angers, France

The acquisition of a variable-speed compressor alongside the plant's two fixed-speed compressors is delivering annual energy savings of 17,000 euros.

The Angers Excellence Center has also installed energy meters for injection processes. The analysis of energy consumption trends and consumption data for equipment/facility injection processes has led to annual energy savings representing about 9,000 euros.

Queretaro, Mexico

Thanks to a leak detection program and subsequent repairs, the Queretaro plant has reduced its energy consumption by 16,000kWh per month. This equates to annual savings of 250,000 Mexican pesos (21,500 US dollars), for an investment of 40,000 Mexican pesos (3,300 US dollars).

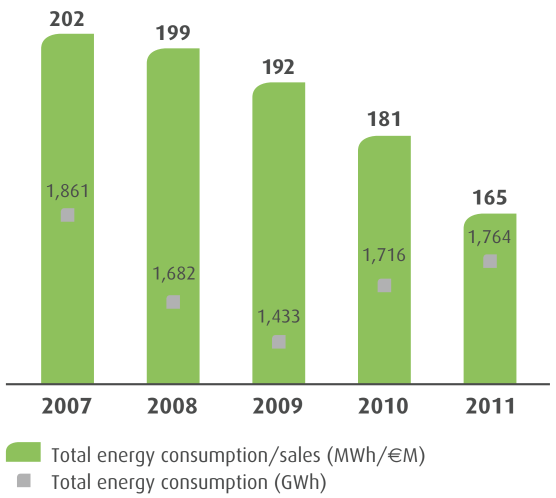
Itatiba, Brazil

Timers have been installed at the Itatiba plant to align run time for HVAC (heating, ventilation and air-conditioning) systems to working hours. Temperature settings have been modified based on the findings of an efficiency study, leading to enhanced thermal comfort in the building and estimated savings of 17,500 euros annually.

Another aspect of the energy efficiency drive is the boosting of energy auditing levels at sites worldwide. Goals are the identification of energy uses and reduction avenues as well as the sharing of good practices among sites. Some local solutions are selected for group-wide application.

Valeo is also considering pursuing ISO 50001 certification for its sites' energy management systems as part of its adoption of a more structured approach to energy efficiency.

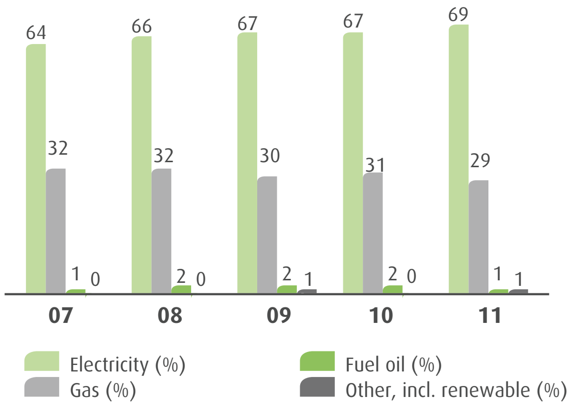
Energy consumption



Response rate

2007	2008	2009	2010	2011
99.7%	98.9%	100%	100%	100%

Energy consumption by source



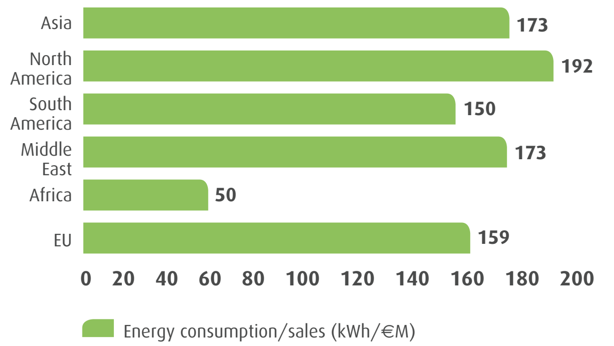
Response rate

	2007	2008	2009	2010	2011
Electricity	99.7%	98.9%	100%	100%	100%
Gas	99.7%	98.9%	100%	100%	100%
Fuel oil	99.6%	98.9%	100%	100%	100%

In 2011, energy consumption dropped by 8.8% relative to sales, but rose by 2.7% in absolute terms. The increase is partly attributable to the first-time 100% consolidation of the Taegu plant in South Korea, whose reported consumption accounted for roughly 40,000MWh of the total increase of 50,000MWh.

The share of renewable energies in the energy mix remains low. However, some sites have installed renewable energy-producing facilities that not only cover their needs, but also generate electricity for sale back to the grid. The Limoges plant, for example, produced 2,629kWh of electricity during 2011 and the Isle-d'Abeau plant allowed EDF EN (Énergies Nouvelles) to install solar panels on 11,045m² of its roof in exchange for roof repairs. In 2012, an estimated 1,788MWh of renewable energies should be produced.

Energy consumption by geographic area

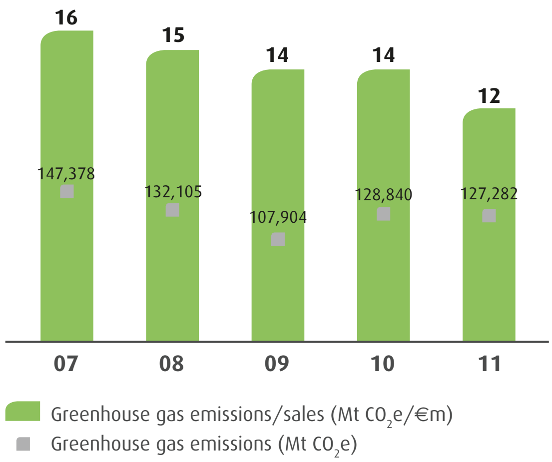


Based on energy consumption per million euros of sales, the Group's sites in North America and Asia are the biggest consumers.

In Asia, the Taegu plant in South Korea accounts for 18.7% of total energy consumption for all Group sites in the region.

The very good performance by plants in Africa reflects the low heating requirement in the region.

Direct CO_2 emissions



N.B.: In the interests of consistency, the change in 2011 in emission factors (multiplier coefficients for calculating the quantity of CO_2 emitted by fuel consumption) from GHG Protocol factors to factors prescribed by the French Environment and Energy Management Agency (ADEME) has been applied retrospectively to prior years.

Response rate

2007	2008	2009	2010	2011
99.7%	98.9%	100%	100%	100%

Relative to sales, direct CO2 emissions from the burning of fuel oil and gas at Valeo's sites fell by 12% in 2011

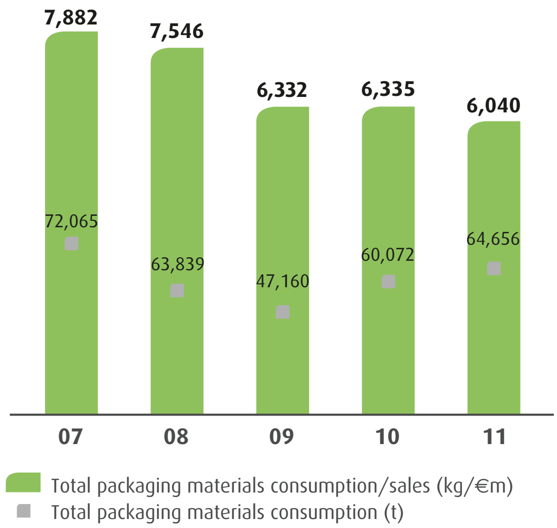
The targeted 10% reduction in energy consumption over the 2010-2012 period has already been exceeded.

Direct greenhouse gas (GHG) emissions represent just 3% of the Group's carbon footprint (see section 3.3.3). However, Valeo pays close attention to the Scope 1 emissions for which it is responsible and may implement tailored measures to get sites to reduce their consumption of non-renewable energies.

Limiting the quantity of packaging materials

Packaging is essential to the handling of Valeo products. Packaging is required for transportation, it facilitates storage, protects products and in the case of aftermarket products, helps to sell them. For these various purposes, Valeo uses many different kinds of packaging materials, mainly paper, cardboard, wood, plastics and metal.

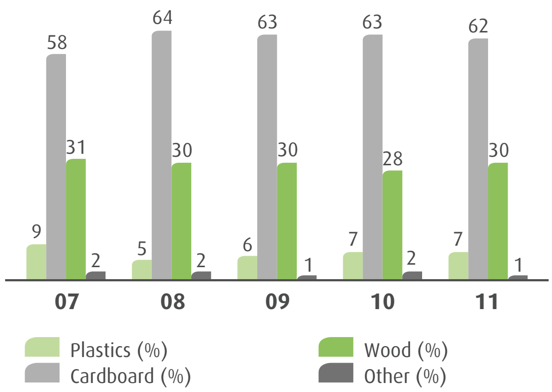
Packaging materials consumption



Response rate

2007	2008	2009	2010	2011
99.1%	98.9%	99.2%	100%	100%

Breakdown of packaging materials consumption



Response rate

	2007	2008	2009	2010	2011
Plastics	99.1%	98.9%	100%	100%	100%
Cardboard	99.1%	98.9%	100%	100%	100%
Wood	99.1%	98.9%	99.2%	100%	100%

In 2011, packaging materials consumption as a proportion of sales decreased by 5%. In absolute terms, consumption increased as a result of the start-up or scale-up of production lines at the Wuxi plant in China, Chrzanow in Poland and Martos in Spain. Efforts to reduce packaging materials consumption within the Group focused mainly on packaging reuse, with more than 1,000 metric tons of materials reused during the year.

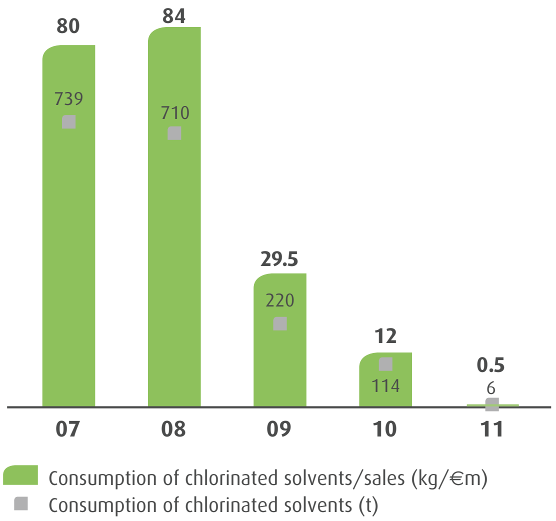
The Group also encourages the use of recycled materials. In 2011, recycled packaging materials represented 3% of all recovered and recycled waste, corresponding to a 59% year-on-year increase.

Eradication of hazardous substances used at 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 be harmful to the health of any person exposed to them.

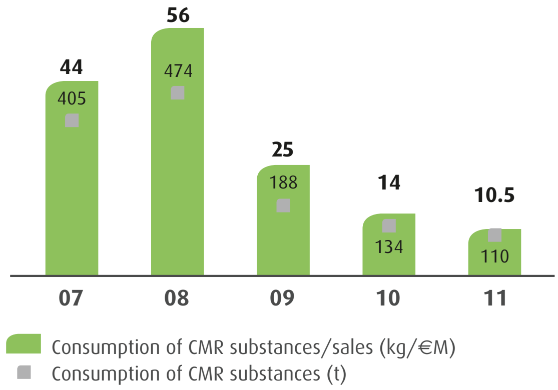
Consumption of chlorinated solvents



Response rate

2007	2008	2009	2010	2011
100%	98.9%	100%	100%	99.1%

Consumption of carcinogenic, mutagenic and reprotoxic (CMR) substances



Response rate

2007	2008	2009	2010	2011
99.4%	98.9%	100%	100%	99.1%

N.B.: Data for the Taegu plant have been intentionally excluded from the consolidated indicators for 2011, as they were deemed unreliable compared with those of other plants. An audit of environmental data for the site will be organized in 2012.

Consumption of chlorinated solvents and of carcinogenic, mutagenic and reprotoxic (CMR) substances has been on a declining trend since 2007 on account of product substitution.

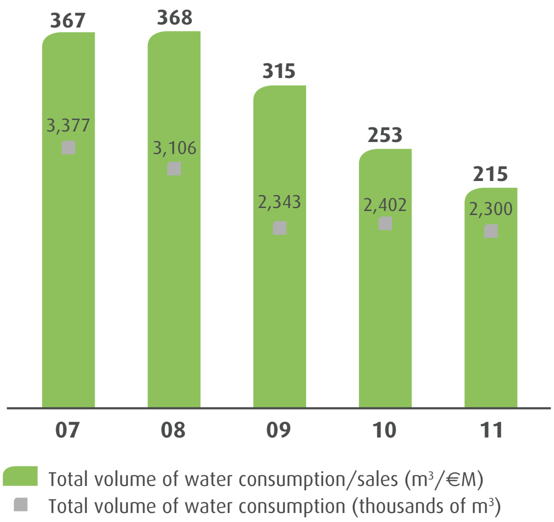
Alongside compliance-related actions concerning products (see section 3.2.3), the Group has continued the process of **eradicating all substances deemed hazardous that are used at its plants**. Since 2008, the new European CLP (Classification, Labeling and Packaging) regulation, which is aligned to the GHS (Globally Harmonized System), has required that information on the evaluation of chemical risks (based on REACH registration) be included in new safety data sheets.

To this end, sites follow a procedure that involves **identifying prohibited substances, seeking out substitute products** (at an acceptable price), **testing them and having them approved by customers**. Most of the hazardous substances still in use at Valeo's sites are substances for which substitute products are either still undergoing approval or are currently available only at excessively high cost.

Under the REACH regulation, sites must adhere strictly to the scope of application of the substances concerned as registered by manufacturers and distributors.

Reduction of water consumption in buildings and processes

Water consumption



Response rate

2007	2008	2009	2010	2011
99.7%	98.7%	100%	100%	100%

Water consumption at Valeo's sites dropped by 4% in absolute terms in 2011. Relative to sales, water consumption fell by an even larger 15% year on year.

The Group has cut its water consumption by 32% since 2009, largely exceeding the targeted 7% reduction in water consumption over the 2010-2012 period.

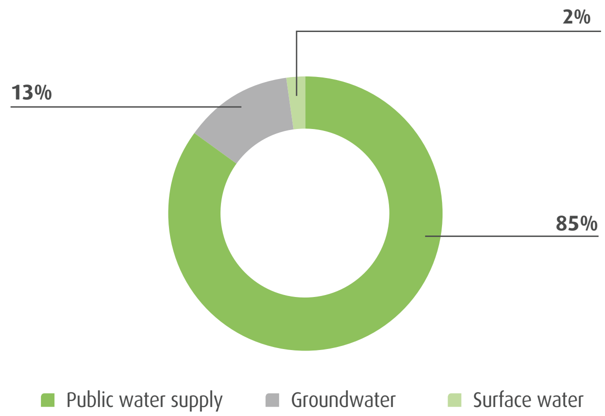
The improvement in the water footprint is the result of efforts by the Group's sites in two main areas: reduction in water consumption for manufacturing purposes, which represents 57% of total consumption, and reduction of water consumption for non-manufacturing purposes.

Some sites have achieved sizeable reductions in their water consumption for manufacturing purposes. Leaks in the water systems at the Martos plant in Spain and the Reims plant in France have been repaired. At the Frosinone plant in Italy, process modifications have led to a sharp decrease in water consumption. In Timisoara, Romania, the plant's cooling systems for presses were converted to closed-circuit upon the transfer of production to a new location. As a result, all of the Group's sites now have closed-circuit cooling systems.

On the building management front, the introduction of detailed monthly consumption monitoring at the Gravatai plant in Brazil permitted the detection of a major leak and the implementation of repair work, together with measures to reduce routine consumption. The site was thus able to achieve its objective of lowering consumption to less than 30m^3 per month. Similar steps have been taken at the Itatiba plant, also in Brazil, where the installation of tap flow reducers yielded savings of 1,448m^3 over 12 months. This action was organized in partnership with students from the prestigious SENAI technical school and the PCJ Consortium (a regional agency tasked with watershed protection).

To measure the potential impact of its operations on water resources, Valeo also looks at the sources of its plants' water supply.

Water supply sources

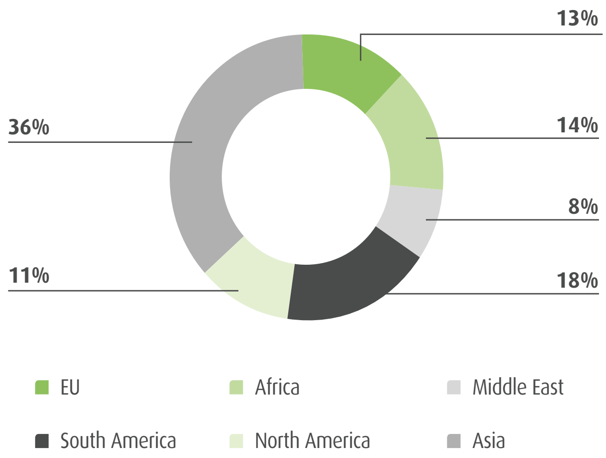


As shown in the chart above, Valeo's sites use relatively little groundwater and surface water (15%).

The Group also takes account of water restrictions, which reflect pressure on local water resources. Among the Group's 117 reporting plants, only seven cases of water restrictions (attributable to the limited quantity of regional resources) and two brief stoppages were recorded in 2011, in Brazil, Thailand and Japan.

Cutting water consumption is a particular concern in regions where water resources are scarce. In Africa and Latin America, which both suffer chronic water shortage (hydric stress), Valeo's plants have adopted countermeasures to reduce their consumption. The Campinas plant in Brazil, for example, has been treating its wastewater since June 2008 and reuses 45% of the total amount treated for production purposes. The rest of the recycled water is used in a roof-cooling system.

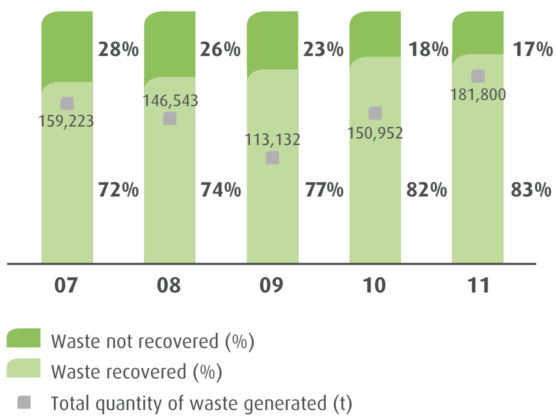
Water consumption by geographic area



Reduction of waste production at sites

The Group's main waste products in descending order of weight are metal, wood and plastics. Almost all metal waste is sold for recycling. Wood is recycled or used for heating. Two-thirds of plastics are sold for recycling.

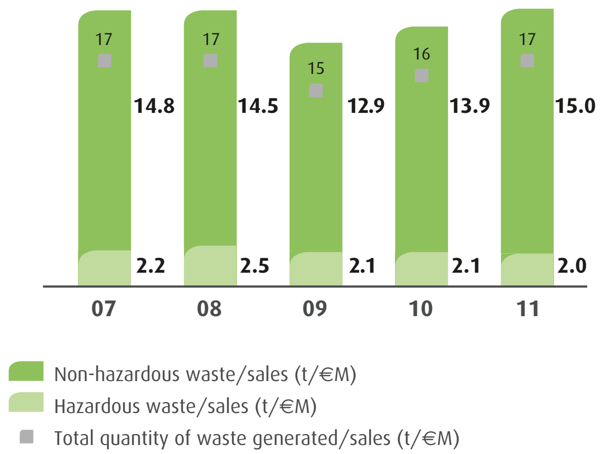
Waste production and recovery rate



Response rate

2007	2008	2009	2010	2011
99.7%	98.9%	98.9%	99.7%	100%
94.7%	98.9%	98.9%	99.7%	100%

Production of hazardous and non-hazardous waste



Response rate

2007	2008	2009	2010	2011
100%	98.9%	100%	99.7%	100%

In 2011, the quantity of waste produced relative to sales rose by 6%.

The bulk of the increase in absolute terms is attributable to the Taegu plant, which was 100% consolidated for environmental reporting purposes for the first time in 2011. The Taegu plant alone accounted for more than 14% of the Group's waste production.

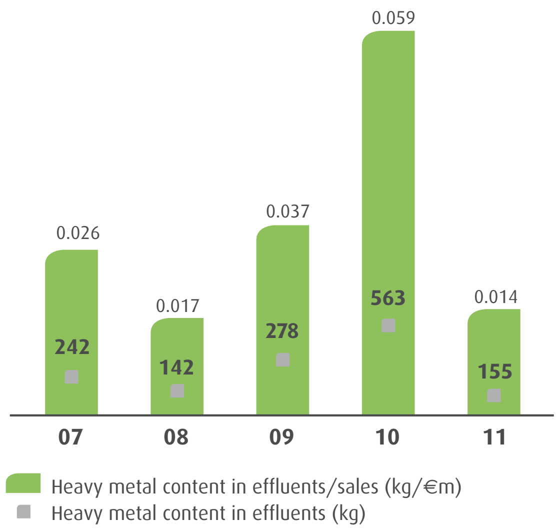
Production-related changes at the Mondovi plant in Italy, combined with the removal of unused products and materials from the Martos plant in Spain and the inclusion of foundry scrap and cores in calculations at the Nevers site in France, also contributed significantly to growth in waste generation.

2011 saw a decrease in the production of hazardous waste by Valeo in parallel with an increase in the proportion of recovered waste, to 83% from 82% in 2010.

In 2011, to refine its waste management even further, Valeo introduced a new indicator detailing waste by type and destination (transfer to another Valeo site or to an external provider). For example, because of the lack of waste-processing capability in Mexico, the Juarez and Río Bravo plants in that country export their waste to the United States. Measures are in progress to ensure the reliability of the reporting framework associated with the new indicator.

Measurement and containment of wastewater emissions

Heavy metal content in effluents



Response rate

2007	2008	2009	2010	2011
100%	100%	100%	100%	100%

In 2011, the total volume of industrial effluents fell by 15% year on year in absolute terms and by 25% relative to sales.

This decrease is related to that in water consumption resulting from various process-optimization initiatives across Group sites.

Valeo's sites measure the degree of pollution contained in their effluents by reference to various indicators, including the content of heavy metals, COD (chemical oxygen demand), BOD (biological oxygen demand) and the presence of suspended material (SM). Precision and transparency are central to the Group's targeted reduction in effluents. This is evidenced by the public display of monthly information concerning effluent volume, other emissions and resource consumption at the entrance to the Pune plant in India.

In 2011, heavy metal content in effluents dropped by 72% in absolute terms. This steep reduction is due mainly to the resolution of a technical problem affecting the effluent filtration system at the Rayong plant in Thailand, which was the principal contributor to the indicator in 2010.

Reduction of atmospheric emissions and of ozone-depleting substances

Valeo also monitors atmospheric emissions resulting from its operations by measuring the presence of ozone-depleting substances (ODS), emissions of lead to the atmosphere, TCE (trichloroethylene) and VOCs (volatile organic compounds).

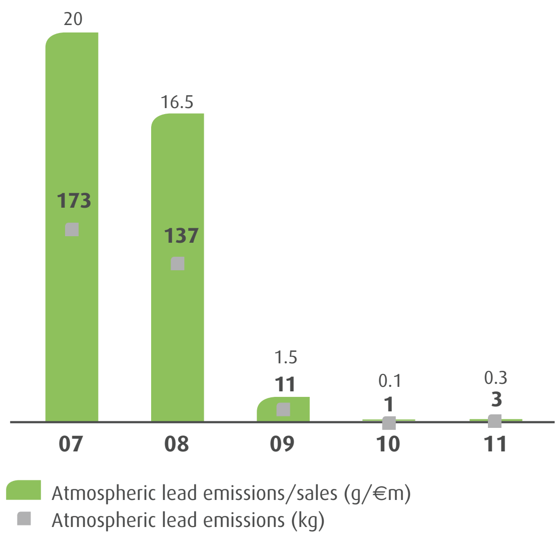
2012 will see the introduction of an "Ozone-depleting substances" Directive, which will explain which substances are concerned, how they are used in manufacturing and the timetable for their withdrawal.

Despite a steep downward trend since 2007, emissions of lead and TCE rose slightly in 2011 as a result of the first-time 100% consolidation of data concerning the Taegu plant in South Korea, which is chiefly responsible for such emissions.

But for that change, TCE emissions would have fallen by 12% in 2011.

The increase in lead emissions is attributable to two plants, Annemasse in France and Veszprém in Hungary, which are now the only Group sites to perform lead welding following the discontinuation of all lead-welding operations by the Shenzen plant in China during the year.

Atmospheric lead emissions

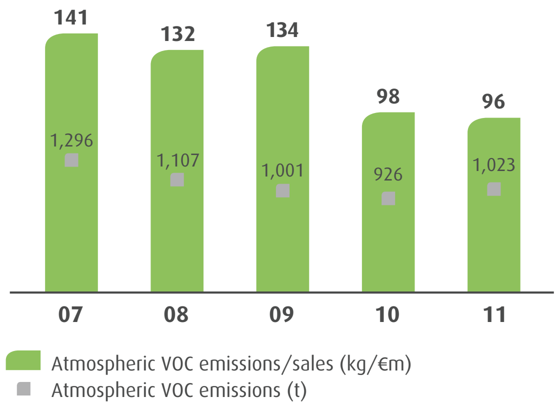


Response rate

2007	2008	2009	2010	2011
100%	100%	100%	100%	100%

As a proportion of sales, VOCs were down by 2% over 2011. The year saw significant efforts to make VOC measurement more reliable by improving the evaluation tool used at certain sites, including the Sens plant in France and the Skawina plant in Poland, which has since refined its data capture. The enhancement of VOC measurement will continue in 2012.

Atmospheric VOC emissions



Response rate

2007	2008	2009	2010	2011
100%	100%	100%	100%	99.1%

Accountability for biodiversity impacts

Valeo also recognizes its accountability with regard to the potential impact of its operations on biodiversity. Accordingly, in 2011, the Group introduced a number of indicators to measure the potential impact of its sites on protected areas. Results show that Valeo's plants pose few risks, as 79% of them are located beyond a 10km radius of biodiversity conservation areas.

In addition, aside from the localized steps taken at 13 sites during the year, a Biodiversity Directive has been drafted with a view to group-wide deployment in 2012. The directive will present the biodiversity protection measures to be applied during the selection of site locations, site development (creation of areas with trees, bushes and shrubs with the potential to sustain animal life, for example), site operation (absence of biochemical processing) and site closure (removal of waste and maintaining of landscaped areas up to site handover). The directive will operate alongside provisions governing the application of sustainable development principles to Group sites and will likewise call for a life cycle-based approach.

Ensuring high-level operational safety and the security of installations

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

- the vast majority of Valeo's sites are HPR (Highly Protected Risk)-classified and are equipped with automatic fire-protection sprinkler systems. Furthermore, employees receive regular training in dealing with all kinds of risk situations;
- all sites located in areas exposed to seismic risk have been built or upgraded to comply with the most recent seismic standards. Valeo's sites in Japan suffered little physical damage during the March 11, 2011 earthquake;
- the Group's sites are not located in flood-prone areas or are equipped with flood-protection systems. The sites in Thailand did not suffer any physical damage during the floods in that country towards the end of 2011;
- new Valeo sites are located far from sites representing significant potential risks (for example, Seveso sites) that could have a domino effect on them;
- in 2011, risks related to tsunamis were added to the document dealing with the selection process for potential locations and to the risk management policy;
- Valeo is continuing to reinforce the quality of physical and non-physical security systems for facilities (access control, video surveillance and intrusion detection). The Group also conducts physical and virtual intrusion tests to verify effectiveness. Fundamental performance considerations – health, safety and security – are tested on an ongoing basis to allow for on-site improvements.

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

As part of its overall risk management policy, Valeo uses the VERM (Valeo Emergency and Recovery Management) tool for the prevention of emergency situations. This framework tool, which is an integral part of each Valeo site's risk management system, aids the design and implementation of emergency, crisis-management and recovery plans.

The VERM approach unifies procedures for managing the emergency situations covered by the Group's existing frameworks and enhances a site's preparedness in any kind of crisis. The system ensures that decision-makers are well informed by holistically anticipating the problems faced by sites in crisis situations. In addition, response mechanisms are defined for identified problems to guarantee decision-making effectiveness.

Country HSE managers play a role in awareness-raising in support of the deployment of the VERM risk management tool.

Carbon efficiency of infrastructure and logistics

Valeo's operations require inbound supplies of raw materials and parts from suppliers, the transfer of parts between sites, and outbound deliveries to automaker-customer premises plants and dealer networks. This involves transportation and the consumption of packaging materials, two areas for improvement identified by the Group.

In 2011, Valeo continued to focus on its three logistics management policy objectives:

- optimization of transportation use;
- reduction of storage facilities;
- optimization of finished-product packaging.

Action undertaken in 2010 in the sphere of transportation was continued in 2011. Grouped supplier deliveries were stepped up and replicated in several other countries. In addition, as part of Valeo's new organizational approach, regional teams were formed **in the nine regions** where localized **transportation-optimization measures** have been adopted. The new organization also accommodates transportation-sharing by sites based in the same region. Another undertaking initiated in 2011 was the optimization of shipping container loads on Asia-United States and Asia-Europe routes.

As part of the supply chain, **storage facilities likewise benefited from renewed improvement efforts** during 2011. Optimization measures for in-house storage premises were introduced in parallel with the continuing reduction of the number of external warehouses. The harmonization of the warehousing approach across sites has enabled Valeo to enhance both the use of space and warehouse management, paving the way for very significant inventory reductions. The year also saw reliability testing of warehouse equipment to improve utilization rates and measures to improve storage-space energy efficiency.

In the sphere of packaging materials, Valeo's actions are guided by a spirit of innovation and a determination to show the way in its sector. Attention is being focused on **optimizing the containers** used for product transportation in order to maximize trailer and container loads and thereby reduce CO_2 emissions.

During the year, new forms of flexible packaging were tested at a number of plants with a view to solving problems identified at the design stage. Because it is foldable, the packaging permits a two-thirds reduction in the number of journeys required for its return after product delivery. The tests have resulted in the validation of new specifications for flexible packaging.

The Group is also testing a new model of roller pallet. The pallet should allow improved multi-level truck loading and thereby help maximize the use of available space.

In the sphere of maritime transportation, Valeo's commitment to packaging standardization was probably best illustrated in 2011 by the achievements shared within the context of the project launched by GALIA (Groupement pour l'amélioration des liaisons dans l'industrie automobile), a group tasked with promoting information and product exchanges in the automotive industry. The year witnessed the appointment of the Valeo Group's Director of Supply Chain Development and Continuous Improvement as Chairman of GALIA's Logistics Committee (see text box).

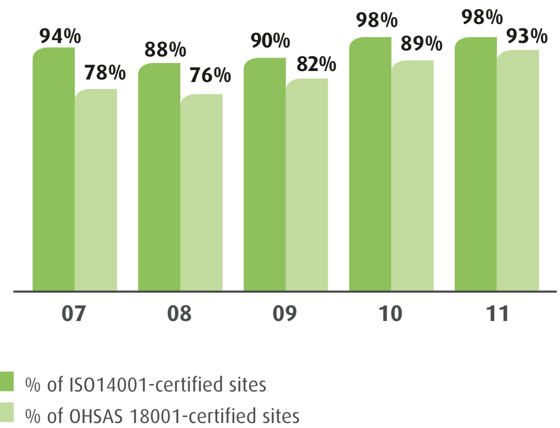
The project concerning standardized packaging for long-distance maritime transportation has made significant advances and was officially presented to the GALIA community in June 2011. The proposals submitted by Valeo to the Group's partners have been adopted by the sector and have already been implemented by Valeo in several countries.

The related standard allows a 15%-20% increase in available container volume through optimized loading.

In 2012, Valeo will push ahead with the group-wide deployment of the standard.

Measures concerning the three logistics management policy objectives delivered an **8% decrease in the Group's transportation-related expenditure in 2011. The improvement in financial terms was accompanied by a reduction in transportation use, occupied space and energy and materials consumption.**

Certification



Valeo is seeking external accreditation for its environmental and occupational health and safety assurance by working towards ISO 14001 and OHSAS 18001 certification for all Group sites, R&D centers and distribution sites.

At end 2011, a total of 98% of Valeo's certifiable sites had obtained ISO 14001 certification and 93% had obtained OHSAS 18001 certification. The objective for the 2010-2012 period is to have 100% of sites ISO 14001- and OHSAS 18001-certified by 2012. The attainment of this ambitious objective will necessitate a rigorous program of compliance audits.

3.3.3 Environmental performance overview

A table summarizing the Group's environmental indicators is presented in section 3.6.1 on page 120 and 121.

In addition to evaluating the environmental performance of the Group's plants, Valeo has assessed its carbon footprint since 2009. The aim is to measure the quantity of greenhouse gas (GHG) emissions generated directly and indirectly by Valeo's operations. In accordance with the method prescribed in Article 75 of Law no. 2010-788 of July 12, 2010 enshrining France's national commitment to the environment, Valeo's assessment takes account of the following emissions:

- **direct** GHG emissions from the combustion of fixed sources at sites (fuel oil and gas), emissions caused by fuel combustion in vehicles operated by Valeo and non-energy emissions from manufacturing processes like on-site biochemical processing;
- **indirect** GHG emissions resulting from the production of electricity and other types of energy (for example, compressed air and steam) used by Valeo's sites;
- **other indirect** GHG emissions attributable to the purchase of products used in Valeo's manufacturing processes (steel, aluminum, copper, zinc, plastics and electronic components), the treatment of waste generated by sites, goods transportation and employee travel.

Valeo's carbon footprint in 2011

Based on the 2009 consolidation scope for environmental reporting, the Group's **direct GHG emissions fell by 18%.** To comply with Article 75 of France's "Grenelle 2" environmental protection act, Valeo has included emissions generated by the Group's vehicle fleet and by manufacturing-related biochemical processing in the calculation of its carbon footprint. **On this basis, Valeo's direct GHG emissions have dropped by nearly 9% since 2009.**

Direct emissions account for 3% of the Group's overall carbon footprint and fall into three groups: CO_2 emissions generated by fuel oil and gas combustion at Valeo's sites, emissions caused by Valeo's vehicle fleet and emissions from biochemical processing at sites.

Indirect GHG emissions from electricity consumption likewise decreased, by 5% relative to 2009.

Emission category	Emission sources	2009 (Eq. t CO_2)	2010 (Eq. t CO_2)	2011 (Eq. t CO_2)	Change rel. to sales (1)
Direct GHG emissions (Scope 1)	Emissions generated by fuel oil and gas combustion at sites	108,087	129,051	127,282	-18%
	Emissions caused by Valeo's vehicle fleet	NC	NC	12,994	-
	Emissions from wastewater treatment plants	NC	NC	1,662	-
	TOTAL DIRECT GHG EMISSIONS	**108,087**	**129,051**	**141,938**	**-9%**
Indirect GHG emissions (Scope 2)	Emissions from electricity consumption	336,078	410,513	457,712	-5%
	TOTAL INDIRECT GHG EMISSIONS	**336,078**	**410,513**	**457,712**	**-5%**

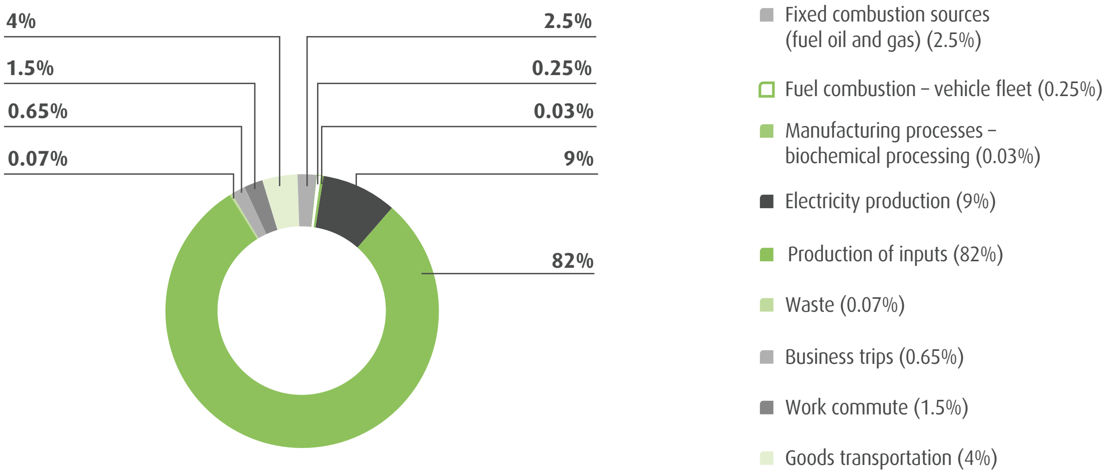
(1) Refers to the difference between the 2009 total emissions/2009 sales ratio and the 2011 total emissions/2011 sales ratio.

All told, indirect emissions (Scope 2 and Scope 3 (optional)) represent 97% of the Group's overall carbon footprint.

Indirect emissions in the optional Scope 3 category account for the bulk of the overall carbon footprint. The following chart shows the **high contribution of materials** to Valeo's carbon footprint. Materials consumption is responsible for 82% of the direct and indirect greenhouse gas emissions generated by Valeo's operations; metals (chiefly steel and aluminum) make up 57% of the Group's footprint.

Emission category	Emission sources	2009 (Eq. t CO_2)	2010 (Eq. t CO_2)	2011 (Eq. t CO_2)	Change rel. to sales (1)
Other indirect GHG emissions (optional Scope 3 category)	Emissions generated by the production of the main materials used in Valeo's products	2,782,908	3,643,161	4,198,216	5%
	Materials (metals)	*1,887,007*	*2,470,085*	*2,817,035*	*4%*
	Materials (other)	*895,900*	*1,173,076*	*1,381,181*	*7%*
	Emissions caused by the treatment of waste generated by sites	1,968	2,845	3,668	30%
	Emissions generated by logistics	120,796	142,326	207,100	19%
	Road/rail/sea transportation	*87,032*	*92,766*	*117,400*	*-6%*
	Air/express transportation	*33,764*	*49,560*	*89,700*	*85%*
	Emissions generated by employee travel	146,253	101,853	110,393	-47%
	Work commute	*89,841*	*68,636*	*77,884*	*-40%*
	Business trips	*56,412*	*33,217*	*32,509*	*-60%*
	TOTAL INDIRECT GHG EMISSIONS (EXCLUDING SCOPE 2)	**3,051,925**	**3,890,185**	**4,519,377**	**3%**

(1) Refers to the difference between the 2009 total emissions/2009 sales ratio and the 2011 total emissions/2011 sales ratio.



In 2011 the Group's carbon footprint amounted to 5 million metric tons of CO_2 equivalent emissions.

As a proportion of Valeo's sales, the overall carbon footprint was virtually stable relative to 2009.

3.4 Valeo's social performance

The employment indicators shown below are based on the provisions of Articles L.225-102-1 and R.225-104 of the French Commercial Code (*Code de commerce*).

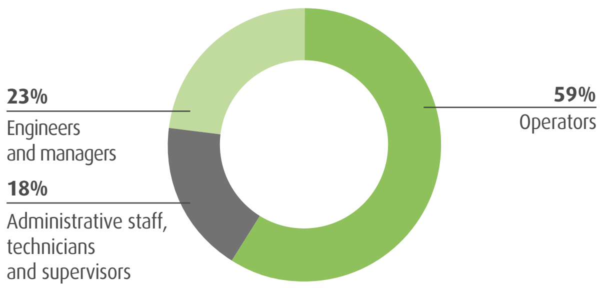
The Group has opted to take into account the entire worldwide scope of consolidation, consisting of 124 plants, 21 research centers, 40 development centers and 12 distribution platforms, located in 28 countries [1].

3.4.1 Headcount in line with the Group's growth

Change in headcount over three years

	2009	2010	2011
Engineers and managers	10,834	11,375	13,611
Administrative staff, technicians and supervisors	7,433	7,637	10,910
Operators	28,789	31,767	35,268
REGISTERED HEADCOUNT	**47,056**	**50,779**	**59,789**
Temporary staff	5,054	7,151	8,211
TOTAL HEADCOUNT	**52,110**	**57,930**	**68,000**
o/w:			
Permanent staff	44,705	47,146	54,897
Temporary staff	7,405	10,784	13,103

Breakdown of registered headcount by socio-professional category



At December 31, 2011, the Group employed 68,000 people worldwide, an increase of 17.39% more than in 2010. This increase was the result of a recovery in the automotive industry and market share gains.

The number of temporary employees rose in 2011 as a result of increased business volumes (arising from the temporary impacts of vehicle scrappage programs in Europe and the subsequent competitive offers from automakers) and the strong recovery in vehicle production in emerging economies.

The industry is undergoing swift and profound changes all over the globe, reflecting today's economic and financial paradigm. Companies have had to become more resilient to the crisis as a precondition for their survival and ability to maintain jobs. This explains why, on a group basis, temporary workers rose from 18.6% of the total workforce in 2010 to 19.3% in 2011.

The proportion of engineers and managers stood at 22.8% of the total workforce at the end of 2011 compared with 22.4% at end-2010 and 23.0% at end-2009. The increased number of engineers and managers Group wide (up 2,236) signals the growing importance of technological innovation in the Group's products and means of production.

(1) Excluding the following entities:
- only registered headcount has been counted for the Pune joint venture (India), the SMD joint venture (China), and shared service centers;
- only registered headcount and new hires have been counted for the Niles, Climate Control and Compressor entities in India, and the Huada entity in China.

3.4.2 Organization of work according to Group needs

Working time

Working week of full-time employees

The working time of employees at the Group's 124 plants, 21 research centers, 40 development centers and 12 distribution platforms is organized on the basis of statutory provisions, varying from 35 to 48 hours per week, depending on country.

The most frequent statutory working week is 40 hours.

In France, the agreement on the reduction of working time, signed with the trade unions on April 20, 2000, establishes the following number of hours for the working week:

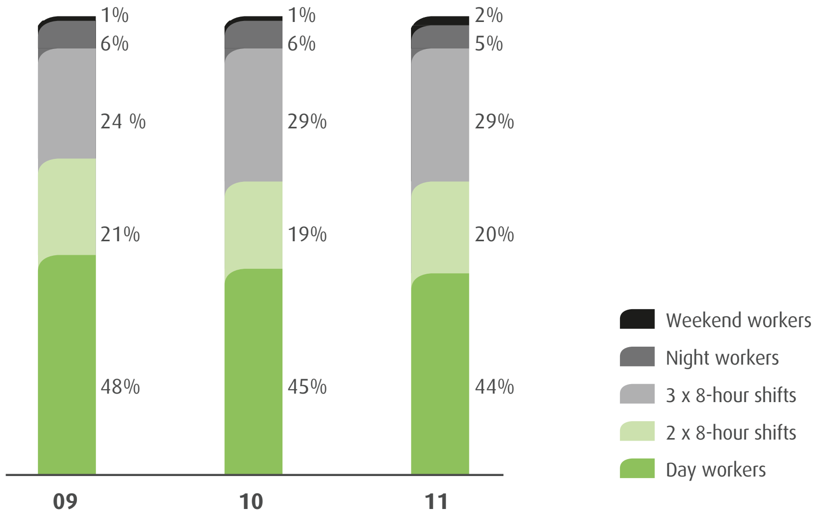
Engineers and managers *(fixed daily basis)*	215 days annually
Administrative staff, technicians and supervisors	35 hours
- employees without paid overtime hours	37 hours 30 mins.
Operators	35 hours

Working week of part-time employees

Part-time work is considered to be any work schedule with fewer hours than the standard working week at the entity in question. Average working hours for part-time employees consequently vary from 16 to 36 hours per week, depending on country and socio-professional category.

Working hours

Breakdown of employees by % of working hours



Most production employees work as part of 2x 8-hour or 3x 8-hour shifts teams. By having teams working night or weekend shifts, plant utilization can be optimized. At the end of 2011, 56% of the registered headcount worked on the basis of shifts.

Overtime

In 2011, 7,647,515 hours of overtime were paid (compared with 5,463,551 in 2010 and 4,393,339 in 2009), of which 86.5% for production workers (86.9% in 2010 and 87.7% in 2009).

Paid overtime corresponded to 7% of total possible working hours (i.e., the number of basic hours that could be worked by all Group employees).

Part-time work

A total of 1,120 employees were working part-time in the Group in 2011, or 1.9% of the registered headcount (versus 2.1% in 2010 and 2.2% in 2009).

Women accounted for 72% of this number (versus 74.5% in 2010 and 76.9% in 2009).

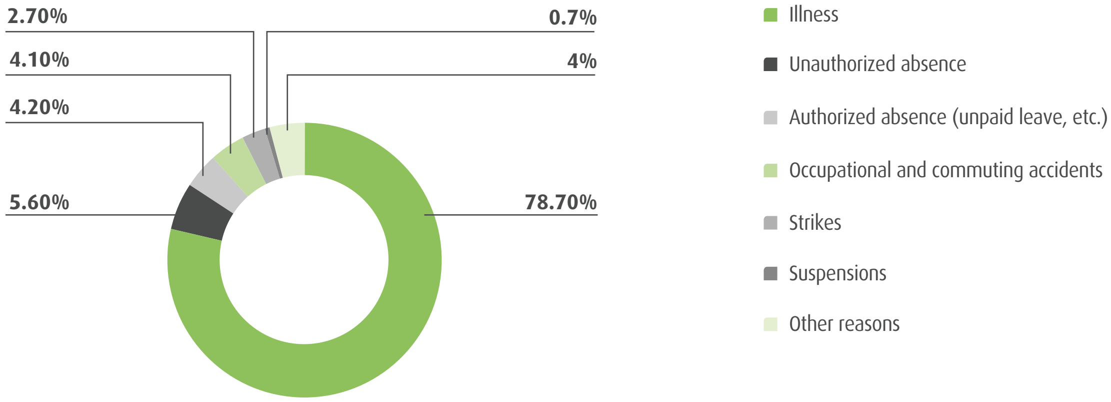
The number of part-time employees breaks down as follows:

- engineers and managers: 8.6%;
- administrative staff, technicians and supervisors: 16.3%;
- operators: 75.1%.

Absenteeism

In 2011, the Group-wide absenteeism rate (ratio of hours of absence to total possible working hours) was 2.28% (versus 2.35% in 2010).

Breakdown of absent hours by reason for absence



3.4.3 Stringent health and safety policy

In the field of safety and working conditions, our goal is "zero accidents".

Valeo considers health and safety in the workplace as a key priority. Systematic audits are performed by external consultants so that risks can be better assessed and managed and so that standards can be improved. In 2010, a new self-evaluation tool was developed to allow each HSE manager to perform a self-compliance audit against benchmarks drawn from applicable Group directives. The tool is used in addition to the audits performed by external consultants and makes it possible to assess site performance on a more regular basis.

In 2011, in keeping with its policy of ongoing improvement, Valeo continued to deploy tools for analyzing each occupational accident or incident (Quick Response Quality Control – QRQC). These tools were implemented in 2007 and have been optimized annually since then through the involvement of management. This has resulted in a significant decline in the number of accidents. For example, the number of occupational accidents (with or without lost time) has fallen by 69% since 2007.

In 2010, safety performance became an integral part of managerial assessment criteria at all levels of the organization, as a way of increasing employee awareness and involvement.

Besides the regular audits, Valeo uses two indicators to gage the efficiency of its measures:

- frequency rate (number of lost-time accidents per million hours worked);
- severity rate (number of days lost owing to an occupational accident per thousand hours worked).

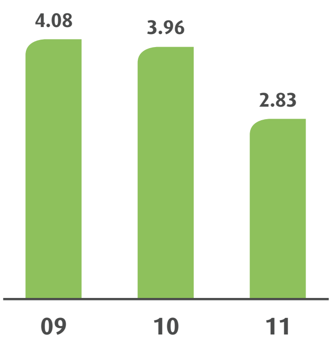
In 2011, the number of occupational accidents (with or without lost time) continued to decline. The frequency rate of accidents leading to absences has dropped by 48% since 2007.

In addition, the severity rate declined by 50% in the space of five years.

Generally speaking, the main causes of lost-time accidents concern machines, processes or working practices.

Group frequency rate 1 (FR1)

Lost-time accidents

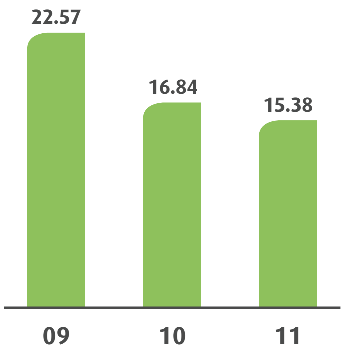


Calculation: number of lost-time accidents per million hours worked.

Formula for calculating FR1: (number of lost-time accidents x 1,000,000)/number of hours worked.

Group frequency rate 2 (FR2)

Total accidents (with or without lost time)

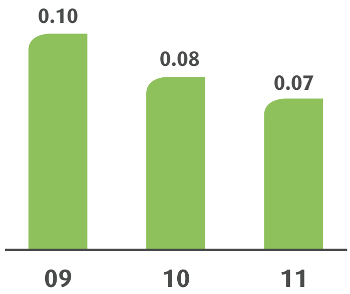


Calculation: number of accidents with or without lost time per million hours worked.

Formula for calculating FR2: (total accidents x 1,000,000)/number of hours worked.

Group severity rate 1 (SR1)

Total accidents (with or without lost time)



Calculation: number of days lost owing to occupational accidents per thousand hours worked.

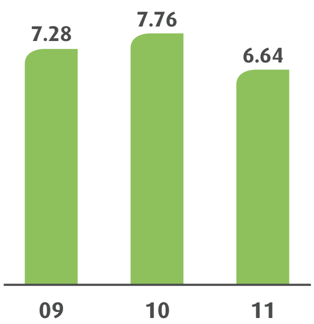
Formula for calculating SR1: (number of days lost owing to occupational accidents x 1,000)/number of hours worked.

The employees included in the calculation of the number of accidents are as follows: all Valeo employees whatever their type of employment contract, including fixed-term employees, interns, temporary employees, service providers and VIEs (international corporate volunteers).

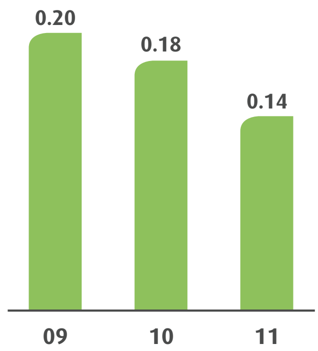
The employees included in the calculation of the number of hours worked include all Valeo employees, whatever their type of employment contract (including fixed-term contracts and VIEs, and takes overtime into account). Hours worked by interns, temporary employees and service providers are not included (Source MAF I.03.21).

France

Frequency rate



Severity rate



In France, the Group's frequency and severity rates for 2011 are situated below the industry average, namely 22.2 for the frequency of lost-time accidents and 1.1 for their severity *(source: latest survey published by the Occupational Risk Department of the French national insurance fund [2011-085 CNAMTS-DRP]).*

A total of 18.8% of the Group's training hours in 2011 were devoted to safety. In 2011, 58.6% of employees attended at least one training session devoted to safety (59.6% in 2010).

3.4.4 Diversified compensation system

Compensation and social charges

(in millions of euros)	2009	2010	2011
Payroll costs excluding social charges and temporary staff	1,354	1,460	1,579
Social charges	358	404	422
Pension costs under defined-benefit plans	25	26	20
Pension costs under defined-contribution plans	79	71	64
Loaded payroll costs	1,816	1,961	2,085
Loading rate	32.3%	32.5%	30.8%

(in millions of euros)	2009	2010	2011
Loaded personnel costs (including temporary staff)	1,888	2,114	2,294
% of sales	25.2%	21.9%	21.1%

Breakdown by geographic area in 2011

(in millions of euros)	France	Europe (excl. France)	Outside Europe
Payroll costs excluding social charges and temporary staff	561	498	520
Social charges	213	107	103
Loaded personnel costs (excluding pension costs)	774	605	623
Loading rate	38%	21.5%	19.8%

The highest portion of Valeo's registered headcount is in France, with 12,576 employees at December 31, 2011.

Financial benefits

Statutory profit-sharing

In 2011, only one of the Group's French entities set aside a special profit-sharing reserve, amounting to 711,000 euros.

Incentive plans

Talks with French labor organizations produced an agreement on incentive plans in June 2011, which in due course will be applicable to all of the Group's French employees. The agreement, which covers a three-year period (2011-2013) concerns 8 out of the Group's 13 entities in France. The calculation formulae laid down by this agreement reflect the need for the Valeo Group to improve performance, and take into account the contribution of employees to the Group's development. For example, incentive bonuses will depend on the operating margin at Group, country (France) and entity levels.

Using the formulas set out by this Group agreement, or under corporate agreements still in force during 2011, a total of 5,435,000 euros was paid out to employees at 11 of the Group's 13 French entities.

Profit-sharing bonus

Pursuant to the first Article of law 2011-894 of July 28, 2011, General Management instigated talks with labor organizations to define the amount of the so-called "profit-sharing bonus". As these talks failed to deliver an outcome, management of each of the Group's French entities decided to a pay a gross premium per employee of 90 euros. This bonus was paid to employees during the fourth quarter of 2011.

Improvement bonus

For many years, all entities within the Valeo Group worldwide have offered a so-called "improvement" bonus. The purpose of this management tool is to encourage employees to play an active part in helping achieve growth targets. For French employees, this variable component of their compensation represented a total of 5.5 million euros, equating to an annual average of approximately 440 euros per employee.

Employee savings plans

The Group savings plan (*Plan d'Épargne Groupe* – PEG) was set up on November 13, 2001, under a collective bargaining agreement was entered into by General Management and four trade unions. It was amended on June 29, 2011, to reflect changes in French regulations and allow for employees to benefit from new forms of investment.

The collective pension savings plan (*Plan d'Épargne pour la Retraite Collectif* – PERCO) was introduced on September 17, 2008, under a collective bargaining agreement entered into by General Management and four trade unions and amended on June 29, 2011.

French employees have the possibility to invest sums received through profit-sharing and incentives, and make voluntary payments into the PEG or PERCO. PERCO assets are invested in the same funds as the PEG. Employees also have the option of transferring 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 on an annual basis per employee (in proportion to payments). A specific matching contribution was created by the June 29, 2011 amendment under which employees wishing to invest their funds in Valeo shares enjoy an additional contribution of as much as 350 euros annually.

The employee booklet summarizing the benefits relating to employee savings plans at Valeo France was republished in 2011.

These agreements concern only the Group's French entities.

At December 31, 2011, in France, 7,669 French employees had Valeo employee savings plans in their name (PEG and PERCO), equating to 61.8% of the registered headcount in France.

Total assets invested by employees in the Valeo PEG amounted to 41,973,492 euros, spread across seven mutual funds.

At December 31, 2011, 1,658 employees had joined the Valeo PERCO, representing 13.2% of the registered headcount in France, an increase of more than 75% compared with at December 31, 2010. Total assets invested by employees in the Valeo PERCO amounted to 4,866,664 euros, spread across five mutual funds.

In 2011, 4.2 million euros from profit-sharing and incentives paid for 2010 were invested in the savings plans, in addition to 1.8 million euros of voluntary payments and 0.7 million euros in matching employer contributions. Altogether, 6.7 million euros of new money was placed in Valeo Group's employee savings plans.

Reallocation of assets through internal movements totaled 7.9 million euros.

Since 2008, the management of these mutual funds has been entrusted to AMUNDI (the merger of Crédit Agricole Asset Management and Société Générale Asset Management) and to BNP Paribas Asset Management. Valeo chose a single service provider, CREELIA, a subsidiary of Crédit Agricole Asset Management, to manage the administrative side of the savings plans.

Global employee share ownership

Following a proposal by General Management, on June 8, 2011 the Board of Directors of Valeo decided to grant each eligible employee three free Valeo shares. The operation took place during the fourth quarter of 2011 and benefited 45,074 employees in 28 countries.

3.4.5 Promoting positive labor relations is at the heart of Valeo's Human Resources policy

Collective bargaining agreements

Valeo is convinced that social cohesion is vital for the Company in order to adapt to the vast, swift and deep-seated changes affecting the automotive industry.

To meet today's challenges, the Group must continue promoting labor relations that provide a platform for exchanging points of view, fostering mutual understanding and finding well-balanced solutions that are in the interests of all stakeholders. That is why Valeo's labor relations policy is enshrined in contractual agreements.

		Types of agreement				
	No. of agreements	Working hours	Wages	Profit-sharing/ incentives	Bonuses	Other
Germany	25	13	4	0	8	5
Argentina	2	0	1	0	1	0
Benelux	2	0	0	0	2	0
Brazil	20	3	10	7	1	4
China	1	0	0	0	0	1
South Korea	5	1	4	1	1	1
Spain	14	6	3	0	2	5
France	61	32	35	41	0	144
Hungary	2	0	1	0	1	2
India	3	1	1	0	1	2
Italy	11	6	0	0	1	5
Japan	14	9	5	0	5	4
Mexico	14	8	7	1	1	1
Poland	2	0	2	0	0	0
Czech Republic	9	6	5	3	3	4
Romania	3	3	3	0	3	3
Thailand	7	0	2	0	2	4
Tunisia	14	5	4	1	3	6
Turkey	2	0	0	0	0	2
TOTAL	**211**	**93**	**87**	**54**	**35**	**193**

In 2011, **211** agreements were entered into (compared with 269 in 2010 and 315 in 2009) in 28 countries covering a variety of matters, in accordance with arrangements under national jurisdictions.

Among these agreements, 93 concerned working hours (44%), 87 wages (41%), 54 profit-sharing and incentive plans (26%), 35 bonuses (17%), and 193 other matters (91%).

NB:

- agreements could fall into more than one of the above categories. Agreements can cover a single entity, all the plants belonging to a single legal entity, or all French or European entities;
- in the 19 countries in which Valeo operates, national collective agreements govern wage terms either fully or partially. These countries 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.

In France, besides the aforementioned agreements, five rounds of talks were held in respect to 13 legal entities and their 37 plants in 2011. Agreements were entered into for those concerning incentives, the Group savings plan (PEG), the collective pension savings plan (PERCO) and the employee share-ownership plan (Valeorizon). Those concerning the profit-sharing bonus (*Prime de Partage des Profits*) ended in a statement of disagreement, followed by a unilateral decision on the part of the employer.

Furthermore, a comparative report on the freedom of association at the Group's entities in France highlighted the advantages of setting up labor relations oversight (talks on this will continue into 2012) and revising the agreement governing the French Group Committee.

In Europe, two rounds of talks began within the context of the European Works Council in the second half of 2011, and will continue into 2012. They cover the 44 Valeo entities active in Europe and their 75 plants. These talks concern corporate social responsibility and an amendment to the agreement governing the European Works Council.

Employee representative bodies

In 1984, Valeo Group established a Group Committee in France, the members of which are appointed by trade unions from among the elected representatives sitting on Works Councils at Company and plant levels. They represent the various French plants. This representative body, which is chaired by the Chief Executive Officer, meets twice annually and is briefed on the business activity, financial position, economic outlook and employment trends and forecasts concerning the Group and Valeo's French entities.

In 1999, Valeo also created, by way of agreement, a European Works Council. While not interfering with the work of national representative bodies, the European Works Council provides a forum for exchanging views and establishing a dialogue between the Management and the 19 employee representatives from each European country in which Valeo operates. A Committee, comprising nine members, meets quarterly at a European site. The European Works Council is informed about the Group's business and financial position, trends in activity, production and sales, the employment situation and likely changes, and investing activity. It may also be called on to offer an opinion on changes to organization, the introduction of new working methods or the downsizing/closure of Group companies or plants when developments concern at least two Group plants or companies located in at least two different European countries, the result of which would be the dismissal of more than 30 employees.

The European Works Council comprises representatives from the following countries: Belgium, Czech Republic, France, Germany, Hungary, Ireland, Italy, Poland, Romania, Slovakia, Spain and the United Kingdom. Only the Netherlands, which has fewer than 150 employees, is not represented.

The European Works Council met four times in 2011. Talks were initiated last year to bring the text of the agreement into line with European Directive 2009/38/EC, which was transposed into French law in late 2011.

Labor relations in 2011 and 2012

Global and/or European scope

Achievements in 2011

- Nationwide wage negotiations.

On the agenda for 2012

- European talks on corporate social responsibility.
- Well-being at work: extending the French framework to the rest of the world.
- Revision of the European Works Council agreement.
- Nationwide wage negotiations.

French scope

Achievements in 2011

- Talks on the allotment of the profit-sharing bonus (Prime de Partage des Profits) to French employees.
- Signing of amendments to agreements governing employee savings (Group savings plan and collective pension savings plan).
- Talks in various French entities on gender equality in the workplace.
- Negotiation and signing of incentive-plan agreement for the Group in France.
- Implementation of action plans with entities affected by the law on strenuous working conditions.

On the agenda for 2012

- Implementation of labor relations oversight by agreement.
- Negotiations in France of agreement on disabled employees.
- Negotiations to harmonize personal risk coverage and healthcare plans.
- Group Committee: revision of the 1984 agreement.

3.4.6 Our workforce: an asset to be developed

The Group's mobility policy

Valeo believes that its employees are its most vital asset. With this in mind, it assigns a great deal of importance to internal mobility, in all the countries in which it operates. Mobility is a cornerstone of career management at Valeo.

It is a strategic component of human resource management that is tailored to two different needs:

- redeploying human resources in accordance with the demand for skills at the Group's various sites;
- increasing loyalty among employees by sustaining the motivation of employees that want to evolve in a different direction.

To ensure that all aspects of internal mobility are adhered to, an internal mobility charter has been drawn up, laying down the rules applicable to cases of internal mobility within the Group. Each Human Resources Department has a duty to ensure that the charter is applied to the letter.

Moreover, in connection with the importance assigned to internal promotion and employees' personnel advancement needs, the Group has created "Valeo Opportunities", an internal mobility bulletin board on which all open job positions within the Group are posted.

Various tools and techniques are available to employees and managers for optimizing career development within the Group: annual appraisals, mid-year appraisals, career interviews, the Individual Career Development Plan (which helps employees take the necessary steps for the next stage in their careers), the Succession and Development Plan (helping each Group engineer and manager to identify scope for development, subsequent career moves, and potential successors).

One aspect of this policy has resulted in a specific program encouraging cross-border mobility.

The Group's international strategy, relating to the presence of automakers in global markets, can only be successful if its men and women are prepared for advancement in a multicultural setting.

For reasons of stability, culture and costs, the Group's goal is to have local employees with skills, advancement potential and an international outlook in keeping with its standards. However, the following circumstances may in particular warrant a cross-border transfer:

- obtaining vital skills and technologies;
- swiftly deploying the 5 Axes business culture and transferring Valeo's expertise in the context of new establishments and joint ventures;
- furthering the careers of high-potential executives.

To deal with increasingly complex legal issues and provide personalized support to employees and their families during relocations, the Group set up a cross-border mobility unit in November 2010.

Training

In 2011, the Group spent 21,251,589 euros on training, down 16% on 2010 in absolute terms. In relative terms, this represented 1.34% of payroll costs, excluding social charges.

The number of training hours and trainees rose by 9% and 7% respectively compared with 2010.

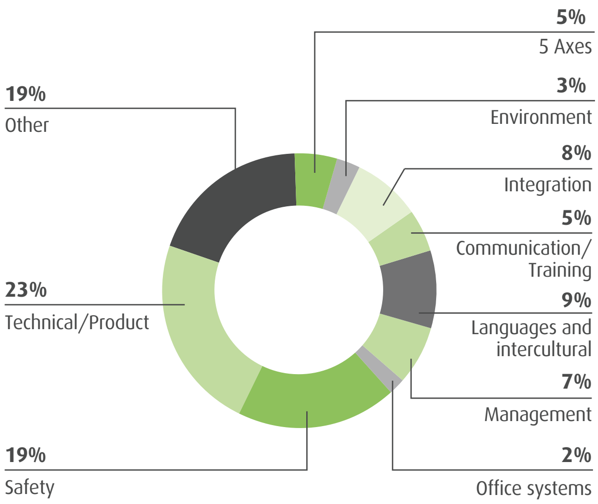
In 2011, the Group continued to extend its training policy to more and more employees. A total of 79.4% of employees took part in at least one training program during the year (compared with 81.6% in 2010). Notable beneficiaries were operators, for which participation in at least one training initiative rose by 1.4%.

The number of training hours per person was stable on average across all categories (23 hours in 2010 and 2011).

New-entrant and job-instruction training increased from 62% in 2010 to 66% in 2011. Training initiatives dedicated to the development of transferable skills (prior to internal mobility) or advancement within one of the Group's business lines rose 34%.

	2009	2010	2011
Number of training hours provided	780,413	944,671	1,029,768
Training expense	€20,180,632	€25,231,511	€21,251,589
Number of employees trained	36,285	41,317	44,298
Total % of employees trained	**77.1%**	**81.4%**	**79.4%**
▪ Engineers and managers	86.9%	88.4%	83.7%
▪ Administrative staff, technicians and supervisors	82.5%	93.9%	80.3%
▪ Operators	72.0%	75.9%	77.5%

Breakdown of training hours by subject category in 2011



Average number of training hours per socio-professional category

	2009	2010	2011
Engineers and managers	33	37	35
Administrative staff, technicians and supervisors	29	28	28
Operators	14	16	17
All categories	22	23	23

Training requirements are analyzed on the basis of skill assessments for given jobs, business development or internal mobility. Individual Career Development Plans are drafted to support talent development in three stages: (i) theory, (ii) practical application and experience-sharing, and (iii) supervised presentation and feedback.

To support the Group's innovation and technological development policy, programs relating to materials, products, production systems and manufacturing processes continue to rank the highest in terms of the number of training hours, accounting for 23% of the total in 2011 (up from 21% in 2010). These programs, led by Group technical experts or independent specialists, are constantly evolving under the guidance of the Research and Development Department and the Valeo Technical Institutes.

As in previous years, the Group continued to emphasize safety training, participation in which increased (19% of total hours and 63% of registered headcount), especially the Play Safe module in Europe. In 2011, the 5 Axes school set up and started rolling out the Safety First module in China.

The Group's training policy is based on several learning techniques, to accommodate varying requirements in terms of time and geographical mobility to provide resources suited to the subjects addressed, the methods used and the individual pace of learning.

In this respect, alongside face-to-face or remote sessions (via online, videoconference or telephone courses) conducted by outside trainers or Valeo's own experts, field training initiatives have also been developed, involving local management, to increase operator versatility and multidisciplinary skills. Training is also dispensed by the 5 Axes schools to enhance expertise in Valeo working methods and tools.

Demand for online self-study modules – Valeo C@mpus (with or without an assigned tutor) – increased considerably in 2011 relative to 2010 (25% more hours and trainees on average). This channel is often used either to acquire theoretical basics before a session in the classroom or on the field or as part of an individual training program, carried out in stages and alternating theory with periods of supervised practice.

The complementarity of these training methods, which also help support international growth and meet cross-cultural challenges, is today a central feature of the Group's 5 Axes training programs, which are run in all entities (5% of training hours in 2011), and its programs for improving managerial skills (7% of training hours in 2011), operated in conjunction with CEDEP (European Center for Continuing Education).

Thus, e-learning and face-to-face training, allowing managers to experience real-life situations and develop individually, are both part of the change-management module (Driving Dynamic Charge) and the co-management/intercultural module (Develop Collaborative Management), for which pilot sessions were held in France and China in 2011, and were also a feature of the new CEDEP1 program (of which the first session took place in China in October 2011).

The Group's training programs are a reflection of its global footprint and the increasing international reach of its business lines. This international expansion demonstrates the importance of language learning and training programs in cross-cultural relations, which together accounted for 9% of training hours in 2011.

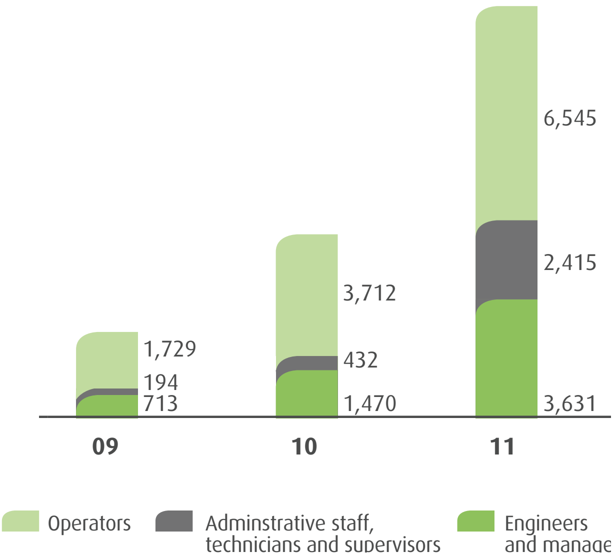
New hires and departures

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.

New hires

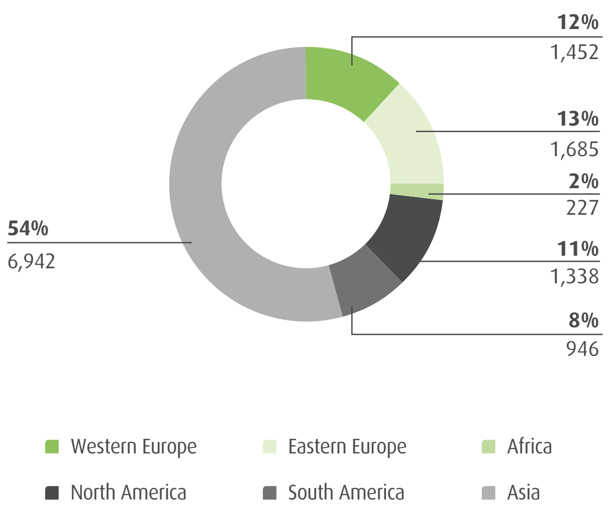
Permanent contracts

Number of new hires on permanent contracts



The number of employees hired on permanent contracts more than doubled in 2011 (by a factor of 2.24) compared to 2010 and was more than four times higher than in 2009 (x 4.8), across all socio-professional categories.

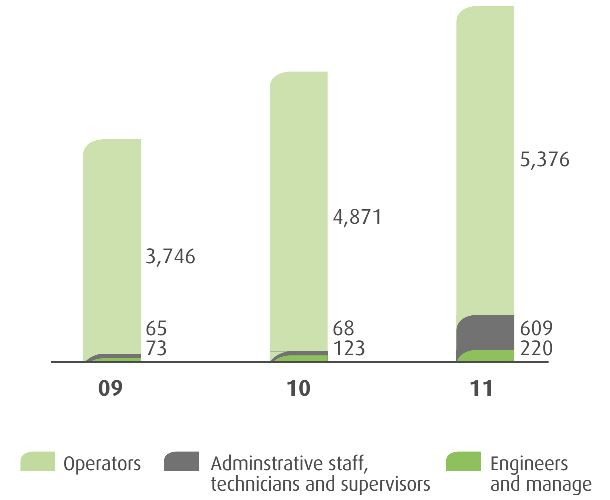
Breakdown of new hires on permanent contracts by geographic area



The primary focus of the Group's recruitment efforts was in Asia where, following the acquisition of Niles, the Group's position on the continent among Japanese automakers was bolstered.

Fixed-term contracts

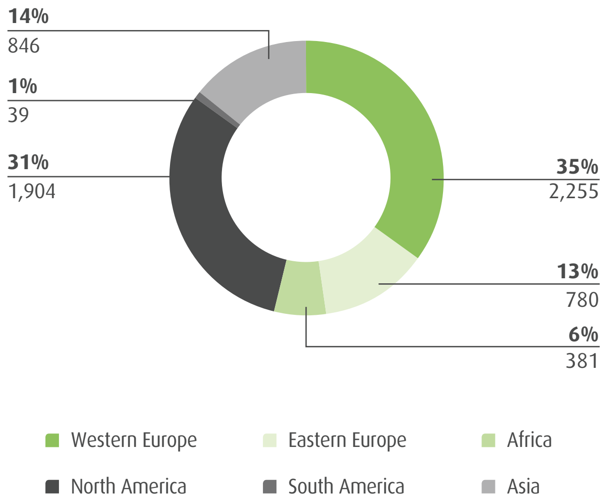
Number of new hires on fixed-term contracts



A total of 6,205 employees were hired on fixed-term contracts in 2011, representing an increase of 23% compared to 2010.

A total of 4,900 employees were on fixed-term contracts at December 31, 2011 compared with 3,633 at end-2010 and 2,350 at end-2009.

Breakdown of new hires on fixed-term contracts by geographic area



Compared with 2010, the number of new hires on fixed-term contracts fell by 0.3 point in Eastern Europe, 3.6 points in Asia, 6.3 points in Western Europe and 0.1 point in South America. In contrast, the number rose by 5 points in Africa and 5.3 points in North America.

Departures

	2009	2010	2011
Contract terminations	3,806	2,058	2,010
o/w layoffs	2,619	733	196
Resignations	2,038	2,141	3,855
Early retirement	225	115	111
Retirement	285	247	288

Valeo terminated 2,010 contracts in 2011 corresponding to 3.7% of permanent employees compared with 4.4% in 2,010 and 8.5% in 2009.

Layoffs accounted for 9.8% of the total compared with 35.6% in 2010 and 69% in 2009. The drop in layoffs reflects the upturn in automotive production.

Other contract terminations were for personal reasons, some of which on disciplinary grounds.

Early retirements and retirements amounted to 0.73% of permanent employees versus 0.8% in 2010 and 1.1% in 2009.

Resignations, which were again one of the main reasons for departure, represented 7% of the permanent headcount in 2011 (4.5% in 2010 and 4.6% in 2009). By socio-professional category, resignations represented 2.4% of permanent engineers and managers, 0.7% of permanent administrative staff, technicians and supervisors, and 4% of permanent operators.

Breakdown of departures in 2011 by geographic area

	Western Europe	Eastern Europe	Africa	North America	South America	Asia
Layoffs	130	14	1	36	7	9
	66.3%	*7.1%*	*0.5%*	*18.1%*	*3.6%*	*4.3%*
Dismissals	166	202	4	241	764	437
	9.2%	*11.1%*	*0.2%*	*13.3%*	*42.1%*	*24.1%*
Resignations	585	760	53	748	243	1,466
	15.2%	*19.7%*	*1.4%*	*19.4%*	*6.3%*	*38%*
Early retirement	108	1	0	0	0	2
	97.7%	*0.9%*	*0.0%*	*0.0%*	*0.0%*	*1.4%*
Retirement	121	48	1	51	6	61
	42.1%	*16.7%*	*0.3%*	*17.7%*	*2.1%*	*21%*

Valeo is firmly committed to a forward-looking employment and skills management policy. The Group implements measures to delay and, wherever possible, avoid layoffs such as granting leave or vacations, cutting overtime, reducing the number of temporary employees and subcontractor, and putting employees on short-time working arrangements. When there is a clear need to optimize industrial facilities, Valeo undertakes restructuring operations. In this case, the Group works in coordination with labor organizations and uses all available mechanisms to find alternative employment through internal redeployment, outplacement, takeover of the plant by another owner or reindustrialization of local labor pools.

3.4.7 Company reorganization and innovative solutions for safeguarding jobs

Following the crisis in 2008 and the Group's reorganization in 2010, the economic and financial climate improved in 2011, although it could not be said that the global downturn was completely over. Technological innovation, competitiveness and strong take-up of goods suggest that organic growth will be strong in the future provided that the right measures are taken here and now.

However, the Group's competitive record varies markedly by product line, country and plant. Specific manufacturing adjustments are required constantly to ensure that the Group remains on a sound financial footing. Resources must also be devoted to supporting the personnel concerned. Workforce and Skills Planning (*Gestion prévisionnelle des emplois et des compétences* – GPEC) is used to inform labor organizations of strategic decisions and business-related constraints so that the all the resulting changes can be managed together. Through upstream analysis of situations, the industrial, technological and commercial changes that are on the horizon can be debated in a calm context and preparations can be made to cushion the impact of these changes on business lines, skills, jobs, and careers.

By making these policies a pivotal part of human resource management, when events occur, resources are on hand to anticipate, reduce and support the redeployment of jobs and skills.

For example, the following occurred last year in France:

Valeo Abbeville announced that in the future it would halt production of security locks and negotiated with labor organizations improvements to competitiveness and on-site working practices to ensure a sufficient return on investment for new product lines as part of the plant's restructuring.

Valeo Nogent le Rotrou was proactive in communicating on the discontinuation of air-conditioning activities and negotiated, again with labor organizations, improvements in competitiveness and working practices to ensure a sufficient return on investment of the new sensors product line, which will enable the plant to diversify its activities.

Valeo Angers La Roseraie made plans in conjunction with labor organizations ahead of an expected downturn in production relating to the aftermarket. The plant was merged into the Group's legal entity, located in the same municipality, to create a local job pool with a view to facilitating the future management of jobs, skills and careers.

In addition to the capital-intensive investments required in the first two cases, large-scale programs were set up for retraining employees within the scope of these plant restructurings.

3.4.8 Encouraging diversity is a day-to-day commitment

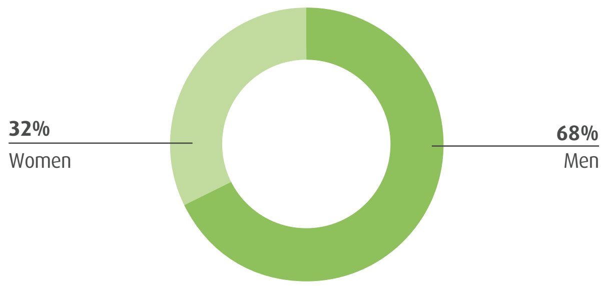
Gender equality in the workplace

Diversification in terms of employees is a priority for Valeo. Diversity, including a healthy gender balance, is an important part of competitiveness and is one of the ways in which the Group can improve results in relation to other companies in the same business.

In endeavoring to be an employer of choice, Valeo seeks to attract, promote and retain top talent in what has become a highly competitive market. Valeo Group has a diverse mix of cultural backgrounds. However, in spite of a commitment to enforce gender parity in comparable situations (in terms of career development, training possibilities and wages), women are not as well represented within the Group as men.

Thus, despite a rising proportion of female engineers and managers in the Group (up 1.1 point relative to 2010 and 1.6 points versus 2009), the proportion of women in the workforce, across all categories, was 32%.

Breakdown of registered headcount by gender



Breakdown of women by socio-professional category

(as a % of the registered headcount)	2009	2010	2011
Engineers and managers	18.5%	19.0%	19.9%
Administrative staff, technicians and supervisors	24.6%	24.3%	26%
Operators	38.1%	37.1%	38.3%

Breakdown of men and women by geographic area and socio-professional category (registered headcount)

	Engineers and managers		Administrative staff, technicians and supervisors		Operators		Total	
	Men	Women	Men	Women	Men	Women	Men	Women
Western Europe	82%	18%	76%	24%	64%	36%	71%	29%
Eastern Europe	77%	23%	75%	25%	47%	53%	55%	45%
Africa	73%	27%	76%	24%	57%	43%	63%	37%
North America	81%	19%	78%	22%	58%	42%	64%	36%
South America	84%	16%	67%	33%	81%	19%	77%	23%
Asia	78%	22%	75%	25%	65%	35%	70%	30%

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	%
2009	144	20.2%	44	22.7%	419	24.2%	607	23.0%
2010	304	20.7%	116	26.9%	1,012	27.3%	1,431	25.5%
2011	877	24.1%	708	29.3%	2,687	41.1%	4,272	34%

Convinced of the benefits that a better gender balance could afford in terms of leadership, talent, and markets at all levels of the Company and within every business line, Valeo created a diversity think tank in late 2011. The purpose of this working group is to form recommendations on how more women can be hired, retained, and promoted in order to provide better gender equality at all levels of the organization, including within General Management.

To factor in cultural differences, four subcommittees have been set up under the auspices of the working group, covering Europe, the United States and China. The main areas in which action should be taken have been identified, laying the foundation for further initiatives. These are improving the Group's image as an employer of choice in order to attract more applications from women, monitoring equality indicators, implementing measures to help improve work-life balance, improving human resources management processes, and supporting leadership through mentoring, coaching, and internal networks as a way of stimulating ambition.

Valeo draws up a comparative gender status report for each of the Group's French entities. This report serves as a basis for annual negotiations with labor organizations on targets for gender equality and the measures to achieve these targets.

Furthermore, Valeo commissioned an independent econometric report to measure the importance of 67 different variables that may account for disparities in annual salaries in France. The main reasons turned out to be training, absence, working time, proficiency in English, mobility, age, occupation, variable compensation, expatriation, and potential. The "gender" variable is significant in four of the eight professional categories: operators, level II and III administrative staff, technicians and supervisors, and level III managers. Further analysis is underway at all the plants concerned to determine what action should be taken.

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

Employees 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 Group participates in programs to foster the employment and insertion of workers with disabilities.

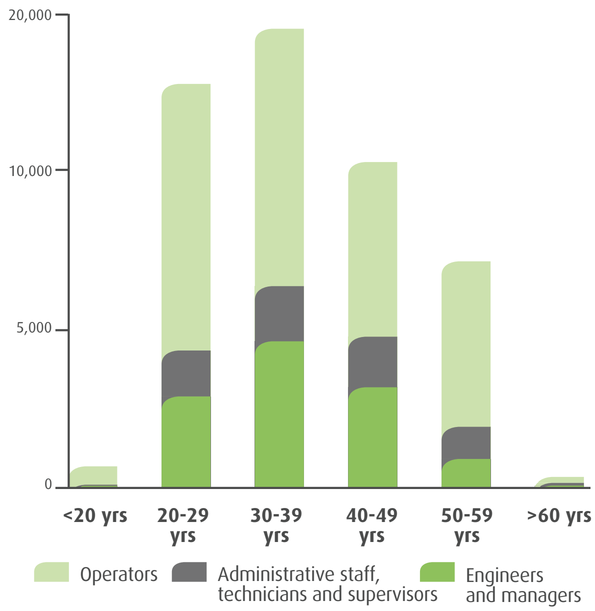
A total of 824 employees with disabilities were working for the Group at end-December 2011, representing 1.4% of registered headcount.

Approximately half this number was located in France (415), equating to 3.3% of the French registered headcount. The total value of subcontracting and service contracts with sheltered employment providers and organizations that help disabled people back into work (*établissements et services d'aide par le travail* – ESATs) was 2 million euros in 2011, up 40% relative to 2010. France accounts for the majority of the demand for these companies' goods and services (66% in 2011).

To increase its commitment to disabled workers, Valeo initiated a review of plants in France during the fourth quarter of 2011, calling in a specialist consultancy firm for this purpose. The findings of this review will be available towards the end of the first quarter of 2012. This is expected to lead to talks with French labor organizations with a view to forging an agreement on disabled workers, thereby providing a powerful impetus for the implementation of tangible action steps at Valeo's sites.

Generational turnover

Registered headcount by age bracket



At December 31, 2011, the Group's registered headcount broke down as follows:

- 1.4% aged under 20;
- 28% aged between 20 and 29;
- 34.8% aged between 30 and 39;
- 22.7% aged between 40 and 49;
- 12.4% aged between 50 and 59;
- 0.7% aged 60 or over.

40.4% of engineers and managers are in the 30-39 age bracket, compared with just 34.4% of administrative staff, technicians and supervisors, and 32.8% of operators. 30.9% of operators are in the 20-29 age bracket.

Because of the large number of new employees recruited each year, generational turnover is significant.

Professional integration of young people

The Group also continued contributing to the basic training of young people, welcoming 1,216 interns (of whom 32% were women), 770 apprentices (of whom 24% are women) and 137 international corporate volunteers (of whom 28% are women) during the year. Together, this represented some 3% of the Group's workforce.

In 2011, 26.5% of the young people that had completed internships, international corporate work placements, or apprenticeships were hired by the Group.

The Group furthermore employs 16,068 workers aged below 29, equating to 29.3% of the registered headcount.

International workforce

Valeo is strengthening its policy of relations with higher education establishments by developing partnerships with universities and schools of international renown and fostering diversity within its workforce.

In 2011, the Group participated in a large number of events where it was able to make contact with future graduates, particularly at universities in China, Egypt and India, at the international corporate volunteer forum organized by UbiFrance in Paris and at the Franco-German forum 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 participated in the association's global seminar in Bangalore, India, in December 2011.

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, through 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 a joint engineering-management program;
- ISPA, in connection with research into plastics processes;
- ESEO, as part of research into onboard systems;
- ESIGELEC, as part of a partnership agreement signed with the school.

Valeo also played an active role in many school forums, including those organized by Arts et Métiers Paristech, Centrale Paris-Supélec, ESEO Angers, Sup'Optique, Supméca, UTC Compiègne, Audencia Nantes and EDHEC. Valeo also sponsors the *Elles Bougent* association, which promotes careers in the transportation sector among female high-school students and gives opportunities to female high-school and university students to attend business-presentation events, with support from Valeo mentors.

Valeo took an active part in the campaign to promote the mentoring campaign of the French trade association of vehicle component vendors (*Fédération des industries des équipements pour véhicules* – FIEV), which produced a brochure on this topic that included testimonials from Valeo.

Policy towards senior workers

Valeo is committed to employing older workers, which it sees as an important part of its career-development policy. This is also a pillar of its policy for encouraging diversity.

Hiring older workers gives access to important expertise while making it possible to anticipate changes, pass on skills and know-how, and promote integration among all generations at Group entities.

Longer working lives need to be tied to providing genuine opportunities for personal development among employees. It is important to sustain job motivation among employees and develop each person's employability throughout his or her career by providing them with the means to build up skills or, if so desired, change direction professionally.

In 2011, Valeo had 7,210 employees worldwide aged above 50 (versus 6,920 in 2010 and 6,736 in 2009), representing 13.2% of the registered headcount.

In France, Valeo had 2,771 employees aged above 50 (versus 2,703 in 2010 and 2,885 in 2009), equating to 22.3% of the French registered headcount. The drop in the proportion of workers over 50 between 2009 and 2010 was due to the last installment of the restructuring drive in France associated with the global economic crisis.

An action plan applicable to all French sites was implemented in 2009, aiming to anticipate career and employment changes among older workers in order to:

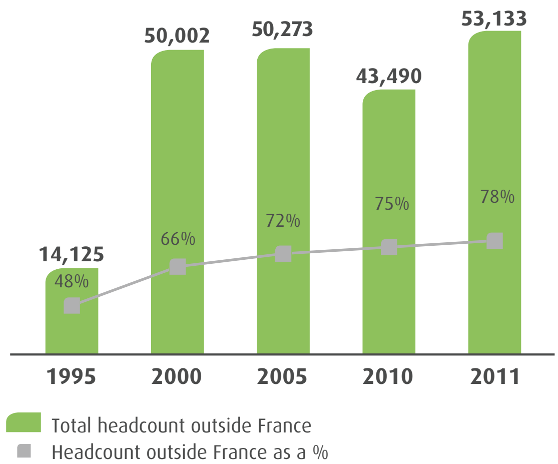
- emphasize the development of skills and qualifications together with access to training, making it possible to enhance professional expertise or grow into another role within the Group;
- encourage the transmission of knowledge and skills by formalizing and developing mentoring;
- focus on forward planning in the area of career development.

As a result, Valeo will concentrate initiatives on the following areas:

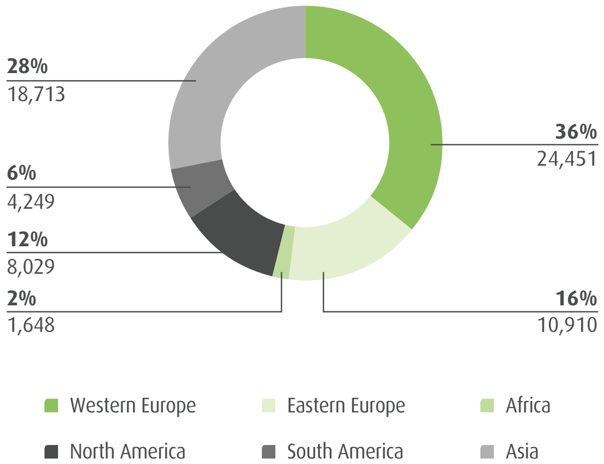
- forward planning for career changes;
- developing skills and access to training;
- passing on know-how and skills;
- developing mentoring;
- keeping workers aged 55 and over in the workforce.

Increasingly international workforce

The Group's growing worldwide presence is reflected in the increasingly international composition of its workforce. Today, 78% of employees are based in a country other than France compared with 66% in 2000.



Breakdown of total headcount by geographic area



Year on year, the headcount fell by 3.1% in South America but rose by 1.04% in Western Europe, 28.1% in North America, 12.7% in Eastern Europe, 15.4% in Africa and 54.4% in Asia, notably as a result of recovery in the USA and the bounce in automotive production in those regions.

Valeo's operations, spread over 28 countries, promote diversity.

In 2011, 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, South Korean, Indian and Czech.

The countries where Valeo has the largest number of nationalities are France (68 nationalities), Germany (42 nationalities), Ireland (26 nationalities), Italy (23 nationalities) and Czech Republic (22 nationalities).

Nationalities by Business Group

Business Group	Thermal Systems	Comfort and Driving Assistance Systems	Powertrain Systems	Visibility Systems
	62	62	49	48

3.4.9 Innovations in corporate social responsibility

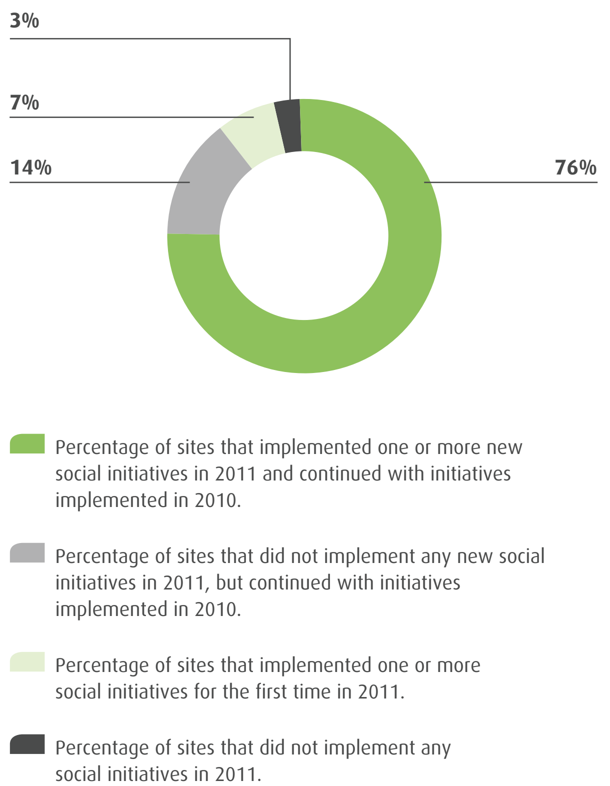
Plants initiatives

To keep an inventory of the CSR initiatives run by Valeo's various sites, the Group's Human Resources and Sustainable Development departments put in place an annual reporting tool in 2008.

The high degree of involvement by its sites shows Valeo's dedication to social, corporate-citizenship and environmental issues.

In 2011, 97% of sites implemented at least one social initiative; of this number, 7% implemented one or more social initiatives for the first time.

Social initiatives



The following table presents a non-exhaustive list of the many social initiatives that are in place at Valeo. Percentages indicate the proportion of sites involved in the initiatives.

Diversity/Disabilities	Leisure and culture [1]	Health and safety
Training in sign language (28%)	Subsidy or price reduction for some kind of physical activity (41%)	Vaccination campaign (72%)
Retaining of older workers (46%)	Opening of a book or video library (22%)	Hearing/eye tests (79%)
Measures promoting women in the workforce (63%)	Organization of excursions or trips (45%)	On-site doctor or nurse (70%)
Anti-discrimination campaigns (34%)	Financial support for employees to go on holiday (45%)	Illness screening campaign (35%)
Adaptation of workstations for disabled workers (41%)	Subsidies for cultural activities (46%)	Campaign against addictions (33%)
Refitting of premises for people with reduced mobility (37%)	Organization of picnics between colleagues (37%)	Participation in healthcare awareness week (40%)
Signing of subcontracting or services contracts with sheltered employment providers or ESATs (41%)	Celebration of national/religious holidays (44%)	Participation in safety awareness week (82%)
Partnerships with schools for the disabled (12%)	Celebration of father's/mother's days or birthdays (46%)	Private medical cover on offer to employees (80%)
Organization of "discover the Company" days for the disabled (5%)	Financial assistance for employees with young children (45%)	Life insurance offer (66%)
Participation in diversity promotion week (70%)		

Well-being at work	Training	Transportation
Free or partially-subsidized meals at staff canteen (79%)	First aid training (85%)	Home-work shuttle service (49%)
Garment-cleaning service (38%)	Training for the development of technical or managerial skills (95%)	Full or partial reimbursement of public transportation costs (50%)
Induction procedure for new entrants (98%)	Fire training (90%)	Full or partial reimbursement of petrol costs (43%)
Housing offer (24%)	Foreign language tuition (80%)	Reductions on Valeo products (43%)
Specific rooms allotted for coffee breaks (72%)	Assistance in mature learning and job retraining (54%)	Car-sharing program put in place (33%)
Installation of a day-care center (15%)	Apprenticeships, professional training contracts, internships or CIFRE industrial research agreements (85%)	
Implementation of caretaker service (17%)	Mentoring of new employees (44%)	
Organization of a "well-being at work" day (12%)		
Monitoring length of meetings (23%)		
Introduction of alternative medicine (14%)		
Warm-ups before starting work (17%)		
Training in relaxation and breathing (12%)		
Analysis of jobs and tasks (59%)		
Training in change management (62%)		
Office parties (24%)		
Challenge for "improving well-being at work" (13%)		
Organization of job-swap events (3%)		

(1) In France, activities organized by works councils are not taken into account in the above percentages.

Some examples of social initiatives:

- the Créteil plant (France) set up a partnership with an outside day-care organization. Employees' children can benefit from a place either close to the Company or close to home (if the organization has a day-care center located nearby). The 10 places assigned to the Company have been taken and five employees are on a waiting list;
- in September 2011, the Juarez plant (Mexico) ran a mobile clinic for one week to screen female employees for breast and cervical cancer. During this week, 68 breast scans and 36 pap smears were carried out by a team of local doctors;
- the Blois plant (France) held a "Well-being at work" day with the help of the dedicated Committee. During this day, Valeo offered its employees the chance to meet with occupational healthcare representatives, masseurs, nutritionists and reflexologists. Employees could join a session of relaxation, benefit from personalized nutritional advice, or have a massage.

  A decision was also made at that day to reorganize the relaxation room. Walls were repainted, lighting optimized, sound insulation improved and ergonomic chairs installed;
- the Zebrak plant (Czech Republic) set up an ergonomics website available to all employees over the intranet. This gives a list of best practices for improving working conditions;
- the Wuxi plant (China) offered sign-language training to employees.

Corporate-citizenship initiatives

See section 3.5 on page 116.

Environmental initiatives

See section 3.3 on pages 82 and 90.

Well-being at work

Valeo has always been concerned about the health of its employees.

In 1980, shareholders adopted the name Valeo, a Latin word meaning: "I am well". Additionally in 1980, the newly reorganized Valeo Group enacted a rigorous safety policy and ensured that it would be applied in all countries and business lines as acquisitions came along.

Risk prevention methods, of which employees are aware and which form part of the 5 Axes deployment plans, lay down the issues and steps to be followed if the occupational safety policy is to eradicate accidents and incidents from the workplace.

A worldwide safety initiative

Since 2004, all sites belonging to Valeo Group have been certified in the prevention of occupational accidents and apply a common methodology that is part of plants' continuous improvement plans.

This initiative, which is run jointly by Human Resources and the Health, Safety, Environment network, is based on regular employee training, immediate handling of all identified risks before an incident can occur, encouraging employees to pinpoint potential risks, and developing a safety mindset at all levels of the organization.

The applied methods are based on quality standards used within Valeo Group, such as "Safety QRQC" (Quick Response Quality Control, entailing an immediate response to an incident or a potential safety hazard) and "FTA" (Fault Tree Analysis).

Since 2007, in addition to preventive measures, an official ergonomics policy has been rolled out to sites worldwide and integrated into internal plant certification.

This initiative comprises online and face-to-face training on actions and postures and the working environment within the sphere of four sources of risk: standing, sitting, carrying and repetitive movements. In addition, a methodology has been developed with hospitals specializing in musculoskeletal disorders to spread awareness of and give all employees access to self-diagnosis tools, and to encourage correct postures.

In 2008, in addition to existing risk prevention measures, a "Play Safe" training module was instigated to enable employees to put into practice safety measures at home as well as in the workplace.

Inclusion of psychosocial factors in risk prevention

Since 2009, the Valeo Group's accident-prevention and employee-safety targets have included an initiative known as "Well-being at work", which emphasizes the prevention and handling of risks in terms of employees' psychological health.

These plans were enacted by Valeo Group's General Management amid a particularly tense economic climate in the global car industry and are based on the European agreement of 2004, the French national cross-industry agreement of 2008 and the Code of Ethics in force within Valeo Group.

Steered by the Group's Executive Committee, the project was first rolled out to France in 2010 and is currently being deployed to operations worldwide.

For the Group, "Well-being at work" means a balanced state, both in the production of work and the interaction of private and working lives. The balance within the individual should be mental, psychological and physical.

A study on French plants

Since 2010, Valeo Group has shaped an agreement on "Well-being at work" in conjunction with five representative trade unions, creating a three-year initiative on a joint basis.

The agreement shares and officializes the definitions and challenges associated with wellness and risk prevention. Each Group plant in France has set up an active "Well-being at work" Committee to adapt and implement action plans at a local level.

The method used in France was structured around statistical analysis and research in the field.

A "Well-being at work" survey was sent to all 12,576 employees at the 37 plants in France. The high rate of participation (55%), rounded out with more than 400 individual interviews conducted by an independent consultancy firm, provided a clear diagnosis for each plant in terms of risk assessment and the identification of the ways in which individual perceptions could be improved.

The findings of this analysis were shared with representative trade unions and the workforce as a whole.

This disclosure was also accompanied by a video message addressed to all personnel.

In this 20-minute film, we see two employees talking about how they see their work. They then set themselves the challenge of convincing each other that work is, or is not, a source of well-being. Two-minute scenes show events affecting individuals and groups and how on-the-spot action can resolve situations successfully.

The five avenues for action are:

- a healthy work-life balance;
- career management and an understanding of one's place in an organization;
- workload and organization;
- physical surroundings;
- relations with colleagues and hierarchy.

A catalog of 63 actions listed by area of improvement in terms of "Well-being at work" was also given to all plants. Combined with each site's analysis, this can be used by each local well-being Committee to pinpoint and swiftly implement tangible action steps.

Initiatives are furthermore applied to sites uniformly. These cover training, communication, respect for Group values, and compliance with the Code of Ethics.

Actions are monitored by local committees and the resulting data is amalgamated on an annual basis at Group level in France.

A review is presented annually to the Executive Committee and the Group Committee. These reviews form the basis for agreement renegotiation and a new inspection every three years.

A global policy with local ramifications

Worldwide application of the "Well-being at work" program was launched at the Group Human Resources conference in December 2011.

This rollout is underpinned by an inventory of best practices in force and follows a methodology that has been tried and tested on French plants, namely inquiry, analysis and action.

The launch of this communicative action was accompanied by some remarkable local initiatives, adapted to local culture and expectations. These included:

- the construction of community health center attached to a plant in Poland, open to employees and their families;
- the creation of a solidarity caravan to equip a hospital in southern Tunisia, on the initiative of a Tunisian plant;
- the organization of sporting events and parties for employees and their families, by Chinese sites;
- the inclusion into production lines, right from the design stage, of ergonomic rules in order to make work easier and minimize strenuousness of working conditions, at a Mexican plant;
- the promotion of healthy eating at staff canteens.

The Group also added to and refined the management tools that it makes available to employees worldwide and which, since 2011, have included the following:

- a reminder of rules and a review of the Code of Ethics by employees and managers;
- an inclusion of behavioral performance on an equal footing with business performance at the time of annual appraisals;

- the addition, in the context of yearly interviews, of a component dedicated to gauging feelings about workload and work-life balance;
- an information feedback cycle concerning suspicions of harassment so they may be treated centrally, and a systematic unbiased inquiry can be carried out before any conclusions are drawn.

Valeo is convinced that "Well-being at work", which fulfills the expectations of its workforce as a whole, is an investment for the future, enabling the Group's performance in this area to stand out through the dedication of its employees.

Engineer and manager opinion poll

In mid-2011, to identify the areas in which commitments by employees need to be strengthened in the wake of the reorganization in 2010 and the crisis in 2008 and 2009, the Group conducted a global survey. All the Group's engineers and managers were asked to answer this survey, leading to a very high participation rate of 72%. Concerning the Group's leaders, this study was the second following an initial survey that was conducted in 2008. Findings showed a sharp upturn in confidence in the Group's strategy and prospects, leadership style and in-house communication. Concerning other survey participants, this first survey revealed positive results with respect to their working environment, relations with line managers, daily workflow, and the appropriateness of the Group's organization. Results also pointed to the need to improve in-house communication and scope for career development. Each Group entity pinpointed five main priority areas, issued detailed findings, and drew up an action plan for improving results.

Healthcare and personal risk coverage

In France, a working group was launched in 2011 to analyze the feasibility of harmonizing healthcare and personal-risk plans. These various companies acquired over time by the Group already had such plans in place, but these had not been brought into line with existing Group arrangements at the time of acquisition. As the different socio-professional categories are covered by dedicated plans, the Group's 37 plants in France have a total of 89 different plans.

A preliminary study will form the basis of negotiations held with labor organizations throughout 2012 around two target plans. These are healthcare and personal risks covering the following major events: short-term disability, full permanent disability, temporary and/or partial disability, death, and accidental death.

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 184.4 million euros in 2011, or 11.6% of Group payroll costs excluding social charges. In France, this amounted to 95.8 million euros, or 16.9% of payroll costs excluding social charges.

The Group ensures 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. For this reason, in 2007, a "Supplier Quality Manual" was drafted and translated into 15 languages. Suppliers are required to abide by its provisions and agree to a possible audit by Valeo.

A table summarizing social indicators can be found in section 3.6.2 on pages 122 to 123.

3.5 Valeo's commitment to corporate-citizenship

Valeo is a responsible corporate citizen, as seen in its involvement in local communities, the sharing of its expertise, its support for those whose lives have been impacted by tragic events, or through the automotive industry's long-term commitment to corporate-citizenship and, more generally, its participation in discussions on sustainable mobility and transportation issues.

3.5.1 Sharing of skills and expertise

Involvement with the European Commission and the research industry through the European Road Transport Research Advisory Council (ERTRAC) in Brussels

A forward-looking perspective is the foundation of the sustainability of Valeo's R&D activities. In this respect, the Group is an active member of the European Road Transport Research Advisory Council (ERTRAC). This pan-European body is responsible for steering and coordinating road-transportation research policy on behalf of the European Commission.

As a research platform, it comprises stakeholders from the world of transportation, including public and private research bodies, along with national and pan-European authorities.

ERTRAC brings together the European Association of Automotive Suppliers (which is known under the French acronym CLEPA); the European Professional Association of Operators of Toll Roads and Infrastructures (ASECAP); the Conservation of Clean Air and Water in Europe (CONCAWE, which was set up by oil companies to find solutions to environmental issues arising from their industry); the European Automotive Research Partners Association (EARPA); the European Council for Automotive R&D (EUCAR); Fraunhofer Institut the universities of Florence and Madrid; the KTH Royal Institute of Technology; the Research, Mobility and Transport, Enterprise and Industry, Environment, and Climate Action departments of the European Commission; the OECD's International Transport Forum; and ERA-NET transport.

Along with its fellow stakeholders, Valeo is pursuing several objectives within the context of ERTRAC:

- providing a strategic vision for the road transportation sector with respect to Research and Development;
- defining strategies and roadmaps to achieve the objectives of the Strategic Research Agenda (SRA) and monitor these roadmaps;
- stimulating and promoting European public and private investment in road transportation Research and Development;
- contributing to improving coordination between the European, national, regional and private Research and Development activities on road transportation;
- enhancing the networking and clustering of Europe's Research and Development capacity;
- promoting European commitment to research and technological development, ensuring that Europe remains an attractive region for researchers and enhancing the global competitiveness of transportation industries.

Valeo is heavily involved in this European R&D platform, fulfilling the role of Vice-Chairman for all tier-one automotive suppliers.

The research and other work carried out aim to forecast and make provision for changes in European road travel between now and 2050.

This includes research into mobility concepts for transportation and inter-modal systems. ERTRAC is working towards the implementation of infrastructure and systems that will allow for road transportation to be linked to other means of transportation (waterway, air and rail).

The road transportation industry, interlinked with other forms of transportation, provides mobility that is essential for millions of people and for goods transit in the European Union.

As such, given the important place of road transportation in Europe, transportation solutions that are sustainable and integrated must be developed in the near future.

The main goal of ERTRAC is to make road transportation sustainable over the long term and offer sustainable, environmentally-friendly solutions that will reduce its ecological impact.

International Transport Forum (ITF)

The International Transport Forum is an inter-governmental organization within the OECD whose key members are the transportation ministers of the 53 member countries.

The ITF was founded in Dublin in 2006 by EU transportation ministers pursuant to the Dublin Declaration. Given the rise in global trade, tourism and goods haulage, a decision was taken to open the Forum to other OECD member countries, several countries in Central and Eastern Europe, and members of ASEAN (Association of Southeast Asian Nations).

The purpose of the Research Center, of which Valeo is a permanent member alongside top-ranking executives of the largest industrial companies with connections to the transportation sector (including Nissan, Michelin, Venice Port Authority, the International Energy Agency and Cintra), is to offer advice on the ITF's general strategy and offer some interaction with the private sector, whose workings and methods they are well acquainted with.

Valeo is active in deliberations over the gradual decarbonization of road transportation. It offers its knowledge and expertise to ITF member countries in the context of the environmental protection programs put into place.

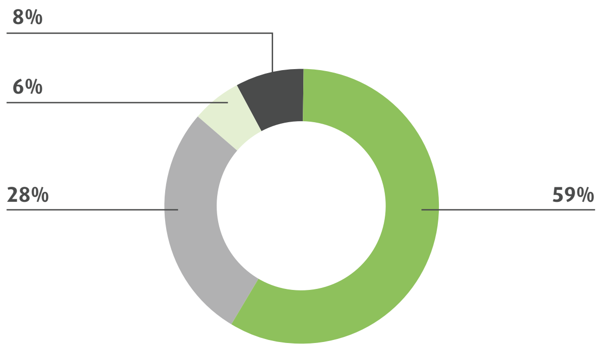
Plants initiatives

Every year, Valeo's plants all over the world run corporate-citizenship initiatives for the benefit of local communities.

This program was launched three years ago by the Sustainable Development Department in conjunction with Valeo's Human Resources Department to encourage the Group's sites to take greater responsibility for issues concerning employee well-being and assistance to local communities.

During 2011, 92% of Valeo's sites implemented at least one corporate-citizenship initiative.

Corporate-citizenship initiatives



Percentage of sites that implemented one or more new corporate-citizenship initiatives in 2011 and continued with initiatives implemented in 2010.

Percentage of sites that did not implement any new corporate-citizenship initiatives in 2011, but continued with initiatives implemented in 2010.

Percentage of sites that implemented one or more corporate-citizenship initiatives for the first time in 2011.

Percentage of sites that did not implement any corporate-citizenship initiatives in 2011.

The following table presents a non-exhaustive list of the numerous initiatives that are currently in progress at Valeo, with the percentage of participating sites:

Healthcare	Education	Social cohesion	Events
Giving blood (34%)	Donations of computer equipment to schools (20%)	Donations of toys (21%)	Road safety campaign (28%)
Financial gifts to healthcare bodies (13%)	Donations of furniture to schools (10%)	Partnerships with NGOs that help the disadvantaged (11%)	Organization of open days (17%)
	Book donations (9%)	Organization of clothing drives (23%)	
	Partnerships with schools (50%)	Organization of food drives (18%)	
	Financial support for schools (20%)	Provision of rooms to associations and the municipality (7%)	
		Sponsoring of sports teams (20%)	
		Support for associations (22%)	
		Donations for natural disasters (32%)	

Here are some tangible examples of corporate-citizenship initiatives:

- the Bobigny plant (France) opened its door for half a day to enable around 30 young people to visit the Company, in conjunction with the Bobigny municipality.

  A "Bobigny meets Bobigny" meeting was held with a local TV channel to promote the town's image. The plant started participating in biannual municipal meetings to improve quality of life in the industrial area;
- the Warsaw plant (Poland) launched a campaign to encourage its employees to devote the equivalent of 1% of their tax bill to an association of their choice, with help from Valeo;
- the Angers plant (France) donated used kitchen utensils to the *Restos du Cœur*, a French association that gives free meals to the most needy in society;
- the Châtellerault plant (France) welcomed young people with academic difficulties from a vocational high school. It also organized a one-day forum on the subject of the Right to Individual Training, in collaboration with training bodies;
- the Istanbul plant (Turkey) donated faulty parts returned by customers to technical colleges specialized in mechanics and electronics. It also gave obsolete training materials (e.g., pens, brushes and notebooks) to local schools;
- the Tychy plant (Poland) initiated a campaign to collect bottle tops. Once several tonnes have been collected, a wheelchair will be bought for a disabled person.

3.5.2 Donations

Donations campaign in the wake of Japanese tsunami in March 2011

Valeo and its employees were deeply saddened by the terrible earthquake and tsunami that hit Japan on March 11, 2011.

The country had to cope with the most powerful and devastating earthquake in its entire history.

Barely a few days after the disaster, Valeo launched a campaign to raise donations among all its employees worldwide to support children affected in the Iwate Prefecture.

This campaign gained momentum thanks to messages and encouragements published on the Group's internal networks which enabled Group employees to make donations via a dedicated website.

Valeo chose to support the NGO **KnK Japan** (*Kokkyo naki Kodomotachi,* which means Children Without Borders).

Valeo made an initial donation of 100,000 euros in May 2011.

Subsequently, the Group pledged that it would match every euro donated by employees. The donation campaign ran from April 26 to November 11, 2011.

Gifts received were used to fund several projects and initiatives:

- renovation of the waste water system at Rikuzentakata Daiichi school;
- renovation of the sports field belonging to Yamada Kita elementary school;
- financial support to pay for school transportation to allow pupils to sit school entrance exams;
- distribution of jackets and coats to children attending various schools;
- financial support for the work carried out by KnK Japan.

Valeo is proud of the solidarity shown by its employees and wants to participate actively in the reconstruction of infrastructure and help local people regain the standard of living that they had before the tsunami.

3.5.3 Valeo's sustainablility commitment within the automotive industry

Automotive Industry Platform

In response to the economic crisis in 2009, which hit the automotive industry hard, the French government decided to organize an automotive industry round table on January 20, 2009, bringing together the industry's linchpins in France.

Following this meeting, a Code of Performance and best practices for customer-supplier relations in the automotive industry (*Code de performances et de bonnes pratiques relatif à la relation client-fournisseur au sein de la filière et de la construction automobile*) was signed by the French automakers' association (Comité des constructeurs français d'automobiles – CCFA) and the French Liaison Committee for Automotive Suppliers (Comité de liaison des industries fournisseurs de l'automobile – CLIFA) before the French finance minister and the state secretary in charge of manufacturing and consumer issues.

Among other measures, the Code made provision for permanent platform for liaison and dialogue between automakers and suppliers to prepare for the successful transformation of the automotive industry.

The Automotive Industry Platform was founded on April 28, 2009.

Valeo was part of the sustainable development working group, which led to the inception and signature of a common charter affirming the platform members' commitment to corporate social responsibility within the industry. The charter underscores the certainty of industry players that it will be impossible to tackle future challenges relating to sustainable development without mutual respect founded upon the values of responsibility and an even balance between all stakeholders.

Companies therefore pledge to respect fundamental human rights and provide respectable working conditions, offer healthcare coverage, look out for their safety of their employees and subcontractors, fight discrimination, promote freedom to associate, and recognize union rights.

They also acknowledge the need to implement a comprehensive environmental policy and integrate environmental quality into both products and production systems. The fight against corruption and respect for the rule of law also feature among the commitments.

The procurement policy of automotive suppliers is primordial for the application of responsible development principles. Though not to the detriment of policy efficiency, companies must place environmental and social criteria on the same level of importance as supplier selection, quality, delivery times and costs.

Companies that are part of the Automotive Industry Platform have adopted common assessment tools with the aim of reporting on the automotive industry as a whole. These tools will be gradually offered to associates to help in decision-making and initiatives.

Automotive suppliers' modernization fund – FMEA (2)

In response to the 2009 economic and automotive industry crisis, in February 2009 the French government, through the Strategic Investment Fund (SIF), made moves to support the entire automotive industry, where production had been hit hard.

It asked the country's two major automakers, Renault and Peugeot SA, to contribute 200 million euros to the fund. The SIF invested an identical sum, which brought the fund's balance to 600 million euros.

The **Automotive Suppliers' Modernization Fund** (FMEA), was set up in February 2009 to take non-controlling equity or quasi-equity interests in automotive companies engaging in industrial projects creating value and fostering market competitiveness.

In February 2010, a second fund named the **FMEA (2)** was set up to support second- or lower-tier automotive suppliers, deemed to be strategic for the automotive industry and with potential to contribute to the consolidation of the sector as a whole.

Subscribers were tier-one automotive suppliers, including Valeo, Bosch, Faurecia, Hutchinson and Plastic Omnium, together with the SIF and the FMEA.

The fund's assets stand at 50 million euros, contributed in equal measures by automotive suppliers, following on from the initial budget granted by the FMEA.

For Valeo, this initiative represented a huge step forward in support of automotive subcontractors in France. The main task of the FMEA (2) is to provide financial support to automotive subcontractors encountering funding or cash-flow problems by acquiring some of their equity. In this way, the fund gives these companies medium- and long-term visibility and avoids defaults on payments or even redundancies or closures of these small- and mid-sized companies, which depend heavily on orders from tier-one automakers and automotive suppliers. The FMEA (2) does not have plans to retain ownership stakes in these companies over the long term. Once finances and cash flow have been restored to health, the FMEA will withdraw. This initiative has helped limit fractures in the industry supply chain.

Valeo thus works towards strengthening the sector and supporting its suppliers. The process has been beneficial for the automotive industry as a whole. In the event of bankruptcies, defaults on payments, or failures to produce the volumes ordered, the whole industry in France is adversely affected. One should not ignore the fact that these automotive suppliers are commonly specialized in the production of precision parts that are vital for the rest of the industry to keep production flowing.

This initiative marks a new experience for Valeo in its support of the automotive industry from within.

3.6 Summary of Valeo's CSR performance

3.6.1 Summary of environmental performance

	2007	2008	2009	2010	2011
Total sales across all sites in reporting scope (gross, in millions of euros)	9,222	8,555	7,448	9,482	10,704
Number of sites in reporting scope	119	119	118	115	117
ISO 14001-certified sites *(%)*	94%	88%	89%	98%	98%
OHSAS 18001-certified sites *(%)*	74%	76%	81%	89%	93%
Total volume of water consumption (thousands of m^3)	3,377	3,106	2,343	2,402	2,300
Total volume of water consumption/sales *(m^3/€m)*	367	368	315	253	215
Total energy consumption *(GWh)*	1,861	1,682	1,433	1,716	1,764
Total energy consumption/sales *(MWh/€m)*	202	199	192	181	165
Electricity *(%)*	64%	66%	67%	67%	69%
Gas *(%)*	32%	32%	30%	30%	29%
Fuel oil *(%)*	1%	2%	2%	2%	1%
Other energy sources *(%)*	0%	0%	1%	0%	1%
Consumption of chlorinated solvents *(metric tons)*	739	710	220	114	6
Consumption of chlorinated solvents/sales *(kg/€m)*	80	84	29.5	12	0.5
Consumption of heavy metals *(metric tons)*	131	96	37	25	24
Consumption of heavy metals/sales *(kg/€m)*	14	11	5	2.7	2.3
Consumption of CMR substances *(metric tons)*	406	474	188	134	110
Consumption of CMR substances/sales *(kg/€m)*	44	56	25	14.1	10.5
Consumption of packaging materials *(metric tons)*	72,065	63,839	47,160	60,072	64,656
Consumption of packaging materials/sales *(kg/€m)*	7,882	7,546	6,332	6,335	6,040
Proportion of plastic packaging *(%)*	10%	5%	6%	7%	7%
Proportion of cardboard packaging *(%)*	58%	64%	63%	63%	62%
Proportion of wood packaging *(%)*	31%	30%	30%	28%	30%
Proportion of other packaging materials *(%)*	2%	2%	1%	2%	1%
Consumption of recycled plastics *(metric tons)*	7,184	6,751	7,490	10,269	10,666
Volume of industrial effluents emissions (thousands of m^3)	918	809	642	684	580
Volume of industrial effluent emissions/sales *(m^3/€m)*	103	96	86.3	72	54.2
Heavy metal content in effluents *(kg)*	242	142	278	563	155
Heavy metal content in effluents/sales *(kg/€m)*	0.03	0.02	0.04	0.06	0.01
Atmospheric VOC emissions *(metric tons)*	1,296	1,107	1,001	926	1,023
Atmospheric VOC emissions/sales *(kg/€m)*	141	132	134	98	96

	2007	2008	2009	2010	2011
Atmospheric TCE emissions *(metric tons)*	51	89	42	19	34
Atmospheric TCE emissions/sales *(kg/€m)*	6	10.5	5.6	2	3.2
Atmospheric lead emissions *(kg)*	173	137	11	1	3
Atmospheric lead emissions/sales *(g/€m)*	20	16.5	1.5	0.1	0.3
Direct greenhouse gas emissions ($MtCO_2e$) – gas and fuel	147,378	132,105	107,904	128,840	127,282
Direct greenhouse gas emissions/sales ($MtCO_2e$/€m)	15.98	15.44	14.49	13.58	11.9
Total waste generated *(metric tons)*	159,223	146,543	113,133	150,952	181,800
Total waste generated/sales *(metric tons/€m)*	17	17	15	16	17
Hazardous waste *(metric tons)*	20,485	21,195	15,579	19,732	21,019
Non-hazardous waste *(metric tons)*	138,738	125,347	97,554	131,220	160,781
Waste recovery rate *(%)*	74%	77%	82%	83%	83%
Number of fines and compensation awards	1	10	4	3	3
Amount of fines and compensation awards *(in thousands of euros)*	1	4.1	112.7	8	4
Provisions and guarantees for environmental risks *(in thousands of euros)*	4,289	1,386	2,358	2,571	1,623
Functional expenditure to mitigate environmental consequences of operations *(in thousands of euros)*	19,789	19,930	11,740	11,123	12,454
Capital expenditure excluding depollution costs to mitigate environmental consequences of operations *(in thousands of euros)*	3,552	4,898	2,080	1,796	5,260
Depollution costs *(in thousands of euros)*	1,427	1,217	1,358	710	704

In 2011, a new set of monitoring indicators were introduced in the process for reporting on waste, energy efficiency, biodiversity, environmental incidents and greenhouse gases (GHG). Findings for 2011 are presented in the following table:

	2011
Total waste exported *(kg)*	302,103
Waste exported/Total waste	0.17%
Impact of operations on water resources *(number of sites)*	7
Energy efficiency: expected gain *(kWh)*	39,693,219
Ozone-depleting substances (ODS) *(kg)*	25,186
Biodiversity: % sites in industrial areas	86%
Biodiversity: % sites in residential areas	15%
Biodiversity: % sites near protected areas	21%
Accidental spills *(number)*	3
Official complaints *(number)*	14
Complaints over noise pollution *(number)*	7
Home-to-work journeys ($MtCO_2e$)	77,884
Business travel ($MtCO_2e$)	32,509
Travel by Valeo vehicle fleet ($MtCO_2e$)	12,994

3.6.2 Summary of social performance

	2008	2009	2010	2011
Valeo Group headcount:				
Engineers and managers	11,468	10,834	11,375	13,611
Administrative staff, technicians and supervisors	8,243	7,433	7,637	10,910
Operators	29,898	28,789	31,767	35,268
Registered headcount	**49,609**	**47,056**	**50,779**	**59,789**
Temporary staff	1,531	5,054	7,151	8,211
Total headcount	**51,140**	**52,110**	**57,930**	**68,000**
Permanent staff	48,631	44,705	47,146	54,897
Total headcount outside France	36,220	36,492	43,490	53,133
Temporary staff	2,509	7,405	10,784	13,103
Number of interns		1,281	2,593	1,216
Number of apprentices		743	713	770
Number of international corporate volunteers		183	150	137
Number of new hires on permanent contracts				
Engineers and managers	1,724	713	1,470	3,631
Administrative staff, technicians and supervisors	540	194	432	2,415
Operators	3,430	1,729	3,712	6,545
TOTAL	**5,694**	**2,636**	**5,614**	**12,591**
Number of new hires on fixed-term contracts				
Engineers and managers	131	73	123	220
Administrative staff, technicians and supervisors	93	65	68	609
Operators	1,616	3,746	4,871	5,376
TOTAL	**1,840**	**3,884**	**5,062**	**6,205**
Departures				
Contract terminations	4,167	3,806	2,058	2,010
o/w layoffs	2,238	2,619	733	196
Resignations	3,937	2,038	2,141	3,855
Early retirement	191	225	115	111
Retirement	417	285	247	288
Overtime	**4,897,136 hours**	**4,393,339 hours**	**5,463,551 hours**	**7,647,515 hours**
Number of part-time employees	**1,204**	**1,036**	**1,072**	**1,120**
Rate of absenteeism	**2.71%**	**2.55%**	**2.35%**	**2.28%**

	2008	2009	2010	2011
Diversity				
Number of disabled employees	756	716	768	824
Total value of subcontracting and service contracts with sheltered workshops and special employment centers *(in euros)*	1.4 million	1.5 million	1.4 million	2 million
Diversity (number of nationalities in Valeo Group's workforce)	92	91	96	96
Breakdown of women by socio-professional category *(%)*				
Engineers and managers	18.30%	18.50%	19%	19.90%
Administrative staff, technicians and supervisors	25.50%	24.60%	24.30%	26.00%
Operators	38.90%	38.10%	37.10%	38.30%
Number of collective bargaining agreements signed	267	315	269	211
Occupational accidents				
Number of lost-time occupational accidents per million hours worked, Group (FR1)	5.24	4.08	3.96	2.83
Number of occupational accidents, with or without lost time, per million hours worked, Group (FR2)	33.75	22.57	16.64	15.38
Number of days lost owing to an occupational accident per thousand hours worked, Group (severity rate)	0.13	0.1	0.08	0.07
Training				
% of training hours devoted to safety	14.60%	18.40%	16.40%	18.80%
% of employees attending at least one training session devoted to safety	48%	51.50%	59.60%	58.60%
Number of training hours provided	1,065,792	780,413	944,671	1,029,768
Expenditure on training *(in euros)*	25,223,395	20,180,632	25,231,511	21,251,589
Number of employees trained	40,730	36,285	41,317	44,298

3.7 Cross-reference table with sustainable development benchmarks

✓ : Full indicator

✓ : Partial indicator

GRI code	GRI indicator	Full/partial indicator	Relevant article of NER decree no. 2002-221	Chapter/section	Pages
Vision and strategy					
1.1	Statement of the most senior decision-maker of the organization	✓	-	3 – Introduction	54; 64-65
1.2	Description of key sustainable development impacts, risks and opportunities	✓	-	2.1.2 and 3.1	54-55; 66-67
Organizational profile					
2.1 to 2.6	Name of the organization, products and services, operational structure of the organization, headquarters, countries where the organization operates, ownership and legal form	✓	-	1.3.1, 1.3.2, 1.3.5, 1.4, 6.6.1, 7.1	17-20; 33; 34-49; 294; 306-308
2.7	Principal markets	✓	-	1.4	34-49
2.8	Scale of the organization	✓	-	1.3.2	19
2.9	Significant changes during the reporting period regarding size, structure, or ownership		-	N/A	
2.10	Awards received in the reporting period	✓	-	1.3.3	21-22
Report parameters					
3.1	Reporting period		-	01/01/2011-12/31/2011	
3.2	Date of most recent previous report		-	12/31/2010	
3.3	Reporting cycle		-	Annual	
3.4	Contact point		-	6.2.2	286
3.5	Process for defining report content		-	Through committees	
3.6	Boundary of the report		-	Group	
3.7	Specific limitations on the scope or boundary of the report		-	3.3.1 and 3.4.1	76-80; 93
3.8	Basis for reporting on subsidiaries, joint ventures and other entities that can significantly affect comparability from period to period and/or between organizations		-	3.3.1 and 3.4.1	80; 93
3.9	Data measurement techniques and the bases of calculations		-	Reporting	
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement		-	N/A	
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report		-	N/A	
3.12	GRI concordance table		-	3.7	124-128
3.13	Policy and current practice with regard to seeking external assurance for the report		Article 148-3. 3°	N/A	

✓ : Full indicator

✓ : Partial indicator

GRI code	GRI indicator	Full/partial indicator	Relevant article of NER decree no. 2002-221	Chapter/section	Pages
Governance, commitments and engagement					
4.1	Governance structure of the organization	✓	-	4.1	130-142
4.2	Independence of the Chairman of the Board of Directors	✓	-	4.4.1	159-160
4.3	Number of Independent Directors	✓	-	4.4.1	131-142
4.4	Mechanisms for shareholders and employees to provide recommendations to Board members	✓	-	7.1.10	308
4.5	Linkage between compensation for executives and corporate officers and the organization’s performance (including social and environmental performance)	✓	-	4.2.1	144-154
4.6	Processes in place to avoid conflicts of interest between corporate officers’ functions with respect to the organization and their private interests	✓	-	4.1.2	142-143
4.7	Process for determining the composition of the Board of Directors and its Specialized Committees, and the qualifications and expertise of its members	✓	-	4.3.1 and 4.4.1	157; 159-166
4.8	Internally developed codes of conduct and principles relevant to the organization’s economic, social and environmental performance	✓	-	1.3.4 and 4.4.2	24-25; 161
4.9	Procedures defined by the Board of Directors for overseeing the organization’s identification and management of economic, social and corporate-citizenship performance	✓	-	4.4.2	161-166
4.10	Processes for evaluating the Board of Directors’ own performance	✓	-	4.4.2	166
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	✓	-	4.4.6	171
4.13	Memberships in associations and/or national/international advocacy organizations	✓	-	3.5.3	116; 118-119
4.14	List of stakeholder groups engaged by the organization	✓	-	1.3.4	22-33
4.15	Basis for identification and selection of stakeholders with whom to engage	✓	-	1.3.4	22-33
4.16	Dialogues with different stakeholder groups	✓	-	1.3.4	22-33
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns	✓	-	1.3.4	22-33

✓ : Full indicator

✓ : Partial indicator

GRI code	GRI indicator	Full/partial indicator	Relevant article of NER decree no. 2002-221	Chapter/section	Pages
Economic					
EC1	**Direct economic value generated and distributed by Valeo**	✓	**-**	**1.1**	**6-10**
EC2	**Financial implications and other risks and opportunities due to climate change**	✓	**-**	**3.3.3**	**121**
EC3	**Coverage of the organization's defined benefit plan obligations**	✓	**-**	**3.3.4 and 5.2.6 (Note 5.9.2)**	**98; 225-231**
EC4	**Financial assistance received from government**	✓	**-**	**5.2.3 and 5.2.6 (Note 4.4)**	**190; 212**
EC6	**Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation**	✓	**-**	**1.3.4 and 3.4.9**	**25-26; 114**
EC7	**Procedures for local hiring and hiring of senior management at international sites from the local community**	✓	**-**	**1.3.4**	**22**
EC8	**Impact of infrastructure investments and services**	✓	**-**	**5.1.2**	**186-187**
Environment					
EN1	**Consumption of raw materials**	✓	**Article 148-3. 1°**	**3.3.2**	**83-85**
EN2	**Percentage of materials used that are recycled input materials**	✓	**Article 148-3. 1°**	**3.6.1**	**120**
EN3	**Direct energy consumption by primary energy source**	✓	**Article 148-3. 1°**	**3.3.2**	**83**
EN4	**Indirect energy consumption by primary source**	✓	**Article 148-3. 1°**	**3.3.3**	**91-92**
EN5	Energy saved due to energy efficiency	✓	Article 148-3. 1°	3.3.3	82
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services	✓	Article 148-3. 2°	3.2.3, 3.2.4 and 3.2.5	70-74
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	✓	Article 148-3. 2° and 5°	3.3.2	82; 90
EN8	**Total water withdrawal**	✓	**Article 148-3. 1°**	**3.3.3**	**86**
EN9	Water sources significantly affected by withdrawal of water	✓	-	3.3.3	86
EN11	**Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value**	✓	**-**	**3.3.2**	89
EN12	**Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas**	✓	**-**	**3.3.3**	89
EN14	Strategies, current actions and future plans for managing impacts on biodiversity	✓	Article 148-3. 2°	3.3.2	89
EN16	Total direct and indirect greenhouse gas emissions ($MtCO_2e$)	✓	Article 148-3. 1°	3.3.3	84; 91-92
EN17	Other relevant indirect greenhouse gas emissions (MtC_O2e)	✓	Article 148-3. 1°	3.3.3	91-92

✓ : Full indicator

✓ : Partial indicator

GRI code	GRI indicator	Full/partial indicator	Relevant article of NER decree no. 2002-221	Chapter/section	Pages
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	✓	Article 148-3. 2° and 5°	3.3.3	82; 90
EN19	**Emissions of ozone-depleting substances**	✓	**Article 148-3. 1°**	**3.6.1**	**121**
EN20	**NOx, SOx, and other significant air emissions**	✓	**Article 148-3. 1°**	**3.6.1**	**120-121**
EN21	**Total water discharge**	✓	**Article 148-3. 1°**	**3.3.3**	**88; 120**
EN22	**Total weight of waste**	✓	**Article 148-3. 1°**	**3.3.3**	**87**
EN23	**Total number and volume of significant spills**	✓	**-**	**3.6.1**	**121**
EN26	**Initiatives to mitigate environmental impacts of products and services**	✓	**Article 148-3. 2°, 5° and 6°**	**3.2.3 and 3.2.4**	**70-74**
EN27	**Percentage of products sold and their packaging materials that are recycled or reused**	✓	**-**	**3.3.3**	**87**
EN28	**Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations**	✓	**Article 148-3. 8°**	**3.6.1**	**121**
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	✓	-	3.3.3	90; 121
EN30	Total environmental protection expenditures and investments	✓	Article 148-3. 7°	2.1.2 and 3.6.1	121
Employment and labor practices					
LA1	**Total workforce by employment type, employment contract and region**	✓	**Article 148-2. 1° and 2°**	**3.4.1 and 3.4.8**	**93; 106-107**
LA2	**Total number and rate of employee turnover**	✓	**Article 148-2. 1°**	**3.4.6**	**103-105**
LA3	**Benefits provided to full-time employees that are not provided to temporary or part-time employees**	✓	**Article 148-2. 3°**	**3.4.4**	**97-98**
LA4	**Percentage of employees covered by collective bargaining agreements**	✓	**Article 148-2. 4°**	**3.4.5**	**99-101**
LA7	**Rates of injury, occupational diseases, absenteeism, lost days and number of work-related fatalities**	✓	**Article 148-2. 2° and 5°**	**3.4.3**	**95-97**
LA8	**Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases**	✓	**Article 148-2. 5°**	**3.4.9, 3.5.1**	**110-111; 116-117**
LA10	**Average hours of training per year per employee**	✓	**Article 148-2. 6°**	**3.4.6**	**102-103**
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	✓	Article 148-2. 6°	3.4.6 and 3.4.8	101-103; 108-110

✔ : Full indicator

✓ : Partial indicator

GRI code	GRI indicator	Full/partial indicator	Relevant article of NER decree no. 2002-221	Chapter/section	Pages
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group and other indicators	✔	Article 148-2. 1°	4.1.1 and 3.4.8	106-107
LA14	Ratio of basic salary of women to men	✓	Article 148-2. 3°	3.4.8	106-107
Human rights					
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights	✓	Article 148-2. 9°	3.4.9	114
HR6	Prohibition of child labor Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor	✓	-	1.3.4	25
HR7	Abolition of forced and compulsory labor Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor	✓	-	1.3.4	25
Society					
SO1	Impacts of our actions on local and regional communities	✔	Article 148-2. 8° and 9°	3.4.9 and 3.5.1	110-112; 116-117
Product responsibility					
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement	✓		3.2.3 and 3.2.5	70-72

AquaBlade® wiper system

4

CORPORATE GOVERNANCE

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

4.1 Corporate governance structure

4.1.1 Membership of corporate governance bodies

Executive Management

The Group's Executive Management team includes the Chairman of the Board of Directors, the Chief Executive Officer, and the Functional and Operational Directors on the Operations 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. Following the renewal of Pascal Colombani's and Jacques Aschenbroich's directorships by the Shareholders' Meeting of June 8, 2011, Valeo's Board of Directors, at its meeting on the same day, acting on the recommendation of the Appointment, Compensation and Governance Committee, maintained the separation of the roles of Chairman and Chief Executive Officer and renewed their respective terms of office.

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 ending December 31, 2014).

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 ending December 31, 2014).

In his capacity as Chief Executive Officer, Jacques Aschenbroich has the broadest 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 articles of association and internal procedures. 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, interest, or any other asset or investment, for a sum of more than 50 million euros.

Operations Committee

Michel Boulain

Senior Vice-President, Human Resources

Robert Charvier

Chief Financial Officer

Robert de La Serve

President, Valeo Service Activity

Édouard de Pirey

Vice-President, Corporate Strategy and Planning

Guillaume Devauchelle

Group Research & Development Director and Acting Product Marketing Senior Vice-President

Antoine Doutriaux

President, Visibility Systems Business Group

Hans-Peter Kunze

Senior Executive Vice-President, Sales and Business Development

Géric Lebedoff

General Counsel

Claude Leïchlé

Deputy President, Powertrain Systems Business Group

Alain Marmugi

President, Thermal Systems Business Group

Christophe Périllat

Chief Operating Officer

Michael Schwenzer

President, Powertrain Systems Business Group

Marc Vrecko

President, Comfort and Driving Assistance Systems Business Group

Board of Directors

At December 31, 2011, the members of the Board of Directors were:

- Pascal Colombani
- Jacques Aschenbroich
- Gérard Blanc
- Daniel Camus
- Jérôme Contamine
- Michel de Fabiani
- Michael Jay
- Helle Kristoffersen
- Noëlle Lenoir
- Thierry Moulonguet
- Georges Pauget
- Ulrike Steinhorst

Pascal Colombani
Chairman of the Board of Directors
Chairman of the Strategy Committee

French
Age: 66

Valeo
43, rue Bayen
75017 Paris, France

Number of Valeo shares held: 600
First appointed: 05/21/2007
Start of current term of office: 06/08/2011
End of current term of office: Shareholders' Meeting called to approve the 2014 financial statements

Main position held outside the Company

- Senior Advisor, A.T. Kearney

Other directorships and positions held in companies other than Valeo subsidiaries during the past five years

Current directorships and positions

- Director, Alstom SA, Technip SA, Energy Solutions Inc.
- Member, French Academy of Technology (Académie des Technologies)

Past directorships and positions

- Director, British Energy Group Plc (until June 2011), Rhodia SA (until September 2011)
- Senior Advisor, Detroyat et Associés, Arjil Banque

Experience

Pascal Colombani is Chairman of the Board of Directors of Valeo and Senior Advisor for innovation, high technology and energy at the A.T. Kearney strategic consultancy firm.

He is a member of the French Academy of Technology and a director of Technip, Alstom, and 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 École normale supérieure de Saint-Cloud, is an associate professor of physics and has a doctorate in science.

Jacques Aschenbroich
Chief Executive Officer

French
Age: 57

Valeo
43, rue Bayen
75017 Paris, France

Number of Valeo shares held: 7,000
First appointed: 03/20/2009
Start of current term of office: 06/08/2011
End of current term of office: Shareholders' Meeting called to approve the 2014 financial statements

Main positions held outside the Company

- Chairman of Valeo Finance, Valeo Service, Valeo SpA, Valeo (UK) Limited
- Director, Valeo Service España, SA

Other directorships and positions held in companies other than Valeo subsidiaries during the past five years

Current directorships and positions

- Director, École nationale supérieure des mines ParisTech

Past directorships and positions

- 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, 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)

Experience

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 and served 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
Independent director
Member of the Strategy Committee

French
Age: 69

Marignac Gestion SAS
17, rue Joseph Marignac
31300 Toulouse, France

Number of Valeo shares held: 500
First appointed: 05/21/2007
Start of current term of office: 06/08/2011
End of current term of office: Shareholders' Meeting called to approve the 2012 financial statements

Main position held outside the Company

- Chairman and CEO, Marignac Gestion SAS

Other directorships and positions held in companies other than Valeo subsidiaries during the past five years

Current directorships and positions

- Director, Sogeclair

Experience

Gérard Blanc is Chairman and CEO of Marignac Gestion SAS and a director of Sogeclair. Earlier in his career he held the position of Executive Vice-President, Programs at Airbus until 2003 when he was appointed Executive Vice-President of Operations, a position he held until 2005.

Gérard Blanc graduated from HEC business school in Paris.

Daniel Camus
Independent director
Chairman of the Audit Committee

French
Age: 59

151, boulevard Haussmann
75008 Paris, France

Number of Valeo shares held: 500
First appointed: 05/17/2006
Start of current term of office: 06/03/2010
End of current term of office: Shareholders' Meeting called to approve the 2013 financial statements

Main position held outside the Company

- Senior Advisor, Roland Berger Strategy Consultants (since June 2011)

Other directorships and positions held in companies other than Valeo subsidiaries during the past five years

Current directorships and positions

- Member of the Supervisory Board, Morphosys AG (Germany), SGL Group SE (Germany), Vivendi SA, Cameco Corp. (Canada)

Past directorships and positions

- Member of the Supervisory Board, EnBW (Germany) and Dalkia SAS
- Chairman of the Board of Directors, EDF International
- Group Executive Vice-President in charge of International Activities and Strategy, EDF group
- Chief Financial Officer, EDF group
- Director, EDF Energy (UK) and Edison (Italy)

Experience

Daniel Camus has been Senior Advisor of Roland Berger Strategy Consultants since June 2011.

He was, until December 1, 2010, Group Executive Vice-President in charge of International Activities and Strategy at the 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 group Chief Financial Officer. He is a member of the Supervisory Boards of Morphosys AG (Germany), SGL Group SE (Germany), Cameco Corp. (Canada) and Vivendi.

Daniel Camus holds a doctorate in economics, is an associate professor of management sciences and graduated with distinction from the Institut d'études politiques de Paris (IEP).

Jérôme Contamine

Independent director

Chairman of the Appointment, Compensation and Governance Committee

French
Age: 54

Sanofi-Aventis
174, avenue de France
75635 Paris Cedex 13, France

Number of Valeo shares held: 2,000

First appointed: 05/17/2006

Start of current term of office: 06/08/2011

End of current term of office: Shareholders' Meeting called to approve the 2013 financial statements

Main position held outside the Company

- Executive Vice-President and Chief Financial Officer, Sanofi-Aventis

Other directorships and positions held in companies other than Valeo subsidiaries during the past five years

Current directorships and positions

- 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 and Merial Ltd. (UK)

Past directorships and positions

- Sanofi-Aventis group
  - Director, Zentiva NV (Netherlands)
- Outside Sanofi-Aventis group
  - Executive General Manager, Veolia Environnement
  - Chairman, VE Europe Services (Belgium)
  - Director, Veolia Transport, Veolia Propreté, VE Services-Ré, Veolia UK, Veolia Environmental Services Plc (UK), Veolia ES Holdings Plc (UK), Veetra, Venac (US)
  - CEO and Chairman of Venao (US)
  - Managing Director, Veolia UK
  - Chairman, VE IT
  - Member of the Supervisory Board: Veolia Eau, Dalkia France
  - Member, Dalkia's A and B Supervisory Boards
  - Director, Rhodia

Experience

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 and from École nationale d'administration and was appointed special advisor to the French Court of Auditors (*Cour des comptes*).

Michel de Fabiani

Director

Member of the Audit Committee

French
Age: 66

CCI Franco-Britannique
31, rue Boissy d'Anglas
75008 Paris, France

Number of Valeo shares held: 500

First appointed: 10/20/2009

Start of current term of office: 06/08/2011

End of current term of office: Shareholders' Meeting called to approve the 2014 financial statements

Main position held outside the Company

- Chairman, Franco-British Chamber of Commerce and Industry

Other directorships and positions held in companies other than Valeo subsidiaries during the past five years

Current directorships and positions

- Chairman of the Board of Directors, British Hertford Hospital Corporation (Levallois, France)
- Founding President, Association for the Promotion of Ecological Vehicles (Association pour la promotion des véhicules écologiques)
- Vice-President, Oeuvre du Perpétuel Secours (a non-profit association) (Levallois, France)
- Director, BP France, Vallourec group, EB Trans SA (Luxembourg)

Past directorships and positions

- Founding President, Cercle économique Sully (a think tank)
- Director, Rhodia group, Star Oil Mali, SEMS (Morocco)

Experience

Michel de Fabiani was 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 Vallourec group and EB Trans (Luxembourg). In addition, he is Chairman of the Board of the British Hertford Hospital Corporation, Vice-President of the Oeuvre du Perpétuel Secours in Levallois (France) and Founding President 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 (European Oil Industry Association) in Brussels until 2004, when he left his executive position after 35 years with the BP group.

Michel de Fabiani graduated from École des hautes études commerciales de Paris.

Philippe Guédon

Independent director until June 8, 2011

Member of the Strategy Committee until June 8, 2011

French
Age: 78

Espace Développement
16, rue Troyon
92316 Sèvres, France

Number of Valeo shares held: 500
First appointed: 03/31/2003
Start of current term of office: 05/21/2007
Term of office ended: 06/08/2011

Main position held outside the Company

- Managing Partner, Espace Développement

Other directorships and positions held in companies other than Valeo subsidiaries during the past five years

Past directorships and positions

- Chairman and CEO, Matra
- Chairman of the Supervisory Board, Matra Automobile

Experience

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 held the position of Research Engineer, and subsequently Technical Director until 1983. In that year he was appointed Chairman and CEO 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

Independent director

Member of the Appointment, Compensation and Governance Committee

British
Age: 65

House of Lords
Westminster
London SW1A OPW
United Kingdom

Number of Valeo shares held: 500

First appointed: 05/21/2007

Start of current term of office: 06/08/2011

End of current term of office: Shareholders' Meeting called to approve the 2012 financial statements

Main position held outside the Company

- Member of the House of Lords in the UK

Other directorships and positions held in companies other than Valeo subsidiaries during the past five years

Current directorships and positions

- Director, 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)
- Member, British Library Advisory Council

Past directorships and positions

- Director, Crédit Agricole
- Chairman, Culham Languages and Sciences (an educational charity)
- Trustee, British Council

Experience

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), Vice-Chairman of Business for New Europe and a director 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 and of the British Library Advisory Council.

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

Independent director

Member of the Strategy Committee

French
Age: 47

2, place Jean Millier
La Défense 6
92078 Paris-La Défense
Cedex, France

Number of Valeo shares held: 500

First appointed: 05/21/2007

Start of current term of office: 06/08/2011

End of current term of office: Shareholders' Meeting called to approve the 2012 financial statements

Main position held outside the Company

- Vice-President of Strategy and Business Intelligence, Total (since January 1, 2012)

Other directorships and positions held in companies other than Valeo subsidiaries during the past five years

Current directorships and positions

- Director, France Télécom Orange

Past directorships and positions

- 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

Experience

Helle Kristoffersen has been Vice-President of Strategy and Business Intelligence at Total since January 1, 2012.

She previously served as Deputy Vice-President of Strategy and Business Intelligence at Total and Senior Vice-President of Vertical Markets at the Alcatel-Lucent group. 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. She is a director of France Télécom Orange.

Helle Kristoffersen is a graduate of École normale supérieure and 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

Independent director

Member of the Appointment, Compensation and Governance Committee

French
Age: 63

Kramer Levin Naftalis & Frankel LLP
47, avenue Hoche
75008 Paris, France

Number of Valeo shares held: 1,000
First appointed: 06/03/2010
Start of current term of office: 06/03/2010
End of current term of office: Shareholders' Meeting called to approve the 2013 financial statements

Main position held outside the Company

- Partner, Kramer Levin Naftalis & Frankel LLP

Other directorships and positions held in companies other than Valeo subsidiaries during the past five years

Current directorships and positions

- President, Europe Institute (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 Chairwoman, Cercle des Européens (a think tank)
- Honorary Chairwoman, the Association des amis d'Honoré Daumier
- Adjunct Professor, HEC
- Lecturer, Paris I Panthéon-Sorbonne
- Member, Comparative Law Society (Société de Législation Comparée)
- Member of the Board of Directors, French Association of Constitutionalists (Association française des constitutionnalistes)

Past directorships and positions

- Member of the Steering Committee, Association of French Mayors (Association des maires de France)

Experience

Noëlle Lenoir is a member of the Conseil d'État (France's highest administrative court) and a partner in the law firm Kramer Levin Naftalis & Frankel LLP. 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 partner with the law firms Debevoise & Plimpton LLP (2004-2009) and Jeantet et Associés. She has been a director of Generali France since 2008.

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

Thierry Moulonguet
Independent director since June 8, 2011
Member of the Audit Committee and the Strategy Committee since June 8, 2011

French
Age: 61

Fimalac
97, rue de Lille
75007 Paris, France

Number of Valeo shares held: 500
First appointed: 06/08/2011
Start of current term of office: 06/08/2011
End of current term of office: Shareholders' Meeting called to approve the 2011 financial statements

Other directorships and positions held in companies other than Valeo subsidiaries during the past five years

Current directorships and positions

- Director, Fimalac SA, HSBC France, Fitch Ratings Ltd., Lucien Barrière group, Ssangyong Motor Co.

Past directorships and positions

- Special advisor to the Chairman and CEO of Renault
- Director, Avtovaz, RCI Banque, Renault Retail Group

Experience

Thierry Moulonguet is a director of Fimalac SA, HSBC France, Fitch Ratings Ltd., Ssangyong and the Lucien Barrière group.

He spent most of his career with the Renault-Nissan group, which he joined in February 1991 as head of banking strategy and financial communication. He later served as Director of Financial Relations, Vice-President, Capital Expenditure Controller, Vice Chief Executive Officer and Chief Financial Officer of Nissan before becoming Vice Chief Executive Officer and Chief Financial Officer of the Renault group, also in charge of Information Systems, and then member of the Management Committee for the Americas and a member of its Executive Committee from January 2004 to July 1, 2010. He served as Special Advisor to Renault's Chairman and Chief Executive Officer, Carlos Ghosn until March 31, 2011, the date on which he retired.

Thierry Moulonguet is a graduate of École nationale d'administration and Institut d'études politiques de Paris (IEP).

Georges Pauget
Independent director
Member of the Audit Committee and the Appointment, Compensation and Governance Committee

French
Age: 64

Économie Finance et Stratégie SAS
89, avenue de Wagram
75017 Paris, France

Number of Valeo shares held: 500
First appointed: 04/10/2007
Start of current term of office: 06/08/2011
End of current term of office: Shareholders' Meeting called to approve the 2011 financial statements

Main position held outside the Company

- Chairman, Économie, Finance et Stratégie SAS

Other directorships and positions held in companies other than Valeo subsidiaries during the past five years

Current directorships and positions

- Honorary Chairman of the Board of Directors, LCL – Le Crédit Lyonnais
- Chairman of the Board of Directors, Club Med
- Chairman, Insead OEE Data Service and the Institut pour l'éducation financière du public (IEFP)
- Member of the Supervisory Board, Eurazeo
- Director, Danone Communities
- Representative for Crédit Agricole SA at the Partners Club (Club des Partenaires) of TSE (Toulouse School of Economics)
- Chairman, Finance Innovation cluster – Europlace
- Chairman, Monnet project for European bank cards
- Scientific Director, and Chair of Asset Management, Université de Paris Dauphine
- Adjunct Professor, Université de Paris Dauphine
- Visiting Professor, University of Beijing

Past directorships and positions

- Chairman of the Board of Directors, Viel & Cie, Amundi Group
- Chairman, French Banking Federation (Fédération bancaire française – FBF)
- Director, Banca Intesa
- Chairman, Crédit Lyonnais
- CEO, Crédit Agricole SA
- Chairman, Crédit Agricole Corporate and Investment Bank (formerly Caylon)

Experience

Georges Pauget is President of Économie Finance et Stratégie SAS, Chairman of the Board of Directors of Club Med and member of the Supervisory Board of Eurazeo.

Currently Chairman of Paris Europlace's Finance Innovation cluster, Georges Pauget was also Chairman of the Board of Directors of Viel & Cie and the Amundi Group until February 2011. He spent most of his career with the Crédit Agricole group where he was Chief Executive Officer from September 2005 to March 2010.

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 was Chairman of the Board of Directors of LCL – Le Crédit Lyonnais, and Chairman of the Board of Directors of Calyon up until March 2010, Chief Executive Officer and Chairman of the Executive Committee of LCL – Le Crédit Lyonnais, permanent representative of LCL – Le Crédit Lyonnais at the Fondation de France and Chairman of the Executive Committee of the French Banking Federation until September 2009.

Georges Pauget is a Doctor of Economic Sciences and holds a master's degree in Economic Sciences, with econometrics as specialization, from the University of Lyon.

Ulrike Steinhorst

Independent director

Member of the Appointment, Compensation and overnance Committee

German
Age: 60

EADS
37, boulevard Montmorency
75781 Paris Cedex 16, France

Number of Valeo shares held: 500

First appointed: 02/24/2011

Start of current term of office: 02/24/2011

End of current term of office: Shareholders' Meeting called to approve the 2011 financial statements

Main position held outside the Company

- Director of the Cabinet of the Chief Executive Officer of EADS

Other directorships and positions held in companies other than Valeo subsidiaries during the past five years

Current directorships and positions

- Member of the Board of Directors of Fondation Imagine, a scientific research foundation

Past directorships and positions

- Chairwoman, Degussa France Groupe SAS and Rexim SAS

Experience

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 French Minister of European Affairs in charge of relations with Germany during its reunification. From 1990 to 1998, she worked at EDF in the International Division, before becoming 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 Vice-President, Executive Development at group level. She then took charge of the subsidiary Degussa France and became responsible for the group's representation office in Brussels. She is also a member of the Board of Directors of the Fondation Imagine.

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

4.1.2 Declarations concerning the Group's corporate officers

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 entered into on arm's length terms, 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.

According to Valeo's internal procedures, without prejudice to the formalities of authorization and control laid down by law and the articles of association, the Company's directors must promptly disclose to the Chairman any agreement entered into by Valeo and in which they are directly or indirectly involved. Directors must disclose to the Chairman any agreement entered into between themselves, or a company of which they are executive managers, or in which they directly or indirectly hold a significant interest, and Valeo or one of its subsidiaries, or entered into through an intermediary.

Directors are also asked to disclose potential conflicts of interest every year.

Service contracts between the members of the Board of Directors and the Company or any of its subsidiaries

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.

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 have 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 articles of association.

Other than the declarations of the FSI (see Chapter 6, section 6.6.6 "Relations with the FSI", page 304) 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.

4.1.3 Transactions carried out by executive managers and corporate officers in the Company's shares

In 2011, Ulrike Steinhorst, a director, acquired 500 Company shares at a unit price of 40.17 euros on March 21, 2011. Georges Pauget, a director, acquired 400 Company shares at a unit price of 42.08 euros on May 12, 2011. Thierry Moulonguet, a director, acquired 500 Company shares at a unit price of 30.31 euros on December 20, 2011.

4.2 Compensation of corporate officers

4.2.1 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 as Chairman of the Board of Directors and Jacques Aschenbroich as Chief Executive Officer.

Following the renewal of the terms of office of Jacques Aschenbroich and Pascal Colombani by the Shareholders' Meeting of June 8, 2011 held to approve the financial statements for the year ended December 31, 2010, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, maintained the separation of the duties of Chairman of the Board and Chief Executive Officer, stating that the operation of the Board had improved as a result of this separation.

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.

Fixed compensation and benefits in kind

Following the renewal of the terms of office of Jacques Aschenbroich and Pascal Colombani at its meeting of June 8, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee and after having examined the practices of a selection of similar companies, decided that the Chairman would receive fixed annual compensation of 300,000 euros with effect from June 1, 2011, compared with 250,000 euros previously (since 2009).

Similarly, at the Board of Directors' meeting of June 8, 2011, acting on the recommendation of the Appointment, Compensation and Governance Committee, it was decided that the Chairman would have the use of a company car for occupational use and a driver currently employed by the Company.

In 2011, Valeo paid Pascal Colombani a fixed compensation of 279,167 euros (compared with 250,000 euros in 2010).

Variable compensation

Pascal Colombani does not receive any variable compensation.

Attendance fees

Pascal Colombani does not receive attendance fees.

At its meeting on April 9, 2009, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided that no attendance fees would be paid to Pascal Colombani in respect of his role as Chairman.

Compensation paid by companies controlled by Valeo

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

Stock options and performance shares

No stock options or performance shares were allotted to Pascal Colombani in 2011 or in the previous years.

Pension plan

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

Severance payments

Pascal Colombani is not entitled to severance payments.

Compensation paid to the Chairman of the Board of Directors over the last two years

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

Summary of compensation paid and stock options and shares allotted to Pascal Colombani

(in euros)	2010	2011
Compensation	250,000	279,167
Value of options allotted during the year	0	0
Value of performance shares allotted during the year	0	0
TOTAL	**250,000**	**279,167**

Summary of compensation paid to Pascal Colombani

(in euros)	2010		2011	
	Amount owed	**Amount paid**	**Amount owed**	**Amount paid**
Fixed compensation	250,000	250,000	279,167	279,167
Variable compensation	0	0	0	0
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	0	0	0	0
TOTAL	**250,000**	**250,000**	**279,167**	**279,167**

Stock options alloted 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 allotted 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 allotted to Pascal Colombani

Performance shares allotted by the Annual Shareholders' Meeting during the year to Pascal Colombani by Valeo or any Group company	Plan no. and date	Number of shares allotted 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 share allotments that became final for Pascal Colombani

Plan no. and date	Number of share allotments that became final during the year	Vesting requirements
Not applicable	0	Not applicable

Allotments 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: 5/21/2007** **Term of office began: 06/08/2011** **Term of office ended: Shareholders' Meeting called to approve the 2014 financial statements**	No	No	No	No

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 Chief Executive Officer's overall compensation is determined taking into account the supplementary retirement plan from which he benefits (see the "Pension plan" section on page 149 of this chapter).

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. In view of the spectacular recovery of the Company, at its meeting on June 8, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided that the Chief Executive Officer would receive fixed annual compensation of 900,000 euros with effect from June 1, 2011.

At its meeting on April 9, 2009, the Board also decided to grant coverage to Jacques Aschenbroich under the unemployment insurance fund for Company managers, of the mandatory health, death and disability plan and life insurance covering death, disability or the consequences of any accidents that may occur during business travel. Following the renewal of Jacques Aschenbroich's term of office as Chief Executive Officer, at its meeting on June 8, 2011, the Board of Directors, acting on a recommendation of the Appointment, Compensation and Governance Committee, decided to maintain the same insurance coverage, without any modification.

In 2011, Valeo paid Jacques Aschenbroich fixed compensation of 895,881 euros (compared with 867,009 euros in 2010). This consists of fixed compensation of 879,167 euros (compared with 850,000 euros in 2010) and 16,714 euros (compared with 17,009 euros in 2010) as benefits in kind.

Variable compensation

At the beginning of each year, the Board of Directors sets the criteria on which the variable compensation is based, acting on the recommendation of the Appointment, Compensation and Governance Committee for the coming year. The Board also makes decisions regarding the allocation of the variable portion for the prior fiscal year in view of the achievement of predetermined criteria. The variable portion of the Chief Executive Officer's compensation is determined partly as a function of quantitative objectives based upon the Group's operational and financial performance and partly on a qualitative basis, based upon specific and predetermined objectives.

For 2010, the quantitative component of the variable portion of the Chief Executive Officer's compensation depended on the following four criteria: (i) operating margin, (ii) operating cash flow, (iii) orders booked by the Group, and (iv) net income, as well as 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 were 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 were 0 to 15% for the quality of financial communications and 0 to 25% for implementation of a strategy.

Variable compensation for 2010 was capped at 120% of his fixed compensation.

At its meeting on February 24, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, 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) return on capital employed (ROCE) and (v) orders booked by the Group; and
- 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 range 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.

Variable compensation for 2010 was capped at 120% of his fixed compensation.

At its meeting on February 21, 2012, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, noted that the achievement rates for quantitative and qualitative criteria for 2011 were 68.93% and 74%, respectively, bringing the amount of variable compensation to be paid to Jacques Aschenbroich to 85% of his fixed compensation, i.e., 747,292 euros (compared with 1,020,000 euros in 2010).

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 2012 would depend on:

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

The amount of variable compensation as a percentage of the basic fixed compensation would range from 0 to 15% for each quantitative criterion.

For the qualitative criteria, quality of the financial communication and risk management were each attributed a value of 0 to 10%, and strategic vision was attributed a value of 0 to 25% of fixed compensation.

Variable compensation for 2012 was capped at 120% of his fixed compensation.

Attendance fees

Jacques Aschenbroich does not receive attendance fees.

At its meeting of April 9, 2009, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided that no attendance fees would be paid to Jacques Aschenbroich in respect of directorships held in the Group.

Compensation paid by companies controlled by Valeo

In 2011, 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 no attendance fees would be paid to Jacques Aschenbroich in respect of directorships held in the Group.

Stock options and performance shares

Allotments in 2010

At its meeting on June 24, 2010, the Board of Directors decided to allot 100,000 stock options and 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 (*Code de commerce*).

All the stock options and 50% of the performance shares allotted to the Chief Executive Officer on June 24, 2010 are conditional upon the achievement a level of operating margin for 2010 fixed by the Board of Directors, which is 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. In addition, the performance shares allotted to Jacques Aschenbroich shall vest only if his term of office as Chief Executive Officer has not expired on the vesting date (this presence condition, however, may be waived by the Board of Directors unless his departure is attributable to gross negligence or misconduct).

The stock 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 (this presence condition, however, may be waived by the Board of Directors unless his departure is attributable to gross negligence or misconduct).

In addition, the shares allotted to Jacques Aschenbroich are subject to minimum holding periods. Any shares he acquires from the exercise of his stock options must be held for a minimum of four years following their allotment. He shall also hold at least 50% of any performance shares allotted as registered shares until the end of his term of office.

Lastly, should he exercise the stock options allotted to him, and after selling the number of shares necessary for financing the exercise of the stock option and payment of tax, any social security contributions and transaction costs, Jacques Aschenbroich shall hold at least 50% of the remaining shares resulting from exercising said stock options in registered form until the end of his term of office.

As the use of hedging mechanisms to protect the value of stock 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 stock options and performance shares.

Allotments in 2011

At its meeting of June 8, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided to allot stock options and performance shares to the Chief Executive Officer on the terms and conditions announced to shareholders in the Board of Directors' report on the resolutions presented at the Shareholders' Meeting of June 8, 2011. The Board of Directors decided to allot 30,300 stock options and 15,600 performance shares to the Chief Executive Officer. All the stock options and performance shares allotted to the Chief Executive Officer are conditional upon the achievement of performance criteria measured over the 2011, 2012 and 2013 fiscal years. These criteria are (i) an average operating margin ratio over the period equal to or greater than the level set by the Board of Directors and greater than the annual guidance for 2011, (ii) an average return on capital employed (ROCE) ratio over the period equal to or greater than 30%, and (iii) an average pre-tax return on assets (ROA) ratio over the period equal to or greater than 12.5%. The following scale then applies:

- if all three average ratios for fiscal years 2011, 2012 and 2013 are reached, all of the stock options can be exercised and all the performance shares will vest;
- if two of the average ratios for fiscal years 2011, 2012 and 2013 are reached, only 60% of the stock options can be exercised and 60% of the performance shares will vest, the remainder will be forfeited;
- if only one of the average ratios for fiscal years 2011, 2012 and 2013 is reached, only 30% of the stock options can be exercised and 30% of the performance shares will vest, the remainder will be forfeited;
- if no average ratios for fiscal years 2011, 2012 and 2013 are reached, no stock options can be exercised and no performance shares will vest.

In addition, all the stock options and performance shares allotted to the Chief Executive Officer shall vest only if his term of office has not expired on the exercise or vesting date, where applicable (the presence condition, however, may be waived by the Board of Directors unless his departure is attributable to gross negligence or misconduct).

Stock options can be exercised from the end of the third year at the earliest, to the end of the eighth year after the grant date at the latest.

The Chief Executive Officer is also subject to obligations to retain his shares. Any shares he acquires from the exercise of his stock options must be held for a minimum of four years following their allocation. After selling the number of shares necessary for financing the exercise of the stock options and the payment of any tax, social security contributions and transaction costs, he will have to hold at least 50% of the remaining shares resulting from exercising the stock options in registered form until the end of his term of office. After the expiration of the three-year vesting period and the two-year holding period, he will have to hold at least 50% of the number of vested performance shares in the form of registered shares until the end of his term of office.

The Chief Executive Officer shall not use hedging transactions to reduce risk.

The shares to which the stock purchase options give access and the performance shares allotted to Jacques Aschenbroich during 2011 represented respectively 0.04% and 0.02% of the Company's share capital at December 31, 2011.

Pension plan

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 pension 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 pension 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 pension plan until a later meeting.

At its meeting on October 20, 2009, the Board of Directors decided to register Jacques Aschenbroich with the new "add-on" defined benefits pension plan for the Group's senior executives. The main characteristics of this plan are described in section 4.2.3, page 154.

In view of Jacques Aschenbroich's age and the fact that he was not covered by any other supplementary pension 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 pension plan has been in force since January 1, 2010. Following the renewal of Jacques Aschenbroich's directorship and term of office as Chief Executive Office, at its meeting of June 8, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided that the supplementary pension plan to which Jacques Aschenbroich is entitled will be maintained without any modification.

Severance payment and non-competition payment

Following the renewal of Jacques Aschenbroich's directorship, 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 Jacques Aschenbroich's eligibility for a severance payment 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) that were granted to him by the Board of Directors of February 24, 2010, acting on the recommendation of the Appointment, Compensation and Governance Committee and after consulting the *Comité des sages*. This renewal was subject to the approval of the Shareholders' Meeting of June 8, 2011 and was adopted in its twelfth resolution.

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 payment to which Jacques Aschenbroich is entitled will be maintained without any modification, subject to the renewal of his directorship by the Shareholders' Meeting of June 8, 2011, and the renewal of his term of office as Chief Executive Officer.

The amount of the severance payment will depend on the termination date:

- 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 severance payment 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 for 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 exceeding 3.6% during the last fiscal year;
- gross margin exceeding 16% during the last fiscal year;
- 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 severance payment will be the average compensation (fixed and variable) paid for the two fiscal years preceding the departure.

The total amount of the severance payment to be paid will be calculated according to the following scale:

- if five criteria were met: Jacques Aschenbroich would receive 100% of the severance payment;
- if four criteria were met: Jacques Aschenbroich would receive 80% of the severance payment;
- if three criteria were met: Jacques Aschenbroich would receive 60% of the severance payment;
- if two criteria were met: Jacques Aschenbroich would receive 40% of the severance payment;
- if fewer than two criteria were met: Jacques Aschenbroich would receive 0% of the severance payment.

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

If the Company invokes the non-competition clause, Jacques Aschenbroich shall be prohibited from working in any way for an automotive supplier 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 regardless of the reason therefore.

The clause shall apply for 12 months after the end of his term of office as Chief Executive Officer of Valeo regardless of the reason therefor. If this clause is invoked, Jacques Aschenbroich will be given a non-competition payment equal to 12 months of compensation (calculated on the same basis as the severance payment). 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 payment. For example, the maximum amounts to be paid to Jacques Aschenbroich in the form of a non-competition payment and/or severance payment would be as follows:

	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

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 payment 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 payment.

Compensation paid to the Chairman of the Board of Directors over the last two years

The following tables show the compensation paid and stock options and shares allotted to Jacques Aschenbroich over the last two years.

Summary of compensation paid and stock options and shares allotted to Jacques Aschenbroich

(in euros)	2010	2011
Compensation	1,887,009	1,643,173
Value of options granted during the year	695,000	384,204
Value of performance shares granted during the year	1,065,000	539,604
TOTAL	**3,647,009**	**2,566,981**

Summary of compensation paid to Jacques Aschenbroich

	2010		2011	
(in euros)	Amount owed	Amount paid	Amount owed	Amount paid
Fixed compensation	850,000	850,000	879,167	879,167
Variable compensation	1,020,000	398,952	747,292	1,020,000
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)	17,009	17,009	16,714	16,714
TOTAL	**1,887,009**	**1,265,961**	**1,643,173**	**1,915,881**

(1) Company car, annual contribution to the unemployment insurance fund for Company managers and annual contribution to pension fund.

Stock options allotted 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
06/08/2011	Purchase	€384,204	30,300	€42.41	Until 06/07/2019 (1)

(1) Obligation to hold 50% of the shares until the end of his term of office. The performance conditions to which these options are subject are set out in the "Stock options and performance shares" section on page 148 of this chapter.

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 allotted to Jacques Aschenbroich

Performance shares allotted by the Shareholders' Meeting during the year to Jacques Aschenbroich by Valeo or any Group company	Plan no. and date	Number of shares allotted during the year	Value of shares according to method used for consolidated accounts	Acquisition date	Shares available as at	Performance requirements
	06/08/2011	15,600	€539,604	06/08/2014	06/08/2016 (1)	(2)

(1) Obligation to hold at least 50% of any shares allotted as registered shares until the end of his term of office.
(2) The performance conditions to which these performance shares are subject are set out in the "Stock options and performance shares" section on page 148 of this chapter.

Performance share allotments that became final for Jacques Aschenbroich

Plan no. and date	Number of share allotments that became final during the year	Vesting requirements
Not applicable	0	Not applicable

Allotments of stock options – information concerning stock options

Date of Shareholders' Meeting	06/03/2010	06/08/2011
Date of Board meeting	06/24/2010	06/08/2011
Total number of shares that can be purchased	1,000,000	292,840
o/w total number of shares that can be purchased by Jacques Aschenbroich	100,000	30,300
Start of exercise period	06/24/2012	06/08/2014
Expiration date	06/23/2016	06/07/2019
Purchase price (1)	€24.07	€42.41
Number of shares purchased on March 23, 2012	0	0
Number of stock options canceled or forfeited (cumulative)	74,600	5,720
Stock options remaining at year-end	925,400	287,120

(1) Equal to the average share price over the 20 trading days preceding the Board of Directors' meeting granting the options, which is 80% higher than the average purchase price of shares held by Valeo under Articles L.225-108 and L.225-109 of the French Commercial Code.

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: 3/20/2009** **Term of office began: 06/08/2011** **Term of office ends: Shareholders' Meeting called to approve the 2014 financial statements**	No	Yes The pension plan covering Jacques Aschenbroich is detailed in the section "Pension plan", page 149 and in section 4.2.3 below.	Yes For a description of these benefits, see page 149, "Severance payment and non-competition payment".	Yes For a description of this benefit, see page 149, "Severance payment and non-competition payment".

4.2.2 Non-executive directors

Non-executive directors are paid attendance fees. The attendance fees have been allocated by the Board of Directors since July 27, 2010, as follows: 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 supplementary fixed fee of 12,000 euros per year plus 2,000 euros per meeting attended, and the Chairman of the Audit Committee will also 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 20, 2008, a rule of three is applied according to the following formula: (amount of attendance fees paid to a particular director divided by the sum of all fees paid to all directors) multiplied by 600,000 euros.

Attendance 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 directors' average attendance rate at Board meetings or, where applicable, at Committee meetings is equal to or greater than 50% during the preceding half-year. Failing this, 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 performance shares. No director holds any stock options or subscription options.

Summary of attendance fees and other compensation paid to corporate officers

Attendance fees paid to Board members amounted to 483,500 euros in 2011, compared with 397,400 euros in 2010. Attendance fees were distributed as follows:

	Attendance fees		Other compensation (fixed, variable or exceptional compensation, benefits in kind)	
(in euros)	**2011**	**2010**	**2011**	**2010**
Executive directors				
Pascal Colombani	0	0	279,167	250,000
Jacques Aschenbroich	0	0	1,915,881	1,265,961
Non-executive directors				
Behdad Alizadeh (1)	0	0	0	0
Gérard Blanc	48,000	45,000	0	0
Daniel Camus	63,000	54,000	0	0
Jérôme Contamine	54,000	50,500	0	0
Michel de Fabiani	50,000	44,900	0	0
Philippe Guédon (2)	29,000	52,800	0	0
Michael Jay	40,000 (6)	37,200	0	0
Helle Kristoffersen	44,000	43,100	0	0
Noëlle Lenoir (3)	46,000	22,900	0	0
Thierry Moulonguet (4)	27,000	0	0	0
Georges Pauget	52,000	47,000	0	0
Ulrike Steinhorst (5)	30,500	0	0	0
TOTAL	**483,500**	**397,400**	**2,195,048**	**1,515,961**

(1) Behdad Alizadeh waived his attendance fees and resigned from his directorship on August 17, 2010.
(2) Philippe Guédon did not stand for reelection at the Shareholders' Meeting of June 8, 2011.
(3) Noëlle Lenoir was appointed director by the Shareholders' Meeting of June 3, 2010, on the recommendation of the Board of Directors' meeting of February 24, 2010.
(4) Thierry Moulonguet was appointed director by the Shareholders' Meeting of June 8, 2011, on the recommendation of the Board of Directors' meeting of April 21, 2011.
(5) Ulrike Steinhorst was co-opted as a director on February 24, 2011.
(6) The amount corresponds to the gross amount of attendance fees subject to a 25% withholding tax, as Michael Jay is not a French resident.

4.2.3 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 three members who ceased their functions in February, May and June 2011) came to 10,123,989 euros in 2011 (compared with 9,283,265 euros in 2010) of which 6,240,111 euros in fixed compensation and 3,226,096 euros in variable compensation, 108,000 euros in benefits in kind, 35,843 euros in profit-sharing and incentive compensation bonuses, 27,083 euros in Service Medals, 348,968 euros in statutory retirement bonuses, 60,567 euros in settlement compensation and 77,321 euros in severance payment.

The Board of Directors' meeting of June 8, 2011, on the recommendation of the Appointment, Compensation and Governance Committee, decided to grant 65,200 stock options and 34,000 performance shares to the Operations Committee members (excluding Jacques Aschenbroich).

In accordance with the principles adopted by the Board of Directors at its meeting of February 24, 2011 and acting on the recommendation of the Appointment, Compensation and Governance Committee, all the stock options and performance shares granted to the Operations Committee members are conditional upon the achievement of performance criteria measured over the 2011, 2012 and 2013 fiscal years. These criteria are (i) an average operating margin ratio over the period equal to or greater than the level set by the Board of Directors and greater than the annual guidance for 2011, (ii) an average ROCE ratio over the period equal to or greater than 30%, and (iii) an average pre-tax ROA ratio over the period equal to or greater than 12.5% The following scale then applies:

- if all three average ratios for fiscal years 2011, 2012 and 2013 are reached, all of the stock options can be exercised and all the performance shares will vest;
- if two of the average ratios for fiscal years 2011, 2012 and 2013 are reached, only 60% of the stock options can be exercised and 60% of the performance shares will vest, the remainder will be forfeited;
- if only one of the average ratios for fiscal years 2011, 2012 and 2013 is reached, only 30% of the stock options can be exercised and 30% of the performance shares will vest, the remainder will be forfeited;
- if no average ratios for fiscal years 2011, 2012 and 2013 are reached, no stock options can be exercised and no performance shares will vest.

All stock options and performance shares will be allotted provided that (i) the beneficiary's employment contract is still valid, (ii) the beneficiary's term of office has not expired and (iii) the exercise or vesting date does not fall during the notice period following the beneficiary's resignation or dismissal, unless provided otherwise, including in the case of death, total and permanent disability, retirement, early retirement, the sale of the beneficiary's entity, the Board of Directors' discretionary decision.

At its meeting on October 20, 2009, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided 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 because of the very nature of the plan at 1% of the reference salary per year of service, starting on the employment date with the Group for the new beneficiaries of the plan and starting on January 1, 2010, for the beneficiaries of the previous plans whose entitlements were frozen on December 31, 2009, 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 4.2.1 "Pension plan", page 149).

4.2.4 Information about stock options, subscription options and performance shares

The policies governing the allotment of stock options, subscription options and performance shares are detailed in the report of the Chairman of the Board of directors on the composition of the Board, the application of the principle of equal representation of women and men, the conditions in which the Board's work is prepared and organized, and internal control and risk management procedures.

Options allotted and exercised during the year

Options allotted to the ten employees receiving the greatest number of options and options exercised by the ten employees exercising the highest number of options, excluding corporate officers	Number of options allotted/ exercised	Weighted average strike price	Expiration date	Date of Board meeting
Options allotted in 2010 by Valeo and/or other Group companies to the ten employees of the issuer or other Group companies receiving the greatest number of options.	59,200 (1)	€42.41	06/07/2019	06/08/2011
Options exercised in 2010 by the ten employees of the issuer or other Group companies holding the greatest number of options.	196,924 (2)	€32.31	11/05/2011 11/07/2012 11/16/2013 03/02/2014 11/19/2014 11/14/2015 03/18/2016	11/06/2003 11/08/2004 11/17/2005 03/03/2006 11/20/2006 11/15/2007 03/19/2008

(1) Of which two rank tenth.
(2) Of which 874 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 and of which two rank tenth.

Performance shares

Performance shares allotted to the ten employees receiving the greatest number of performance shares, excluding corporate officers	Number of performance shares allotted	Date of Board meeting
Performance shares allotted 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 greatest number of such shares	31,000 (1)	06/08/2011

(1) Of which two rank tenth.

4.2.5 Pensions and other post-employment benefits

At December 31, 2011, 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 9 million euros, as opposed to 13 million euros at December 31, 2010.

At December 31, 2011 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, 5.5 million euros, as opposed to 5.2 million euros at December 31, 2010 and 99,950 euros, as opposed to 96,600 euros at December 31, 2010.

4.3 Organization and operation of the Board of Directors

On March 31, 2003, the Company's Board of Directors adopted a set of internal procedures, which have since been amended. The last change took place on July 27, 2010.

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 articles of association.

4.3.1 Composition of the Board and appointments of directors

The Company's articles of association 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 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' Meetings 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.

To ensure the smooth renewal of the Board of Directors in compliance with the recommendations of the AFEP-MEDEF Corporate Governance Code for Listed Companies, the Company's articles of association were amended by the Shareholders' Meeting of June 8, 2011 to allow the renewal of the directors on a one-fourth rotation basis.

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.

4.3.2 Roles and responsibilities of the Board of Directors

The Board of Directors represents all shareholders. It determines the Company's overall business strategies and oversees their implementation. Subject to the powers directly vested in 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 2011, the Board of Directors held nine meetings with a 94.3% 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 articles of association), excluding members attending by proxy. Decisions are made based on a majority vote of the members present, deemed present, or represented, in accordance with the law and the Company's articles of association. 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 2011, this assessment was performed in early 2012. A detailed questionnaire was sent to all directors in order to assess 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, 2012. The report was also presented and discussed at the Board meeting held on the same day. The results of this assessment are provided in the report of the Chairman of the Board of Directors on the composition of the Board, the application of the principle of equal representation of women and men, on the conditions in which the Board's work is prepared and organized, and internal control and risk management procedures, in section 4.4.2 "Assessment of the operation of the Board of Directors", page 166.

4.3.3 Directors' rights and duties – Compensation

The Board's internal procedures impose certain duties on directors in order to ensure that (i) they are aware of the rules and regulations applicable to them, (ii) conflicts of interest are avoided, (iii) they dedicate the necessary time and attention to their duties and (iv) 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 articles of association stipulates that each director must hold at least 500 Valeo registered shares throughout his or her term of office.

On accepting their position, each member of the Board of Directors and the Group's Executive Management team agrees to a Code of Conduct in relation to trading in the Company's securities. This Code 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.

4.3.4 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 composition of the Board, the application of the principle of equal representation of women and men, the condition in which the Board's work is prepared and organized, and internal control and risk management procedures, described in section 4.4.2, "Committees created by the Board", pages 163 to 166.

4.4 Report of the Chairman of the Board of Directors on the composition of the Board, the application of the principle of equal representation of women and men, 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 AFR

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, the application of the principle of equal representation of women and men, 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 21, 2012, in accordance with Article L.225-37 of the French Commercial Code.

Part one: Corporate governance

4.4.1 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 2011, the Board of Directors was made up of 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.

At its meeting of January 20, 2011, the Board of Directors noted that Philippe Guédon requested not to stand for reelection at the Shareholders' Meeting of June 8, 2011.

On February 24, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided to co-opt Ulrike Steinhorst as a 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.

At its meeting of April 21, 2011, the Board of Directors, decided to ask the shareholders to vote, at the Shareholders' Meeting of June 8, 2011, on the appointment of Thierry Moulonguet as a director of the Company.

The Shareholders' Meeting of June 8, 2011 ratified the cooptation of Ulrike Steinhorst to replace Behdad Alizadeh and appointed Thierry Moulonguet as a director. It also renewed the directorships of Jacques Aschenbroich, Gérard Blanc, Pascal Colombani, Michel de Fabiani, Michael Jay, Helle Kristoffersen and Georges Pauget.

Thus, since June 8, 2011, the Board of Directors is made up of the following 12 members: Jacques Aschenbroich, Gérard Blanc, Daniel Camus, Pascal Colombani, Jérôme Contamine, Michel de Fabiani, Michael Jay, Helle Kristoffersen, Noëlle Lenoir, Thierry Moulonguet, Georges Pauget and Ulrike Steinhorst.

The directors have different backgrounds and were selected because they have experience and skills in various areas of business. For details of the directorships and other positions held by members of the Board of Directors over the last five years, see section 4.1.1, pages 131 to 142.

To ensure the smooth renewal of the Board of Directors in compliance with the recommendations of the AFEP-MEDEF Corporate Governance Code for Listed Companies, the Company's articles of association were amended by the Shareholders' Meeting of June 8, 2011 to allow the renewal of the directors on a one-fourth rotation basis.

Thus, the expiration dates of directors' current terms of office are as follows:

Expiration of term of office	Directors whose term of office is due to expire
Shareholders' Meeting called to approve the 2011 financial statements	Georges Pauget, Ulrike Steinhorst and Thierry Moulonguet
Shareholders' Meeting called to approve the 2012 financial statements	Helle Kristoffersen, Michael Jay and Gérard Blanc
Shareholders' Meeting called to approve the 2013 financial statements	Noëlle Lenoir, Daniel Camus and Jérôme Contamine
Shareholders' Meeting called to approve the 2014 financial statements	Jacques Aschenbroich, Pascal Colombani and Michel de Fabiani

None of the directors were elected by employees.

Classification as an independent director is debated by the Appointment, Compensation and Governance Committee and the Board of Directors before the annual report is prepared. Thus, on January 19, 2012, the Board of Directors reviewed whether or not its members could still be classified as independent in light of the criteria in the internal procedures. In compliance with the AFEP-MEDEF Code (adopted by Valeo), the Board's internal procedures classify as independent a director who has no relations whatsoever with the Company, the Group or the Group's management that may compromise his or her ability to exercise freedom of judgment.

In particular, independence is presumed to exist when a director:

- is not an employee or a corporate officer of the Company, or an employee or director of one of its consolidated subsidiaries, and has not been in such a position 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 cannot be considered an independent director; and
- nine directors are considered independent according to the definition set forth in the internal procedures: Gérard Blanc, Daniel Camus, Jérôme Contamine, Michael Jay, Helle Kristoffersen, Noëlle Lenoir, Thierry Moulonguet, Georges Pauget and Ulrike Steinhorst.

Application of the principle of equal representation of women and men on the Board of Directors

At the beginning of 2011, the Board of Directors included two women: Helle Kristoffersen and Noëlle Lenoir. On February 24, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided to co-opt Ulrike

Steinhorst as a director to replace Behdad Alizadeh, and the Shareholders' Meeting of June 8, 2011 ratified the cooptation of Ulrike Steinhorst in its third resolution.

This appointment raised the number of women on the Board of Directors, unchanged since June 8, 2011, to three, representing 25% of the directors. As such, the Company meets the first threshold stipulated by the French law of January 27, 2011 regarding equal representation of women and men on the Board of Directors.

4.4.2 Preparation and organization of the Board of Directors' work

Internal procedures

On March 31, 2003 the Board of Directors adopted internal procedures defining the mode of operation of the Board in addition to applicable legal and regulatory requirements and the provisions of the Company's articles of association. Internal procedures have also been drawn up for the Board's committees.

The Company's internal procedures are available on the Company's website (www.valeo.com).

Rules governing the operation and organization of the Board, and their application

Average notice period for calling Board meetings

In accordance with the internal procedures, each director is notified of the dates of Board meetings at the beginning of each fiscal year at the latest. The average notice period for calling a meeting of the Board of Directors is approximately ten days.

Representation of directors

A director may be represented at Board meetings by another director. The proxy must be given in writing. During the 2011 fiscal year, four directors were represented by proxy at Board meetings.

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 2011 fiscal year were chaired by the Chairman of the Board of Directors.

Directors' participation in Board meetings

The internal procedures allow directors to participate in Board meetings by any videoconferencing or telecommunications technology that enables them to be identified and ensures that they actually participate in the meeting. Accordingly, directors who take part in Board meetings through such means are deemed to be present for the purposes of calculating the quorum and majority, except at meetings dedicated to the preparation of the annual parent company and consolidated financial statements and the related management report (as provided for in Articles L.232-1 and L.233-16 of the French Commercial Code). The Chairman is required to state in the relevant notice of meeting whether these methods can be used for certain meetings. Directors wishing to participate in a Board meeting by these methods must contact the Board Secretary at least two working days before the meeting date (except in an emergency) in order to ensure that the relevant technical information can be exchanged and tests performed before the meeting takes place.

Frequency of Board meetings and average attendance rates of Directors

In accordance with its internal procedures, the Board of Directors meets at least six times a year. In 2011, it met on nine occasions.

The average attendance rate of the members of the Board of Directors (in person or via proxy) during 2011 was 94.3%. The average attendance rate of the members of the Board of Directors in person during 2011 was 88.6%.

Directors' access to information

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.

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 attended seven meetings. The Group's Vice-President Corporate Strategy and Planning and Deputy Senior Vice-President Human Resources attended one meeting each. Lastly, the Group's Statutory Auditors and legal counsel attended certain Board meetings.

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 2011, the main topics addressed by the Board of Directors concerned in particular:

- the financial position, cash position, commitments of the Group, and in particular:
  - analyzing the budget 2011;
  - preparing the parent company and the consolidated financial statements for the 2010 fiscal year;
  - reviewing the results for the second half of 2010 and discussing the outlook for the 2011 fiscal year;
  - preparing the management report and the related notes;
  - handling the proposed payment of a dividend of 1.20 euros per share;
  - reviewing the quarterly figures and the forecasts and projections prepared for 2011;
  - reviewing the 2011 first-half results;
- oversight relating to key strategies, and in particular:
  - discussing acquisitions under review and strategic issues that the Company must deal with;
  - discussing the conclusions from the strategy seminar;
- General Management and compensation, and in particular:
  - setting all the items of the compensation to be awarded to the Chief Executive Officer (fixed compensation, variable compensation, termination benefits, non-competition indemnities, retirement, life insurance, stock purchase options and performance shares) in accordance with the recommendations of the AFEP-MEDEF Code;
  - setting the compensation of the Chairman of the Board of Directors;
  - adopting the plan to allocate stock options and performance shares to corporate officers and employees;
- corporate governance and internal control, and in particular:
  - reviewing the status of directors in light of the independence criteria in the Board of Director's internal procedures;
  - assessing the Board of Director's operating procedures;
  - renewing and appointing directors;
  - approving the Report of the Chairman of the Board of Directors on the composition of the Board, the application of the principle of equal representation of women and men, 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;
  - deciding to keep separate the role of Chairman of the Board of Directors from that of Chief Executive Officer;
  - renewing the term of office of Pascal Colombani as Chairman of the Board of Directors and Jacques Aschenbroich as Chief Executive Officer;
  - implementing the renewal of Board of Directors' terms of office on a rotating basis;
  - changing the composition of the Committees;
- financial operations, and in particular:
  - authorizing the issuance and redemption of bonds;
- other issues, and in particular:
  - convening the Ordinary and Extraordinary Shareholders' Meeting;
  - monitoring the mediation process with the former Chief Executive Officer, Thierry Morin;
  - reviewing the Investor Day organized by the Company;
  - reviewing anti-trust proceedings;
  - reviewing the situation following the earthquake in Japan; and
  - discussing the liability program of the Company's directors and officers.

Committees created by the Board

The Board of Directors has set up several committees in order to enhance its mode of 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 2011 was presented on a regular basis to the Board of Directors throughout the year in the form of reports.

Audit Committee

At the beginning of 2011 the Audit Committee had three members, the majority of whom were independent directors as defined by the criteria set out in the internal procedures: Daniel Camus (Chairman of the Audit Committee and an independent director), Michel de Fabiani (not an independent Director) and Georges Pauget (an independent director).

At its meeting on June 8, 2011, the Board of Directors appointed Thierry Moulonguet as a member of the Audit Committee.

Since that date, the Audit Committee has been composed of four members, including a Chairman, Daniel Camus (Chairman of the Audit Committee and an independent director), Michel de Fabiani (not an independent director), Thierry Moulonguet (an independent director) and Georges Pauget (an independent director).

The Chairman and the Chief Executive Officer are not members of the Audit Committee but may be invited to attend its meetings.

Through their training or business experience, all members of the Audit Committee have financial and accounting skills. Therefore, the Company goes beyond the requirements of Article L.823-19 of the French Commercial Code that stipulates that at least one member of the Committee must have specialized financial or accounting skills and must be independent. For details of the experience of the members of the Audit Committee, see section 4.1.1, pages 131 to 142.

In accordance with Article L.823-19 of the French Commercial Code, the role and responsibility 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 its 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 sees fit 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 five times in 2011 with an attendance rate of 94.5%.

During these meetings, the Committee:

- examined the draft financial statements for 2010 and the first half of 2011;
- analyzed the findings presented by Statutory Auditors, particularly in light of the Group's internal control and the findings of the Group's Internal Audit Department;
- reviewed the management report;
- reviewed the draft press releases presenting financial information;
- reviewed the report from the French Internal Audit and Control Institute following the assessment of the Internal Audit Department requested by the Committee;
- reviewed risk mapping, the method selected to prepare mapping, and the analysis of the main risks;
- reviewed the Group's pension obligations;
- analyzed the report presented on the Internal Audit Department's activities for the first half of 2011;
- examined the implementation of the new organization of the finance function;
- examined the findings from the assessment of Internal Audit in 2011; and
- approved the audit plan for 2012.

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 the 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 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.

Appointment, Compensation and Governance Committee

In accordance with its internal procedures, which were not modified during 2011, the majority of the Committee's members must be independent directors as defined by the criteria set out in the internal procedures. The acting Chairman is involved in the Committee's work, except where deliberations concern the Chairman's compensation or the renewal of his term of office.

At the beginning of 2011, the Appointment, Compensation and Governance Committee had five members: Jérôme Contamine (Chairman of the Appointment, Compensation and Governance Committee), Philippe Guédon, Michael Jay, Noëlle Lenoir and Georges Pauget. All members were considered independent.

On June 8, 2011, the Board of Directors decided to appoint Ulrike Steinhorst as a member of the Appointment, Compensation and Governance Committee to fill the seat left vacant by Philippe Guédon, who did not request to stand for reelection as a director at the Shareholders' Meeting of June 8, 2011.

Since that date, the Appointment, Compensation and Governance Committee has been composed of five members, all independent: Jérôme Contamine (Committee Chairman), Michael Jay, Noëlle Lenoir, Georges Pauget and Ulrike Steinhorst.

According to its internal procedures, 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 procedures.

c) concerning corporate governance:

- analyzing how the Board and its committees operate; and
- assessing and updating corporate governance rules and in particular, ensuring that the assessment of the Board's mode of 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 2011 with an attendance rate of 85%. During these meetings, the Committee:

- examined the independence of directors;
- reviewed the self-assessment of the Board of Director's operating procedures;
- issued proposals concerning the renewal of the terms of office of directors whose terms of office are due to expire;
- examined the candidacy of new directors;
- issued an opinion on the separation of the role of Chairman of the Board of Directors from that of Chief Executive Officer;
- issued proposals on implementing the renewal of Board of Directors' terms of office on a rotating basis;
- examined and issued recommendations concerning the different items of the compensation of the Chief Executive Officer;
- examined and issued recommendations concerning the compensation of the Chairman of the Board of Directors;
- examined the policy for allocating stock options and performance shares to the employees and corporate officers of the Group and proposed allocations;
- reviewed the application of the AFEP-MEDEF Corporate Governance Code for Listed Companies; and
- examined the succession plan of the Group's main managers.

Strategy Committee

The Strategy Committee was created further to a decision of the Board of Directors on October 20, 2008. Internal procedures were drawn up for the Committee in accordance with the Board's decision of December 16, 2008, on the recommendation of the Appointment, Compensation and Governance Committee. The internal procedures, 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 2011.

The Strategy Committee comprises several directors and a Chairman appointed by the Board.

At the beginning of 2011, the Strategy Committee was made up of four members: Pascal Colombani (Committee Chairman), Gérard Blanc, Philippe Guédon and Helle Kristoffersen.

On June 8, 2011, the Board of Directors decided to appoint Thierry Moulonguet as a member of the Strategy Committee to fill the seat left vacant by Philippe Guédon, who did not request to stand for reelection as a director at the Shareholders' Meeting of June 8, 2011.

Since that date, the Strategy Committee has thus been composed of four members (including a Chairman) appointed by the Board of Directors and all, except for Pascal Colombani, are considered independent according to the criteria set out in the internal procedures. Furthermore, acting on the April 9, 2009 decision of the Board of Directors, the Strategy Committee includes Jacques Aschenbroich as a permanent guest of the Strategy Committee.

In accordance with its internal procedures, 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 2011 with an attendance rate of 100%.

During these meetings, the Committee:

- examined the updated version of the Company's medium-term plan;
- reviewed communication with investors (positioning, objectives, external growth, etc.);
- studied the Group's acquisition strategy;
- analyzed and discussed possible acquisition projects; and
- analyzed the findings from the strategy seminar, which included all the members of the Board.

Assessment of the operation of the Board of Directors

A process is carried out every year to assess the Board of Directors, its operating procedures, its composition and its organization.

The assessment of the Board is carried out either based on a detailed questionnaire sent to all directors (the responses are summarized, and then analyzed by the Appointment, Compensation and Governance Committee and discussed at a Board meeting), or based on a study carried out with the help of a firm of specialized consultants.

The review carried out at the beginning of 2012 based on 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 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, 2012. The report was also presented and discussed at the Board meeting held on the same day. The review highlighted the directors' very positive assessment of Valeo's governance. It also gave rise to several suggestions and areas for improvement, such as providing the Board with more diversified information, expanding the strategic analysis to include non-financial issues, strengthening the involvement of Management by using targeted presentations and drawing up a program of recurring issues to be examined by the Board and the Committees on an annual basis.

Shareholdings and corporate transactions

At the beginning of 2011, 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 recommendation of the Appointment, Compensation and Governance Committee, decided to adjust this minimum shareholding threshold to 500 shares. This change was voted on by shareholders during the Shareholders' Meeting of June 8, 2011 and was adopted in its seventeenth resolution. Thus, since that date, each director must hold at least 500 shares throughout his or her term of office.

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 French financial markets authority (*Autorité des marchés financiers* – AMF), and subsequently made public in accordance with the provisions of the AMF's General Regulations.

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 2011:

- 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. These agreements came to an end in December 2011 and were replaced, with effect from January 1, 2011, by new agreements that do not fall within the scope of Article L.225-38 of the French Commercial Code;
- the following agreements contain commitments to the Chief Executive Officer, Jacques Aschenbroich:
- a commitment in the form of life insurance covering death, disability or the consequences of any accidents that may occur during business travel (Board of Directors' decision of April 9, 2009). This policy is described in section 4.2.1 "Fixed compensation and benefits in kind", page 146;
- a commitment in the form of a defined benefits pension plan (Board of Directors' decision of October 20, 2009). This policy is described in sections 4.2.1 "Pension plan", page 149, and 4.2.3, page 154;
- commitments in the form of severance payments and non-competition payments (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 *Comité des Sages*, 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 a severance payment, 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 on June 3, 2010.

The following agreement was authorized by the Board of Directors at its meeting of February 24, 2011, following the renewal of Jacques Aschenbroich's directorship, and was presented in a special report by the Statutory Auditors at the Shareholders' Meeting of June 8, 2011 and approved at the same meeting:

- the new agreement aimed at renewing the severance payment for Jacques Aschenbroich if he were forced to leave his position following a change of control or strategy (i.e. forced resignation or removal from his position as Chief Executive Officer, except in the event of gross professional misconduct when performing his duties), by extending these benefits to 24 months of compensation (fixed and variable) in 2013 and beyond. The agreement covering the non-competition clause that the Board of Directors may decide to apply to Jacques Aschenbroich, and that was authorized by the Board of Directors at its meeting on February 24, 2010 and by the Shareholders' Meeting of June 3, 2010, was maintained.

  The severance payment and non-competition payment to which Jacques Aschenbroich is entitled if he leaves the Company are described in section 4.2.1 "Severance payment and non-competition payment", page 149.

  A special report on related party agreements and commitments will be drawn up by the Statutory Auditors in respect of the agreements described in this section.

Agreements subject to the approval of Shareholders' Meeting

The following agreement was authorized by the Board of Directors at its meeting on November 17, 2011 and will be submitted for approval to the Shareholders' Meeting convened to approve the financial statements for the year ending December 31, 2011:

- the brand licensing agreement between the Company and the Group's operating subsidiary, Valeo Service. This agreement has retroactive effect from January 1, 2011 and is renewable by tacit agreement on an annual basis.

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, 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.

During 2011, no further commitments of this type were made by the Company's Chief Executive Officer.

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) reinforce 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 procedures. The Chief Executive Officer also represents the Company in its relations with third parties or in any legal proceedings.

Acting on a recommendation of the 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 procedures as amended pursuant to a decision of the Board on a recommendation of the Appointment, Compensation and Governance Committee dated April 9, 2009.

Following the renewal of the terms of office of Jacques Aschenbroich and Pascal Colombani by the Shareholders' Meeting of June 8, 2011, the Board of Directors, acting on a recommendation of the Appointment, Compensation and Governance Committee, maintained the separation of the duties of Chairman of the Board and Chief Executive Officer, stating that the operation of the Board had improved as a result of this separation. The Board thus renewed the term of office of Pascal Colombani as Chairman of the Board of Directors and Jacques Aschenbroich as Chief Executive Officer. The Board of Directors' meeting of June 8, 2011, acting on a recommendation of the Appointment, Compensation and Governance Committee, also decided to maintain the above-mentioned limitation to the powers of the Chief Executive Officer.

4.4.3 Arrangements for attendance at Shareholders' Meetings

The Shareholders' Meetings are convened and conduct business in accordance with the law and the Company's articles of association.

Articles 23 and 26 of Valeo's articles of association cover the provisions relating to Shareholders' Meetings and the exercise of voting rights. The articles of association are available online on Valeo's website (www.valeo.com, under Corporate Governance). Article 23 of the Company's articles of association provides that double voting rights are attached to all shares that have been registered in the name of the same holder for at least four years.

4.4.4 Stock option or subscription option and performance share policy

Valeo applies the AFEP-MEDEF Code. As such, since the changes in corporate governance that took place within the Company in 2009, Valeo's stock option or subscription option and performance share policy follows the recommendations of the AFEP-MEDEF Code. Accordingly:

Concerning the allotment of stock options and performance shares

- the Board of Directors decides on each allotment of stock options and performance shares, based on recommendations made by the Appointment, Compensation and Governance Committee;
- all stock options and performance shares allotted to the Chief Executive Officer and members of the Operations Committee are subject to performance conditions;
- it is only possible to allot stock options or performance shares to the Chief Executive Officer if the Chief Executive Officer's term of office has not expired on the exercise date (this presence condition, however, may be waived by the Board of Directors unless his departure is attributable to gross negligence or misconduct);
- stock options and performance shares, valued using IFRS, must not represent a disproportionate percentage of the total compensation, stock options and shares allotted to each corporate officer;
- each time that it decides to allot stock options and performance shares, the Board of Directors ensures that allotments for the Chief Executive Officer do not represent an excessive proportion of the total number of stock options or performance shares allotted;
- each time performance shares are allotted to the corporate officers, the Group's employees also receive performance shares; and
- stock options and performance shares are allotted at the same periods of the year, to limit a windfall effect.

Concerning the price of stock options and performance shares

- no discount is applied when stock options are allocated; and
- beneficiaries of stock options and performance shares may, under no circumstances, undertake hedging transactions.

Concerning the exercise of stock options

- stock options cannot be exercised during lock-up periods, in accordance with the provisions of Valeo's Code of Conduct.

Concerning the holding of shares resulting from the exercise of stock options and vested performance shares

- the Chief Executive Officer must respect a minimum holding period, and the shares he acquires from the exercise of his stock options must be held for a minimum of four years following their allotment, and must after selling the number of shares necessary for financing the exercise of the option and the payment of any tax, social security contributions and transaction costs, keep at least 50% of the shares resulting from exercising options in registered form until the end of the term of office. The Chief Executive Officer must also hold at least 50% of any performance shares allotted as registered shares until the end of his term of office.

  The stock options or subscription options allotted and exercised during 2011 and the information on performance shares is presented in section 4.2.4, page 156.

4.4.5 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 2011

Apart from Pascal Colombani and Jacques Aschenbroich, no Board member was paid any compensation or benefits other than attendance fees by the Company during 2011. For more information on this subject, see section 4.2.2, pages 153 to 154.

Basis for allocating attendance fees

In accordance with the internal procedures 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.

On July 27, 2010, the Board of Directors, on a recommendation of the Appointment, Compensation and Governance Committee, decided to establish the conditions for allocating 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) the director who is also 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 also a Chairman of a Board 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.

It should be noted that the rule is to pay the full fixed portion of attendance fees when the director's average attendance rate for Board meetings over the previous six-month period is at least 50%. Failing this, the full amount of the fixed portion is not paid.

The amount of attendance fees paid to each director in 2011 is presented in section 4.2.2, pages 153 to 154.

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, at 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.

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 of the Appointment, Compensation and Governance Committee and in compliance with the AFEP-MEDEF Corporate Governance Code for Listed Companies.

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. In view of the spectacular recovery of the Company and after having examined the practices of a selection of similar companies, at its meeting on June 8, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided to increase the fixed annual compensation of the Chief Executive Officer and the Chairman of the Board, with effect from June 1, 2011.

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 are reviewed and analyzed on an annual basis. See section 4.2.1 "Variable compensation", page 147, for a description of these principles.

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 4.2.3, page 154). 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 and the fact that he was not covered by any other supplementary pension plan.

4.4.6 Corporate Governance Code

The Company applies the AFEP-MEDEF 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 Appendix 8-1 of Book VIII of the regulatory section of the French Commercial Code. Similarly, the Company also complies with the provisions set out in the AMF's Report on Audit Committees on July 22, 2010.

The following should also be noted:

- major internal restructuring operations are not expressly subject to the Board's prior agreement; in practice, however, the Board does discuss them;
- the allotment of performance shares to the Chief Executive Officer is subject to the achievement of specific performance criteria, the presence of the Chief Executive Officer in office at the time of their allotment and any shares thus allotted are subject to minimum holding periods. The allotment 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 recommendation 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 and the fact that he was not covered by 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 Code published in December 2008 and revised in April 2010 can be downloaded from the MEDEF website, www.medef.com.

4.4.7 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 6.6.6, page 304.

Part two: Internal control and risk management procedures

4.4.8 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;
- application of instructions and strategies set by General Management;
- proper functioning of the Company's internal processes, particularly processes to help protect its 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 Committee of Sponsoring Organizations of the Treadway Commission (COSO), 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.

4.4.9 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.

4.4.10 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, which aims to ensure that Valeo operates in accordance with national and international rules of ethics and law. The Code places major emphasis on upholding fundamental rights with respect to child labor, employment of disabled workers, discrimination and harassment, and occupational health and safety. 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 aspects 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. This process involves risk mapping used to identify, review and monitor major risks. These risks are analyzed in depth and are rated according to a matrix that takes into account 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 28, 2011, 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.

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 Operations, Finance, Risk Insurance Environment, Accounting, Internal Audit and Corporate Planning and Strategy Departments). Representatives of the Legal, Human Resources and Research and Development Departments may also attend the Risk Committee as appropriate. The Risk Committee meets at least three times a year and is tasked with managing all risks to which the Group is exposed. Its work involves risk mapping, and the Risk Committee monitors major risks within the Business Groups and the functional networks. The risk management procedure is described below:

- the 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 instability 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 assessing and managing 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 these risks are presented in Chapter 2 "Risk factors", section 2.1, pages 52 to 53.

The main risks identified are:

- operational risks, which include risks related to the Group's activities as an automotive supplier, risks related to the marketing of vehicle models produced, risks related to new product development and supplier risk;
- risks of political, economic or social unrest;
- industrial and environmental risks;
- legal risks, comprising notably risks relating to products and services provided and risks relating to ongoing claims and litigation;
- market risks, comprising mainly foreign currency and commodity price risks;
- liquidity risks; and
- credit and counterparty risks.

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 Financial and Administrative Manual has two main parts:

- part one concerns the rules governing management and internal control;
- part two determines how the main items of the balance sheet and income statement should be measured and presented.

Every year, letters of representation regarding compliance with the Group's internal control and management guidelines are drawn up within the different levels of the operational organization. At the end of 2011, the Directors and the Financial Directors of the Business Groups, the Financial Directors of the National Directorates and the shared services centers, as well as the Financial Directors and Controllers of the operational entities had all signed these letters of representation.

In addition to the Financial and Administrative 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, 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 1,000 and Valeo 5,000. 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. In 2011, the content of the seminar and rollout throughout the Group were adapted to fully take into account the changes implemented within the organizational structure over the last two years.

Information and communication

Pertinent information must be identified and communicated in a form and time frame 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 Operations Committee, comprising the Chief Executive Officer, the Head of 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 duties (see section 4.4.11, page 175).

Organizing and managing the internal control system

The internal control system is analyzed and supervised jointly by General Management, the Risk Committee, the functional departments, Management of the Business Groups/Product Groups 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 fiscal year to the Audit Committee, in accordance with that Committee's internal procedures.

For 2011, the Internal Audit Department also conducted specific assignments examining the development process for R&D projects. Furthermore, it conducted internal control assessment assignments in recently created shared services centers.

The functional departments fall within the scope of Valeo's internal control procedures, and therefore in 2011, a review process was established for the organization put in place for purchasing not related to production. This process is designed to identify procedures and key controls, and to test them to highlight areas for improvement.

The application of Valeo's quality, industry, project management and safety standards is regularly checked via VAQ (Valeo Audit Quality) 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, 2011, these two standards had been awarded to 106 and 99 sites respectively, out of a total of 108 sites. The percentage of ISO 14001 and OHSAS 18001 certified sites is therefore 98% and 92%, respectively.

4.4.11 Description of the internal control assessment process

Every year, the Group uses a self-assessment questionnaire to measure and assess the relevance and correct implementation of existing internal control procedures throughout all of its entities.

The approach is based on the following principles:

1) each entity carries out a self-assessment 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 2011, the self-assessment questionnaire was adapted to take into account the changes within the organizational structure, particularly with the implementation of shared services centers. A questionnaire with 51 control points was used to assess internal control in the operational entities linked to a shared services center, and a questionnaire with 111 key controls was used to assess internal control in the operational entities that are not linked to a shared services center. In 2011, a total of 160 operational entities conducted an internal control self-assessment campaign, of which 111 linked to a shared services center. Rules relating to documentation and testing – particularly regarding the size of the sample used – have been defined to ensure uniformity between the operational entities. A special database of internal control best practices has been posted on the Group's intranet.

In 2011, the internal control system implemented in the shared services centers was reviewed jointly by the external auditors and the Internal Audit Department.

A report was presented to the Audit Committee on November 28, 2011 on the results of the self-assessment campaign of the operational entities, the assignments conducted within the shared services centers and the actions plans for the ongoing improvement of the internal control system. The action plans are monitored by the Group's Internal Audit Department, which manages the self-assessment process.

The results of the self-assessment campaign were also provided to the Business Groups/Product Groups, which are responsible for implementing the action plans.

2) Valeo has set up a procedure aimed at reviewing user profiles and access controls for the integrated business software package deployed within most of the Group's entities. The underlying aim of this process is to establish consistent internal control practices across all operational entities and shared services centers. Using matrices that show incompatibilities for each of the processes, optimized standard user profiles have been identified. Whenever the package is deployed for the first time, the Internal

Audit team provides manuals and tracks incompatibility matrices, in liaison with the entities concerned.

Internal Audit carries out a half-yearly review of access to the integrated business application. The review looks at access to sensitive transactions and key users (number and position of key users), and analyzes incompatibilities and the corresponding remedial action plans. It also involves the analysis of security settings and access controls.

4.4.12 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. Each half-yearly and annual report includes for each legal entity complete financial statements, 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);
- based on detailed monthly information for each management entity, 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 Group and per geographic zone;
- the Taxation Department coordinates the Group's tax policy and advises the legal 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.

4.4.13 Outlook

The Group will pursue ongoing efforts to improve the identification and analysis of risks, and its internal control system. The purpose of these efforts, in place for several years now, is to constantly adapt management and control tools in line with changes in the Group's structure and objectives. In 2012, the Group will roll out a new internal control tool that will offer great flexibility for its internal control self-assessment campaigns and the monitoring of the related actions plans.

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;
- 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

4.5 Statutory Auditors' report, prepared in accordance with Article L.225-235 of the French Commercial Code (*Code de commerce*), on the report prepared by the Chairman of the Board of Directors of Valeo AFR

This is a free translation into English of the Statutory Auditors' special report on related party agreements and commitments issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended December 31, 2011

To the Shareholders,

In our capacity as Statutory Auditors of Valeo and in accordance with article L. 225-235 of the French Commercial Code (*Code de commerce*), we hereby report on the report prepared by the Chairman of your company in accordance with Article L.225-37 of the French Commercial Code (*Code de commerce*) for the year ended December 31, 2011.

It is the Chairman's responsibility to prepare and submit for the Board of Directors' approval a report on internal control and risk management procedures implemented by the Company and to provide the other information required by Article L.225-37 of the French Commercial Code (*Code de commerce*) relating to matters such as corporate governance.

Our role is to:

- report on any matters as to the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information, and
- confirm that the report also includes the other information required by Article L.225-37 of the French Commercial Code (*Code de commerce*). It should be noted that our role is not to verify the fairness of this other information.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consist mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and of the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our work are properly disclosed in the chairman's report.

On the basis of our work, we have no matters to report on the information relating to the Company's internal control and risk management procedures relating to the preparation and processing of the accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with Article L.225-37 of the French Commercial Code (*Code de commerce*).

Other information

We confirm that the report prepared by the Chairman of the Board of Directors also contains the other information required by Article L.225-37 of the French Commercial Code (*Code de commerce*).

Courbevoie and Paris-La Défense, February 21, 2012

The Statutory Auditors

French original signed by

MAZARS		ERNST & YOUNG et Autres	
David Chaudat	Lionel Gotlib	Jean-François Ginies	Gilles Puissochet

4.6 Statutory Auditors' special report on related party agreements and commitments AFR

This is a free translation into English of the Statutory Auditors' special report on related party agreements and commitments issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended December 31, 2011

To the Shareholders,

In our capacity as Statutory Auditors of Valeo, we hereby report to you on related party agreements and commitments.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. Under the provisions of Article R.225-31 of the French Commercial Code (*Code de commerce*), it is the responsibility of the shareholders to determine whether the agreements and commitments are appropriate and should be approved.

Where applicable it is also our responsibility to provide shareholders with the information required by Article R.225-31 of the French Commercial Code in relation to the implementation during the year of agreements and commitments already approved by the Annual Shareholders' Meeting.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France to such engagements. These procedures consisted in verifying that the information given to us is consistent with the underlying documents.

Agreements and commitments to be submitted for the approval of the Annual Shareholders' Meeting

Agreements and commitments authorized during the year

In accordance with Article L.225-40 of the French Commercial Code, we were informed of the following agreements and commitments authorized by the Board of Directors.

Brand licensing agreement with Valeo Service

At its meeting on November 17, 2011, the Board of Directors authorized the signing of an agreement between Valeo and the Group's operating subsidiary, Valeo Service. As an executive manager of both parties, Jacques Aschenbroich did not take part in the vote.

This agreement, which was entered into on November 21, 2011, is designed to grant Valeo Service and the Valeo Service operating subsidiaries use of the Group's brands and logos. This agreement has retroactive effect from January 1, 2011 and is renewable by tacit agreement on an annual basis.

Consideration for the service is based on the combined sales of Valeo Service and the Valeo Service operating subsidiaries. The amount invoiced by the Group to Valeo Service amounted to 9,696,000 euros in 2011.

Agreements and commitments already approved by the Annual Shareholders' Meeting

Agreements and commitments approved in previous fiscal years which were not implemented during the past fiscal year

Furthermore, we were informed that the following agreements and commitments, already approved by the Annual Shareholders' Meeting in previous years, remained in force but were not implemented during the year.

Brand licensing agreements

The brand licensing agreements signed in 2005 between Valeo and several operating subsidiaries expired in December 2011. These agreements were replaced by new agreements, with retroactive effect from January 1, 2011, which fall within the scope of Article L.225-38 of the French Commercial Code.

Agreements and commitments involving Jacques Aschenbroich, Chief Executive Officer

Life insurance

The commitment authorized by the Board of Directors on April 9, 2009 granting Jacques Aschenbroich life insurance covering death, disability or the consequences of any accidents that may occur during business travel continued in 2011. Valeo paid a premium of 2,300 euros inclusive of VAT for the period from April 30, 2011 to April 30, 2012.

Pension plan

The commitment authorized by the Board of Directors on October 20, 2009 to register Jacques Aschenbroich with the new "add-on" defined benefits pension plan for the Group's senior executives from January 1, 2010 by according him five years' length of service continued in 2011. The main characteristics of this plan are as follows:

- the supplementary pension is capped because of the very nature ot the plan at 1% of the reference salary per year of service, 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 end-of-career salary, which is the average of the last 36 months of basic fixed compensation, excluding the variable component, received for working full time within the Group.

Severance payment

The agreement granting Jacques Aschenbroich a severance payment 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) set at 24 months of his fixed and variable compensation as from 2013 was authorized by the Board of Directors' meeting of February 24, 2011 acting on a recommendation of the Appointment, Compensation and Governance Committee and presented in the Statutory Auditors' special report to the Annual Shareholders' Meeting on June 8, 2011.

The severance payment to which Jacques Aschenbroich would be entitled if he left his position is described in the Company's 2011 management report.

Non-competition payment

The agreement granting Jacques Aschenbroich a non-competition payment if he were to leave the Company, authorized by the Board of Directors on February 24, 2010 and approved by the Annual Shareholders' Meeting on June 3, 2010, continued in 2011.

The non-competition payment to which Jacques Aschenbroich would be entitled if he left his position is described in the Company's 2011 management report.

Courbevoie and Paris-La Défense, March 27, 2012

The Statutory Auditors

MAZARS		ERNST & YOUNG et Autres	
David Chaudat	Lionel Gotlib	Jean-François Ginies	Gilles Puissochet

Smart key

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

5.1 Analysis of 2011 consolidated results AFR

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 5.2.6, Note 1, page 195 and on words.

5.1.1 Sales and profitability

Order intake at a record level and sales gain 13% in 2011 to 10.9 billion euros

Sales

(in millions of euros)	2011	2010	Change 2011/2010
Sales	**10,868**	**9,632**	**+13%**
Like-for-like (1)			**+11%**
Original equipment	9,207	7,952	+16%
Aftermarket	1,412	1,445	-2%
Miscellaneous	249	235	+6%

(1) Constant Group structure and exchange rates.

In 2011, global automotive production advanced 4% to reach a record high of 77.2 million light vehicles. All regions (excluding Asia) recorded vigorous growth, with North America, Europe and South America advancing by 10%, 7% and 4%, respectively. Despite the impacts of the earthquake in Japan, which drove Japanese production down by 12%, and floods in Thailand, performance in Asia remained stable over the year as a whole.

The Group reported **consolidated sales** of 10,868 million euros, corresponding to an increase of 13%, or 11% on a like-for-like basis:

- the impact of **changes in the scope of consolidation** came out at 263 million euros, and was mainly attributable to the acquisition of Niles for 227 million euros;
- **original equipment sales** (85% of consolidated sales) came out at 9,207 million euros, up 16% (13% on a like-for-like basis);
- **aftermarket sales** (13% of consolidated sales) amounted to 1,412 million euros, up 1% on a like-for-like basis.

In 2011, **the order intake** reached a new high of 14.9 billion euros compared with 12.5 billion euros in 2010, a testimony to the appeal of Valeo's innovations and its product portfolio with the Group's automaker customers.

Sales grew faster than the market in each of the main production regions...

Original equipment *(in millions of euros)*	2011	2010	OE sales growth(1)	Auto. prod. growth(2)
Europe	5,188	4,631	+12%	+7%
Asia	1,997	1,631	+10%	+0%
of which China	*753*	*629*	*+17%*	*+3%*
of which Japan	*585*	*480*	*-10%*	*-12%*
North America	1,355	1,031	+31%	+10%
South America	667	659	+1%	+4%

(1) Like-for-like.
(2) JD Power estimates.

In 2011, Valeo grew faster than the market in each of the main automotive production regions thanks to its favorable product mix and customer positioning, as well as market share gains:

- **in Europe**, the Group reported original equipment sales growth of 12% on a like-for-like basis, 5 percentage points higher than the market;
- **in Asia**, the Group recorded original equipment sales growth of 10% on a like-for-like basis, 10 percentage points higher than the market;
- **in North America**, the Group posted original equipment sales growth of 31% on a like-for-like basis, 21 percentage points higher than the market.

... Sales grew faster than the market in each of Valeo's Business Groups

Sales *(in millions of euros)*	2011(1)	2010(1)	Sales growth(2)	OE sales growth(2)
Comfort & Driving Assistance Systems	2,157	1,704	+13%	+14%
Powertrain Systems	3,126	2,683	+16%	+19%
Thermal Systems	3,140	2,933	+8%	+9%
Visibility Systems	2,549	2,354	+9%	+12%

(1) Including intersegment sales.
(2) Like-for-like.

In 2011, strong activity levels enabled each Business Group to post advances in original equipment sales that exceeded global automotive production growth (4% higher over the year as a whole).

The Powertrain Systems, Comfort & Driving Assistance Systems and Visibility Systems Business Groups exceeded global automotive production growth by 15, 10 and 8 percentage points respectively, thanks to their innovative products and the growing importance of their technologies (i-StARS [Stop-Start], parking aid technologies, innovative lighting systems, etc.). The Thermal Systems Business Group, which has a strong presence in Japan, was more directly impacted by the country's decline in production during the first half of the year. Despite this setback, the Business Group nevertheless exceeded market growth by 5 percentage points.

Operating margin at 6.5% of sales and net income Group share on an upward trend

Gross margin for 2011 came out at 1,843 million euros, or 17% of sales, down one percentage point despite a positive 1.1-percentage-point volume impact, chiefly due to:

- the increase in raw materials prices, in particular rare earth which surged 350% over the year as a whole and 525% in the second half;
- non-recurring costs caused by temporary capacity shortages at certain plants, the earthquake in Japan and floods in Thailand.

The tragic events in Japan and Thailand have a material impact on the year's performance and have been taken into account in full in 2011.

The Group's **operating margin**(1) advanced 14% to 704 million euros, or 6.5% of sales:

- Valeo continued to invest in **Research and Development**, increasing net expenditure by 4.5% to 561 million euros, or 5.2% of sales;
- despite a 13% rise in sales during the year, the successful introduction of the new organization has enabled the Group to scale back administrative expenses by 13 million euros to 397 million euros, or 3.6% of sales. Total administrative and selling expenses remained steady on a reported basis at 578 million euros and declined by one percentage point as a ratio of sales;
- in a context of robust growth, 2011 saw the continued momentum of initiatives launched since the 2009 financial crisis and aimed at bringing into check the Group's fixed costs. These now stand at 76% of sales, compared with 88% before the crisis in 2007.

EBITDA(2) climbed to 1,212 million euros, representing 11.2% of sales.

EBITDA by Business Group

EBITDA(2) *(% of sales)*	**2011**	**2010**	**Change 2011/2010**
Comfort and Driving Assistance Systems	12.2	11.5	+0.7 pts
Powertrain Systems	8.6	11.1	-2.5 pts
Thermal Systems	11.4	12.5	-1.1 pts
Visibility Systems	10.9	11.2	-0.3 pts

The downturn in EBITDA(2) in the Powertrain Systems Business Group reflected higher rare-earth prices and the temporary capacity shortages at certain manufacturing plants, while the Thermal Systems Business Group was more directly impacted by the earthquake in Japan and floods in Thailand.

With no additional provisions set aside for restructuring costs, consolidated **operating income** came in at 704 million euros, or 6.5% of sales.

The **cost of net debt** totaled 71 million euros, corresponding to a year-on-year increase of 6%. **Other financial income and expenses** amounted to a net expense of 35 million euros.

After taking into account the 25% effective tax rate and non-controlling interests in net income for 24 million euros, in 2011 **net income Group share** stood at 427 million euros, or 3.9% of sales, compared with 365 million euros (3.8% of sales) in 2010.

Earnings per share improved by 17% to 5.68 euros per share.

The **return on capital employed**(3) (ROCE) and the return on assets(4) (ROA) remained on a par with 2010, at 31% and 19%, respectively.

(1) Operating income less other income and expenses.

(2) EBITDA corresponds to operating income before depreciation and amortization of property, plant and equipment and intangible assets and impairment.

(3) ROCE corresponds to operating margin/capital employed less goodwill calculated over the last 12 months.

(4) Operating margin/capital employed, including goodwill.

5.1.2 Financial position

Stockholders' equity

At December 31, 2011, stockholders' equity amounted to 2,080 million euros versus 1,770 million euros at December 31, 2010. The 310 million euro increase chiefly reflects consolidated net income for the period (i.e., 451 million euros), the dividend paid to Group shareholders (for 91 million euros), actuarial losses arising on employee benefit obligations (90 million euros) and the positive impact of the controlling interest acquired in Valeo Pyong Hwa (62 million euros), fully consolidated with effect from October 1, 2011.

Provisions

The statement of financial position at December 31, 2011 showed total provisions of 1,256 million euros (including a non-current portion of 994 million euros), compared with 1,183 million euros at end-2010 (including a non-current portion of 806 million euros).

Provisions for pensions and other employee benefits totaled 776 million euros at December 31, 2011 versus 125 million euros at December 31, 2010. Actuarial losses increased provisions for pensions by 90 million euros in 2011. Most of the increase results from the lower discount rates used to calculate the Group's benefit obligation in the United States. The Niles acquisition also increased provisions for pensions by 44 million euros.

Total provisions for restructuring costs fell 47 million euros in 2011 to 60 million euros. This decrease results mainly from expenditures and reversals of outstanding provisions in connection with the restructuring plan launched in 2010 on setting up the new organization of the Group.

Other provisions fell from 425 million euros at December 31, 2010 to 420 million euros at December 31, 2011, and included 192 million euros relating to product warranties and 228 million euros relating to other risks and disputes, primarily of an employee, environmental, tax and legal nature.

Cash flows and debt

Despite the improved operating performance, net cash from operating activities fell to 899 million euros in 2011 from 997 million euros in 2010. The decrease reflects both the increase in taxes paid (51 million euros) and the fall in working capital requirements (29 million euros) in 2011.

Outflows relating to acquisitions of property, plant and equipment and intangible assets in 2011 totaled 683 million euros, a 43% increase compared to investments in 2010 (476 million euros). The sharp rise in cash used in investing activities in 2011 reflects the record order intake.

Changes in the scope of consolidation represented net cash outflows of 269 million euros corresponding chiefly to the acquisition of Niles for 261 million euros and CPT for 28 million euros, and to the acquisition of a controlling interest in Valeo Pyeong Hwa, which had a positive impact of 20 million euros on consolidated cash flows.

Financing activities included dividends paid to owners of the Company for 91 million euros and net interest expense of 57 million euros, as well as the repayment of long-term loans and borrowings for 681 million euros (OCEANE bonds, partial redemption of the 2013 bond issue). Cash outflows resulting from financing activities were offset by long-term debt issuance in the period amounting to 843 million euros. These mainly included the 2011 bond issue for 500 million euros, the new syndicated 250 million euro loan taken out to finance the Niles acquisition, and the last drawdown on the European Investment Bank facility for 75 million euros. In all, cash flows from financing activities represented net cash outflows of 1 million euros in 2011 compared with 84 million euros in 2010.

Consolidated cash and cash equivalents fell 19 million euros, compared with an increase of 452 million euros in 2010.

At December 31, 2011, net debt (the sum of long term debt, short-term debt and bank overdrafts, less cash cash equivalents, loans and other non-current financial assets) stood at 523 million euros, up from 278 million euros at end-2010. The increase in net debt results from the large-scale investments undertaken by the Group in 2011, including acquisitions, capital expenditure in its plants, and investments made to keep pace with the sharp rise in the order intake. The ratio of net debt to stockholders' equity (excluding non-controlling interests) was 27% at December 31, 2011, compared with 16% at December 31, 2010.

Investments over the past three years

2011

Given the sharp order intake in 2010 and 2011 and broader scope, investments recorded in 2011 were up 53% on 2010 at 717 million euros, or 6.6% of sales. Investments concerned property, plant and equipment[(1)] for 524 million euros and intangible assets[(1)] for 193 million euros (including 177 million euros in capitalized development expenditure).

The Group continued to invest in fast-growing regions such as Asia, Eastern Europe and Mexico, which accounted for 25%, 18% and 15%, respectively, of investments in property, plant and equipment. Investments remained significant in Western Europe (37%) as growth reported by Valeo outpaced market growth. Significant investments were also undertaken in 2011 to set up and extend capacity of facilities in China, Mexico, Romania, Poland, India, Hungary, South Korea and Brazil. Capital expenditure was mainly earmarked for Torque converters, Ultrasonic sensors, Heat exchangers and Lighting product lines. On June 30, 2011, Valeo acquired Niles, a company with operations in Japan, Thailand, China and the US. This transaction enabled the Comfort and Driving Assistance Business Group to become the worldwide leader on its market.

On December 5, 2011, Valeo acquired a UK automotive technology development company Controlled Power Technologies (CPT), which develops Variable Torque Enhancement System (VTES) technology. With this move, Valeo became the first automotive supplier to offer its customers a range of electric superchargers. CPT, which was renamed Valeo Air Management UK, was integrated into Valeo's Powertrain Systems Business Group.

On December 29, 2011, Valeo acquired an 80% shareholding in Wuhu Ruby Automotive Lighting Systems from Chery Technology, a subsidiary of the Chinese automaker Chery Automobile. Chery Technology will retain a 20% stake in the company. Located in Wuhu in the Anhui province, the joint venture will be known as Wuhu Valeo Automotive Lighting Systems and will be fully consolidated into the Group's financial statements with effect from January 1, 2012. The company will design, manufacture and sell Valeo lighting systems, mainly to Chery Automobile on the Chinese market, and will be integrated within Valeo's Visibility Systems Business Group.

On December 15, 2011, Valeo acquired Standard Motor Product Inc.'s entire interest in the French company Valeo Four Seasons, which sells compressors on the aftermarket as well as for heavy-duty trucks and special vehicles.

Growth-oriented investments will continue apace in 2012, in line with the Group's medium-term objectives.

2010

As from 2010, it was deemed more relevant to present the carrying amount of recognized investments. Details of disbursements in 2009 are also provided for information.

In 2010, investments in property, plant and equipment stood at 318 million euros[(1)], or 3.3% of 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 (39 million euros). In the Comfort & Driving Assistance Systems Business Group, the Group invested in ultrasonic sensor and camera capability lines (12 million euros).

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

Investments in intangible assets totaled 150 million euros[(1)], corresponding to 1.6% of sales, including 143 million euros in capitalized development expenditure.

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.

(1) Acquisitions (see Notes 5.2 and 5.3 to the consolidated financial statements, Chapter 5, section 5.2.6 pages 216 to 218)

2009

In 2009, investments in property, plant and equipment totaled 324 million euros[1], or 4.3% of sales (disbursements 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. Investments in emerging countries such as China and Brazil remained high, at more than 5% of sales, in order to take advantage of the potential for future growth.

Investments in intangible assets stood at 155 million euros[1] (disbursements 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.

Commitments

The table below shows the main commitments given:

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009
Lease commitments	117	121	103
Guarantees given	3	4	2
Non-cancelable asset purchase commitments	133	144	88
Other commitments given	92	148	141
TOTAL	**345**	**417**	**334**

The fall in other commitments given in 2011 reflects the expiration of the vendor warranties granted in connection with certain disposals.

In 2011, Valeo was granted vendor warranties totaling 53 million euros on acquisitions carried out in the period (see Note 2.1 to the consolidated financial statements in Chapter 5, section 5.2.6, pages 205 to 208).

Details of these commitments are provided in Note 6.3 to the consolidated financial statements in Chapter 5, section 5.2.6, page 246.

(1) Acquisitions (see Notes 5.2 and 5.3 to the consolidated financial statements, Chapter 5, section 5.2.6 pages 216 to 217)

5.2 Consolidated financial statements for the year ended December 31, 2011 AFR

In accordance with Article 28 of European Regulation No. 809/2004 dated April 29, 2004, the following information is incorporated by reference in this Registration Document:

- the consolidated financial statements and the Statutory Auditors' report concerning the fiscal year ended December 31, 2010, set out on pages 146 to 207 and 208 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2011 under number D.11-0191;
- the consolidated financial statements and the Statutory Auditors' report concerning the fiscal year ended December 31, 2009, set out on pages 125 to 187 and 188 to 189 of the Registration Document registered with the AMF on March 23, 2010 under number D.10-0149.

5.2.1 Consolidated statement of income

(in millions of euros)	*Note*	**2011**	**2010**
CONTINUING OPERATIONS			
SALES	*4.1*	**10,868**	**9,632**
Cost of sales	*4.2*	(9,025)	(7,897)
GROSS MARGIN		**1,843**	**1,735**
% of sales		17.0%	18.0%
Research and Development expenditure, net	*4.4*	(561)	(537)
Selling expenses		(181)	(171)
Administrative expenses		(397)	(410)
OPERATING MARGIN		**704**	**617**
% of sales		6.5%	6.4%
Other income and expenses	*4.5*	-	(27)
OPERATING INCOME		**704**	**590**
Interest expense	*4.6*	(90)	(83)
Interest income	*4.6*	19	16
Other financial income and expenses	*4.7*	(35)	(32)
Share in net earnings (losses) of associates		2	(1)
INCOME BEFORE INCOME TAXES		**600**	**490**
Income taxes	*4.8*	(148)	(104)
INCOME FROM CONTINUING OPERATIONS		**452**	**386**
DISCONTINUED OPERATIONS			
Income (loss) from discontinued operations, net of tax		(1)	(2)
NET INCOME FOR THE YEAR		**451**	**384**
Attributable to:			
■ Owners of the Company		427	365
■ Non-controlling interests		24	19
Earnings per share:			
■ Basic earnings per share *(in euros)*	*4.9.1*	5.68	4.86
■ Diluted earnings per share *(in euros)*	*4.9.2*	5.67	4.86
Earnings per share from continuing operations:			
■ Basic earnings per share *(in euros)*		5.70	4.89
■ Diluted earnings per share *(in euros)*		5.69	4.89

The Notes are an integral part of the consolidated financial statements.

5.2.2 Consolidated statement of comprehensive income

(in millions of euros)	**2011**	**2010**
Net income for the year	**451**	**384**
Translation adjustment	7	164
o/w income taxes	-	-
Cash flow hedges:		
■ gains (losses) taken to equity	(24)	10
■ (gains) losses transferred to income (loss) for the year	4	(14)
o/w income taxes	*2*	-
Remeasurement of available-for-sale financial assets	(1)	(1)
o/w income taxes	-	-
Other comprehensive income (loss) recycled to income	(14)	159
Actuarial gains (losses) on defined benefit plans	(90)	(20)
o/w income taxes	-	*10*
Other comprehensive income (loss) not recycled to income	(90)	(20)
Other comprehensive income (loss) for the year, net of tax	**(104)**	**139**
Total comprehensive income for the year	**347**	**523**
Attributable to:		
■ Owners of the Company	316	496
■ Non-controlling interests	31	27

The Notes are an integral part of the consolidated financial statements.

5.2.3 Consolidated statement of financial position

(in millions of euros)	*Note*	**Dec. 31, 2011**	**Dec. 31, 2010**
ASSETS			
Goodwill	*5.1*	1,437	1,210
Other intangible assets	*5.2*	641	544
Property, plant and equipment	*5.3*	1,956	1,655
Investments in associates	*5.4*	104	104
Non-current financial assets		91	107
Deferred tax assets	*5.5*	223	198
Non-current assets		**4,452**	**3,818**
Inventories	*5.6*	766	621
Accounts and notes receivable	*5.7*	1,705	1,449
Other current assets		312	200
Taxes recoverable		20	10
Other current financial assets		10	24
Assets held for sale		2	2
Cash and cash equivalents	*5.10.4*	1,295	1,316
Current assets		**4,110**	**3,622**
TOTAL ASSETS		**8,562**	**7,440**
EQUITY AND LIABILITIES			
Share capital	*5.8.1*	238	236
Additional paid-in capital	*5.8.2*	1,429	1,412
Translation adjustment	*5.8.3*	230	230
Retained earnings	*5.8.4*	39	(170)
Stockholders' equity		**1,936**	**1,708**
Non-controlling interests	*5.8.7*	144	62
Stockholders' equity including non-controlling interests		**2,080**	**1,770**
Provisions – long-term portion	*5.9*	994	806
Debt – long-term portion	*5.10.2*	1,494	1,097
Other non-current financial liabilities(1)		51	13
Subsidies and grants – long-term portion		23	19
Deferred tax liabilities	*5.5*	24	22
Non-current liabilities		**2,586**	**1,957**
Accounts and notes payable		2,340	1,987
Provisions – current portion	*5.9*	262	377
Subsidies and grants – current portion		9	9
Taxes payable		59	53
Other current liabilities		824	703
Current portion of long-term debt	*5.10.2*	307	505
Other current financial liabilities		20	2
Short-term debt	*5.10.3*	75	77
Current liabilities		**3,896**	**3,713**
TOTAL EQUITY AND LIABILITIES		**8,562**	**7,440**

(1) The presentation of the statement of financial position at December 31, 2010 has been adjusted compared to the version published in February 2011. Other non-current financial liabilities were previously shown within other financial liabilities in view of their non-material carrying amounts.

The Notes are an integral part of the consolidated financial statements.

5.2.4 Consolidated statement of cash flows

(in millions of euros)	*Note*	**2011**	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		451	384
Share in net earnings (losses) of associates		(2)	1
Net dividends received from associates		-	4
Expenses (income) with no cash effect	*5.11.1*	429	524
Cost of net debt		71	67
Income taxes (current and deferred)		148	104
Gross operating cash flows		**1,097**	**1,084**
Income taxes paid		(169)	(118)
Changes in working capital	*5.11.2*	(29)	31
Net cash from operating activities		**899**	**997**
CASH FLOWS FROM INVESTING ACTIVITIES			
Outflows relating to acquisitions of intangible assets		(193)	(153)
Outflows relating to acquisitions of property, plant and equipment		(490)	(323)
Inflows relating to disposals of property, plant and equipment		17	12
Net change in non-current financial assets		17	(26)
Impact of changes in scope of consolidation	*5.11.3*	(269)	22
Net cash used in investing activities		**(918)**	**(468)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(91)	-
Dividends paid to non-controlling interests in consolidated subsidiaries		(19)	(13)
Issuance of share capital		22	8
Sale (purchase) of treasury stock		(18)	(36)
Issuance of long-term debt		843	28
Interest paid		(74)	(65)
Interest received		17	13
Repayments of long-term debt		(681)	(11)
Acquisition of non-controlling interests		-	(8)
Net cash used in financing activities		**(1)**	**(84)**
Effect of exchange rate changes on cash		**1**	**7**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(19)**	**452**
Net cash and cash equivalents at beginning of year		**1,239**	**787**
Net cash and cash equivalents at end of year		**1,220**	**1,239**
o/w:			
■ Cash and cash equivalents		1,295	1,316
■ Short-term debt		(75)	(77)

The Notes are an integral part of the consolidated financial statements.

5.2.5 Consolidated statement of changes in stockholders' equity

						Stockholders' equity including non-controlling interests		
Number of shares	*(in millions of euros)*	Share capital	Additional paid-in capital	Translation adjustment	Retained earnings	Stockholders' equity	Non-controlling interests	Total
75,090,160	**Stockholders' equity at January 1, 2011**	**236**	**1,412**	**230**	**(170)**	**1,708**	**62**	**1,770**
	Dividends paid	-	-	-	(91)	(91)	(17)	**(108)**
640,798	Treasury stock	-	-	-	(23)	(23)	-	**(23)**
	Capital increase	2	17	-	-	19	-	**19**
(702,568)	Share-based payment	-	-	-	8	8	-	**8**
	Other movements	-	-	-	(1)	(1)	68	**67**
	Transactions with owners	**2**	**17**	**-**	**(107)**	**(88)**	**51**	**(37)**
	Net income for the year	**-**	**-**	**-**	**427**	**427**	**24**	**451**
	Other comprehensive income (loss), net of tax:							
	Translation adjustment	-	-	-	-	-	7	**7**
	Gain (loss) on cash flow hedges recognized in equity	-	-	-	(24)	(24)	-	**(24)**
	(Gain) loss on cash flow hedges taken to income (loss) for the year	-	-	-	4	4	-	**4**
	Remeasurement of available-for-sale financial assets	-	-	-	(1)	(1)	-	**(1)**
	Actuarial gains and losses	-	-	-	(90)	(90)	-	**(90)**
	Total other comprehensive income (loss)	**-**	**-**	**-**	**(111)**	**(111)**	**7**	**(104)**
	Total comprehensive income (loss)	**-**	**-**	**-**	**316**	**316**	**31**	**347**
75,028,390	**Stockholders' equity at December 31, 2011**	**238**	**1,429**	**230**	**39**	**1,936**	**144**	**2,080**

Number of shares	*(in millions of euros)*	Share capital	Additional paid-in capital	Translation adjustment	Retained earnings	Stockholders' equity including non-controlling interests: Stockholders' equity	Non-controlling interests	Total
75,557,498	**Stockholders' equity at January 1, 2010**	**235**	**1,402**	**74**	**(478)**	**1,233**	**51**	**1,284**
	Dividends paid	-	-	-	-	-	(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 for the year	**-**	**-**	**-**	**365**	**365**	**19**	**384**
	Other comprehensive income (loss), net of tax:							
	Translation adjustment	-	-	156	-	156	8	**164**
	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)**
	Actuarial gains and losses	-	-	-	(20)	(20)	-	**(20)**
	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**

The Notes are an integral part of the consolidated financial statements.

5.2.6 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, 2011 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 automotive 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 21, 2012.

They will be submitted for approval to the next Annual Shareholders' Meeting.

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 and by the IASB can be consulted on the European Commission website[1].

(1) http://ec.europa.eu/internal_market/accounting/ias/standards_en.htm.

1.1.1 Standards, amendments and interpretations adopted by the European Union and obligatorily applicable for reporting periods beginning on or after January 1, 2011

The following new standards, interpretations and amendments to existing standards effective for reporting periods beginning on or after January 1, 2011 are not applicable to the Group and therefore have no impact on the 2011 consolidated financial statements:

- the amendment to IAS 24 – "Related Party Disclosures";
- IFRIC 19 – "Extinguishing Financial Liabilities with Equity Instruments";
- the amendments to IFRIC 14 – "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Pre-payments of a Minimum Funding Requirement"; and
- the amendment to IAS 32 – "Financial Instruments: Presentation – Classification of Rights Issues".

The annual improvements to IFRS published in May 2010 and adopted by the European Union in February 2011 include amendments applicable for reporting periods beginning on or after January 1, 2011. The annual IFRS improvements did not have a material impact on the consolidated financial statements for the year ended December 31, 2011.

1.1.2 Standards, amendments and interpretations published by the IASB but not obligatorily applicable for reporting periods beginning on or after January 1, 2011 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 for reporting periods beginning on or after January 1, 2011.

On May 12, 2011, the IASB published a series of new standards on consolidation, including: IFRS 10 – "Consolidated Financial Statements", IFRS 11 – "Joint Arrangements", and IFRS 12 – "Disclosure of Interests in Other Entities". It also revised IAS 27, now known as "Separate Financial Statements" and amended IAS 28, now known as "Investments in Associates and Joint Ventures". These standards have not yet been adopted by the European Union. Their effective date as specified by the IASB is January 1, 2013. Based on a preliminary analysis, these new and revised standards, and particularly IFRS 11, are expected to have an impact on the consolidated financial statements, since the Group proportionately consolidates its joint ventures.

The amounts recorded for 2010 and 2011 in the Group's consolidated financial statements in respect of proportionately consolidated joint ventures are set out in Note 6.7, page 249.

On June 16, 2011, the IASB published its amendments to IAS 19 – "Employee Benefits". These amendments have not yet been adopted by the European Union. Their effective date as specified by the IASB is January 1, 2013. Based on a preliminary analysis, the amended IAS 19 should only have a minimal impact on the consolidated financial statements, since the Group already recognizes actuarial gains and losses in other comprehensive income (see Note 1.17), page 203.

The only impacts expected to arise from the amended IAS 19 are changes to the expected return on plan assets due to the use of only one discount rate (regardless of the strategic asset allocation) and immediate recognition of unrecognized past service costs (5 million euros at December 31, 2011). In 2011, the change in the expected return on plan assets would have given rise to a 5 million euro decrease in financial income within other financial income and expenses, offset by an actuarial gain in the same amount in other comprehensive income. In 2012, the anticipated impact would be a 9 million euro decrease in financial income within other financial income and expenses, offset by an actuarial gain in the same amount in other comprehensive income.

1.1.3 Overview of IFRS 1 transition options

On its transition to IFRS in 2005, and in accordance with IFRS 1, the Group chose not to retrospectively restate:

- business combinations carried out prior to January 1, 2004 (IFRS 3);
- pensions and other employee benefits (IAS 19). As a result, the balance of actuarial gains and losses previously recognized under French GAAP was reset to zero at January 1, 2004;
- the translation of financial statements of foreign operations (IAS 21), leading to the elimination of cumulative translation adjustments at 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;
- 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, as well as more general risks to which the Group is exposed on account of its industrial operations across the globe (see section 2.1, “Main Risks”, page 52).

In the persistently uncertain context in 2012, the Group mainly based the medium-term plans and budget used to perform impairment tests on cash-generating units (CGUs) and goodwill on projected data for the automotive market, as well as its own order book and its outlook for emerging markets.

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, 2011 chiefly concern:

- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 4.5.2, page 212);
- on estimates of provisions, mainly relating to employee benefits (see Note 5.9.2, page 225);
- the measurement of deferred tax assets (see Note 5.5, page 220).

1.3 Consolidation methods

The accounts of companies under Valeo’s direct and indirect control are included in the consolidated financial statements using the full consolidation method.

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 consolidated 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 prepared 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:

- statement of financial position items are translated at the year-end exchange rate;
- statement of income 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 the exchange rate 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 a 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 considered in substance to be an integral part of the net investment in a foreign subsidiary whose functional currency is not the euro. These differences are recorded under translation adjustment in other comprehensive income for their net-of-tax amount until the net investment is disposed of, at which time they are reclassified to income.

1.5 Sales

In accordance with IAS 18, sales primarily include sales of finished goods and all tooling revenues. Sales are measured at the fair value of the consideration received, net of any trade discounts and volume rebates and any VAT or other taxes. Sales 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 contributions received from customers are recognized over the duration of the manufacturing phase of the project, not to exceed four years.

1.6 Gross margin, operating margin and operating income

Gross margin is defined as the difference between sales and cost of sales. Cost of sales primarily corresponds to the cost of goods sold.

Operating margin is equal to the gross margin less net Research and Development costs and selling and administrative expenses.

Net Research and Development costs are equal to the costs incurred during the period, including amortization charged against capitalized development costs, less contributions received from customers in respect of development costs, sales of prototypes, research tax credits and the portion of Research and Development subsidies granted to the Group and taken to income. Contributions received from customers are taken to income over the period during which the corresponding products are sold, within a maximum period of four years. Subsidies and grants received are recognized in income in line with the stage of completion of the projects to which they relate.

Operating income includes all income and expenses other than:

- interest income and expense;
- other financial income and expenses;
- share 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 on 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 costs. 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 applicable, lead the Group to derecognize deferred tax assets that it had recognized in prior years. The probability of recovery is assessed based on a tax plan indicating the forecast level of taxable income. The taxable income used in the assessment is based on taxable income obtained over a five-year period. The assumptions used in the tax plan are consistent with those used to prepare the medium-term business plans and budgets prepared by the Group's entities and approved by management.

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, Spain, the United Kingdom and the United States).

1.9 Earnings per share

Earnings per share (before dilution) are calculated by dividing consolidated net income 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 involving non-controlling interests

Since January 1, 2010, the Group has prospectively applied IFRS 3 (revised) – "Business Combinations" and IAS 27 (revised) – "Consolidated and Separate Financial Statements".

Business combinations are accounted for using the acquisition method, whereby:

- the cost of a combination is determined as the acquisition-date fair value of the consideration transferred, including any contingent consideration. Any subsequent changes in the fair value of contingent consideration is recognized in income or in other comprehensive income as appropriate, in accordance with the applicable standards;
- the difference between the consideration transferred and the acquisition-date fair value of the net identifiable assets acquired and liabilities assumed is classified as goodwill within assets in the statement of financial position.

Adjustments to the provisional fair value of identifiable assets acquired and liabilities assumed resulting from independent analyses in progress or supplementary analyses are recognized as a retrospective adjustment to goodwill if they are made within 12 months of the acquisition date ("measurement period") and result from facts and circumstances that existed as of that date. The impact of any adjustments made after the measurement period is recognized directly in income.

For each business combination in which the acquirer holds less than 100% of the equity interests in the acquiree at the acquisition date, the amount of the non-controlling interest is measured:

- either at fair value: in this case, goodwill is recognized on the non-controlling interest ("full goodwill method");
- or at the proportionate share in the recognized amounts of the acquiree's net identifiable assets, in which case goodwill is recognized only on the interest acquired ("partial goodwill method").

Costs directly attributable to the combination are expensed as incurred.

Since January 1, 2010, adjustments to contingent consideration in a business combination are measured at the acquisition-date fair value, even if the consideration is not expected to materialize. After the acquisition date, changes to the estimated fair value of contingent consideration involve an adjustment to goodwill only if they are made within the measurement period (up to 12 months after the date of the combination) and result from facts and circumstances that existed as of that date. In all other cases, such changes are recognized in income or in other comprehensive income as appropriate, in accordance with the applicable standard.

In a business combination achieved in stages, the Group's previously-held interest in the acquiree is remeasured at its acquisition-date fair value in income. To determine goodwill at the acquisition date, the fair value of the consideration transferred (e.g., price paid) is increased by the fair value of any interest previously held by the Group. The amount previously recognized within other comprehensive income in respect of the previously-held interest has been reclassified to the statement of income.

Goodwill arising on the acquisition of associates is included in the carrying amount of investments in associates.

The revised IAS 27 has modified the accounting treatment applicable to non-controlling interests. Changes in non-controlling 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.

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, page 200.

1.11 Intangible assets

Separately acquired intangible assets are initially recognized at cost in accordance with IAS 38. Intangible assets acquired as part of a business combination are recognized at fair value, separately from goodwill. Intangible assets are subsequently carried at cost, less accumulated amortization and impairment losses.

They are tested for impairment using the methodology described in Note 1.13, page 200.

Innovation can be analyzed as either Research or Development. Research is an activity which can lead to 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 costs are 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 relationships acquired	up to 25 years

1.12 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. 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 capital 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 statement 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 capitalized tooling is recognized under liabilities in the statement of financial position and taken to "Sales" in income in proportion 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 statement of financial position at the inception of the lease, at an amount equal to the lower of their fair value of the leased asset and the present value of future minimum lease payments. This amount is then reduced by depreciation and any impairment losses recognized in accordance with Note 1.13, page 200;
- the corresponding financial obligation is recorded in debt;
- 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 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. Outstanding lease payments are detailed in Note 6.3.3.1, page 246.

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 CGUs are described in Note 4.5.2, page 212. Goodwill 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 amount 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 are operating entities that generate independent cash flows.

Based on the Group's organizational structure, 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 business plans drawn up by Group entities and approved by General Management. 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 the 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 and discount rates used for impairment testing are detailed in Note 4.5.2, page 212.

Any impairment recognized against the assets in the CGU is first of all allocated to reducing the carrying amount of any goodwill allocated to the CGU, and then to the other CGU assets in proportion to their carrying amounts.

Goodwill

Goodwill is tested for impairment based on the Group's Business Groups, as set out in Note 3, page 208 on segment information. The Business Groups are groups of assets, and correspond to the level at which management monitors goodwill.

Goodwill is tested for impairment using the same methodology and assumptions as those described above for CGUs.

Reversal of impairment

Impairment losses recognized for goodwill may not be reversed.

Impairment losses recognized for 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. Unrealized gains and losses recognized in other comprehensive income are taken to the statement of income on the disposal of these securities.

The fair value of securities listed on an active market is their market value. Unlisted securities 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 statement of financial position as non-current financial assets.

1.14.3 Other non-current financial assets and liabilities

This caption essentially includes guarantee deposits and derivative financial instruments where the underlying is also a non-current item.

Guarantee deposits are measured at fair value, with changes in fair value recognized in income.

Derivatives are recognized in the statement of financial position at fair value under other non-current financial assets or other non-current financial liabilities when the underlying transaction matures after one year. The accounting impact of changes in the fair value of these derivative instruments depends on whether or not hedge accounting is applied.

When hedge accounting is applied:

- for fair value hedges of assets and liabilities recognized in the statement of financial position, 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 derivative;
- 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.

1.14.4 Current financial assets and liabilities

Current financial assets and liabilities include trade receivables and payables, derivative financial instruments where the underlying is also a current item, 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, less accumulated impairment losses. The fair value of accounts and notes receivable and accounts and notes payable is deemed to be their nominal amount, since payment periods are generally less than three months.

Accounts and notes receivable may be written down for impairment. Impairment is recognized when it is probable that the receivable will not be recovered and when the amount of the loss can be measured reliably. Impairment is estimated taking into account historical loss experience, the age of the receivables and a detailed risk assessment. It 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 statement of financial position at fair value under other current financial assets or other current financial liabilities, when the underlying transaction matures before one year. The recognition of changes in the fair value of these derivatives is the same as the impact described in the section on other non-current financial assets and liabilities.

Foreign currency derivatives

Although they act as hedges, foreign currency derivatives do not always meet the criteria for hedge accounting. In these cases, changes in the fair value of these derivatives are recognized in other financial income and expenses and are generally offset by the 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.

Commodity derivatives

In principle, the Group applies future cash flow hedge accounting. Gains and losses relating to the effective portion of the hedge are reclassified from other comprehensive income to operating income when the hedged position itself affects income. Gains and losses relating to the ineffective portion of the hedge are 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 statement 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 in the ineffective portion are recognized in other financial income and expenses. Amounts carried in equity in respect of the effective portion of the hedge are taken to income as the hedged interest expenses 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 and short-term money-market funds, 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.

All cash equivalents included in this line are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. These current financial assets are carried at fair value through income and are held with a view to meeting short-term cash requirements.

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 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, page 225, 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 customer. 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.

The cost of these free share and stock purchase or subscription plans is recorded in personnel expenses. 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). 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 statement 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 provisions for pensions is based on valuations performed by independent actuaries using the projected unit credit method and end-of-career 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 2011 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 statement of income includes:

- service cost for the period, the amortization of past service costs, 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 present legal or constructive obligation resulting from a past event;
- it is probable that future outflows of resources embodying economic benefits will be necessary to settle the obligation; and
- the obligation can be estimated reliably.

Provisions are measured in accordance with IAS 37 and take 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 and is computed either 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.

Provisions intended to cover commercial, labor and tax risks arising in the ordinary course of operations are also included in this caption.

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 also includes benefits in the form of financing granted at reduced interest rates.

These subsidies and grants are initially recognized in liabilities in the statement 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 statement of financial position. Any liabilities related to such assets are also presented under a separate caption in statement 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. For assets not classified as discontinued operations, any related impairment losses or proceeds from their disposal are recognized through operating income.

In accordance with IFRS 5, discontinued operations represent:

- either a separate major line of business of the Group or 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 statement of income. To provide a meaningful year-on-year comparison, the same treatment is applied to these items in 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 2011

2.1.1 Acquisition of the Niles group

On February 23, 2011, Valeo signed an agreement with RHJ International SA and Nissan to acquire the entire capital stock of Japanese automotive supplier Niles. As a result of this agreement, Valeo acquired control of Niles on June 30, 2011 for an enterprise value of 313 million euros (36 billion yen). The terms and conditions for preparing the financial statements of the companies acquired set out in the purchase agreement were incompatible with Valeo's interim accounts closing deadlines. Niles was therefore not consolidated when preparing the interim consolidated financial statements but with effect from July 1, 2011.

The adjusted cost of the combination amounts to 168 million euros (19.6 billion yen) based on a 100% interest. It includes an amount of 167 million euros paid to RHJ International SA and Nissan in cash at the acquisition date, contingent consideration of 2 million euros (0.2 billion yen) stipulated in the sale agreement and repaid to Valeo in October 2011, and the 2% non-controlling interest acquired at a price set in the acquisition agreement. Although the process of acquiring the non-controlling interests was in progress at the reporting date, the percentage interest acquired taken into account for the preparation of the consolidated financial statements was considered to be 100% and a liability in respect of non-controlling interests was recognized in respect of this agreement.

Acquisition fees totaling 6 million euros were taken to income in accordance with IFRS 3 (revised).

The purchase price was allocated on a provisional basis to Niles' assets and liabilities in accordance with IFRS 3 (revised) in second-half 2011. Goodwill and other intangible assets resulting from the acquisition totaled 130 million euros and 53 million euros, respectively. The amount of goodwill chiefly reflects expected synergies, as the transaction will reinforce the Interior Controls activity within the Comfort and Driving Assistance Business Group and strengthen the Group's foothold in Asia where Niles is a leading manufacturer of automotive switching systems. It has 3,900 employees based at eight production plants, chiefly in Japan, Thailand and China.

Niles' summary statement of financial position at the acquisition date is presented hereafter:

(in millions of euros)	**June 30, 2011**
ASSETS	
Other intangible assets	57
Property, plant and equipment	105
Non-current financial assets	2
Deferred tax assets	16
Non-current assets	**180**
Inventories	48
Accounts and notes receivable	61
Other current assets	4
Cash and cash equivalents	29
Current assets	**142**
TOTAL ASSETS	**322**
EQUITY AND LIABILITIES	
Stockholders' equity	**38**
Non-controlling interests	4
Stockholders' equity including non-controlling interests	**42**
Provisions – long-term portion	45
Debt – long-term portion	10
Deferred tax liabilities	1
Non-current liabilities	**56**
Accounts and notes payable	72
Provisions – current portion	8
Taxes payable	2
Other current liabilities	15
Current portion of long-term debt	7
Short-term debt	120
Current liabilities	**224**
TOTAL EQUITY AND LIABILITIES	**322**

Niles' contributed 227 million euros to Valeo's sales for the second half of 2011 and generated an operating margin of close to 19 million euros.

Niles closed its annual accounts prepared under Japanese GAAP at March 31, 2011. They include the following key figures:

- Sales: 47.4 billion yen (416 million euros)
- EBIT: 3.0 billion yen (26 million euros)
- Net income (after deduction of non-controlling interests): 1.7 billion yen (15 million euros)
- Total assets: 36.8 billion yen (313 million euros)
- Stockholders' equity (excluding non-controlling interests): 5.3 billion yen (45 million euros)

2.1.2 Acquisition of a controlling interest in Valeo Pyeong Hwa and Valeo Pyeong Hwa International

An amendment to the partnership agreement signed on October 12, 2011 modified governance arrangements and resulted in Valeo gaining control of Valeo Pyeong Hwa and Valeo Pyeong Hwa International. Valeo Pyeong Hwa, previously jointly controlled, was fully consolidated in Valeo's consolidated financial statements as of said date. This acquisition of control with no cash outflow is accounted for using the acquisition method in accordance with IFRS 3 (revised). The Group's previously-held interests in the acquiree were remeasured at their acquisition-date fair value, with the difference taken to income in accordance with the revised IFRS 3. In respect of this transaction, Valeo recognized income of 28 million euros within other income and expenses.

All of the assets and liabilities of Valeo Pyeong Hwa were measured at fair value, resulting in the recognition of customer relationships for 12 million euros and the remeasurement of property assets for 13 million euros. Goodwill was calculated using the partial goodwill method and totaled 22 million euros.

2.1.3 Acquisition of a company of electric supercharger technology

As part of its strategy of developing solutions to reduce CO_2 emissions, on December 5, 2011 Valeo acquired an UK automotive technology development company Controlled Power Technologies (CPT), developper of the Variable Torque Enhancement System (VTES) technology. With this move, Valeo became the first automotive supplier to offer its customers a range of electric superchargers. CPT was renamed Valeo Air Management UK and was integrated into Valeo's Powertrain Systems Business Group.

The cost of the combination amounts to 35 million euros (30 million pounds sterling). The provisional allocation of the purchase price to CPT's assets and liabilities led notably to the recognition of 28 million euros in goodwill. The purchase agreement provides for contingent consideration which is currently being calculated, and is not expected to be material.

As VTES is primarily involved in Research and Development, the entity did not generate any sales in 2011, reporting a loss of 3 million pounds sterling in the year.

2.1.4 Acquisition of Chery group's lighting company in China

As part of its development strategy in high-growth countries and particularly China, on December 29, 2011 Valeo acquired an 80% shareholding in Chinese lighting company Wuhu Ruby Automotive Lighting Systems from Chery Technology, a subsidiary of the Chinese automaker Chery Automobile. Chery Technology will retain a 20% stake in the company. Located in Wuhu in the Anhui province, the joint venture will be known as Wuhu Valeo Automotive Lighting Systems and will be fully consolidated into the Group's financial statements with effect from January 1, 2012. The company will design, manufacture and sell Valeo lighting systems, mainly to Chery Automobile on the Chinese market, and will be integrated within Valeo's Visibility Systems Business Group.

The cost of the combination was 8 million euros at the acquisition date, of which 50% was paid at the time of the acquisition. The remaining 50% will be paid once the contingent consideration provided for in the sale agreement has been set (beginning of 2012). In view of the December 29, 2011 acquisition date and the relatively non-material amounts, Ruby is not included in the consolidated financial statements for the year ended December 31, 2011. The Group's interest is shown within "Non-current financial assets" in the statement of financial position.

Ruby closed its annual accounts prepared under Chinese GAAP at December 31, 2010. They include the following key figures:

- Sales: 59 million yuans (7 million euros)
- Net income: 5 million yuans (1 million euros)
- Total assets: 28 million yuans (3 million euros)
- Stockholders' equity: -26 million yuans (-3 million euros)

2.1.5 Acquisition of a controlling interest in Valeo Four Seasons

On December 15, 2011, Valeo acquired Standard Motor Product Inc.'s entire interest in the French company Valeo Four Seasons, which sells compressors on the aftermarket as well as for heavy-duty trucks and specialty vehicles. This acquisition did not have a material impact on the consolidated financial statements.

2.2 Transactions carried out in 2010

2.2.1 Acquisition of non-controlling interests in the Indian Electrical Systems firm

On May 19, 2010, Valeo increased its stake 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 changed its name to Valeo Engine and Electrical Systems India Private Ltd. In accordance with IAS 27 (revised), this acquisition of non-controlling interests led to a decrease of 8 million euros in consolidated equity at December 31, 2010.

2.2.2 Sale of headlamp levelers business

On 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 sales for the first six months of 2010 (12 million euros for the year to December 31, 2009).

2.2.3 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 sales in the first eight months of 2010 (39 million euros in the year to 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 General Management in order to allocate resources to the segments and assess their performance. General Management represents the chief operating decision maker within the meaning of IFRS 8.

Four reportable segments have been identified, corresponding to Valeo's organization into Business 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 its 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 manufacturing and distributing in part 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 reportable segments defined above are shown in the "Other" segment.

The key performance indicators for each segment are as follows:

- sales;
- 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, page 197);
- 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:

2011

(in millions of euros)	Comfort and Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales						
■ segment (excluding Group)	2,124	3,099	3,110	2,511	24	**10,868**
■ intersegment (Group)	33	27	30	38	(128)	**-**
EBITDA	**264**	**268**	**359**	**279**	**42**	**1,212**
Research and Development expenditure, net	(153)	(130)	(154)	(124)	-	**(561)**
Investments in property, plant and equipment and intangible assets	209	226	117	156	9	**717**
Segment assets	1,321	1,407	1,068	979	25	**4,800**

2010

(in millions of euros)	Comfort and Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales						
■ 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

3.2 Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating income:

(in millions of euros)	2011	2010
EBITDA	**1,212**	**1,150**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses(1)	(508)	(533)
Other income and expenses	-	(27)
Operating income	**704**	**590**

(1) Impairment losses recorded in operating margin only.

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Segment assets	**4,800**	**4,030**
Accounts and notes receivable	1,705	1,449
Other current assets	312	200
Taxes recoverable	20	10
Assets held for sale	2	2
Financial assets	1,500	1,551
Deferred tax assets	223	198
Total Group assets	**8,562**	**7,440**

3.3 Reporting by geographic area

2011

(in millions of euros)	External sales by market	Sales by production area	Non-current assets[(1)]
France	1,437	2,959	735
Other European countries and Africa	4,901	3,715	782
North America	1,509	1,396	289
South America	767	728	127
Asia	2,254	2,411	768
Eliminations	-	(341)	-
TOTAL	**10,868**	**10,868**	**2,701**

2010

(in millions of euros)	External sales by market	Sales 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**

(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 geographic area as they are allocated to Business Groups which belong to several areas.

3.4 Breakdown of sales by major customer

Three major global automakers represent 43.3% of the Valeo Group's sales (43.6% in 2010), and each of these individually accounts for more than 10% of the Group's sales.

Note 4 Notes to the statement of income

4.1 Sales

Group sales rose 12.8% in 2011 to 10,868 million euros from 9,632 million euros in 2010. This growth in sales was chiefly powered by a sustained level of automotive production, Valeo's strong performance on all of its markets and by changes in scope of consolidation during the period, which had a 2.4% positive impact (of which Niles for 2.1%). Exchange rates had a 0.7% negative impact.

Like-for-like (comparable Group structure and exchange rate basis), consolidated sales for 2011 climbed 11.1% year on year.

4.2 Cost of sales

Cost of sales can be analyzed as follows:

(in millions of euros)	2011	2010
Raw materials consumed	(6,295)	(5,365)
Labor	(1,433)	(1,297)
Direct production costs and production overheads	(968)	(883)
Depreciation and amortization(1)	(329)	(357)
Other	-	5
Cost of sales	**(9,025)**	**(7,897)**

(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

	2011	2010
Total employees at December 31(1)	67,930	57,930

(1) Including temporary staff.

The statement of income presents operating expenses by function. Operating expenses include the following personnel-related expenses:

(in millions of euros)	2011	2010
Wages and salaries(1)	1,808	1,638
Social charges	422	410
Share-based payment	8	6
Pension expenses under defined contribution schemes	64	64

(1) Including temporary staff.

Pension expenses under defined benefit plans are set out in Note 5.9.2, page 225.

4.4 Research and Development expenditure, net

(in millions of euros)	2011	2010
Research and Development expenditure	(879)	(754)
Contributions received and subsidies	262	197
Capitalized development expenditure	177	143
Amortization and impairment of capitalized development expenditure	(121)	(123)
Research and Development expenditure, net	**(561)**	**(537)**

The increase in revenues from Research and Development during 2011 is attributable to the increase in contributions received from customers and sales of prototypes related to the strong order book, as well as by the rise in subsidies received.

4.5 Other income and expenses

(in millions of euros)	2011	2010
Claims and litigation	1	(8)
Restructuring costs	7	(18)
Impairment of fixed assets	(25)	(9)
Other	17	8
Other income and expenses	**-**	**(27)**

4.5.1 Restructuring costs

The gain recognized under this caption in 2011 primarily reflects the reversal of outstanding provisions set aside in connection with workforce reduction plans on the introduction of the new organization in 2010.

4.5.2 Impairment of fixed assets

Property, plant and equipment and intangible assets (excluding goodwill)

The main impairment indicators used by the Group as the basis for impairment tests of cash-generating units (CGUs) include a negative provisional operating margin for 2011 or a fall of more than 20% in sales between 2011 and 2010.

The scope of the CGUs to be tested for impairment was defined at the end of October 2011 and remained unchanged at the end of the period, since no events occurred 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 2010 and remains below the average long-term growth rate for the Group's business sector;
- post-tax discount rate (WACC) of 9.0% (8.9% in 2010): this rate was calculated using the method defined in 2007 by an independent expert, and is based on a sample of around 20 automotive suppliers.

No impairment losses were recognized by the Group as a result of these tests in either 2011 or 2010.

Impairment losses totaling 25 million euros recognized in 2011 result from impairment tests carried out on specific intangible assets belonging to the Engine management systems and Air management systems Product Groups (13 million euros), and on specific items of property, plant and equipment at a site belonging to the Transmission systems Product Group (11 million euros).

Sensitivity of CGU impairment tests to the discount rate

An increase and a decrease of 1 pt in the discount rate would have had no impact on the results of these impairment tests.

Similarly, a one-year push-back in medium-term business plans would have no impact on the results of the impairment tests.

Goodwill

No impairment losses were recognized against goodwill for the year ended December 31, 2011 or 2010 as a result of impairment tests.

Sensitivity of goodwill impairment tests

A one-year push-back in medium-term business plans would have no impact on the results of goodwill impairment tests.

Three main assumptions were also used to check the sensitivity of impairment tests:

- 0.5 pt increase in the discount rate;
- 0.25 pt decrease in the perpetuity growth rate;
- 0.5 pt decrease in the operating income used to determine the terminal value.

No additional impairment losses would be recognized as a result of these criteria, taken individually or in combination.

4.5.3 Other

In 2011, this item mainly includes capital gains on the acquisition of a controlling interest in Valeo Pyeong Hwa and Valeo Pyeong Hwa International (see Note 2.1.2, page 207), offset in part by acquisition fees relating to the Niles transactions, as described in Note 2.1.1, page 205.

4.6 Cost of net debt

(in millions of euros)	**2011**	**2010**
Interest expense(1)	(90)	(83)
Interest income	19	16
Cost of net debt	**(71)**	**(67)**

(1) Including 7 million euros in 2011 finance costs on undrawn credit lines (9 million euros in 2010).

The cost of net debt in 2011 rose on the back of an increase in long-term debt in the period following the 500 million euro bond issue in May 2011 and the 250 million euro syndicated loan contracted in June 2011 (see Note 5.10.2, page 232).

4.7 Other financial income and expenses

(in millions of euros)	**2011**	**2010**
Interest expense on pension obligations(1)	(46)	(48)
Expected return on plan assets(1)	21	20
Currency gains (losses)	(5)	(2)
Gains (losses) on commodity derivatives (trading and ineffective portion)	(1)	1
Gains (losses) on interest rate derivatives (ineffective portion)	(1)	-
Miscellaneous	(3)	(3)
Other financial income and expenses	**(35)**	**(32)**

(1) See Note 5.9.2, page 225.

4.8 Income taxes

4.8.1 Income tax expense

(in millions of euros)	2011	2010
Current taxes	(156)	(173)
Deferred taxes	8	69
Income taxes	**(148)**	**(104)**

4.8.2 Effective tax rate

The Group recognized income tax expense of 148 million euros in 2011.

(in millions of euros)	2011	2010
Net income (loss) before income taxes excluding equity in net earnings (losses) of associates	**598**	**491**
Standard tax rate in France(1)	(34.4)	(34.4)
Theoretical income tax expense	**(206)**	**(169)**
Impact of:		
■ unrecognized deferred tax assets and unused tax losses (current year)(2)	3	20
■ other tax rates	32	40
■ utilization of prior-year tax losses	-	3
■ permanent differences between accounting income and taxable income	29	8
■ tax credits	11	6
■ CVAE(3)	(17)	(12)
Group income tax expense	**(148)**	**(104)**

(1) The temporary additional 5% levy applied in France by law no. 2011-1978 of December 28, 2011 has not been included for the purposes of calculating the standard tax rate as Valeo does not believe it will be liable for French corporate income tax during the application period.

(2) No deferred tax assets were recognized in respect of the Group's two main tax consolidation groups (France and US). The income tax expense for 2011, reflecting an effective tax rate of 24.8%, takes into account deferred tax assets recognized in certain countries for 29 million euros due to legal restructuring measures or an improvement in economic outlook.

(3) 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. Income tax in 2011 therefore includes a net expense of 17 million euros in respect of the CVAE (12 million euros in 2010).

4.9 Earnings per share

4.9.1 Basic earnings per share

	2011	2010
Net income attributable to owners of the Company *(in millions of euros)*	427	365
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	75,112	75,168
Basic earnings per share *(in euros)*	**5.68**	**4.86**

4.9.2 Diluted earnings per share

	2011	2010
Net income attributable to owners of the Company *(in millions of euros)*	427	365
Weighted average number of shares outstanding *(in thousands of shares)*	75,112	75,168
Stock options *(in thousands of options)*	154	49
OCEANE bonds *(in thousands of options)*	-	2
Weighted average number of shares used for the calculation of diluted earnings per share *(in thousands of shares)*	75,266	75,219
Diluted earnings per share *(in euros)*	**5.67**	**4.86**

Note 5 Notes to the statement of financial position

5.1 Goodwill

(in millions of euros)	2011	2010
Net goodwill at January 1	**1,210**	**1,146**
Acquisitions during the year	184	-
Contingent consideration in respect of acquisitions made in previous years	-	1
Disposals, net	-	(5)
Translation adjustment	43	68
Impairment losses	-	-
Net goodwill at December 31	**1,437**	**1,210**
Including accumulated impairment losses at December 31	-	-

Movements in goodwill over the period chiefly result from the following three major changes in the scope of consolidation in 2011: Niles (130 million euros – see Note 2.1.1, page 205), CPT (28 million euros – see Note 2.1.3, page 207), and Valeo Pyeong Hwa and Valeo Pyeong Hwa International (22 million euros – see Note 2.1.2, page 207). Translation adjustment primarily reflects fluctuations in the yen and US dollar.

The main goodwill balances are broken down by Business Group as follows:

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Comfort and Driving Assistance Systems	462	311
Powertrain Systems	325	271
Thermal Systems	359	343
Visibility Systems	290	284
Other	1	1
Goodwill	**1,437**	**1,210**

5.2 Other intangible assets

	Dec. 31, 2011			Dec. 31, 2010
	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
Software	201	(186)	15	15
Patents and licenses	106	(79)	27	27
Capitalized development expenditure	1,174	(747)	427	388
Customer relationship intangibles and other intangible assets	244	(72)	172	114
Intangible assets	**1,725**	**(1,084)**	**641**	**544**

Customer relationship intangibles were valued within the context of acquisitions, including those recognized in the period, namely Niles (37 million euros) and the controlling interest acquired in Valeo Pyeong Hwa and Valeo Pyeong Hwa International (12 million euros). Patents and licenses include assets relating to technologies acquired, and in particular those recognized in 2011 in relation to Niles for 16 million euros.

Changes in intangible assets in 2011 and 2010 are analyzed below:

2011

(in millions of euros)	Software	Patents and licenses	Capitalized development expenditure	Customer relationship intangibles and other intangible assets	Total
Gross carrying amount at January 1, 2011	**185**	**84**	**1,018**	**179**	**1,466**
Accumulated amortization and impairment	(170)	(57)	(630)	(65)	**(922)**
Net carrying amount at January 1, 2011	**15**	**27**	**388**	**114**	**544**
Acquisitions	6	1	177	9	**193**
Disposals	(1)	-	(13)	-	**(14)**
Changes in scope of consolidation	3	16	1	50	**70**
Impairment	-	(14)	-	-	**(14)**
Amortization	(10)	(7)	(121)	(8)	**(146)**
Translation adjustment	1	3	-	8	**12**
Reclassifications	1	1	(5)	(1)	**(4)**
Net carrying amount at December 31, 2011	**15**	**27**	**427**	**172**	**641**

2010

(in millions of euros)	Software	Patents and licenses	Capitalized development expenditure	Customer relationship intangibles and other intangible assets	Total
Gross carrying amount at January 1, 2010	**177**	**63**	**865**	**182**	**1,287**
Accumulated amortization and impairment	(156)	(39)	(505)	(52)	**(752)**
Net carrying amount 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 carrying amount at December 31, 2010	**15**	**27**	**388**	**114**	**544**

5.3 Property, plant and equipment

	Dec. 31, 2011			Dec. 31, 2010
(in millions of euros)	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	223	(15)	208	150
Buildings	1,077	(690)	387	388
Plant and equipment	4,179	(3,365)	814	720
Specific tooling	1,529	(1,403)	126	125
Other property, plant and equipment	497	(430)	67	55
Property, plant and equipment in progress	356	(2)	354	217
Property, plant and equipment	**7,861**	**(5,905)**	**1,956**	**1,655**

No material amounts of property, plant and equipment had been pledged as security at December 31, 2011.

Finance leases included within property, plant and equipment can be analyzed as follows:

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Land	-	-
Buildings	1	-
Plant and equipment	7	5
Specific tooling	1	-
Other property, plant and equipment	3	2
Property, plant and equipment in progress	-	-
TOTAL	**12**	**7**

Changes in property, plant and equipment in 2011 and 2010 are analyzed below:

2011

(in millions of euros)	Land	Buildings	Plant and equipment	Specific tooling	Other	Property, plant and equipment in progress	Total
Gross carrying amount at January 1, 2011	**164**	**1,057**	**3,671**	**1,308**	**420**	**220**	**6,840**
Accumulated depreciation and impairment	(14)	(669)	(2,951)	(1,183)	(365)	(3)	**(5,185)**
Net carrying amount at January 1, 2011	**150**	**388**	**720**	**125**	**55**	**217**	**1,655**
Acquisitions	2	22	157	47	25	271	**524**
Disposals	-	(1)	(2)	(1)	-	-	**(4)**
Changes in scope of consolidation	42	27	55	9	4	7	**144**
Impairment	-	-	(10)	2	-	(1)	**(9)**
Depreciation	(1)	(47)	(224)	(69)	(25)	-	**(366)**
Translation adjustment	10	(1)	2	-	-	5	**16**
Reclassifications	5	(1)	116	13	8	(145)	**(4)**
Net carrying amount at December 31, 2011	**208**	**387**	**814**	**126**	**67**	**354**	**1,956**

2010

(in millions of euros)	Land	Buildings	Plant and equipment	Specific tooling	Other	Property, plant and equipment 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**

In accordance with IFRS 5, buildings for which the Group is actively seeking buyers are classified in "Assets held for sale" in the statement of financial position.

5.4 Investments in associates

Changes in the "Investments in associates" caption can be analyzed as follows:

(in millions of euros)	**2011**	**2010**
Investments in associates at January 1	**104**	**94**
Share in net earnings (losses) of associates	2	(1)
Dividend payments	(3)	(4)
Impact of changes in scope of consolidation	(6)	-
Translation adjustment(1)	7	17
Other	-	(2)
Investments in associates at December 31	**104**	**104**

(1) Reflecting mainly the impact of the appreciation in the yen on interests in Ichikoh.

The Group's main investments in associates are detailed below:

	Ownership interest *(%)*		**Carrying amount** *(in millions of euros)*	
	Dec. 31, 2011	**Dec. 31, 2010**	**Dec. 31, 2011**	**Dec. 31, 2010**
Ichikoh	31.6	31.6	74	70
Faw Valeo Climate Control	36.5	36.5	30	28
Other			-	6
Investments in associates			**104**	**104**

Ichikoh Industries Ltd. is listed on the Tokyo Stock Exchange. The market value of Valeo's interest in Ichikoh was 38 million euros at December 31, 2011 (66 million euros at December 31, 2010). 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)	**Dec. 31, 2011**	**Dec. 31, 2010**
Total assets	720	722
Total liabilities	561	536
Sales	861	981
Net income (loss) for the year	3	(4)

5.5 Deferred taxes

Deferred taxes broken down by temporary differences are shown below:

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Loss carryforwards	954	894
Capitalized development expenditure	(106)	(98)
Pensions and other employee benefits	209	162
Other provisions	99	91
Inventories	26	27
Provisions for restructuring costs	15	32
Tooling	1	-
Non-current assets	11	(2)
Other	106	100
Deferred taxes, gross	**1,315**	**1,206**
Unrecognized deferred tax assets	(1,116)	(1,030)
Deferred taxes	**199**	**176**
o/w:		
■ Deferred tax assets	223	198
■ Deferred tax liabilities	(24)	(22)

At December 31, 2011, 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 2012 through 2015	36	9
Tax losses available for carryforward in 2016 and thereafter	1,170	453
Tax losses available for carryforward indefinitely	1,282	434
Current tax loss carryforwards	**2,488**	**896**
Unrecognized deferred tax assets on temporary differences	-	220
Total unrecognized deferred tax assets	**-**	**1,116**

No deferred tax assets were recognized on tax loss carryforwards or temporary differences in either of the Group's main tax consolidation groups (France and United States).

5.6 Inventories

At December 31, 2011, inventories break down as follows:

	Dec. 31, 2011			Dec. 31, 2010
(in millions of euros)	Gross carrying amount	Impairment	Net carrying amount	Net carrying amount
Raw materials	333	(56)	277	228
Work-in-progress	89	(10)	79	64
Finished goods, supplies and specific tooling	479	(69)	410	329
Inventories, net	**901**	**(135)**	**766**	**621**

Impairment losses taken against inventories amounted to 135 million euros at December 31, 2011 (108 million euros at December 31, 2010), including an allowance (net of reversals) of 5 million euros during the period.

The first-time consolidation of Niles in 2011 added 66 million euros to the gross carrying amount of inventories and 18 million euros to impairment losses.

Allowances to provisions for impairment of inventories net of reversals in 2010 amounted to 10 million euros.

5.7 Accounts and notes receivable

(in millions of euros)	**Dec. 31, 2011**	**Dec. 31, 2010**
Accounts and notes receivable, gross	1,727	1,471
Impairment	(22)	(22)
Accounts and notes receivable, net	**1,705**	**1,449**

At December 31, 2011, gross accounts and notes receivable not yet due and less than one month past due totaled 1,644 million euros and 43 million euros, respectively, and represent 98% of total gross accounts and notes receivable (see Note 6.2.3, page 245).

The rise in notes and accounts receivable in 2011 essentially reflects the growth in sales and the first-time consolidation of Niles in 2011, representing 61 million euros in additional receivables.

5.8 Stockholders' equity

5.8.1 Share capital

At December 31, 2011, Valeo's share capital totaled 238 million euros, divided into 79,269,596 shares of common stock with a par value of 3 euros each, all fully paid-up. Shares that have been registered in the name of the same holder for at least four years (2,288,323 shares at end-December 2011) carry double voting rights.

If Valeo Group employees exercised their stock options, the Company's share capital would increase to 239 million euros, divided into 79,512,426 shares.

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 and free share plans, as well as Company savings plans and the liquidity contract.

- **The terms and conditions of the shareholder-approved employee stock subscription, stock purchase and free share plans in force at December 31, 2011 were as follows:**

Terms and conditions of stock subscription option plans

Year in which plan was set up	Number of shares under option	Option exercise price *(in euros)*(1)	Number of shares not yet issued at December 31, 2011(2)	Expiration date
2004	1,123,200	28.46	242,830	2012
TOTAL	**1,123,200**		**242,830**	

(1) The exercise price equals 100% of the average Valeo share price over the 20 trading days preceding the Board of Directors' meeting granting the options.

(2) The number of shares includes the impact of the public share buyback offer and simplified public tender offer carried out in 2005, which increased the share allocation ratio to 1.01 Valeo shares from 1 Valeo share.

Terms and conditions of stock purchase option plans

Year in which plan was set up	Number of shares under option	Option exercise price *(in euros)*(1)	Number of shares not yet issued at December 31, 2011(2)	Expiration date
2004	280,800	32.74	72,878	2012
2005	650,000	32.32	233,342	2013
2006	1,309,250	32.63	582,070	2014
2007	250,000	36.97	250,000	2015
2007	1,677,000	36.82	1,066,900	2015
2008	426,750	31.41	294,602	2016
2010	1,000,000(3)	24.07	925,400	2018
2011	292,840(4)	42.41	287,120	2019
TOTAL	**5,886,640**		**3,712,312**	

(1) The exercise price equals 100% of the average Valeo share price over the 20 trading days preceding the Board of Directors' meeting granting the options.

(2) The number of shares includes the impact of the public share buyback offer and simplified public tender offer carried out in 2005, which increased the share allocation ratio to 1.01 Valeo shares from 1 Valeo share.

(3) Including 611,635 shares granted contingent on the Group meeting performance conditions.

(4) Including 210,370 shares granted contingent on the Group meeting performance conditions.

Terms and conditions of free share plans

Year in which plan was set up	Number of free shares authorized	Number of shares not yet tendered at December 31, 2011	Year of vesting
2010	400,000(1)	374,739	2012/2014
2011	326,860(2)	322,660	2014/2016
TOTAL	**726,860**	**697,399**	

(1) Including 178,112 shares granted contingent on the Group meeting performance conditions.

(2) Including 126,480 shares granted contingent on the Group meeting performance conditions.

Movements in these plans can be analyzed as follows:

2011

	Number of options and free shares granted	Weighted average exercise price
Options not exercised at January 1, 2011	**5,702,936**	**29.34**
Options granted/Free shares to be tendered	619,700	20.04
Options canceled	(153,275)	26.71
Options expired	(95,428)	31.64
Options exercised	(1,424,514)	31.37
Options not exercised/Free shares not issued at December 31(1)	**4,649,419**	**27.52**
Options which can be exercised at December 31, 2011	**2,739,500**	**34.14**

(1) The number of shares does not include the impact of the public share buyback offer and simplified public tender offer in 2005.

2010

	Number of options and free shares granted	Weighted average exercise price
Options not exercised at January 1, 2010	**5,513,419**	**32.68**
Options granted/Free shares to be tendered	1,400,000	17.19
Options canceled	(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, 2010	**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.

The main data and assumptions underlying the valuation of equity instruments at fair value were as follows:

2011

	Dec. 31, 2011				
	Free shares			Stock purchase options	
	France	Italy	Other countries	France	Other countries
Share price at grant date *(in euros)*	42.6	42.6	42.6	42.6	42.6
Expected volatility *(%)*	-	-	-	43.8	43.8
Risk-free rate *(%)*	2.3	2.3	2.7	2.5	2.3
Dividend rate *(%)*	4.0	4.0	-	3.7	3.6
Duration of the option *(in years)*	-	-	-	8	8
Fair value of equity instruments *(in euros)*	**34.6**	**32.3**	**35.3**	**12.7**	**10.82**

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 three 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 8 million euros was booked in 2011 in respect of stock purchase and free share plans (6 million euros in 2010).

2010

	Dec. 31, 2010				
	Free shares			Stock purchase options	
	France	Italy	Other countries	France	Other countries
Share price at grant date *(in 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 *(in years)*	-	-	-	8	8
Fair value of equity instruments *(in euros)*	**21.3**	**20.1**	**22.1**	**6.9**	**5.2**

5.8.2 Additional paid-in capital

Additional paid-in capital represents the net amount received by the Company, either in cash or in assets, in excess of the par value on issuance of Valeo shares.

5.8.3 Translation adjustment

There were no changes in translation adjustment in the period. Unrealized gains resulting from the translation of the financial statements of Japanese and Chinese subsidiaries were offset by the unrealized losses on the translation of the financial statements of Brazilian, Polish and Turkish subsidiaries.

5.8.4 Retained earnings

Retained earnings include income for the year of 427 million euros prior to appropriation.

5.8.5 Dividends per share

The balance of the parent company's distributable retained earnings (before appropriation of 2011 net income) is 1,592 million euros in 2011 (1,540 million euros in 2010).

A dividend of 1.20 euros per share was paid in 2011, representing a total payout of 91 million euros. No dividends were paid in 2010.

5.8.6 Treasury stock

At December 31, 2011, Valeo owns 4,241,206 of its own shares, representing 5.4% of share capital (December 31, 2010: 3,538,638 shares, representing 4.5% of share capital).

5.8.7 Non-controlling interests

Changes in non-controlling interests can be analyzed as follows:

(in millions of euros)	2011	2010
Non-controlling interests at January 1	**62**	**51**
Equity in net earnings	24	19
Dividends paid	(17)	(14)
Capital increase	-	-
Translation adjustment	7	8
Changes in scope of consolidation	68	(2)
Non-controlling interests at December 31	**144**	**62**

The impact of changes in the scope of consolidation is mainly due to the acquisition of controlling interests in Valeo Pyeong Hwa and Valeo Pyeong Hwa International.

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, 2010	**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**
Amounts used during the year	(38)	(70)	(68)	**(176)**
Impact of changes in scope of consolidation	-	44	15	**59**
Translation adjustment	-	18	-	**18**
Reclassification	1	(1)	(1)	**(1)**
Additions	6	24	110	**140**
Unwinding of discount	1	25	-	**26**
Reversals	(17)	(5)	(61)	**(83)**
Actuarial gains and losses recognized through equity	-	90	-	**90**
Provisions at December 31, 2011	**60**	**776**	**420**	**1,256**
Of which current portion (less than one year)	33	64	165	262

5.9.1 Provisions for restructuring costs

Provisions for restructuring costs totaled 60 million euros at December 31, 2011 versus 107 million euros at December 31, 2010. The decrease in restructuring provisions in the period results mainly from the expenditure and reversal of outstanding provisions in connection with the restructuring plan launched in 2010 on setting up the new organization of the Group.

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 plans 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 plans (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, page 203.

Actuarial assumptions

To calculate discount rates for the year ended December 31, 2011, 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 (%)		2011 Basis	2010 Basis
iBoxx Euro-Corporate AA 10-year+	Eurozone	4.8	4.8
iBoxx £-Corporate AA 15-year+	United Kingdom	4.8	5.5
Citigroup Pension Discount Curve	United States	4.1	5.2
10-year government bonds	Japan	1.4	1.5
10-year government bonds	South Korea	4.0	4.5

The sensitivity of the Group's main obligations to a 0.5% rise or fall in discount rates is set out below.

Expected long-term returns on plan assets were estimated taking into account the structure of the investment portfolio for each country, and are as follows for the Group's principal plans:

(%)	2011	2010
United States	7.3	7.3
United Kingdom	6.0	5.7
Japan	3.8	2.2

The weighted average long-term salary inflation rate was 3.5% at December 31, 2011, unchanged from December 31, 2010.

The rate of increase for medical costs in the US used to value the Group's main obligations at December 31, 2011 was 9.7% in 2011 and 9.4% in 2012, gradually reducing to 5% by 2032. This assumption is largely similar to that used in 2010.

Breakdown of obligations

2011

(in millions of euros)	France	Other European countries	North America	Asia	Total
Present value of unfunded obligations	144	256	109	85	**594**
Present value of funded obligations	18	67	385	68	**538**
Market value of plan assets	(5)	(45)	(257)	(44)	**(351)**
Deficit	**157**	**278**	**237**	**109**	**781**
Unrecognized past service cost	(5)	-	-	-	**(5)**
Provisions recognized at December 31, 2011	**152**	**278**	**237**	**109**	**776**
Permanent employees at December 31, 2011[(1)]	12,464	16,465	6,026	14,391	49,346

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 which no obligation was recognized in respect of pensions or other long-term benefits in 2010 or 2011. The Group's pension obligations in North America are significant, since a significant portion of these obligations relates 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, 2010	**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**
Actuarial gains and losses recognized through equity	7	6	76	1	**90**
Amounts used during the year	(17)	(14)	(28)	(11)	**(70)**
Impact of changes in scope of consolidation	-	-	-	44	**44**
Reclassification	-	-	-	(1)	**(1)**
Translation adjustment	-	1	9	8	**18**
Expenses (income) for the year:	**20**	**14**	**-**	**10**	**44**
■ *Service cost*	*10*	*4*	*1*	*8*	23
■ *Interest cost*	*7*	*15*	*21*	*3*	46
■ *Past service cost*	*2*	-	-	-	2
■ *Expected return on plan assets*	-	*(2)*	*(18)*	*(1)*	(21)
■ *Other*	*1*	*(3)*	*(4)*	-	(6)
Provisions at December 31, 2011	**152**	**278**	**237**	**109**	**776**
Of which current portion (less than one year)	12	17	27	8	**64**

An expense of 44 million euros was recognized in 2011 in respect of pensions and other employee benefits (49 million euros in 2010), of which 19 million euros was included in operating margin and 25 million euros in other financial income and expenses.

Movements in obligations

2011

(in millions of euros)	France	Other European countries	North America	Asia	Total
Benefit obligations at January 1, 2011	**152**	**313**	**425**	**98**	**988**
Service cost	10	4	1	8	**23**
Interest cost	7	15	21	3	**46**
Benefits paid	(15)	(13)	(21)	(13)	**(62)**
Actuarial gains and losses	7	4	56	-	**67**
Impact of changes in scope of consolidation	-	-	-	44	**44**
Reclassification	-	-	-	(1)	**(1)**
Other	1	(3)	(4)	-	**(6)**
Translation adjustment	-	3	16	14	**33**
Benefit obligations at December 31, 2011	**162**	**323**	**494**	**153**	**1,132**

The 67 million euros increase in actuarial gains and losses, resulting in an increase in the benefit obligation, stems mainly from the fall in discount rates in countries where the Group's obligations are the most significant, in particular the United States.

The changes in the scope of consolidation discussed in Note 2.1 (page 205) also added 44 million euros to the Group's benefit obligation, primarily in Japan.

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**

Movements in plan assets

2011

(in millions of euros)	France	Other European countries	North America	Asia	Total
Plan assets at January 1, 2011	**3**	**42**	**245**	**40**	**330**
Expected return on plan assets	-	2	18	1	**21**
Contributions paid to external funds	8	3	22	3	**36**
Benefits paid	(6)	(2)	(15)	(5)	**(28)**
Actuarial gains and losses	-	(2)	(20)	(1)	**(23)**
Translation adjustment	-	2	7	6	**15**
Plan assets at December 31, 2011	**5**	**45**	**257**	**44**	**351**

The fair value of plan assets continued to rise in 2011, reflecting translation adjustments mainly recognized on assets in the United States and Japan for 15 million euros. The actual return on plan assets was a negative 2 million euros in 2011 due to stock market movements during the year (31 million euros in 2010). Experience adjustments generated on plan assets in an amount of 23 million euros reflect the difference between actual and estimated returns on these assets. These actuarial differences were credited to other comprehensive income at December 31, 2011.

Contributions of 36 million euros were paid to external funds in 2011. Contributions in 2012 are estimated at 28 million euros.

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**

Breakdown of plan assets

2011

(in millions of euros)	France	Other European countries	North America	Asia	Total
Cash at bank	-	-	7	-	**7**
Shares	5	27	134	13	**179**
Government bonds	-	10	35	31	**76**
Corporate bonds	-	8	81	-	**89**
Breakdown of plan assets at December 31, 2011	**5**	**45**	**257**	**44**	**351**

The Group is not exposed to margin calls on its pension obligations due to the nature of its plan assets.

2010

(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**

Data for previous fiscal years

Obligations, financial assets and actuarial gains and losses for previous fiscal years can be analyzed as follows:

(in millions of euros)	2011	2010	2009	2008	2007
Obligations	1,132	988	886	843	933
Financial assets	(351)	(330)	(269)	(225)	(300)
Net obligations	**781**	**658**	**617**	**618**	**633**
Actuarial (losses) and gains recognized in other comprehensive income(1)	(90)	(30)	(16)	(56)	79

(1) *Actuarial losses recognized in equity in 2011 for 90 million euros mainly include 70 million euros of actuarial losses arising on changes in assumptions regarding pension obligations and 23 million euros of actuarial losses 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 geographic area have a significant impact on the amount of the Group's benefit obligations.

A 0.5% increase or decrease in discount rates would have the following impact on the projected benefit obligation at December 31, 2011:

(in millions of euros)	Eurozone	United Kingdom	United States	Japan	South Korea	Other countries	Total
Sensitivity to discount rates							
Obligations at December 31, 2011	*415*	*65*	*484*	*112*	*36*	*20*	**1,132**
Impact of a 0.5% rise in discount rates	(28)	(6)	(30)	(4)	(2)	(2)	**(72)**
Impact of a 0.5% fall in discount rates	28	6	32	4	2	2	**74**

A 0.5% increase in the discount rate would reduce service cost for 2012 by around 2 million euros, while a 0.5% decrease in the discount rate would have the opposite effect.

A 1% rise or fall in the rate of increase for medical costs in the United States 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 providers

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Provisions for product warranties	192	170
Other	228	255
Other provisions	**420**	**425**

In 2011, the "Other" caption includes provisions for tax risks (72 million euros) and provisions for site rehabilitation or environmental obligations (22 million euros). The balance of this caption is intended to cover various disputes with current or former employees, commercial litigation and various other operational risks.

5.10 Debt

5.10.1 Gross debt

At December 31, 2011, the Group's gross debt can be analyzed as follows:

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Long-term debt (Note 5.10.2)	1,494	1,097
Current portion of long-term debt (Note 5.10.2)	307	505
Short-term debt (Note 5.10.3)	75	77
Gross debt	**1,876**	**1,679**

5.10.2 Long-term debt

■ Analysis of long-term debt

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Bonds	893	598
OCEANE bonds	-	463
Syndicated loans	472	223
European Investment Bank loans	281	201
Lease obligations	14	8
Other borrowings	110	81
Accrued interest	31	28
Total long-term debt	**1,801**	**1,602**

Long-term debt includes:

- 400 million euros in eight-year bonds issued by Valeo on June 24, 2005 as part of a Euro Medium Term Note program. The bonds were initially issued for an amount of 600 million euros. In May 2011, Valeo launched an offer to redeem these bonds maturing in 2013. One-third of the outstanding bonds were redeemed in the offer, representing a nominal amount of 200 million euros. This redemption was carried out at 101.8% of par. The transaction was accounted for as an extinguishment of debt, with the difference between the carrying amount of the debt extinguished and the amount paid to bondholders together with brokerage fees recognized in interest expenses for 5 million euros. The effective interest rate on these bonds remains unchanged at 3.89%;

- 500 million euros in seven-year bonds issued by Valeo on May 12, 2011. The contractual interest payable on these bonds represents 4.875% of their nominal amount and is paid once every year. The effective interest rate on these bonds is 5.09%. These bonds were issued as part of the Euro Medium Term Notes program;
- on January 3, 2011 all of the OCEANE bonds still outstanding were redeemed;
- three syndicated loans, including:
- two seven-year syndicated loans representing a total amount of 225 million euros, issued on July 29, 2005. The loans and 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 syndicated five-year loan for 250 million euros taken out on June 30, 2011 with three banks as part of a "club deal". The loan was taken out in connection with the financing of Niles and bears variable interest at 3-month Euribor +1.3%. A yen cross currency swap for 237 million euros was set up on inception of the loan for the same maturity;
- two loans taken out with the European Investment Bank (EIB) for a total amount of 300 million euros. These EIB reduced-rate loans were 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:

- a first 225 million euro loan taken out 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 loan, exchanging Euribor for a fixed rate of 3.37%. The subsidy was estimated at 28 million euros and was recognized within liabilities in the statement 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 2011 is 4 million euros. The loan is carried at amortized cost for an amount of 206 million euros at December 31, 2011, and has an effective interest rate of 6.36%,
- a second loan for 75 million euros, drawn down in USD in an amount of 103 million dollars. This loan was taken out for a seven-year term on November 3, 2011. It is repayable in four equal annual installments as from 2015, and bears variable interest at 6-month Libor +1.9%. A currency swap was taken out at the same time as the loan. The subsidy applicable to further drawdowns was estimated at 6 million euros and is recognized within liabilities in the statement of financial position. The loan is carried at amortized cost for an amount of 74 million euros at December 31, 2011;
- other loans chiefly comprise debt contracted by Group subsidiaries at reduced rates in Spain and Brazil.

Covenants relating to borrowings and debt are detailed in Note 6.2.2, page 243.

Maturities of long-term debt

(in millions of euros)	2013	2014	2015	2016	2017 and beyond	Total
Bonds	399	-	-	-	494	**893**
Syndicated loan	-	-	-	248	-	**248**
EIB loans	49	52	68	73	39	**281**
Lease obligations	6	1	1	-	-	**8**
Other borrowings	16	7	9	4	28	**64**
TOTAL	**470**	**60**	**78**	**325**	**561**	**1,494**

Current portion of long-term debt

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
OCEANE bonds	-	463
Syndicated loans	224	-
Lease obligations	6	4
Other borrowings	46	10
Accrued interest	31	28
Current portion of long-term debt	**307**	**505**

The current portion of long-term debt relates mainly to two syndicated loans for 224 million euros and accrued interest not yet due of 31 million euros, of which 23 million euros relates to bonds and 7 million euros to the EIB loan.

Other borrowings in the amount of 46 million euros chiefly represent reduced-rate loans, including 3 million euros granted to Spanish subsidiaries, 28 million euros granted to a Brazilian subsidiary, and 6 million euros granted to a Japanese subsidiary.

The cash available to the Group allowed Valeo to meet the redemption obligations on its OCEANE convertible bonds on January 3, 2011.

5.10.3 Short-term debt

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Commercial paper	21	13
Short-term loans and overdrafts	54	64
Short-term debt	**75**	**77**

The 54 million euros recorded on the “Short-term loans and overdrafts” line relate mainly to overdraft facilities.

5.10.4 Cash and cash equivalents

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Marketable securities	735	981
Cash	560	335
Cash and cash equivalents	**1,295**	**1,316**

Marketable securities consist of money market funds (SICAV) for 735 million euros.

5.10.5 Net debt

Net debt is defined as all long-term debt, short-term debt and bank overdrafts, less loans and other non-current financial assets and cash and cash equivalents.

Breakdown of net debt

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Long-term debt (Note 5.10.2)	1,494	1,097
Current portion of long-term debt (Note 5.10.2)	307	505
Loans and other non-current financial assets	(58)	(85)
Long-term debt	**1,743**	**1,517**
Short-term debt (Note 5.10.3)	75	77
Cash and cash equivalents (Note 5.10.4)	(1,295)	(1,316)
Short-term cash	**(1,220)**	**(1,239)**
Net debt	**523**	**278**

Loans and other non-current financial assets relate mainly to investments in Brazil, consisting of certificates of deposit 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)	Dec. 31, 2011	Dec. 31, 2010
Euro	909	528
US dollar	(62)	(26)
Japanese Yen	(84)	(13)
Brazilain real	(41)	(81)
Korean won	(67)	(59)
Chinese yuan	(58)	(27)
Other currencies	(74)	(44)
TOTAL	**523**	**278**

5.11 Breakdown of cash flows

5.11.1 Expenses (income) with no cash effect

(in millions of euros)	2011	2010
Expenses (income) with no cash effect		
Depreciation, amortization and impairment of non-current assets	534	543
Net additions to (reversals from) provisions	(91)	(21)
Losses (gains) on sales of non-current assets	2	(4)
Expenses related to share-based payment	8	6
Gain or loss on remeasurement of previously-held interest	(24)	-
TOTAL	**429**	**524**

5.11.2 Changes in working capital

(in millions of euros)	2011	2010
Changes in working capital		
Inventories	(73)	(110)
Accounts and notes receivable	(145)	(138)
Accounts and notes payable	238	275
Other receivables and payables	(49)	4
TOTAL	**(29)**	**31**

5.11.3 Impact of changes in the scope of consolidation

Changes in the scope of consolidation had a negative impact of 269 million euros in 2011, chiefly attributable to the two acquisitions during the year:

- the acquisition of Niles had a negative impact for 261 million euros, of which 165 million euros in respect of the cost of the interest acquired (after contingent consideration) and 90 million euros related to the first-time consolidation of Niles and 6 million euros in acquisition fees;
- the acquisition in late 2011 of an UK automotive technology development company Controlled Power Technologies (CPT), which resulted in a cash outflow of 28 million euros.

These cash outflows during the period were offset in part by a positive 20 million euro impact relating to the acquisition of a controlling interest with no cash consideration of Valeo Pyeong Hwa and Valeo Pyeong Hwa International. Previously consolidated by the proportionate method, these entities were fully consolidated from October 1, 2011.

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 (see Note 2.2.2, page 208) and the electromagnetic retarders business (see Note 2.2.3, page 208).

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, page 201.

	Dec. 31, 2011	2011 carrying amount under IAS 39			Dec. 31, 2010
(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	**12**	-	12	-	3
■ Loans	**58**	58	-	-	85
■ Deposits and guarantees	**18**	-	-	18	17
■ Other non-current financial assets	**3**	-	-	3	2
Accounts and notes receivable	**1,705**	1,705	-	-	1,449
Other current financial assets:					
■ Hedging derivatives	**1**	-	1	-	17
■ Trading derivatives	**9**	-	-	9	7
Cash and cash equivalents	**1,295**	-	-	1,295	1,316
LIABILITIES					
Non-current financial liabilities:					
■ Hedging derivatives	**13**	-	13	-	13
■ Trading derivatives	**38**	-	-	38	-
Bonds	**893**	893	-	-	598
OCEANE convertible bonds (debt component)	**-**	-	-	-	463
Syndicated loans	**472**	472	-	-	223
EIB loans	**281**	281	-	-	201
Other long-term debt	**155**	155	-	-	117
Accounts and notes payable	**2,340**	2,340	-	-	1,987
Other current financial liabilities:					
■ Hedging derivatives	**9**	-	8	1	-
■ Trading derivatives	**11**	-	-	11	2
Short-term debt	**75**	75	-	-	77

The principal terms and conditions of borrowings (bonds, syndicated loans and the EIB loan) are detailed in Note 5.10.2, page 232, while the basis for recognition is set out in Note 1.14, page 201.

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 quoted prices in an active bond market, and amounted to 887 million euros at December 31, 2011 and 610 million euros at December 31, 2010.

The fair value of syndicated loans and EIB loans is estimated by discounting future cash flows at the market interest rate at the end of the reporting period, taking into account the Group's issuer spreads. The issuer spreads reflect the spread on Valeo's 7-month and 5-year credit default swaps. These issuer spreads were estimated (source: Markit Reuters) at:

- 1.32% for the syndicated loans totaling 225 million euros;
- 2.84% for the syndicated loan totaling 250 million euros;
- 2.84% for the EIB loan totaling 225 million euros;
- 3.47% (5-year CDS including the USD/EUR basis swap of 0.63%) for the EIB loan drawn in USD.

At December 31, 2011, the fair values of these instruments are estimated at 457 million euros for the syndicated loans and 289 million euros for the EIB loans (234 million euros and 232 million euros, respectively, at December 31, 2010).

The fair values of other components of Group debt are equal to their carrying amounts.

6.1.2 Fair value of derivatives

At December 31

(in millions of euros)	2011	2010
ASSETS		
Hedging derivatives:		
■ Foreign currency derivatives	-	1
■ Commodity derivatives	1	16
Trading derivatives:		
■ Foreign currency derivatives	9	7
■ Commodity derivatives	-	-
Total other current financial assets	**10**	**24**
LIABILITIES		
Hedging derivatives:		
■ Foreign currency derivatives	(38)	-
■ Interest rate derivatives	(13)	(13)
Total other non-current financial liabilities	**(51)**	**(13)**
Hedging derivatives:		
■ Interest rate derivatives	(1)	-
■ Commodity derivatives	(8)	-
Trading derivatives:		
■ Foreign currency derivatives	(11)	(2)
■ Commodity derivatives	-	-
Total other current financial liabilities	**(20)**	**(2)**

The impact of financial instruments on income for the years ended December 31, 2011 and December 31, 2010 is set out in Note 4.7, page 213.

Fair value of foreign currency derivatives

At December 31

(in millions of euros)	2011		2010	
	Nominal	Fair value	Nominal	Fair value
Forward foreign currency purchases	59	2	41	2
Forward foreign currency sales	(2)	1	(22)	-
Currency swaps	131	6	(289)	6
Total assets	**188**	**9**	**(270)**	**8**
Forward foreign currency purchases	3	-	12	-
Forward foreign currency sales	(28)	(1)	(30)	(1)
Currency swaps	(527)	(10)	30	(1)
Cross currency swaps	(237)	(38)	-	-
Total liabilities	**(789)**	**(49)**	**12**	**(2)**
Net impact	**-**	**(40)**	**-**	**6**

The fair value of currency hedges is computed using the following valuation method: future cash flows are calculated using forward exchange rates at the end of the reporting period and are then discounted using the interest rate of the functional currency. This method corresponds to level 2 in the fair value hierarchy.

Fair value of commodity (metals) derivatives

At December 31

(in millions of euros)	2011		2010	
	Nominal	Fair value	Nominal	Fair value
Swaps – Purchases	39	1	105	16
Swaps – Sales	-	-	-	-
Total assets	**39**	**1**	**105**	**16**
Swaps – Purchases	96	(8)	4	-
Swaps – Sales	(1)	-	-	-
Total liabilities	**95**	**(8)**	**4**	**-**
Net impact	**-**	**(7)**	**-**	**16**

The fair value of commodity derivatives is computed using the following valuation method: future cash flows are calculated using forward commodity prices and forward exchange rates at the end of the reporting period and are then discounted using the interest rate of the functional currency. This method corresponds to level 2 in the fair value hierarchy.

Fair value of interest rate derivatives

At December 31

(in millions of euros)	2011		2010	
	Nominal	Fair value	Nominal	Fair value
Interest rate swaps:				
EIB loan	225	(13)	225	(12)
Syndicated loans	225	(1)	225	(1)
TOTAL	**450**	**(14)**	**450**	**(13)**

The fair value of interest rate swaps is computed by discounting future cash flows based on market interest rates at the end of the reporting period. 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 set out in Section 2.1, "Main Risks", page 52.

6.2.1 Market risks

6.2.1.1 Foreign currency risk

A detailed description of the Group's foreign currency risk management policy is set out in section 2.1.4, page 57.

Exposure to foreign currency risk

The principal currency hedging instruments used by the Group are forward purchases and sales of foreign currencies, as well as swaps and options. The principal instruments used by the Group to hedge its foreign currency risk are not eligible for hedge accounting 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.

The Group set up a Yen cross currency swap for 237 million euros at the same time as its 250 million euros bond issue in connection with the financing of Niles. The maturity of this swap is aligned with the maturity of the bond. This derivative is not eligible for hedge accounting within the meaning of IAS 39.

At December 31, 2011, a non-material amount 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):

	2011				2010
(in millions of euros)	**USD**	**JPY**	**EUR**	**Total**	**Total**
Accounts and notes receivable	75	25	369	**469**	**380**
Other financial assets	517	275	109	**901**	**500**
Accounts and notes payable	(74)	(40)	(398)	**(512)**	**(403)**
Long-term debt	(84)	(37)	(237)	**(358)**	**(409)**
Gross exposure	**434**	**223**	**(157)**	**500**	**68**
Forward sales	(512)	(252)	(24)	**(788)**	**(434)**
Forward purchases	150	38	3	**191**	**133**
Net exposure	**72**	**9**	**(178)**	**(97)**	**(233)**

In the table above, the EUR column represents the euro exposure of Group entities whose functional currency is not the euro. Exposure arises chiefly on subsidiaries based in Eastern Europe – mainly the Czech Republic – which are financed in euros by Valeo SA.

At December 31, 2010, the breakdown by currency of the net exposure in the statement of financial position for a negative amount of 233 million euros is as follows:

- 42 million euros relating to the US dollar;
- -2 million euros relating to the yen;
- -273 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 1.29 US dollars, 100.2 Japanese yen and 25.79 Czech koruna to 1 euro at December 31, 2011 (USD 1.34, JPY 108.65 and CZK 26.06, respectively, at December 31, 2010).

An increase of 10% in the value of the euro against these currencies at December 31, 2011 and December 31, 2010 would have had the following impacts:

2011

(in millions of euros)	Income gain (loss)	Equity gain (loss)
Exposure US dollar	(7)	-
Exposure Yen	(1)	-
Exposure Euro	(8)	(16)
TOTAL	**(16)**	**(16)**

2010

(in millions of euros)	Income gain (loss)	Equity gain (loss)
Exposure US dollar	(4)	-
Exposure Yen	-	-
Exposure Euro	(4)	(24)
TOTAL	**(8)**	**(24)**

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 at December 31, 2011 would have the opposite effect to the one shown above.

6.2.1.2 Commodity risk

A detailed description of the Group's commodity risk management policy is set out in section 2.1.4, page 57.

Exposure to commodity risk

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, 2011 and December 31, 2010 break down as follows:

(in tons)	Dec. 31, 2011	Dec. 31, 2010
Aluminum	30,549	27,942
Secondary aluminum	10,860	8,822
Copper	9,388	7,325
Zinc	5,376	4,231
TOTAL	**56,173**	**48,320**

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized loss of 7 million euros related to existing hedges was recognized directly in other comprehensive income in 2011 in accordance with IAS 39.

An unrealized gain of 16 million euros recognized in other comprehensive income at December 31, 2010 and arising on commodity hedges purchased in second-half 2010, was reclassified in full to operating income in the first half of 2011.

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, 2011 and 2010.

(in millions of euros)	2011 Income gain (loss)	2011 Equity gain (loss)	2010 Income gain (loss)	2010 Equity gain (loss)
Impact of a 10% rise in metal futures prices	-	10	-	10
Impact of a 10% fall in metal futures prices	-	(10)	-	(10)

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

A detailed description of the Group's interest rate risk management policy is set out in section 2.1.4, page 57.

Exposure to interest rate risk

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 statement 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 was designated as a cash flow hedge. The fair value of the swap is initially recognized in the statement of financial position, with subsequent changes in fair value taken to other comprehensive income until the hedged interest falls due. At December 31, 2011, the impact in stockholders' equity of changes in the fair value of this swap was a negative 1 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:

2011

	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	190	193	431	527	528	40	1,149	760	**1,909**
Loans	-	-	-	(58)	-	-	-	(58)	**(58)**
Cash and cash equivalents	-	(1,295)	-	-	-	-	-	(1,295)	**(1,295)**
Net position before hedging	**190**	**(1,102)**	**431**	**469**	**528**	**40**	**1,149**	**(593)**	**556**
Derivative instruments	(107)	107	225	(225)	-	-	118	(118)	-
Net position after hedging	**83**	**(995)**	**656**	**244**	**528**	**40**	**1,267**	**(711)**	**556**

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**

Analysis of sensitivity to interest rate risk

At December 31, 2011, 64% of long-term debt is at fixed rates (85% at December 31, 2010).

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:

2011

(in millions of euros)	Income gain (loss)	Equity gain (loss)
Impact of a 1% rise in interest rates	7	6

2010

(in millions of euros)	Income gain (loss)	Equity gain (loss)
Impact of a 1% rise in interest rates	10	9

Similarly, at December 31, 2011, 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 equity risk management policy is set out in section 2.1.4, page 58.

The assets comprising pension funds are detailed in Note 5.9.2, page 230.

The Group's cash and cash equivalents are set out in Note 5.10.4, page 234.

6.2.2 Liquidity risk

A detailed description of the Group's liquidity risk management policy is set out in section 2.1.5, page 58.

The Group looks to maintain very broad access to liquidity in order to meet its commitments and investment requirements. It borrows long-term funds either through banks or public debt markets. In 2005, Valeo issued Euro Medium Term Note for 600 million euros maturing in 2013. These notes were redeemed in 2011 in an amount of 200 million euros and in January 2012 in an amount of 89 million euros.

In 2011 and at the beginning of 2012, two new bond issues were carried out for 500 million euros each within the scope of the Euro Medium Term Note program. The maximum amount that can be issued under this program is 2 billion euros. The bond issues mature in 2018 and 2017, respectively. These issues allowed the Group to repay its two 225 million euro syndicated loans ahead of term on January 30, 2012.

In 2011, Valeo also took out a 250 million euro loan from three banks with the aim of financing its acquisition of Niles in Japan. The Group had a drawdown right for 75 million euros granted by the European Investment Bank (EIB) which was due to expire in March 2012. This right was exercised in November 2011. The total amount of EIB loans is therefore 300 million euros.

Valeo also has:

- cash totaling 1,295 million euros at December 31, 2011;
- confirmed bank credit lines totaling 1.1 billion euros with an average maturity of 3.4 years. None of these credit lines had been drawn down at December 31, 2011 or December 31, 2010;
- a Euro Medium Term Note financing program for a maximum of 2 billion euros, on which 900 million euros had been drawn down at December 31, 2011 and 1,311 million euros at end-January 2012;
- a short-term commercial paper financing program for a maximum amount of 1.2 billion euros. However, given Valeo's P3 short-term debt rating, the regulations applicable to monetary funds restrict its access to this market.

Covenants: The credit lines, syndicated loans and EIB loans are subject to an early repayment clause related to the Group's net debt/EBITDA ratio, which must not exceed 3.25. For this purpose, EBITDA corresponds to the Group's operating margin before depreciation, amortization and impairment. It therefore excludes other income and expenses, except for restructuring costs representing over 50 million euros. 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 loans to be repaid. At December 31, 2011, the ratio calculated over 12 months was 0.43.

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 bonds issued within the scope of the Euro Medium Term Note program include 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 shareholder (or several shareholders 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:

The future cash flows presented below, comprising both interest payments and reimbursements, are not discounted. The forward interest rate curve at December 31, 2011 was used for variable-rate interest.

At December 31, 2011

	Carring amount	Contractual cash flows	Contractual cash flows payment schedule					
(in millions of euros)		Total	2012	2013	2014	2015	2016	2017 and beyond
Bonds	893	**1,098**	39	439	24	24	24	548
Syndicated loans	224	**233**	233	-	-	-	-	-
EIB loans	281	**350**	11	67	65	83	81	43
Syndicated loan	248	**281**	6	6	7	8	254	-
Other long-term debt	155	**155**	83	22	8	10	4	28
Accounts and notes payable	2,340	**2,340**	2,340	-	-	-	-	-
Short-term debt	75	**75**	75	-	-	-	-	-

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, 2011 have been used to value foreign exchange derivatives. The London Metal Exchange (LME) forward rates at December 31, 2011 were used for commodity derivatives, while the forward interest rate curve at December 31, 2011 was used for interest rate swaps.

At December 31, 2011

(in millions of euros)	Carrying amount	Contractual cash flows Total	Contractual cash flows payment schedule 2012	2013	2014	2015	2016	2017 and beyond
Forward foreign currency contracts used as hedges:								
■ Assets	3	**3**	3	-	-	-	-	-
■ Liabilities	(1)	**(1)**	(1)	-	-	-	-	-
Currency swaps used as hedges:								
■ Assets	6	**6**	6	-	-	-	-	-
■ Liabilities	(48)	**(36)**	(8)	2	3	3	(36)	-
Commodity derivatives:								
■ Assets	1	**1**	1	-	-	-	-	-
■ Liabilities	(8)	**(8)**	(8)	-	-	-	-	-
Interest rate swaps:								
■ Assets	-	**-**	-	-	-	-	-	-
■ Liabilities	(14)	**(16)**	(5)	(5)	(3)	(2)	(1)	-

6.2.3 Credit risk

A detailed description of the Group's credit risk management policy is set out in section 2.1.6, page 60.

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 and works with all automakers. Although the economic climate was upbeat in 2011, Valeo continues to closely monitor default risk, particularly due to the inherent uncertainties regarding 2012. The average days' sales outstanding stood at 51 days at December 31, 2011, compared to 50 days at December 31, 2010.

At December 31, 2011, Valeo's largest customer accounted for 19% of the Group's accounts and notes receivable (18% at December 31, 2010).

The table below presents an aged analysis of accounts and notes receivable:

(in millions of euros)	Gross carrying amount Dec. 31, 2011	Gross carrying amount Dec. 31, 2010
Not yet due	1,644	1,400
Less than 1 month past due	43	39
More than 1 month but less than 1 year past due	33	22
More than 1 year past due	7	10
TOTAL	**1,727**	**1,471**

Past-due balances were impaired for 22 million euros in both 2011 and 2010.

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, 2011, 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, 2011, the joint venture had total equity of 54 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.

These totaled 86 million euros at December 31, 2011 versus 139 million euros at December 31, 2010. The fall in commitments given reflects the expiration of the vendor warranties granted in connection with certain disposals.

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 (page 243).

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, 2011 (excluding capital leases) are as follows:

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Less than 1 year	40	38
1 to 5 years	63	66
More than 5 years	14	17
TOTAL	**117**	**121**

Lease rentals recognized in expenses totaled 50 million euros in 2011 and 51 million euros in 2010.

Lease commitments in respect of capital leases are as follows at December 31:

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Future minimum lease payments		
Less than 1 year	6	3
1 to 5 years	9	6
More than 5 years		-
Total future minimum lease payments	**15**	**9**
Of which interest charges	(1)	(1)
Present value of future lease payments		
Less than 1 year	6	4
1 to 5 years	8	4
More than 5 years	-	-
Total present value of future lease payments	**14**	**8**

6.3.3.2 Other commitments given

Valeo has also given the following commitments:

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Guarantees given	3	4
Non-cancelable asset purchase commitments	133	144
Other commitments given	6	9
TOTAL	**142**	**157**

The following items recognized in assets in the Group's statement of financial position have been pledged as security:

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Property, plant and equipment	1	1
Financial assets	7	13
TOTAL	**8**	**14**

6.3.3.3 Commitments received

In 2011, Valeo was granted vendor warranties totaling 53 million euros on acquisitions carried out in the period (see Note 2.1, page 205).

6.4 Contingent liabilities

The Group has contingent liabilities relating to legal or arbitration proceedings arising in the normal course of its business. Known or on-going 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.

At the end of July 2011, antitrust investigations were initiated against numerous automotive suppliers (including Valeo) by the US, European and Japanese antitrust authorities in the areas of components and systems supplied to the automotive industry.

The Group is unable to foresee the outcome of the investigations at the present time. However, even though the outcome of the investigations is unknown at this time, because of the level of fines that could be levied by the authorities and the consequences thereof, the investigations could have a materially adverse impact on the Group's future earnings.

To the best of Valeo's knowledge, and excluding these antitrust proceedings, 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.

However, Valeo cannot rule out new lawsuits stemming from events or facts that are unknown at present, or where the associated risk cannot as 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. Since 2004, each employee is entitled to at least 20 training hours a year. These can be accumulated over a period of six years up to 120 hours.

The cumulative volume of training hours corresponding to Group employees' vested rights under the French statutory training entitlement was 1,159,410 hours at December 31, 2011 (1,131,693 hours at December 31, 2010), representing a usage rate of around 4.1%.

6.6 Related party transactions

6.6.1 Management remuneration

At December 31, 2011, management comprises of the 13 members of the Group's Operating Committee. Remuneration paid to management (exluding the Chief Executive Officer) amounted to 10 million euros in 2011 and 9 million euros in 2010.

The Group recognized an expense of 2 million euros in 2011 (unchanged from 2010) in respect of stock subscription and purchase options and free share awards. It also recorded expenses in relation to pension obligations for management personnel in an amount of 1 million euros in 2011 and 2010. At December 31, 2011, provisions included in the Group's statement of financial position in respect of these pension obligations amounted to 8 million euros (12 million euros at December 31, 2010).

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)	**2011**	**2010**
Sales of goods and services	17	18
Purchases of goods and services	(5)	(9)
Interest and dividends received	3	4

(in millions of euros)	**Dec. 31, 2011**	**Dec. 31, 2010**
Operating receivables	7	5
Operating payables	8	4

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)	**2011**	**2010**
Sales of goods and services	34	27
Purchases of goods and services	(35)	(30)
Interest and dividends received	18	19

(in millions of euros)	**Dec. 31, 2011**	**Dec. 31, 2010**
Operating receivables	19	12
Operating payables	5	9
Net debt	14	11

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)	**2011**	**2010**
Non-current assets	99	100
Current assets	193	215
Non-current liabilities	31	27
Current liabilities	186	162
Sales	484	457
Operating expenses	454	419

6.8 Subsequent events

On January 19, 2012, Valeo carried out a further 500 million euro bond issue within the scope of its Euro Medium Term Note financing program. The bonds are redeemable in January 2017 and pay a fixed coupon of 5.75%. At the same time as the bond issue, Valeo launched a redemption offer for holders of its 2013 bonds. A total of 89 million euros in bonds were redeemed as a result of this offer. The new bond issue allowed Valeo to repay its two syndicated loans for a total of 225 million euros ahead of term on January 30, 2012. These loans initially fell due on July 29, 2012.

Note 7 List of consolidated companies

Company	Dec. 31, 2011 % voting rights	Dec. 31, 2011 % interest	Dec. 31, 2010 % voting rights	Dec. 31, 2010 % interest
EUROPE				
France				
Valeo (parent company)				
DAV	100	100	100	100
Equipement 1	100	100	100	100
Equipement 11	100	100	100	100
Equipement 2	100	100	100	100
Niles Europe	100	100	-	-
SC2N	100	100	100	100
Société de Participations Valeo	100	100	100	100
Valeo Bayen	100	100	100	100
Valeo Embrayages	100	100	100	100
Valeo Equipements Electriques Moteur	100	100	100	100
Valeo Etudes Electroniques	100	100	100	100
Valeo Finance	100	100	100	100
Valeo Four Seasons(4)	100	100	50	50
Valeo Management Services	100	100	100	100
Valeo Matériaux de Friction	100	100	100	100
Valeo Plastic Omnium SNC(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 Vision	100	100	100	100
Spain				
Telma Retarder España, SA	100	100	100	100
Valeo Climatización, SA	100	100	100	100
Valeo España, SA	100	100	100	100
Valeo Iberica SA	100	100	100	100
Valeo Iluminación, SA	99.8	99.8	99.8	99.8
Valeo Plastic Omnium SL(2)	50	50	50	50
Valeo Service España, SA	100	100	100	100
Valeo Sistemas Electricos, SL	100	100	100	100
Valeo Termico, SA	100	100	100	100
Portugal				
Cablagens Do Ave	100	100	100	100
Italy				
Valeo Service Italia, SpA	99.9	99.9	99.9	99.9
Valeo, SpA	100	100	99.9	99.9

(1) Companies accounted for by the equity method.
(2) Companies consolidated on a proportionate basis.
(3) See Note 2.1.3, page 207.
(4) Companies consolidated on a proportionate basis in 2010 and fully consolidated in 2011.
(5) Companies accounted for by the equity method in 2010 and proportionately consolidated in 2011.

	Dec. 31, 2011		Dec. 31, 2010	
Company	**% voting rights**	**% interest**	**% voting rights**	**% interest**
Germany				
Valeo Auto-Electric Beteiligungs GmbH	-	-	100	100
Valeo Auto-Electric GmbH	100	100	100	100
Valeo Compressor Europe GmbH	-	-	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
Valeo Wischersysteme GmbH	100	100	100	100
United Kingdom				
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
Valeo Air Management UK Limited(3)	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
Netherlands				
Valeo Holding Netherlands BV	100	100	100	100
Valeo International Holding BV	100	100	100	100
Valeo Service Benelux BV	100	100	100	100
Czech Republic				
Valeo Autoklimatizace ks	100	100	100	100
Valeo Compressor Europe Sro	100	100	100	100
Valeo Vymeniky Tepla ks	100	100	100	100
Slovakia				
Valeo Slovakia Sro	100	100	100	100

(1) Companies accounted for by the equity method.
(2) Companies consolidated on a proportionate basis.
(3) See Note 2.1.3, page 207.
(4) Companies consolidated on a proportionate basis in 2010 and fully consolidated in 2011.
(5) Companies accounted for by the equity method in 2010 and proportionately consolidated in 2011.

Company	Dec. 31, 2011 % voting rights	Dec. 31, 2011 % interest	Dec. 31, 2010 % voting rights	Dec. 31, 2010 % interest
Poland				
Valeo Autosystemy SpZOO	100	100	100	100
Valeo Electric and Electronic Systems SpZOO	100	100	100	100
Valeo Service Eastern Europe SpZOO	100	100	100	100
Hungary				
Valeo Auto-Electric Hungary LLC	100	100	100	100
Romania				
Valeo Lighting Assembly SRL	-	-	100	100
Valeo Lighting Injection SA	100	100	100	100
Valeo Sisteme Termice SRL	100	100	100	100
Russia				
Valeo Climate Control Tomilino LLC	95	95	95	95
Valeo Service Limited Liability Company	100	100	100	100
Turkey				
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	100	100
Morocco				
Valeo Vision Maroc, S.A.	100	100	100	100
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
NORTH AMERICA				
United States				
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 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
Niles America Wintech, Inc.	100	100	-	-
Micro Craft Inc.	100	100	-	-
Niles America Michigan, Inc.	100	100	-	-
Niles Americas Corporation	100	100	-	-

(1) Companies accounted for by the equity method.
(2) Companies consolidated on a proportionate basis.
(3) See Note 2.1.3, page 207.
(4) Companies consolidated on a proportionate basis in 2010 and fully consolidated in 2011.
(5) Companies accounted for by the equity method in 2010 and proportionately consolidated in 2011.

	Dec. 31, 2011		Dec. 31, 2010	
Company	**% voting rights**	**% interest**	**% voting rights**	**% interest**
NORTH AMERICA				
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	100	98.5	100	98.5
Valeo Compressor Clutch (Thailand) Co. Ltd	100	99.4	97.9	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
Niles (Thailand) Co. Ltd	100	100	-	-
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(4)	50	50	50	50
Valeo Pyeong HWA International Co. Ltd(4)	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

(1) Companies accounted for by the equity method.
(2) Companies consolidated on a proportionate basis.
(3) See Note 2.1.3, page 207.
(4) Companies consolidated on a proportionate basis in 2010 and fully consolidated in 2011.
(5) Companies accounted for by the equity method in 2010 and proportionately consolidated in 2011.

Company	Dec. 31, 2011 % voting rights	Dec. 31, 2011 % interest	Dec. 31, 2010 % voting rights	Dec. 31, 2010 % interest
Japan				
Ichikoh Industries Limited(1)	31.6	31.6	31.6	31.6
Valeo Thermal Systems Japan Corporation	100	100	100	100
Valeo Unisia Transmissions KK	66	66	66	66
Niles Co. Ltd	100	100	-	-
Jonan Industrial Co. Ltd	100	100	-	-
Akita Niles Co. Ltd	100	100	-	-
Nitto Manufacturing Co. Ltd	87.2	87.2	-	-
Niles Personnel Service Co. Ltd	100	100	-	-
AMI CO. Ltd	100	100	-	-
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(5)	45	45	30	30
Hubei Valeo Autolighting Co. 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 Co. Ltd	100	100	100	100
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
Valeo Management (Shanghaï) Co. Ltd	100	100	-	-
Fuzhou Niles Electronic Co. Ltd	51	51	-	-
Guangzhou Niles Electronics Co. Ltd	100	100	-	-
Guangzhou Niles Trading Co. Ltd	100	100	-	-
Indonesia				
PT Valeo AC Indonesia(1)	49	49	49	49
India				
Amalgamations Valeo Clutch Private LIMITED(2)	50	50	50	50
Minda Valeo Security Systems Private Ltd(2)	50	50	50	50
Valeo India Private Ltd	100	100	100	100
Valeo Friction Materials India Ltd	60	60	60	60
Valeo Lighting Systems (India) Private Ltd	100	100	100	100
Valeo Engine and Electrical systems India Private Ltd	-	-	100	100
Taiwan				
Niles CTE Electronic Co. Ltd	51	51	-	-

(1) Companies accounted for by the equity method.
(2) Companies consolidated on a proportionate basis.
(3) See Note 2.1.3, page 207.
(4) Companies consolidated on a proportionate basis in 2010 and fully consolidated in 2011.
(5) Companies accounted for by the equity method in 2010 and proportionately consolidated in 2011.

5.2.7 Statutory Auditors' report on the consolidated financial statements

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.

Year ended December 31, 2011

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meeting, we hereby report to you, for the year ended December 31, 2011, on:

- the audit of the accompanying consolidated financial statements of Valeo;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. 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, 2011 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.

II. Justification 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 4.5.2 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 your company 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 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 to the consolidated financial statements describes the methods for valuing provisions intended to cover your company'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.

III. 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 Paris-La Défense, February 21, 2012

The Statutory Auditors

French original signed by

MAZARS		ERNST & YOUNG et Autres	
David Chaudat	Lionel Gotlib	Jean-François Ginies	Gilles Puissochet

5.3 Subsequent events and outlook

5.3.1 Subsequent events

On January 19, 2012, Valeo announced the successful placement of its 500 million euro bond issue maturing in 2017 and the results of its offer to redeem 88.862 million euros worth of bonds maturing in 2013.

This 500 million euro, five-year bond issue paying interest at 5.75% was carried out under favorable terms.

As a result of the redemption offer launched at the same time as the aforementioned issue to holders of its 2013 bonds, Valeo redeemed 22.2% of bonds outstanding, representing a nominal amount of 88.862 million euros out of a total 600 million euros issued in June 2005, of which around 400 million euros remained outstanding before the redemption.

The new bond issue allowed Valeo to repay its two syndicated loans totaling 225 million euros ahead of term on January 30, 2012. These loans initially fell due on July 29, 2012.

These transactions also allow Valeo to extend the average maturity of its debt and smooth its repayment profile, reducing the amount due in 2012 by 225 million euros and in 2013 by 88.862 million euros in exchange for 500 million euros maturing in 2017.

5.3.2 Outlook

2012 Outlook

Based on the following scenario:

- 3% to 4% growth in global automotive production, despite a 5% decline in Europe;
- raw materials prices at current levels.

Valeo has set the following objectives for 2012:

- continued sales growth higher than the market in each of the main production regions;
- operating margin (in millions of euros) in the same magnitude as the prior year.

The Group's 2013-2015 objectives announced during the Paris investor day on March 9, 2011 are set out in Chapter 1, section 1.2.3 ("2015 Strategic Plan") on page 13.

5.4 Analysis of Valeo's results AFR

Following the creation of subsidiaries for its industrial activities in 2002, Valeo is now solely the Group's holding and cash management company.

Valeo reported operating income of 8 million euros in 2011 compared with an operating loss of 23 million euros in 2010. Royalties billed by Valeo to its French subsidiaries for the use of its trademarks were up 12 million euros in the year. The fall in the Company's share price in the second half of 2011 led to write-backs of provisions for stock options and free share plans recorded within operating income.

Net financial income came in at 133 million euros for 2011, down 26 million euros on 2010 (159 million euros). In 2011, this item included net reversals of impairment and provisions for investments in subsidiaries and affiliates in an amount of 52 million euros. Net interest income totaled 76 million euros in 2011 and 107 million euros in 2010, the decrease chiefly reflecting the fall in interest rates applied to loans granted to subsidiaries.

Non-recurring items represented net income of 3 million euros in 2011 compared with a net expense of 19 million euros one year earlier, primarily reflecting provisions for tax and employee-related disputes.

Income tax in 2011 therefore represents a net benefit of 19 million euros (9 million euros in 2010). Valeo also reported net income in respect of tax consolidation amounting to 21 million euros in 2011 versus 11 million euros in 2010.

Net income came in at 163 million euros, versus 126 million euros in 2010.

Valeo recognized no sumptuary expenses that were not deductible for tax purposes in 2010.

At December 31, 2011, Valeo's stockholders' equity stood at 3,408 million euros, up 91 million euros compared with end-December 2010. The rise in equity reflects net income for 2011 less the 91 million euro dividend paid in 2011 by Valeo in respect of its 2010 earnings, as well as the capital increase carried out following the exercise of stock options (19 million euros).

Since January 1, 2009, Valeo has applied the new payment terms in its dealings with suppliers, as required under the French Law on Modernization of the Economy. 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 law came into force called for shorter settlement periods, no changes were made. At December 31, 2011, trade payables less advances received from subsidiaries and accrued payables totaled 10.8 million euros, including 0.6 million euros payable in 2011 and 10.2 million euros payable in January 2012. At December 31, 2010, all outstanding trade payables, representing a total of 6 million euros, fell due in January 2011.

5.5 Parent company financial statements for the year ended December 31, 2011 AFR

In accordance with Article 28 of European Regulation No. 809/2004 dated April 29, 2004, the following information is incorporated by reference in this Registration Document:

- the parent company financial statements and the Statutory Auditors' report for the year ended December 31, 2010, set out on pages 212 to 229 and 230 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2011 under number D.11-0191;
- the parent company financial statements and the Statutory Auditors' report for the year ended December 31, 2009, set out on pages 191 to 209 and 210 to 211 of the Registration Document filed with the AMF on March 23, 2010 under number D.10-0149.

5.5.1 Income statement

(in millions of euros)	*Note*	**2011**	**2010**
Provision reversals and expense transfers	*2*	18	1
Other operating income	*3*	29	19
Total operating income		**47**	**20**
Other purchases and external charges		(27)	(24)
Taxes other than on income		(1)	(1)
Wages and salaries		(2)	(3)
Social charges		(1)	(1)
Depreciation, amortization and provisions		(8)	(14)
Total operating expenses		**(39)**	**(43)**
OPERATING INCOME (LOSS)		**8**	**(23)**
Net financial income	*4*	133	159
INCOME BEFORE TAX AND NON-RECURRING ITEMS		**141**	**136**
Non-recurring income (expense)	*5*	**3**	**(19)**
Income tax	*6*	19	9
NET INCOME FOR THE YEAR		**163**	**126**

The Notes are an integral part of these financial statements.

5.5.2 Balance sheet

(in millions of euros)	*Note*	Dec. 31, 2011 Gross	Dec. 31, 2011 Depr., amort. & impairment losses	Dec. 31, 2011 Net	Dec. 31, 2010 Net
ASSETS					
Property, plant and equipment		5	4	1	1
Long-term financial assets	*7*	4,382	856	3,526	3,388
Total non-current assets		**4,387**	**860**	**3,527**	**3,389**
Operating receivables	*8*	140	-	140	71
Other receivables		4	-	4	2
Financial receivables	*11.4*	1,770	-	1,770	1,418
Cash and cash equivalents	*11.5*	901	5	896	1,068
Prepaid expenses		12	-	12	13
Total current assets		**2,827**	**5**	**2,822**	**2,572**
TOTAL ASSETS		**7,214**	**865**	**6,349**	**5,961**

(in millions of euros)	*Note*	Dec. 31, 2011	Dec. 31, 2010
EQUITY AND LIABILITIES			
Share capital		238	236
Additional paid-in capital		1,429	1,412
Legal reserve		25	25
Untaxed reserves		4	4
Other reserves		263	263
Retained earnings		1,286	1,251
Net income for the year		163	126
Stockholders' equity	*9*	**3,408**	**3,317**
Provisions for contingencies and charges	*10*	**85**	**97**
Long-term debt	*11.2*	1,454	1,050
Current portion of long-term debt	*11.2*	255	491
Short-term debt	*11.3*	975	943
Operating payables	*12*	41	9
Other payables	*12*	85	52
Deferred income	*12*	46	2
Total liabilities		**2,856**	**2,547**
TOTAL EQUITY AND LIABILITIES		**6,349**	**5,961**

The Notes are an integral part of these financial statements.

5.5.3 Statement of cash flows

(in millions of euros)	*Note*	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		163	126
Expenses/(income) with no cash effect:			
■ (gains) losses on sales of fixed assets		-	3
■ depreciation and amortization/deferred charges		3	2
■ net additions to/(reversals from) provisions		(64)	51
Gross operating cash flows		**102**	**182**
Change in working capital:			
■ operating receivables		(69)	(16)
■ operating payables		32	1
■ other receivables and payables		76	4
Net cash from operating activities		**141**	**171**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of long-term financial assets		(29)	(166)
Loans and advances to subsidiaries and affiliates	*7.1*	(58)	591
Disposals of long-term financial assets		-	7
Net cash from (used in) investing activities		**(87)**	**432**
Net cash generated before financing activities		**54**	**603**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(91)	-
Change in share capital:			
■ issuance of shares paid up in cash	*9*	19	11
■ capital reduction carried out in cash		-	-
Change in long-term debt:			
■ issuance of long-term debt		829	-
■ repayment of long-term debt		(663)	-
Net cash from financing activities		**94**	**11**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**148**	**614**
Cash and cash equivalents at beginning of year	*11.1*	1,543	929
CASH AND CASH EQUIVALENTS AT END OF YEAR	*11.1*	**1,691**	**1,543**

The Notes are an integral part of these financial statements.

5.5.4 Notes to the parent company financial statements

CONTENTS

Note 1. Accounting policies

The financial statements of Valeo (the Company) for the year ended December 31, 2011 have been prepared in accordance with French generally accepted accounting principles and are presented in euros rounded to the nearest million. The accounting policies applied are based on conservative assumptions and are in accordance with the fundamental accounting principles designed to give a true and fair value of the Company (going concern, consistency, accrual principles).

Assets and liabilities are measured at historical cost, contribution value or revalued amount.

The accounting principles and policies applied are consistent with those used to prepare the financial statements for the year ended December 31, 2010.

1.1 Basis of preparation

Preparation of the financial statements requires Valeo to make estimates and assumptions which could have an impact on the reported amounts of assets and liabilities for both Valeo and its subsidiaries and affiliates.

These estimates and assumptions concern both risks specific to the automotive supply business as well as more general risks to which Group companies are exposed on account of their industrial and commercial operations across the globe. The operating environment improved significantly in 2010 after the major crisis which hit the automotive industry in late 2008 and 2009. In 2011, automotive production continued to rise, 4% over the year. In the persistently uncertain context in 2012, the Group based its medium-term plans and budgets on projected data for the automotive market, as well as its own order book and its outlook for emerging markets.

Valeo 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. The amounts reported in Valeo's future financial statements may differ from the amounts resulting from these estimates.

The estimates and assumptions used in the Company's financial statements mainly concern investments in subsidiaries and affiliates, particularly when accounting measurements (see Note 1.2 hereafter) are based on forecasts provided by subsidiaries. See Note 4 (page 264) for a description of the impairment provisions recorded by the Company in 2011.

1.2 Investments in subsidiaries and affiliates

Investments in subsidiaries and affiliates are initially recognized at cost. In accordance with the opinion issued on June 15, 2007 by the French national accounting board's (CNC) Emerging Issues Task Force (*Comité d'urgence*), since 2007 the Company has included acquisition costs in the initial recognition cost of the shares concerned.

At the end of the reporting period, the Company measures investments in subsidiaries and affiliates at their value in use and records an impairment provision when value in use is lower than the carrying amount, corresponding to the difference between these two amounts. Value in use is determined on the basis of a multi-criteria analysis adapted to the investments concerned. The criteria correspond to forecast data from subsidiaries' medium-term plans, as well as its stockholders' equity, its outlook, and the Group's strategic interests.

1.3 Marketable securities

Marketable securities are stated at the lower of cost and market value when the securities concerned correspond to treasury shares purchased for the purpose of stabilizing the Company's share price or shares that have not been allocated to employee share grant plans.

For shares allocated to stock purchase option and free share plans, the Company applies CNC opinion no. 2008-17. This opinion notably sets out the methods applicable when plans are for recognizing provisions over the vesting period of plans, served by existing shares.

1.4 Pensions and employee benefit obligations

Pension benefit obligations – which correspond exclusively to supplementary pension benefits paid to former employees – are measured using actuarial methods.

The present value of the related obligations is fully covered by a provision.

1.5 Foreign currency translation

Transactions in foreign currencies are translated using the exchange rates prevailing at the transaction date or the hedging rate, if any.

Assets and liabilities denominated in foreign currencies are translated using the year-end exchange rates or the rate of any hedges allocated to them.

1.6 Financial instruments

Gains and losses on financial instruments used as hedges are recognized on a symmetrical basis with the loss or gain on the hedged item.

Commitments concerning probable future transactions are deemed to be hedging transactions.

Financial instruments not used as hedges are marked to market at each year-end and the resulting gains or losses are recognized in the income statement.

1.7 Free shares and stock purchase options

When it is probable that there will be an outflow of resources to cover stock purchase option or free share plans, a provision is recorded on a straight-line basis over the option vesting period. The amount of the provision recognized takes into account whether or not treasury shares have been allocated for the purpose of serving the relevant stock option or free share plan.

Treasury shares that are not allocated to stock option or free share plans are measured based on the average Valeo share price quoted for the month of December.

Note 2 Provision reversals and expense transfers

(in millions of euros)	**2011**	**2010**
Provision reversals(1)	9	1
Expense transfers(2)	9	-
Provision reversals and expense transfers	**18**	**1**

(1) In 2011, this reflects the reversal of the provision for contingencies relating to stock options and free share plans granted at an exercise price which was higher than the Company's share price at December 31, 2011.

(2) Expense transfers relate to issuance costs for new borrowings in 2011, which are recognized over the maturity of the debt.

Note 3. Other operating income

(in millions of euros)	**2011**	**2010**
Trademark license fees	26	14
Other	3	5
Other operating income	**29**	**19**

Trademark license agreements, under which Valeo allows some of its French subsidiaries to benefit from the Group's expertise, values, business model and processes, were revised during the year. These agreements generated income of 26 million euros in license fees in 2011.

The amount recorded under "Other" corresponds to rebillings to subsidiaries.

Note 4 Net financial income

(in millions of euros)	**2011**	**2010**
Dividends[1]	12	67
Interest income[2]	178	211
Interest expense	(102)	(104)
Net additions to/(reversals from) provisions for impairment, including for investments in subsidiaries and affiliates[3]	52	(27)
Net additions to/(reversals from) provisions for impairment of treasury shares	(5)	5
Other	(2)	7
Net financial income	**133**	**159**

(1) The 67 million euros in dividends recorded in 2010 included 48 million euros in dividends received from Valeo International Holding BV.

(2) The fall in interest income chiefly reflects the decrease in interest rates applicable to loans granted to subsidiaries.

(3) In 2011, the revaluation of the securities portfolio led to 52 million euros in net reversals from impairment provisions concerning mainly Société de Participations Valeo (holding company) and Valeo Vision.

Note 5 Non-recurring items

(in millions of euros)	**2011**	**2010**
Disposal gains (losses)	-	(3)
Litigation and other[1]	3	(16)
Net non-recurring income (expense)	**3**	**(19)**

(1) This item mainly corresponds to disputes in progress with former employees, as well as to tax disputes.

Note 6 Income tax

(in millions of euros)	**2011**	**2010**
Group relief, net	21	11
Net additions to provisions for tax risks	(2)	(2)
Income tax	**19**	**9**

6.1 Tax group and taxable profit

Valeo has set up a tax group which includes the parent company and its principal French subsidiaries.

In 2011, Group relief arising from this tax consolidation system was 6 million euros. Valeo repays the tax savings generated by the use of the tax losses of its subsidiaries when these subsidiaries return to profit. At December 31, 2011, the amount of tax savings arising from tax losses transferred to Valeo by its subsidiaries and which are likely to be repaid came to 775 million euros (712 million euros at December 31, 2010). Consequently, a provision is recorded in the Company's financial statements when it is probable that the members of the tax group which have passed on tax losses will return to profit. At December 31, 2011, this provision amounted to 14 million euros, compared with 25 million euros one year earlier (see Note 10.2, page 269).

6.2 Deferred tax position

At December 31

(in millions of euros)	2011 Tax basis	2011 Corresponding tax	2010 Tax basis	2010 Corresponding tax
Timing differences between the recognition of income and expenses for accounting purposes and for tax purposes	78	27	72	25
Contribution premium	(50)	(17)	(50)	(17)
Provision for repayment of tax losses to subsidiaries in the event of a return to profit	(2,250)	(775)	(2,067)	(712)
Tax loss carryforwards	1,227	422	1,174	404
TOTAL	**(995)**	**(343)**	**(871)**	**(300)**

Note 7 Long-term financial assets

7.1 Movements

(in millions of euros)	Investments in subsidiaries and affiliates	Loans and advances to subsidiaries and affiliates	Other investment securities	Long-term financial assets
Net carrying amount at December 31, 2009	**1,500**	**2,411**	**-**	**3,911**
Acquisitions and increase in the share capital of subsidiaries	165	-	1	166
Disposals	(10)	-	-	(10)
Changes in impairment losses and other movements	(88)	(591)	-	(679)
Net carrying amount at December 31, 2010	**1,567**	**1,820**	**1**	**3,388**
Acquisitions and increase in the share capital of subsidiaries	28	-	-	28
Disposals	-	-	-	-
Changes in impairment losses and other movements	52	58	-	110
Net carrying amount at December 31, 2011	**1,647**	**1,878**	**1**	**3,526**

In 2011, the Company acquired a 5% interest in Valeo Auto-Electric GmbH for 28 million euros. In 2010, Valeo subscribed to capital increases carried out by its subsidiaries Valeo Vision and Valeo Systèmes Thermiques, for respective amounts of 86 million euros and 79 million euros.

7.2 Analysis by type

At December 31

	2011			2010
(in millions of euros)	Gross	Impairment losses	Net	Net
Investments in subsidiaries and affiliates	2,503	856	1,647	1,567
Loans and advances to subsidiaries and affiliates	1,878	-	1,878	1,820
Other investment securities	1	-	1	1
Long-term financial assets	**4,382**	**856**	**3,526**	**3,388**

Loans and advances to subsidiaries and affiliates comprise current account advances granted to Valeo's holding companies, as well as to direct and indirect Valeo subsidiaries, where the advances are repayable on demand but are unlikely to be repaid within one year.

Note 8 Operating receivables

At December 31

(in millions of euros)	2011	2010
Prepaid and recoverable taxes	102	60
Other operating receivables	38	11
Operating receivables	**140**	**71**
Of which due beyond one year	94	44

Prepaid and recoverable taxes mainly include the research tax credit for 2010 and 2011 amounting to 50 million euros and 44 million euros, respectively, which will be reimbursed in 2014 and 2015.

Note 9 Stockholders' equity

(in millions of euros)	Share capital	Additional paid-in capital	Reserves and other	Stockholders' equity
At December 31, 2009	**235**	**1,402**	**1,543**	**3,180**
Dividends paid	-	-	-	-
Capital increase	1	10	-	11
Net income for the year	-	-	126	126
At December 31, 2010	**236**	**1,412**	**1,669**	**3,317**
Dividends paid	-	-	(91)	(91)
Capital increase[(1)]	2	17	-	19
Net income for the year	-	-	163	163
At December 31, 2011	**238**	**1,429**	**1,741**	**3,408**

(1) Shares issued on exercise of stock subscription options.

9.1 Share capital

At December 31, 2011, Valeo's share capital totaled 238 million euros, divided into 79,269,596 shares of common stock with a par value of 3 euros each, all fully paid-up. Shares that have been registered in the name of the same holder for at least four years carry double voting rights (2,288,323 shares at December 31, 2011).

If Valeo Group employees exercised their stock options, the Company's share capital would increase to 239 million euros, divided into 79,512,426 shares.

The terms and conditions of the shareholder-approved employee stock subscription, stock purchase and free share plans in force at December 31, 2011 were as follows:

9.1.1 Terms and conditions of stock subscription option plans

Year in which the plan was set up	Number of shares under option	Option exercise price *(in €)*(1)	Number of shares not yet issued at December 31, 2011(2)	Expiration date
2004	1,123,200	28.46	242,830	2012
TOTAL	**1,123,200**		**242,830**	

(1) The exercise price equals 100% of the average Valeo share price over the 20 trading days preceding the Board of Directors' meeting granting the options.

(2) The number of shares includes the impact of the public share buyback offer and simplified public tender offer carried out in 2005, which increased the share allocation ratio to 1.01 Valeo shares from 1 Valeo share.

9.1.2 Terms and conditions of stock purchase option plans

Year in which the plan was set up	Number of shares under option	Option exercise price *(in €)*(1)	Number of shares not yet issued at December 31, 2011(2)	Expiration date
2004	280,800	32.74	72,878	2012
2005	650,000	32.32	233,342	2013
2006	1,309,250	32.63	582,070	2014
2007	250,000	36.97	250,000	2015
2007	1,677,000	36.82	1,066,900	2015
2008	426,750	31.41	294,602	2016
2010	1,000,000(3)	24.07	925,400	2018
2011	292,840(4)	42.41	287,120	2019
TOTAL	**5,886,640**		**3,712,312**	

(1) The exercise price equals 100% of the average Valeo share price over the 20 trading days preceding the Board of Directors' meeting granting the options, or 100% of the average purchase price of treasury stock held if this is higher than the Valeo quoted share price.

(2) The number of shares includes the impact of the public share buyback offer and simplified public tender offer carried out in 2005, which applies to plans set up prior to 2005 and which increased the share allocation ratio to 1.01 Valeo shares from 1 Valeo share.

(3) Including 611,365 shares granted contingent on the Group meeting performance conditions.

(4) Including 210,370 shares granted contingent on the Group meeting performance conditions.

9.1.3 Terms and conditions of free share plans

Year in which the plan was set up	Number of free shares authorized	Number of shares not yet tendered at December 31, 2011	Year of vesting (1)
2010	400,000(2)	374,739	2012/2014
2011	326,860(3)	322,660	2014/2016
TOTAL	**726,860**	**697,399**	

(1) The vesting year varies depending on the country in which the plan's beneficiaries are based.

(2) Including 178,112 shares granted contingent on the Group meeting performance conditions.

(3) Including 126,480 shares granted contingent on the Group meeting performance conditions.

9.2 Additional paid-in capital

Additional paid-in capital represents the net amount received by the Company, either in cash or in assets, in excess of the par value on issuance of Valeo shares.

9.3 Reserves

Reserves available for distribution amounted to 1,592 million euros at December 31, 2011, before appropriation of income for the year (1,540 million euros at end-2010), after deduction of the net value of treasury shares held at December 31, 2011 (120 million euros versus 100 million euros at end-2010).

Note 10 Provisions for contingencies and charges

At December 31

(in millions of euros)	Provisions for pensions and other employee benefits	Other provisions for contingencies and charges	Total provisions for contingencies and charges	O/w current portion (less than 1 year)
Provisions at December 31, 2009	**2**	**131**	**133**	**35**
Utilizations	-	(70)	(70)	-
Reversals	-	(12)	(12)	-
Additions	-	46	46	-
Provisions at December 31, 2010	**2**	**95**	**97**	**33**
Utilizations	-	(3)	(3)	-
Reversals	-	(22)	(22)	-
Additions	-	13	13	-
Provisions at December 31, 2011	**2**	**83**	**85**	**36**

10.1 Provisions for pensions and other employee benefits

At December 31, 2011, the Company's obligation for pensions and other employee benefits solely corresponded to the requirement to pay supplementary pension benefits to former employees.

The amount of this obligation was calculated on an actuarial basis, using an annual discount rate of 4.75% at December 31, 2011.

The projected benefit obligation includes supplementary pension benefits that have definitively vested for retired employees.

10.2 Other provisions for contingencies and charges

At December 31

(in millions of euros)	2011	2010
Unrealized foreign exchange losses	1	2
Repayment of tax losses to subsidiaries in the event of a return to profit (see Note 6)	14	25
Other contingencies relating to subsidiaries	1	1
Free share grants (see Note 1.7)	9	12
Miscellaneous contingencies and disputes(1)	58	55
Other provisions for contingencies and charges	**83**	**95**

(1) The 58 million euros recorded under provisions for miscellaneous contingencies and disputes includes 27 million euros set aside in respect of the reimbursement of a dividend withholding tax. On December 28, 2007, the administrative court ordered the French State to reimburse Valeo a sum of 27 million euros (including late payment interest) corresponding to the withholding tax paid on dividends received by the Company for 2000 from its European Union-based subsidiaries. Since the French State has lodged an appeal against the administrative court decision, a provision has been set aside for the full amount received in April 2008. This item also includes provisions for employee disputes and for soil decontamination.

Note 11 Net debt

11.1 Analysis of net debt

The Company's net debt can be analyzed as follows:

At December 31

(in millions of euros)	2011	2010
Long-term debt (Note 11.2)	1,454	1,050
Current portion of long-term debt (Note 11.2)	255	491
Total long-term debt	**1,709**	**1,541**
Short-term debt (Note 11.3)	975	943
Financial receivables (Note 11.4)	(1,770)	(1,418)
Cash and cash equivalents (Note 11.5)	(896)	(1,068)
Short-term cash position	**(1,691)**	**(1,543)**
Net debt	**18**	**(2)**

11.2 Analysis of long-term debt

At December 31

	2011				2010
(in millions of euros)	Less than 1 year	1 to 5 years	More than 5 years	Total	Total
Bonds	-	400	500	**900**	600
OCEANE bonds	-	-	-	**-**	463
Syndicated loans	225	250	-	**475**	225
European Investment Bank loans	-	265	39	**304**	225
Accrued interest	30	-	-	**30**	28
Long-term debt	**255**	**915**	**539**	**1,709**	**1,541**

At December 31, 2011, long-term debt included:

- 400 million euros in eight-year bonds issued by Valeo on June 24, 2005 as part of a Euro Medium Term Notes program. The bonds were initially issued for an amount of 600 million euros. In May 2011, Valeo launched an offer to redeem these bonds. One-third of the outstanding bonds were redeemed in the offer, representing a nominal amount of 200 million euros. This redemption was carried out at 101.8% of par. The transaction was accounted for as an extinguishment of debt, with the difference between the carrying amount of the debt extinguished and the amount paid to bondholders together with brokerage fees recognized in interest expenses for 5 million euros. The effective interest rate on these bonds remains unchanged at 3.75%;
- 500 million euros worth of seven-year bonds issued by Valeo on May 12, 2011 and paying a fixed coupon of 4.88%. These bonds were issued as part of the Euro Medium Term Notes program and are redeemable at maturity;
- two seven-year syndicated loans representing a total amount of 225 million euros, issued on July 29, 2005. The loans and related hedges have the following characteristics:
  - the first loan (corresponding to 107 million euros) 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 (corresponding to 118 million euros) 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 syndicated five-year loan for 250 million euros taken out on June 30, 2011 with three banks. This loan was taken out in connection with the financing of Niles and bears variable interest at 3-month Euribor +1.3%. A yen cross currency swap for 237 million euros was set up on inception of the loan for the same maturity;
- a 225 million euro loan taken out with the European Investment Bank on August 5, 2009 for a seven-year term, repayable in four equal yearly installments as from the fourth anniversary of the loan's issue. This loan bears variable interest at 6-month Euribor +2.46%. An interest rate swap was taken out in respect of this 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;
- a second EIB loan taken out on November 3, 2011 for a seven-year term, repayable in four equal yearly installments as from the fourth anniversary of the loan's issue. An amount of 103 million dollars has been drawn down on this loan, which bears variable interest at 6-month Euribor +1.9%. A currency swap was taken out to hedge the foreign currency risk. This second EIB loan was granted for a similar purpose and under similar conditions as those for the first EIB loan. Taking into account the hedging rate, the value of the loan is 79 million euros.

On January 3, 2011, all of the OCEANE bonds still outstanding at December 31, 2010 were redeemed.

11.3 Analysis of short-term debt

Short-term borrowings and debt can be analyzed as follows:

At December 31

(in millions of euros)	2011	2010
Borrowings from subsidiaries	945	926
Commercial paper	21	13
Bank overdrafts	9	4
Short-term debt	**975**	**943**

11.4 Analysis of financial receivables

Financial receivables break down as follows:

At December 31

(in millions of euros)	2011	2010
Loans to subsidiaries	1,770	1,402
Other financial receivables(1)	-	16
Financial receivables	**1,770**	**1,418**

(1) In 2010, this amount included a 10 million euro receivable relating to stock subscription and purchase options exercised in December.

11.5 Cash and cash equivalents

At December 31

(in millions of euros)	2011	2010
Marketable securities	842	1,056
Cash	54	12
Cash and cash equivalents	**896**	**1,068**

At December 31, 2011, the Company's marketable securities portfolio was made up of money market funds (SICAV) invested in negotiable certificates of deposit with good credit profiles, issued by the highest-rated banks, corporations and governments in the euro zone, which have very short maturities and therefore represent a very low capital risk. The portfolio also included 4,241,206 treasury shares with a net carrying amount of 120 million euros. During the year, the Company acquired 4,435,605 treasury shares and sold 3,733,037. At December 31, 2010, Valeo SA held 3,538,638 treasury shares with a net carrying amount of 100 million euros.

11.6 Credit lines

At December 31, 2011, the Company had several confirmed bank credit lines with an average maturity of 3.4 years, representing an aggregate amount of 1.11 billion euros. None of these credit lines had been drawn down at December 31, 2011.

11.7 Financing programs

Valeo also has a short-term commercial paper financing program capped at 1.2 billion euros, and a medium- and long-term Euro Medium Term Notes financing program representing a maximum of 2 billion euros, under which it had borrowed 900 million euros at December 31, 2011.

On May 3, 2011, the Group's short- and long-term debt ratings were revised upwards, from not prime to P3 and from Ba1 to Baa3, respectively, with a stable outlook, thereby placing the Group back in the investment grade category and enabling it to access the bond market on more favorable terms.

11.8 Covenants

In accordance with the debt covenants negotiated with the Company's banks, if the Valeo Group's net debt/EBITDA ratio exceeds 3.25% the lending banks could cancel its credit lines or require early repayment of any drawdowns. For this purpose, EBITDA corresponds to the Group's operating margin before depreciation, amortization and impairment. It therefore excludes other income and expenses, except for restructuring costs representing over 50 million euros. At December 31, 2011 the Group's net debt/EBITDA ratio, calculated over 12 months, stood at 0.43. The syndicated loans and the EIB loans are also subject to this net debt/EBITDA covenant.

The Company's contractual agreements for bank credit lines and long-term debt include cross-default clauses whereby if it is likely that early repayment will be triggered for certain borrowings, early repayment of other borrowings could also be required. However, some of the loan contracts provide for a 20- to 30-day grace period for Valeo to rectify the situation before the cross-default clause becomes enforceable.

The bonds issued under the Euro Medium Term Notes program include an option allowing bondholders to request early repayment or redemption in the event of a change of control of Valeo leading to the bonds' rating being downgraded to below investment grade if they were previously rated investment grade, or, if the previous rating was below investment grade, to being downgraded by one rating notch (e.g., from Ba1 to Ba2).

Note 12 Operating and other payables

At December 31

(in millions of euros)	2011	2010
Trade payables	40	6
Accrued taxes and payroll costs	1	3
Total operating payables	**41**	**9**
Other payables	85	52
Deferred income	46	2
Of which due beyond one year	80	44

At December 31, 2011, trade payables mainly corresponded to advances received from subsidiaries in connection with trademark license agreements, and services provided by Valeo Management Services on behalf of Valeo.

“Other payables” primarily included 36 million euros and 44 million euros, respectively, in research tax credits for 2010 and 2011 due to subsidiaries that are members of the tax consolidation group.

At December 31, 2011, “Deferred income” includes a 38 million euro translation adjustment arising on the revaluation of the yen loan granted to Valeo Japan for an equivalent amount of 250 million euros.

Note 13 Related party transactions

13.1 Transactions with related companies

The Company’s financial statements include transactions carried out in the normal course of business between Valeo SA and its subsidiaries.

These transactions are carried out at market prices and represented the following amounts in 2011 and 2010:

(in millions of euros)	2011	2010
Income statement		
Net financial income	148	226
Balance sheet		
Loans and advances to subsidiaries and affiliates	1,878	1,820
Financial receivables	1,770	1,409
Operating and other receivables	42	26
Debt	945	926
Operating and other payables	117	53
Off-balance sheet commitments		
Guarantees granted	-	-

13.2 Transactions with related parties

All material related party transactions within the meaning of Article R.123-198 of the French Commercial Code (*Code de commerce*) were carried out at market conditions.

Note 14 Currency, interest rate and commodity hedges

14.1 Currency risk hedging

Certain Group entities may be subject to foreign currency risk on purchases of products, sales billed in currencies other than their functional currencies, or investments carried out in foreign countries.

Subsidiaries primarily hedge their foreign currency risks with the Company, which then hedges the Group's net positions with external counterparties. Hedges of subsidiaries' current and future commercial transactions and investments are generally for durations of less than six months.

The principal hedging instruments used by the Company are forward purchases and sales of foreign currencies, as well as swaps and options.

At December 31, 2011, Valeo's net position in the main foreign currencies was as follows:

(in millions of euros)	USD	GBP	JPY	Other	Total
Forward sales with subsidiaries	(68)	(1)	(1)	(5)	**(75)**
Forward purchases with subsidiaries	39	2	2	1	**44**
Net position with subsidiaries	**(29)**	**1**	**1**	**(4)**	**(31)**
Forward sales with external counterparties	(512)	(39)	(252)	-	**(803)**
Forward purchases with external counterparties	146	14	38	6	**204**
Net position with external counterparties	**(366)**	**(25)**	**(214)**	**6**	**(599)**
Total net position	**(395)**	**(24)**	**(213)**	**2**	**(630)**

The net position in US dollar includes both hedges of Valeo intercompany loans and hedges of the EIB US dollar loan drawn down in an amount of 103 million dollars. The net position in yen includes a cross currency swap for 237 million euros taken out to hedge the 250 million euro loan contracted in connection with the Niles acquisition. The net position in GBP reflects hedges of loans granted to Group subsidiaries.

The market value of currency instruments included in the net position with external counterparties was 2 million euros at December 31, 2011.

14.2 Commodity risk hedging

In order to reduce the Group's exposure to fluctuations in non-ferrous metal prices, Valeo hedges its future purchases of base metals over periods generally not exceeding six months. Subsidiaries' exposure to these risks is hedged with Valeo SA.

The materials concerned (aluminum, secondary aluminum, copper and zinc) are quoted on official markets. Valeo favors hedging instruments which do not involve physical delivery of the underlying commodity, such as swaps and options based on the average monthly price.

Commodities hedged at December 31, 2011 were as follows:

(in millions of euros)	With subsidiaries	With external counterparties	Total
Forward sales	-	(98)	**(98)**
Forward purchases	98	-	**98**
Total net position	**98**	**(98)**	**-**

The market value of instruments hedging metals prices included in the net position with external counterparties was 7 million euros at December 31, 2011.

14.3 Interest rate risk hedging

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

At December 31, 2011, 68% of the Group's long-term debt was at fixed rates, versus 85% at December 31, 2010, after the management of interest rate risk.

Fixed-rate position

At December 31

(in millions of euros)	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	Total
Total fixed-rate assets	-	-	-	**-**
Total fixed-rate liabilities	137	400	500	**1,037**
Net fixed-rate position before hedging	**137**	**400**	**500**	**1,037**
Hedging	(107)	225	-	**118**
Net fixed-rate position after hedging	**30**	**625**	**500**	**1,155**

Variable-rate position

At December 31

(in millions of euros)	Less than 1 year	1 to 5 years	More than 5 years	Total
Total variable-rate assets	(2,666)	-	-	**(2,666)**
Total variable-rate liabilities	1,093	515	39	**1,647**
Net variable-rate position before hedging	**(1,573)**	**515**	**39**	**(1,019)**
Hedging	107	(225)	-	**(118)**
Net variable-rate position after hedging	**(1,466)**	**290**	**39**	**(1,137)**

At December 31, 2011, the Group had net short-term cash of 1,691 million euros invested on a variable-rate basis. An interest rate swap was set up for the loan taken out with the European Investment Bank in 2009, under which the variable rate has been swapped for a fixed rate.

Note 15 Off-balance sheet commitments

At December 31

(in millions of euros)	2011 Less than 1 year	2011 More than 1 year	2011 Total	2010 Less than 1 year	2010 More than 1 year	2010 Total
Guarantees given	-	-	**-**	-	-	**-**
Other commitments given	8	249	**257**	33	243	**276**
TOTAL	**8**	**249**	**257**	**33**	**243**	**276**

"Other commitments given" includes a guarantee given in 2005 to the IUE-CWA-Local 509 trade union as part of the agreement signed on September 25, 2005 in relation to the closure of the Rochester plant. At December 31, 2011, the related commitment amounted to 179 million euros (146 million euros at end-2010). The guarantee concerned is a first-call guarantee with an indefinite term and covers Valeo Electrical Systems Inc.'s commitments concerning pensions and other employee benefits.

The remainder of this item corresponds to warranties granted by Valeo in the context of sale transactions.

Note 16 Additional information

	2011	2010
Headcount at December 31	2	2
Compensation paid to corporate officers *(in thousands of euros)*	2,195	1,516
Directors' fees *(in thousands of euros)*	484	397

Note 17 List of subsidiaries and affiliates

At December 31

Company	Share capital	Other equity(1)	% interest	Carrying amount of shares		Out-standing loans and advances granted	Guarantees and endorsements given	Sales	Net income	Dividend income
(in millions of euros)				Gross	Net					
A – Subsidiaries and affiliates with a gross carrying amount in excess of 1% of Valeo's share capital										
Société de Participations Valeo Paris – France	749	(145)	100	838	680	499	-	-	(18)	-
Valeo International Holding BV Amsterdam – Netherlands	129	483	100	435	247	-	-	-	128	-
Valeo Systèmes Thermiques Le Mesnil Saint-Denis – France	37	(6)	47	216	216	364	-	406	30	-
Valeo Systèmes de Contrôle Moteur Osny – France	150	(46)	100	317	170	108	-	329	(53)	-
Valeo Embrayages Amiens – France	140	(21)	100	140	117	-	-	205	(9)	-
Valeo Matériaux de Friction Limoges – France	60	12	100	60	60	-	-	72	1	-
Valeo Vision Bobigny – France	10	52	90	377	38	-	-	418	28	-
Valeo Service Saint-Ouen – France	13	15	100	38	38	-	-	287	4	-
Valeo AutoElectric GmbH Bietigheim – Germany	-	226	5	28	28	-	-	4	-	-
Valeo Otomotiv Sistemleri Endustrisi AS Istanbul – Turkey	3	45	100	22	22	16	-	150	16	-
Valeo Pyeong Hwa/Valeo Pyeong Hwa International Taegu – South Korea	13	113	50	15	15	-	-	388	22	8
Valeo Service Benelux BV Helmond – Netherlands	-	9	100	8	8	-	-	31	2	1
Amalgamations Valeo Clutch Private Ltd Chennai – India	4	3	50	4	4	-	-	46	-	-
B – Other subsidiaries and affiliates										
Subsidiaries not listed in A:										
■ French subsidiaries (aggregate)	-	-	-	2	1	-	-	-	-	-
■ Foreign subsidiaries (aggregate)	-	-	-	3	3	-	-	-	-	3
Affiliates not listed in A:										
■ French affiliates (aggregate)	-	-	-	-	-	-	-	-	-	-
TOTAL				**2,503**	**1,647**					**12**

(1) Including net income for 2011 before appropriation.

All dividends included in this table were received in 2011.

5.5.5 Statutory Auditors' report on the financial statements

Year ended December 31, 2011

This is a free translation into English of the statutory auditors' report on the 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 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 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 management report and in the documents addressed to the shareholders.

This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2011, on:

- the audit of the accompanying financial statements of Valeo;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

I. Opinion on the 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 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 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 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 financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at December 31, 2011 and of the results of its operations for the year then ended in accordance with French accounting principles.

II. 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 matter:

- as indicated in Note 1.2 to the financial statements, investments in subsidiaries and affiliates are stated at acquisition cost and written down where necessary to reflect their value in use, as described in said Note. Our work consisted in examining the methods and assumptions used by Valeo based on available information. We also performed sample-based tests to determine whether these methods and assumptions were properly applied.

These assessments were made as part of our audit of the financial statements, taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verifications and information

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L.225-102-1 of the French Commercial Code (*Code de commerce*) relating to remuneration and benefits received by corporate officers and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of shareholders and holders of the voting rights has been properly disclosed in the management report.

Courbevoie and Neuilly-sur-Seine, March 27, 2012
The Statutory Auditors
French original signed by

MAZARS		ERNST & YOUNG et Autres	
David Chaudat	Lionel Gotlib	Jean-François Ginies	Gilles Puissochet

5.6 Other financial and accounting information AFR

5.6.1 Five-year financial summary

	2007	2008	2009	2010	2011
1. SHARE CAPITAL AT DECEMBER 31					
Share capital *(in millions of euros)*	235	235	235	236	238
Number of ordinary shares outstanding	78,209,617	78,209,617	78,209,617	78,628,798	79,269,596
Maximum number of new shares to be issued:					
■ on exercise of equity warrants	-	-	-	-	-
■ on exercise of stock subscription options	2,869,956	2,350,328	1,598,323	952,792	242,830
■ on conversion of bonds into new shares	10,105,439	10,105,439	10,105,439	-	-
2. RESULTS OF OPERATIONS FOR 2011 *(in millions of euros)*					
Sales	-	-	-	-	-
Income before tax, depreciation, amortization and impairment losses	150	328	191	130	90
Income tax	15	1	19	9	19
Employee profit-sharing	-	-	-	-	-
Net income for the year	94	40	(30)	126	163
Net dividend	94	-	-	91	111
3. PER SHARE DATA *(in euros)*					
Net income after tax, but before depreciation, amortization and impairment losses	2.57	4.37	2.55	1.85	1.26
Net income for the year	1.21	0.51	(0.39)	1.60	2.05
Net dividend	1.20	-	-	1.20	1.40
4. HEADCOUNT					
Headcount at December 31	1	1	2	2	2
Wages and salaries	2	2	6	3	2
Social charges	2	(1)	2	1	1

5.6.2 List of subsidiaries, affiliates and marketable securities

	Number of shares	Net carrying amount *(in millions of euros)*
Société de Participations Valeo	6,136,601	680
Valeo International Holding BV	2,845,120	247
Valeo Systèmes Thermiques	1,151,133	216
Valeo Systèmes de Contrôle Moteur	15,000,000	170
Valeo Embrayages	9,335,883	117
Valeo Matériaux de Friction	4,002,550	60
Valeo Vision	620,572	38
Valeo Service	860,000	38
Valeo Auto-Electric GmbH	1,305	28
Valeo Otomotiv Sistemleri Endustrisi AS	6,608,900	22
Valeo Pyeong Hwa Co. Ltd/Valeo Pyeong Hwa International Co. Ltd	1,942,698	15
Valeo Service Benelux BV	400	8
Amalgamations Valeo Clutch Private Ltd	15,252,500	4
Other investments with a net carrying amount below 2 million euros		4
Investments in subsidiaries and affiliates		**1,647**
FMEA	1,408	1
Other investment securities		**1**
BNP Paribas Cash Invest	3,524	200
Natixis Cash A1P1	1,064	125
HSBC AM Monétaire	34,342	107
CIC Union Cash	212	107
SGAM Invest Cash Euro	8,718	100
CAAM Treso Corporate	361	83
Money market funds		**722**
Treasury stock	**4,241,206**	**120**
TOTAL		**2,490**

Fan unit

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

6.1 Stock market data

	2011	2010	2009	2008	2007
Market capitalization at year-end *(in billions of euros)*	2.43	3.34	1.92	0.83	2.21
Number of shares	79,269,596	78,628,798	78,209,617	78,209,617	78,209,617
Highest share price *(in euros)*	49.88	45.70	25.46	28.60	45.89
Lowest share price *(in euros)*	27.46	20.07	8.00	9.22	27.75
Average share price *(in euros)*	39.00	29.04	15.55	20.93	37.71
Share price at year-end *(in euros)*	30.71	42.47	24.53	10.62	28.20

6.1.1 Per share data

(in euros)	2011	2010	2009	2008
Earnings per share	5.68	4.86	(2.04)	(2.73)
Dividend	1.40 (1) (2)	1.20	0	0

(1) Dividend of 1.40 euro proposed at the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2011.

(2) The shareholders may choose to be either eligible for the 40% tax allowance provided for in Article 158-3-2° of the French Tax Code (Code général des impôts – CGI) or subject to the 21% flat-rate withholding tax provided for in Article 117 quater i.1 of the CGI.

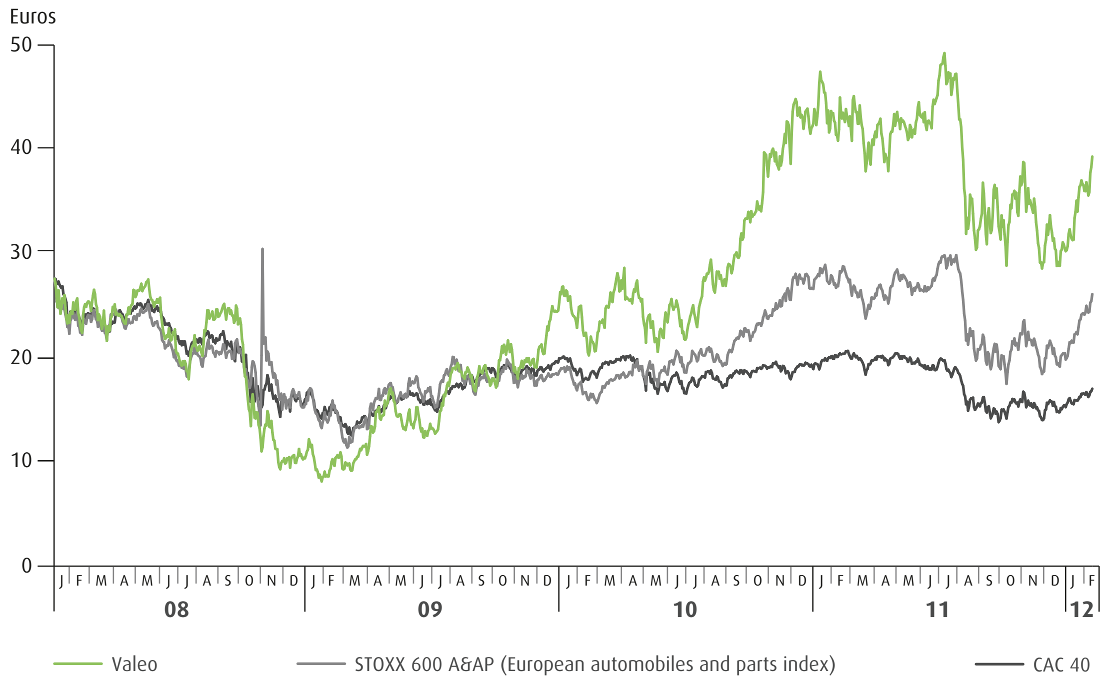
6.1.2 Share performance over 18 months

Date	Price *(in euros)* High	Price *(in euros)* Low	Price *(in euros)* Closing (average)	Trading volume (no. of shares) Volume on Euronext	Trading volume (no. of shares) Volume on MTF(1)	Trading volume *(in millions of euros)*
September 2010	34.440	27.790	30.618	13,488,158	6,036,819	436.12
October 2010	40.220	32.780	35.528	12,753,820	5,233,118	473.28
November 2010	43.960	37.250	39.893	12,346,390	4,767,890	506.64
December 2010	45.700	39.000	43.181	10,170,964	3,963,922	446.86
January 2011	47.800	41.195	44.209	11,872,521	5,994,268	529.46
February 2011	45.665	40.000	42.830	15,560,437	7,869,447	679.05
March 2011	45.455	37.520	41.236	15,664,820	8,612,376	643.68
April 2011	43.730	37.605	41.111	12,192,948	7,103,033	501.27
May 2011	44.190	40.755	42.275	10,996,523	6,127,130	465.38
June 2011	47.105	41.200	43.718	16,997,586	6,182,022	752.09
July 2011	49.880	41.600	46.650	16,992,260	7,709,677	778.52
August 2011	43.500	29.765	34.387	15,384,309	9,942,561	534.13
September 2011	37.185	30.370	33.515	13,976,262	8,832,910	469.76
October 2011	39.480	27.465	34.863	11,839,154	6,754,771	406.38
November 2011	36.600	28.340	32.473	8,369,827	5,399,909	271.41
December 2011	34.110	28.550	30.765	8,134,417	4,327,345	252.12
January 2012	37.475	30.500	34.620	10,262,702	6,260,901	355.38
February 2012	42.595	36.880	39.341	10,537,654	6,183,493	415.84

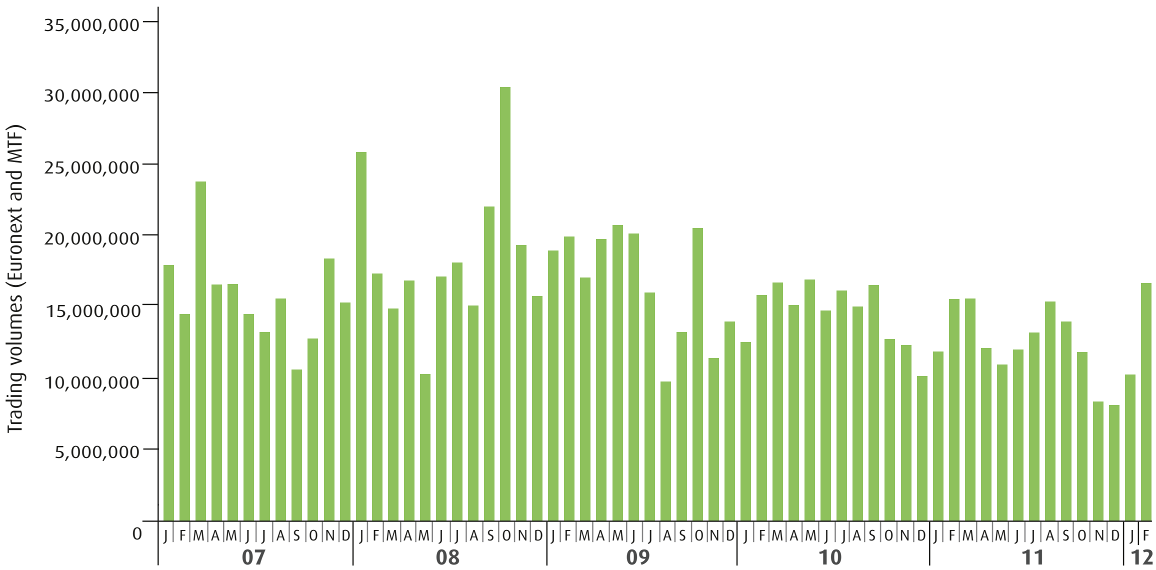
(1) MTF: includes the volumes of the ChiX, Turquoise, Bats and Equiduct platforms.

6.1.3 Share price

From January 1, 2008 through February 21, 2012



6.1.4 Monthly trading volumes



6.2 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.

6.2.1 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 (0800 814 045) (available in France only) available to individual shareholders in France since 1998. In 2011, this service dealt with over 140 calls, mainly relating to Valeo's share price and the Shareholders' Meeting;
- Valeo's website (www.valeo.com) which is aimed at providing information to all shareholders. The section of the site dedicated to investor and shareholder information has been completely overhauled and renamed "Investors and Shareholders". It contains information such as annual and interim reports and financial presentations, as well as all press releases and prospectuses. An "individual shareholders" section has also been created in which Valeo provides real-time stock market and shareholder information, including the latest share prices, ownership structure, dividends, and documents relating to Shareholders' Meetings, as well as a "shareholders' guide" section that provides summary information on topics such as types of share ownership and tax treatment (for French taxpayers only). In addition, visitors to the site can submit financial questions to the Group's spokespersons and/or create a private area to facilitate communication (contact the Investor Relations team, subscribe to publications, etc.);
- two e-newsletters aimed at individual shareholders were distributed in 2011;
- two issues of the shareholders' newsletter were published in 2011, 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.

Contact

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(Toll-free from landlines in France)
Fax: +33 (0) 1 40 55 20 40
E-mail: valeo@relations-actionnaires.com

6.2.2 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, subject-specific or general investor conferences, and site visits. In all, some 560 institutional investors participated in these events, either individually or in small groups, with almost 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

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Valeo

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Fax: +33 (0) 1 40 55 20 40

E-mail: thierry.lacorre@valeo.com

Provisional financial communication calendar

- First-quarter 2012 sales: April 24, 2012
- First-half 2012 results: July 27, 2012
- Third-quarter 2012 sales: October 18, 2012
- 2012 results: second half of February 2013

6.3 Dividends

Dividends per share over the past three years were as follows:

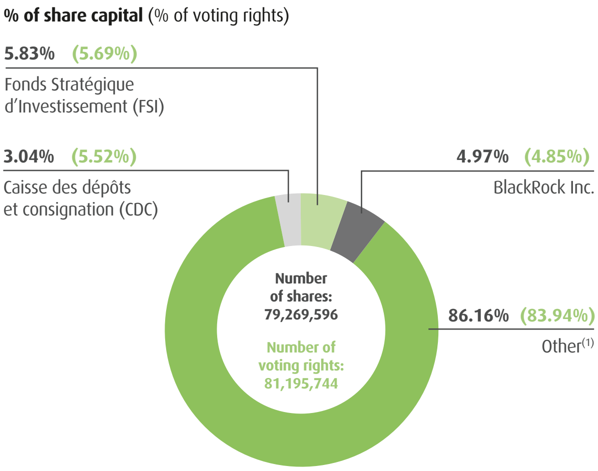
Year	Dividend per share *(in euros)*	Tax allowance *(in euros)*	Total *(in millions of euros)*
2008	0		0
2009	0		0
2010	1.20	Eligible for either the 40% tax allowance provided for in Article 158-3-2° of the French Tax Code or the 19% flat-rate withholding tax provided for in Article 117 *quater* of said code.	91

At the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2011, Valeo's Board of Directors will recommend the payment of a dividend amounting to 1.40 euro for each share eligible for dividends.

6.4 Capital ownership

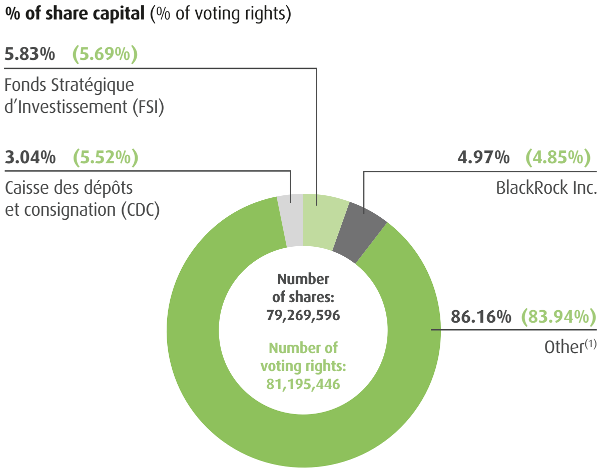
6.4.1 Ownership structure

Ownership structure at December 31, 2011



(1) Including 4,241,206 treasury shares (5.35% of the share capital).

Ownership structure at February 21, 2012



(1) Including 4,083,206 treasury shares (5.15% of the share capital).

6.4.2 Direct or indirect shareholdings 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 shareholders concerning the number of shares and voting rights per shareholder, based on the Company's share capital and voting rights at December 31 of each of the three years under consideration, and on February 21, 2011. The Company's share capital at December 31, 2011 was divided into 79,269,596 shares, representing 81,195,744 voting rights, including 4,241,206 shares held as treasury shares.

	December 31, 2009				December 31, 2010			
	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	19.18	4,021,044	5.11	4,021,044	4.97
Fonds stratégique d'investissement	4,620,567	5.91	4,620,567	5.74	4,620,567	5.88	4,620,567	5.71
Caisse des dépôts et consignations	2,410,992	3.08	4,478,293	5.56	2,410,992	3.07	4,478,293	5.53
Employee share ownership(3)	123,746	0.16	247,492	0.31	94,900	0.12	189,800	0.23
Treasury shares(4)	2,652,119	3.39			3,538,638	4.50		
Other	52,952,193	67.71	55,747,173	69.21	63,942,657	81.32	67,618,351	83.56
TOTAL	**78,209,617**	**100**	**80,543,525**	**100**	**78,628,798**	**100**	**80,928,055**	**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 7.1.11, page 308).
(3) For more information on employee share ownership see section 6.4.4, page 290.
(4) For more information on treasury shares see section 6.5.2, page 291.

	December 31, 2011				February 21, 2012			
	Number of shares	%	Number of voting rights(1)	%	Number of shares	%	Number of voting rights(1)	%
Fonds stratégique d'investissement	4,620,567	5.83	4,620,567	5.69	4,620,567	5.83	4,620,567	5.69
Caisse des dépôts et consignations	2,410,992	3.04	4,478,293	5.52	2,410,992	3.04	4,478,293	5.52
BlackRock Inc.(2)	3,939,621	4.97	3,939,621	4.85	3,939,621	4.97	3,939,621	4.85
Employee share ownership(3)	85,900	0.11	171,800	0.21	85,900	0.11	171,800	0.21
Treasury shares(4)	4,241,206	5.35			4,083,206	5.15		
Other	63,971,310	80.70	67,985,463	83.73	64,129,310	80.90	67,985,165	83.73
TOTAL	**79,269,596**	**100**	**81,195,744**	**100**	**79,269,596**	**100**	**81,195,446**	**100**

(1) Registered shares held by the same shareholder for four or more years carry double voting rights (see Chapter 7, section 7.1.11, page 308).
(2) On August 16, 2011, BlackRock Inc. declared that it had exceeded the 5% threshold for mandatory reporting set by legislation. Following the exercise of options on June 30, 2011 and December 31, 2011, BlackRock Inc. mathematically now only holds 4.97% of the capital and 4.85% of the voting rights.
(3) For more information on employee share ownership see section 6.4.4, page 290.
(4) For more information on treasury shares, see section 6.5.2, page 291.

To the best of the Company's knowledge, there were no shareholders other than the Fonds stratégique d'investissement (FSI) and Caisse des dépôts et consignations (CDC) with direct or indirect holdings of 5% or more of the Company's share capital and voting rights at December 31, 2011.

To the best of the Company's knowledge, there were no shareholders other than the FSI and CDC with direct or indirect holdings of 5% or more of the Company's share capital and voting rights at February 21, 2012.

To the best of the Company's knowledge, at February 21, 2012, **CDC** directly held 2,410,992 shares in the Company, i.e., 3.04% of the capital, and 4,478,293 voting rights, i.e., 5.52% of the total voting rights, and it held indirectly via the FSI 4,620,567 shares, i.e., 5.83% of the capital and 5.69% of the voting rights. CDC's direct and indirect holdings through the FSI now represent 8.87% of the share capital and 11.21% of the Company's voting rights.

At December 31, 2009, **Pardus Investments Sàrl** held 15,450,000 shares and voting rights in the Company, i.e., 19.75% of the capital and 19.18% of the voting rights. On May 28, 2010, Pardus Investments Sàrl reported that it had reduced its interest in the Company's capital and voting rights below the 15% disclosure threshold and that it held 14.88% of the Company's capital and 14.45% of the voting rights. On July 15, 2010, Pardus Investments Sàrl reported that it had reduced its interest in the Company's capital and voting rights below the 10% disclosure threshold and that it held 10.01% of the Company's capital and 9.72% of the voting rights. On 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 and that it held 7.58% of the Company's capital and 7.36% of the voting rights. On September 13, 2010, Pardus Investments Sàrl reported that it had reduced its interest in the Company's capital and voting rights below the 5% disclosure threshold and that it held 5.14% of the Company's capital and 4.99% of the voting rights. In a letter received on 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, and that it held 3,902,445 shares, representing as many voting rights, i.e., 4.99% of the capital and 4.85% of the voting rights. This reduction was the result of a sale of the Company's shares on the market.

In a letter received on June 24, 2011, **Société Générale** reported that:

- it had raised its interest in the Company's capital and voting rights above the 5% disclosure threshold on June 20, 2011, following the acquisition of shares in the Company on the market within the scope of its proprietary trading activities and that it held 7,057,175 shares, representing as many voting rights, i.e., 8.98% of the capital and 8.72% of the voting rights;
- it had reduced its interest in the Company's capital and voting rights below the 5% disclosure threshold on June 21, 2011 following the sale of shares in the Company on the market within the scope of its proprietary trading activities and that it held 3,394,048 shares, representing as many voting rights, i.e., 4.32% of the capital and 4.19% of the voting rights.

Société Générale specified that, within the context of Article L.233-9 I 4° of the French Commercial Code, it held four over-the-counter (OTC) stock purchase options, which may be exercised at December 16, 2012, and which give access, at an exercise price of between 9.50 euros and 24 euros to 3,031,446 shares.

Pursuant to Article 223-14 III 3° and IV of the AMF's General Regulations, Société Générale reported holding:

- twelve OTC stock purchase options to be settled in cash, which can be exercised between September 16, 2011 and June 15, 2012 at an exercise price of between 30 euros and 60 euros, representing 13,000,000 shares;
- a short position on an exchange-listed put option requiring physical settlement, which can be exercised at December 16, 2011 at a price of 24 euros, representing 400,000 shares; and
- a long position on 12 exchange-listed warrants requiring cash settlement, which can be exercised between September 16, 2011 and June 15, 2012 at an exercise price of between 30 euros and 60 euros, representing 12,994,420 shares.

In a letter received on July 6, 2011, the **Amundi Group**, acting on behalf of managed funds, reported that:

- for regularization purposes, it increased its interest in the Company's capital and voting rights above the 5% disclosure threshold on June 27, 2011, following the indirect acquisition of shares in the Company on the market via its fund management companies Amundi SA, Société Générale Gestion S.A. and Étoile Gestion S.A. and that, at this date, it held – indirectly on behalf of said funds – 4,214,977 shares, representing as many voting rights, i.e., 5.36% of the capital and 5.21% of the voting rights;
- it decreased its interest in the Company's capital and voting rights below the 5% disclosure threshold on July 5, 2011, following the indirect sale of shares in the Company via its fund management companies Amundi SA, Société Générale Gestion S.A. and Étoile Gestion S.A., and that it held – indirectly on behalf of said funds – 3,491,699 shares, representing as many voting rights, i.e., 4.44% of the capital and 4.31% of the voting rights.

In a letter received on August 17, 2011, **BlackRock Inc.**, acting on behalf of funds and clients it manages, reported that it had raised its interest in the Company's capital and voting rights above the 5% disclosure threshold on August 10, 2011, and held, on behalf of said funds and clients, 3,939,621 shares in the Company, representing as many voting rights, i.e., 5.01% of the capital and 4.87% of the voting rights. This increase was the result of an acquisition of the Company's shares on the market. Pursuant to Articles 223-14 III 3° and IV of the AMF's General Regulations, BlackRock Inc. reported holding 297,975 "*contracts for differences*" with no fixed maturity date, relating to the same number of shares, to be settled exclusively in cash. Following the exercise of options on June 30, 2011 and December 31, 2011, Blackrock Inc. mathematically now only holds 4.97% of the capital and 4.85% of the voting rights.

6.4.3 Directors' interests

At December 31, 2011, 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 4.1.1 pages 131 to 142.

6.4.4 Employee share ownership

At December 31, 2011, employees held a total of 85,900 shares under Group employee share ownership plans, directly or through two mutual funds, representing 0.11% of the Company's share capital. At December 31, 2010, they held 94,900 shares, or 0.12% of the share capital.

In addition, during its meeting of June 8, 2011 the Board of Directors decided to award 292,840 stock purchase options and 326,860 free shares to the Company's employees, with some of these options and shares being reserved for the Chief Executive Officer, members of the liaison committee and the Operations Committee, and high potential categories of employees.

6.5 Share buyback program AFR

6.5.1 Current share buyback program

In the fifteenth resolution of the Ordinary and Extraordinary Shareholders' Meeting held on June 8, 2011, and 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, with the possibility of delegation. This authorization may be used for the following purposes:

- to allocate shares on the exercise of stock purchase options or similar plans pursuant to the provisions of Articles L.225-177 *et seq*. of the French Commercial Code;
- to grant free shares in accordance with the provisions of Articles L.225-197-1 *et seq*. of the French Commercial Code;
- to award or sell shares to employees by way of profit-sharing bonuses and in connection with employee savings (or related) plans under the terms stipulated by law, particularly Articles L.3332-1 *et seq*. of the French Labor Code (*Code du travail*);
- 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;
- 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;
- to cancel some or all shares bought back;
- to allocate shares (as exchange, payment or otherwise) in connection with external growth transactions, a merger, demerger or contribution;
- 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 approved 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 regulations in force.

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 70 euros per share.

This authorization was given for an 18-month period as of the Shareholders' Meeting of June 8, 2011 and superseded the unused portion of previous authorizations given to the Board of Directors to carry out share buyback programs.

A description of the 2011 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 2011, 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 8, 2011.

During the year, the Company purchased 3,207,303 shares at an average price of 39.33 euros and sold 2,939,303 shares at an average price of 40.28 euros, under the liquidity agreement signed on April 22, 2004 with an investment services provider which complies with the Code of Ethics of a French association of investment companies (Association française des entreprises d'investissement – AFEI).

6.5.2. Treasury shares

At December 31, 2011 the Company held, directly or indirectly, 4,241,206 treasury shares (5.35% of the share capital) with a unit value based on the purchase price of 29.552 euros and a par value of 3 euros.

On December 31, 2010, Valeo held 3,538,638 treasury shares (4.50% of the share capital).

The shares purchased in 2011 were used exclusively to:

- cover stock option plans or other share allocations to employees; and
- implement a liquidity agreement.

The share purchases were made in accordance with authorizations granted by the Shareholders' Meetings of June 3, 2010 and June 8, 2011 to the Board of Directors to buy back Company shares. The fourteenth resolution of the Shareholders' 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 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;
- allocate free shares under the provisions of Articles L.225-197-1 *et seq*. of the French Commercial Code;
- award or sell shares to employees by way of profit-sharing bonuses and implement employee savings plans under the terms stipulated by law, particularly Articles L.3332-1 *et seq*. of the French Labor Code;
- 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;
- cancel some or all shares bought back;
- 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 shares in accordance with a liquidity agreement entered into with an investment services provider that complies with the Code of Ethics approved by the AMF.

The fifteenth resolution of the Shareholders' Meeting of June 8, 2011 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 carrying out the aforementioned operations and, in its twenty-third resolution, allowed the cancelation of bought back shares. The fifteenth resolution of the Shareholders' Meeting of June 8, 2011 also 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 meeting 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 and also allows 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 regulations in force.

At December 31, 2011 the number of treasury shares to be allocated upon exercise of stock options and performance shares stood at 3,889,206 compared with 3,454,638 at December 31, 2010.

The remaining treasury shares are earmarked for use under a liquidity agreement that complies with the Code of Ethics of the AFEI signed with an investment services provider on April 22, 2004. At December 31, 2011, 352,000 shares and 3,707,327.81 euros had been allocated to this liquidity agreement compared with 84,000 shares and 11,929,673.68 euros at December 31, 2010. 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 3,207,303 shares at an average price of 39.326 euros and sold 2,939,303 shares at an average First-In-First-Out price of 40.279 euros. Trading and transaction fees incurred under the liquidity agreement totaled 175,000 euros, with no change from 2010 and 2009. These shares were not reallocated to other purposes provided for under the share buyback program.

6.5.3 Share buyback program submitted to the next Annual Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2011

The Ordinary and Extraordinary Shareholders' Meeting that will be called on June 4, 2012 will be asked to repeal the fifteenth resolution approved by the Annual Shareholders' Meeting of June 8, 2011 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 French Commercial Code, Title IV of Book II of the AMF's General Regulations and European Regulation no. 2273/2003 of December 22, 2003.

The features of the new share buyback program are described below.

Number of shares and percentage of capital held by the issuer

At January 31, 2012, Valeo directly or indirectly held 4,083,206 shares, representing 5.15% of the Company's capital.

Breakdown of shares owned by Valeo by purpose

At January 31, 2012:

- 3,889,206 shares are to be allocated on the exercise of stock purchase options;
- 194,000 shares are 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 the French Association of Financial and Investment Firms (Association française des marchés financiers – AMAFI) approved by the AMF on October 1, 2008).

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 4, 2012, Valeo plans to buy back, directly or indirectly, its own shares, for the following purposes:

- to allocate shares on the exercise of stock purchase option plans or similar plans pursuant to the provisions of Articles L.225-177 *et seq.* of the French Commercial Code;
- to grant free shares in accordance with the provisions of Articles L.225-197-1 *et seq*. of the French Commercial Code;
- to award or sell shares to employees by way of profit-sharing bonuses and in connection with employee savings (or related) plans on the terms stipulated by law, particularly Articles L.3332-1 *et seq*. of the French Labor Code;
- 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;
- to allocate shares on the exercise of rights attached to securities providing access to the capital by redemption, conversion, exchange, presentation of a warrant or any other method;
- to cancel some or all shares bought back;
- to allocate shares (as exchange, payment or otherwise) in connection with external growth transactions, a merger, demerger or contribution;
- 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 approved 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 regulations in force.

Maximum stake in the Company's capital, maximum number and characteristics 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., 79,269,596 shares at January 31, 2012).

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., 4,083,206 shares at January 31, 2012 (5.15% 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 3,843,754 shares (4.85% of the Company's registered capital at January 31, 2012) could be available for purchase.

The securities covered by the buyback program are exclusively shares.

Maximum purchase price per share

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.

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 4, 2012, the new share buyback program would be authorized for an 18-month period as of the meeting, i.e., until December 8, 2013.

6.5.4 Cancelation of treasury shares

In the twenty-third resolution of the Ordinary and Extraordinary Shareholders' Meeting of June 8, 2011, 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 canceled in any given 24-month period may not exceed 10% of the Company's share capital.

6.6 Additional disclosures

6.6.1 Changes in share capital

At December 31, 2011, Valeo's share capital comprised 79,269,596 shares with a par value of 3 euros each, fully paid-up and traded on Euronext Paris. The share capital was increased on June 30, 2011 by 835,869 euros through the issuance of 278,623 shares (approved by the Board of Directors' meeting of July 27, 2011) and on December 31, 2011 by 1,086,525 euros through the issuance of 362,175 shares (approved by the Board of Directors' meeting of January 19, 2012), as a result of the exercise of stock options during 2011.

At December 31, 2011 a potential maximum of 242,830 shares could be issued upon exercise of stock options awarded to the Group's employees and corporate officers. The 9,974,244 OCEANE bonds outstanding and convertible or exchangeable in circulation were all 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, 2007 are as follows:

		Changes *(in millions of euros)*				
Year	**Type of operation**	**Par value**	**Premium**	**Total**	**Number of shares**	**Total number of shares**
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
2011	Issuance of shares on exercise of stock subscription options	2	17	19	640,798	79,269,596

6.6.2 Authorized, unissued capital AFR

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 8, 2011 – 19th resolution (authorization given for a maximum of 26 months, expiring on August 8, 2013)	40 million euros (A) + (B) + (C) + (D) + (E) + (F) combined ceiling = 131 million euros	None
Capital increase by capitalization of reserves, profits or additional paid-in capital (B) Shareholders' Meeting of June 8, 2011 – 21st resolution (authorization given for a maximum of 26 months, expiring on August 8, 2013)	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 8, 2011 – 20th resolution (authorization given for a maximum of 26 months, expiring on August 8, 2013)	46 million euros Included in combined ceiling	None
Issuance of shares to members of the employee share ownership plan (D) Shareholders' Meeting of June 8, 2011 – 24th resolution Expiring on August 8, 2013 (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 8, 2011 – 22nd resolution (authorization given for a maximum of 26 months, expiring on August 8, 2013)	The ceiling for each issuance is specified in the applicable regulation (currently 15% of the initial issuance) - Ceiling with pre-emptive rights: 40 million euros - Ceiling without pre-emptive rights: 46 million euros Term: 26 months Included in combined ceiling	None
4. Authorization to allocate stock purchase options and free shares		
Allocation of stock purchase options Shareholders' Meeting of June 8, 2011 – 25th resolution Expiring on August 8, 2013 (26 months)	*Maximum number of shares allocated under the option:* 660,000	Board of Directors' meeting of June 8, 2011 Allocation of 292,840 stock options
Allotment of free shares, existing shares or shares to be issued to Group employees and corporate officers (F) Shareholders' Meeting of June 8, 2011 – 26th resolution Expiring on August 8, 2013 (26 months)	*Maximum number of shares (existing or to be issued) allocated:* 540,000 Included in combined ceiling	Board of Directors' meeting of June 8, 2011 Allotment of 326,860 free shares
5. Treasury shares		
Authorization to trade in the Company's shares Shareholders Meeting of June 8, 2011 – 15th resolution Expiring on December 8, 2012 (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:* 546 million euros *Maximum repurchase price:* 70 euros	Total purchased since the start of the program at December 31, 2011 3,100,029 shares
6. Capital reduction		
Cancelation of treasury shares held by the Company Shareholders' Meeting of June 8, 2011 – 23rd resolution Expiring on August 8, 2013 (26 months)	*Total Number of shares that can be canceled:* 10% of the capital in any given 24-month period	None

6.6.3 Other securities giving access to the capital

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 bore interest at 2.375% per annum and since August 4, 2003, may be exercised at any time.

On January 3, 2011 all of the OCEANE bonds still in circulation were redeemed.

Stock option plans and allotment of free shares

Stock subscription option plans in force at December 31, 2011

Shareholders' Meetings			Plan characteristics				Options granted				
Date of Share-holders' Meetings	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. managers and corporate officers	O/w granted to exec. managers excl. corporate officers	O/w granted to the top 10 grantees (2)	Condi-tional options
06/10/02	1,500,000	8 years	03/31/03	€23.51	755	700,000	160,000	100,000	52,750	44,000	0
03/31/03	1,500,000	8 years	11/06/03	€32.91	1005	780,000	61,000	61,000	117,766	77,395	0
04/05/04	1,500,000	8 years	11/08/04	€28.46	1094	1,123,200	160,000	160,000	169,600	134,400	0
TOTAL STOCK SUBSCRIPTION OPTION PLANS						**2,603,200**	**381,000**	**321,000**	**340,116**	**255,795**	**0**

(1) Date of Board of Directors'/Supervisory Board/Management Board meeting.
(2) Including Directors who are not corporate officers.

	Exercise date and conditions		Number of stock subscription option plans							
Impact of tender offers (56,330 at June 21, 2005)	Start	Expiration date	Options outstanding on Dec. 31, 2010	Exercised in 2011 (year)	Exercised at Dec. 31, 2011 (cumulative)	Canceled in 2011 (year)	Canceled at Dec. 31, 2011 (cumulative)	Options outstanding on Dec. 31, 2011	No. of shares to be subscribed (options + buyback)	Residual grantees
6,022	50% – 2 yrs; 100% – 3 yrs	03/30/11	160,660 1,609	146,788 1,475	510,543 5,011	13,872 134	189,457 1,011	0 0	0	0
7,185	50% – 2 yrs; 100% – 3 yrs	11/05/11	279,939 3,167	229,312 2,464	426,781 4,527	50,627 703	353,219 2,658	0 0	0	0
10,682	50% – 2 yrs; 100% – 3 yrs	11/07/12	504,002 5041	258,178 2,581	517,096 5,173	5,400 54	365,680 3,103	240,424 2,406	242,830	314
23,889			**944,601** **9,817**	**634,278** **6,520**	**1,454,420** **14,711**	**69,899** **891**	**908,356** **6,772**	**240,424** **2,406**	**242,830**	**-**

Stock purchase option plans in force at December 31, 2011

Shareholders' Meetings			Plan characteristics				Options granted				
Date of Shareholders' Meetings	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
03/31/2003	1,500,000	8 years	11/06/2003	€32.91	1005	500,000	39,000	39,000	75,484	49,605	0
04/05/2004	1,500,000	8 years	11/08/2004	€32.74	1094	280,800	40,000	40,000	42,400	33,600	0
05/03/2005	4,500,000	8 years	11/17/2005	€32.32	1082	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	1298	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	1330	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) (ii)	177,500 (iii)	150,000 (iii)	611,365 (iii)
06/08/2011	292,840	8 years	06/08/2011	€42.41	276	292,840	0	30,300 (i) (iv)	65,200 (iv)	59,200 (iv)	210,370 (iv)
TOTAL STOCK PURCHASE OPTION PLANS						**6,573,640**	**579,000**	**709,300**	**1,142.884**	**824,305**	**995,985**

(1) Date of Board of Directors'/Supervisory Board/Management Board meeting.

(2) Including Directors who are not corporate officers.

(i) Stock purchase options subject to the holding period.

(ii) O/w 50% (50% for the Chairman and COO) or 25% (for other Directors) is conditional: subject to the Group achieving 2008 operating margin equal to at least 3.8% of operating revenue, with proportional and linear allocation of between 3.8% and 4.1%.

(iii) O/w 100% (CEO and liaison committee), 50% or 25% (other Directors) is conditional: 2010 operating margin less than 4.0% = loss of options, less than 4.5% = 70% of options, less than 5% = 100% of options, with linear variation between 4.0% and 4.5% and between 4.5% and 5.0%.

(iv) O/w 100% conditional (CEO and COP) with three criteria: 1. an average operating margin equal to or greater than 6.5%; 2. an average return on capital employed (ROCE) equal to or greater than 30%; and 3. an average pre-tax return on assets (ROA) equal to or greater than 12.5%. Three criteria met = 100% of rights; two criteria met = 60% of rights; one criterion met = 30% of rights; 0 criterion met = cancelation.

Including 100% (liaison committee) and 50% (other Directors) conditional on two criteria (1 and 2); two criteria met = 100% of rights; one criterion met = 50% of rights; 0 criterion met = cancelation of conditional rights.

	Exercise date and conditions		Number of stock purchase option plans							
Impact of tender offers (56,330 at June 21, 2005)	Start	Expiration date	Options outstanding on Dec. 31, 2010	Exercised in 2011 (year)	Exercised at Dec. 31, 2011 (cumulative)	Canceled in 2011 (year)	Canceled at Dec. 31, 2011 (cumulative)	Options outstanding at Dec. 31, 2011	Number of shares to be subscribed (options + buyback)	Residual grantees
4,263	50% – 2 years; 100% – 3 years	11/05/2011	187,007 1,907	154,078 1,567	272,519 2,781	32,929 340	227,481 1,482	0 0	0	0
2,787	50% – 2 years; 100% – 3 years	11/07/2012	142,797 1,436	69,085 704	115,293 1,219	1,550 16	93,345 852	72,162 716	72,878	327
	50% – 2 years; 100% – 3 years	11/16/2013	324,050	88,638	179,093	2,070	237,565	233,342	233,342	417
	50% – 2 years; 100% – 3 years	03/02/2014	187,000	187,000	187,000	0	0	0	0	0
	50% – 2 years; 100% – 3 years	11/19/2014	761,007	165,187	309,430	13,750	417,750	582,070	582,070	555
	50% – 2 years; 100% – 3 years	03/06/2015	250,000	0	0	0	0	250,000	250,000	2
	100% – 3 yrs	11/14/2015	1,196,500	88,350	119,850	41,250	490,250	1,066,900	1,066,900	895
	100% – 3 yrs	03/19/2016	344,500	37,898	37,898	12,000	94,250	294,602	294,602	407
	100% – 2 yrs	06/23/2018	986,550	0	0	61,150	74,600	925,400	925,400	647
	100% – 3 yrs	06/07/2019	292,840	0	0	5,720	5,720	287,120	287,120	266
7,050			**4,672,251** 3,343	**790,236** 2,271	**1,221,083** 4,000	**170,419** 356	**1,640,961** 2,334	**3,711,596** 716	**3,712,312**	

Free share plans in force at December 31, 2011

Shareholders' Meetings			Plan characteristics				Shares granted				
Date of Share-holders' Meeting	No. of shares	Term	Date (1)	Exercise price	No. of grantees	No. of shares	O/w granted to corporate officers	O/w granted to exec corporate officers	O/w granted to exec mgrs excl corporate officers	O/w granted to the top 10 grantees(2)	Condi-tional shares
05/03/2005	4,500,000	-	11/17/2005	-	1082	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 (iv)	55,500 (iv)	47,500 (iv)	178,022 (iv)
				-	44,333	133,000	0	3 (iv)	39 (iv)	30 (iv)	90 (iv)
06/08/2011	326,860	-	06/08/2011	-	276	186,860	0	15,600 (v)	34,000 (v)	31,000 (v)	126,480 (v)
					46,666	140,400	0	0 (v)	39 (v)	30 (v)	87 (v)
TOTAL FREE SHARE GRANTS						**1,589,860**	**50,000**	**115,603**	**244,028**	**170,410**	**641,179**

(1) Date of Board of Directors'/Supervisory Board/Management Board meeting.

(2) Including Directors who are not corporate officers.

2007 performance: consolidated Group operating margin before non-recurring expenditure as a % of total operating revenue at least 5%.

(iv) O/w 100% (CEO and liaison committee), 50% or 25% (other Directors) is conditional. Criteria over two years; partly 2010 operating margin (less than 4.0% = loss of options, less than 4.5% = 70% of options, less than 5% = 100% of options, with linear variation between 4.0% and 4.5% and between 4.5% and 5.0%) and partly 2011 operating margin (less than or equal to 4.5% = loss of options, less than or equal to 5% = 100% of options, with linear variation between 4.5% and 5.0%).

(v) O/w 100% conditional (CEO and COP) with three criteria: 1. an average operating margin equal to or greater than 6.5%; 2. an average return on capital employed (ROCE) equal to or greater than 30%; and 3. an average pre-tax return on assets (ROA) equal to or greater than 12.5%. Three criteria met = 100% of rights; two criteria met = 60% of rights - one criterion met = 30% of rights; 0 criterion met = cancelation of 100% of rights. O/w 100% (liaison committee) and 50% (other Directors) conditional on two criteria (1 and 2): two criteria met = 100% of rights; one criterion met = 50% of rights; 0 criterion met = cancelation of conditional rights.

Date and conditions		Number of shares							
Start	Expiration date	Remaining to be transferred at Dec. 31, 2010	Ownership transferred in 2011 (year)	Transferred at Dec. 31, 2011 (cumulative)	Canceled in 2011 (year)	Canceled at Dec. 31, 2011 (cumulative)	O/w ownership remains to be transferred at Dec. 31, 2011	No. of shares that could be transferred	Residual grantees
Vesting period: 2 yrs 3 mths 50% cond. (partly 2006 perf. partly 2007 perf.(*))	-	0	0	223,575	0	376,425	0	0	0
Vesting period: 2 yrs 3 mths 50% cond. (partly 2006 perf. partly 2007 perf.(*))	-	0	0	26,500	0	36,500	0	0	0
Vesting period: 3 years	-	0	0	65,750	0	34,250	0	0	0
Vesting period: 3 years	-	0	79,000	79,000	0	21,000	0	0	0
Vesting period: - France: 2 years - Other countries: 4 years	-	263,990	0	0	14,255	17,265	249,735	249,735	644
Vesting period: - France - Spain - Italy: 2 years - Other countries: 4 years	-	125,004	0	0	11,304	19,300	113,700	113,700	37,900
Vesting period: - France: 3 years - Other countries: 5 years	-	0	0	0	4,200	4,200	182,660	182,660	266
Vesting period: - France - Spain - Italy: 3 years - Other countries: 5 years	-	0	0	0	15,062	15,062	124,938	124,938	41,646
		388,994	**79,000**	**394,825**	**44,821**	**524,002**	**671,033**	**671,033**	

(*) 2006 performance: consolidated Group operating margin before non-recurring expenditure as a % of total operating revenue equal to at least 4.5%.

6.6.4 Other securities

The Company has participated in a Euro Medium Term Notes (EMTN) program since October 2002, last renewed on April 13, 2011, for an amount of 2 billion euros. Under this program Valeo issued:

- 600 million euros worth of eight-year bonds on June 24, 2005, paying a fixed coupon of 3.75%, repaid in the amount of 200 million euros in May 2011 and 89 million euros in January 2012;
- 500 million euros worth of seven-year bonds on May 11, 2011, paying a fixed coupon of 4.875%;
- 500 million euros worth of five-year bonds on January 19, 2012, paying a fixed coupon of 5.75%.

6.6.5 Other information on the capital

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.

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.

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 the date 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 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 articles of association 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.

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 security 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 of them, 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 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 petition 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.

6.6.6 Information likely to have an impact in the event of a public tender offer AFR

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 Chapter 2 "Risk Factors", section 2.1.5 "Liquidity Risks" on page 58, the balance of 311 million euros of Euro Medium Term Notes expiring on June 24, 2013, the 500 million euros of EMTN expiring on January 19, 2017 and the 500 million euros of EMTN expiring on May 11, 2018 each include an option allowing bondholders to request early redemption of their bonds in the event of a change of control of Valeo that leads to (i) the note's rating being withdrawn or (ii) the note's rating being downgraded to below investment grade, assuming it was previously rated in that category, or (iii) if the previous rating was below investment grade, 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.

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 4.2.1, "Termination benefits and non-competition payments", page 149, Jacques Aschenbroich, the Chief Executive Officer, is eligible for termination benefits equal to between 12 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.

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 supplier or, more generally for any of Valeo's competitors for 12 months after the end of his term of office as Chief Executive Officer. In this case, Jacques Aschenbroich would be paid a non-competition payment equal to 12 months of compensation (calculated on the same basis as the termination benefits). The Company retains the right to waive the non-competition clause, in which case no payment will be owed. If the Company invokes the non-competition clause, the amount owed will be offset against the termination benefits. For more information see Chapter 4, section 4.2.1, "Termination benefits and non-competition payments", page 149.

Agreements that could restrict the transfer of shares and the exercise of voting rights

Relations with the FSI

The Board of Directors' meeting of October 20, 2009 decided to co-opt Michel de Fabiani, whose name was put forward by the FSI, as a Director, replacing Erich Spitz. On this occasion, and after considering the specific current ownership structure of Valeo, the FSI, which is a 51% owned subsidiary of CDC and included in CDC's consolidated 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 the FSI would not increase its holding beyond 15% of the share capital without the consent of Valeo's Board. The FSI also confirmed that it was now an insider, within the meaning of the applicable regulations, as was Michel de Fabiani, in the context of monitoring the FSI's equity holding in Valeo and preserving the Group's interest.

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ADDITIONAL INFORMATION

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

7.1 Principal provisions of the law and the articles of association

7.1.1 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.

7.1.2 Legal structure and governing law

Valeo is a joint stock company (*société anonyme*) with a Board of Directors. It is governed by French law, notably the provisions of Book II of the French Commercial Code (*Code de commerce*) and various provisions of the regulatory section of the French Commercial Code.

7.1.3 Corporate governance

With a view to increasing the transparency of information disclosed to the public, the Company has set up a number of procedures to ensure that it complies with best corporate governance practices. Further information is provided in the report of the Chairman of the Board of Directors on the composition of the Board, the application of the principle of equal representation of women and men, 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 4.4).

7.1.4 Date of incorporation and term

The Company was incorporated on February 10, 1923 and its term was extended for a further 99 years on February 10, 1972.

7.1.5 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.

7.1.6 Registration details

The Company is registered at the Paris Trade and Companies Registry under the number 552 030 967 RCS Paris.

7.1.7 Fiscal year

The Company's fiscal year covers a twelve-month period from January 1 to December 31.

7.1.8 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 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 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 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 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 over to the French State.

7.1.9 Liquidation surpluses

Liquidation surpluses are allocated between the shareholders in proportion to their interests in the Company's capital.

7.1.10 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 share ownership 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 another shareholder, their spouse or partner with whom they have entered into a civil partnership agreement or any other individual or legal entity of their choice;
- 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 Shareholders' Meetings either in paper format or, in electronic form.

Minutes of Shareholders' Meetings are drawn up, and copies and extracts thereof are certified and delivered, in accordance with the law.

7.1.11 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.

7.1.12 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.

7.2 Information on subsidiaries and affiliates

The overall legal and operational structure of the Group is described in Chapter 1, section 1.3.2, page 19.

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 agreements with some of its French subsidiaries, under which Valeo allows them to benefit from the Group's expertise, values, business model and processes. These agreements were revised during the year.

Group-wide control and support functions, encompassing accounting, legal services, information technology, procurement, communication and business development, research and development strategy and management, and quality audits, are performed by Valeo Management Services. Initially incorporated as a partnership (*société en nom collectif*), Valeo Management Services was transformed into a European economic interest group (*groupement d'intérêt économique*) as from January 1, 2011. The purpose of the group is to make common resources available and to implement the necessary means and take the required action to increase savings and optimize the costs of its members. Valeo Management Services is financed by contributions from its 13 members, which consist of companies belonging to the Valeo Group.

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 International Development Department, described in Chapter 1, section 1.3.4, page 28. A list of consolidated companies (including their geographic location) is given in the notes to the consolidated financial statements, Chapter 5, section 5.2.6, Note 7, pages 250 to 254.

Industrial

Commercial

MAIN INDUSTRIAL AND

Direct and indirect interests by country where the Group

European Union				Europe outside EU	Africa	North America
France	Germany, Belgium, UK Ireland, Netherlands	Italy Spain	Hungary, Poland, Czech Republic, Romania, Slovakia	Turkey, Russia	Tunisia, South Africa, Egypt	United States
VALEO EMBRAYAGES 100	VALEO SCHALTER UND SENSOREN GmbH 100	VALEO S.p.A. (Italy) 100	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) 99.9	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 SERVICE DEUTSCHLAND GmbH 100	VALEO SISTEMAS ELÉCTRICOS S.L. (Spain) 100	VALEO VYMENIKY TEPLA k.s. (Czech Republic) 100		VALEO VISION MAROC 100	VALEO SYLVANIA LLC 50
VALEO VISION 100	VALEO VISION BELGIQUE 100	VALEO CLIMATIZACIÓN S.A. (Spain) 100	VALEO AUTOKLIMATIZACE k.s. (Czech Republic) 100			VALEO SWITCHES & DETECTION SYSTEMS, INC. 100
DAV 100	VALEO SERVICE 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 UK LIMITED 100	VALEO TÉRMICO, S.A. (Spain) 100	VALEO LIGHTING INJECTION S.A. (Romania) 100			VALEO ENGINE COOLING, INC. 100
VALEO FOUR SEASONS 100	VALEO ENGINE COOLING UK Ltd 100		VALEO SISTEME TERMICE S.r.l. (Romania) 100			VALEO FRONT END MODULE, INC. 100
VALEO SERVICE 100	VALEO AIR MANAGEMENT UK Limited 100		VALEO SLOVAKIA S.r.o. (Slovakia) 100			VALEO COMPRESSOR NORTH AMERICA, INC. 100
VALEO SYSTÈMES THERMIQUES 100	CONNAUGHT ELECTRONICS LIMITED (Ireland) 100					NILES AMERICA WINTECH INC 100
VALEO SYSTÈMES DE CONTRÔLE MOTEUR 100	VALEO SERVICE BENELUX B.V. (Netherlands) 100					NILES AMERICA MICHIGAN 100
VALEO ÉTUDES ÉLECTRONIQUES 100						

COMMERCIAL ENTITIES

is established (as a % of interest at December 31, 2011)

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	45
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
GUANGZHOU VALEO ENGINE COOLING Co. Ltd	100
GUANGZHOU NILES TRADING Co Ltd	100
FUZHOU NILES ELECTRONIC Co Ltd	51

Asia – South Korea, Japan, Thailand, Indonesia, Taiwan

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 JAPAN Co. Ltd	100
ICHIKOH INDUSTRIES LIMITED (Japan)	31.6
Niles Co. Ltd (Japan)	100
AMI Co. Ltd (Japan)	100
NILES PERSONNEL SERVICE Co. Ltd (Japan)	100
NITTO MANUFACTURING Co. Ltd (Japan)	87.2
AKITA NILES Co. Ltd (Japan)	100
JONAN INDUSTRIAL Co. Ltd (Japan)	100
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	99.4
NILES (THAILAND) Co. Ltd	100
PT VALEO AC INDONESIA	49
NILES CTE ELECTRONIC Co. Ltd (TAIWAN)	51

Asia – India

VALEO FRICTION MATERIALS INDIA LIMITED	60
AMALGAMATIONS VALEO CLUTCH PRIVATE LIMITED	50
VALEO INDIA PRIVATE Ltd.	50
MINDA VALEO SECURITY SYSTEMS PRIVATE LIMITED	100
VALEO LIGHTING SYSTEMS INDIA PRIVATE LIMITED	100

7.3 Material contracts

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.

In May 2011, Valeo issued 500 million euros worth of bonds maturing in 2018 and launched an offer to redeem 200 million euros worth of bonds maturing in 2013 out of the total 600 million euro issuance of June 2005.

On June 30, 2011, Valeo acquired Niles, a leading manufacturer of automotive switching systems.

In September 2011, Valeo entered into two agreements with an investment services provider to implement its share buyback program. Consequently, 1,228,000 shares were bought back, in two tranches, and have been allocated to cover stock option plans.

Pursuant to an agreement dated October 12, 2011, Valeo acquired control of two Korean companies, Valeo Pyeong Hwa Co., Ltd. and Valeo Pyeong Hwa International Co. Ltd., through the allocation of an additional seat on the Board of Directors of these entities and amendments to their rules of governance.

On December 5, 2011, Valeo acquired UK automotive technology development company, Controlled Power Technologies (CPT), inventor of the Variable Torque Enhancement System (VTES) in the area of electric supercharger technology.

On December 15, 2011, Valeo acquired Standard Motor Product Inc.'s entire interest in the French company Valeo Four Seasons, which sells compressors on the aftermarket as well as for heavy-duty trucks and special vehicles.

On December 29, 2011, Valeo acquired an 80% shareholding in Wuhu Ruby Automotive Lighting Systems from the Chinese automaker, Chery Automobile.

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 ordinary course of their business.

7.4 Documents on display

7.4.1 Documents made public by Valeo

The Company's press releases and annual Registration Documents filed with the French financial markets authority (*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's 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, the Internal Procedures of the Board of Directors 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 available at Valeo's headquarters in accordance with the law and the Company's articles of association.

7.4.2 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 AMF's General Regulations. It lists the information published or made public by Valeo between March 10, 2011 and March 20, 2012.

Annual, interim and quarterly financial information, share buyback programs, and other information (www.valeo.com)

March 5, 2012	Monthly press release containing weekly share buyback statements — February 2012 statement
February 22, 2012	Press release: Full-year 2011 and second-half 2011 results
February 6, 2012	Monthly press release containing weekly share buyback statements — January 2012 statement
January 17, 2012	Valeo announces the successful outcome of its 500 million euro bond issue with maturity in 2017 and its offer to repurchase 88.862 million euros worth of notes with maturity in 2013;
January 6, 2012	Monthly press release containing weekly share buyback statements — December 2011 statement
January 6, 2012	Interim statement regarding the liquidity agreement at December 31, 2011
December 5, 2011	Monthly press release containing weekly share buyback statements — November 2011 statement
November 8, 2011	Monthly press release containing weekly share buyback statements — October 2011 statement
October 20, 2011	Press release: Third quarter 2011 results
October 5, 2011	Monthly press release containing weekly share buyback statements — September 2011 statement
October 5, 2011	Press release on the agreement for partial management of the share buyback program – execution of the agreement dated September 6, 2012 (second tranche)
September 21, 2011	Press release on the agreement for partial management of the share buyback program – execution of the agreement dated August 16, 2012 (first tranche)
September 6, 2011	Press release on the agreement for partial management of the share buyback program (second tranche)
September 5, 2011	Monthly press release containing weekly share buyback statements — August 2011 statement
August 16, 2011	Press release on the agreement for partial management of the share buyback program
August 2, 2011	Monthly press release containing weekly share buyback statements — July 2011 statement
July 28, 2011	Interim results for first-half 2011
July 27, 2011	Press release: First-half 2011 results
July 5, 2011	Interim statement regarding the liquidity agreement
July 5, 2011	Monthly press release containing weekly share buyback statements — June 2011 statement
June 6, 2011	Monthly press release containing weekly share buyback statements — May 2011 statement
May 11, 2011	Press release announcing the successful outcome of the bond issue and the offer to repurchase notes
May 6, 2011	Monthly press release containing weekly share buyback statements — April 2011 statement
May 4, 2011	Press release on Valeo's intention to repurchase notes issued under its Euro Medium Term Notes (EMTN) program
April 21, 2011	Press release: First quarter 2011 results
April 5, 2011	Monthly press release containing weekly share buyback statements — March 2011 statement
March 29, 2011	2010 review of operations
March 29, 2011	2010 Registration Document

Disclosure thresholds (published on the AMF website www.amf-france.org)

August 16, 2011	■ BlackRock Inc, 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 5, 2011	■ Amundi Group, acting on behalf of funds managed by it, reports reducing its interests in the capital and voting rights of Valeo below the 5% disclosure threshold
June 27, 2011	■ Amundi Group, acting on behalf of funds managed by it, reports having increased its interests in Valeo's capital and voting rights above the 5% disclosure threshold
June 21, 2011	■ Société Générale reports reducing its interests in Valeo's capital and voting rights below the 5% disclosure threshold
June 20, 2011	■ Société Générale reports having increased its interests in Valeo's capital and voting rights above the 5% disclosure threshold

Information relating to the Company's total share capital and voting rights (www.valeo.com)

Information covering the period March 8, 2011 through February 21, 2012, 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 the *Bulletin des annonces légales obligatoires* (BALO) and available on the BALO website (www.journal-officiel.gouv.fr/balo)

July 1, 2011	■ Approval of the 2010 parent company and consolidated financial statements by the Annual Shareholders' Meeting on June 8, 2011
May 4, 2011	■ Convening notice for the Annual Shareholders' Meeting of June 8, 2011
March 30, 2011	■ Notice of the Annual Shareholders' Meeting of June 8, 2011

Information published by Valeo in financial publications

February 22, 2012	■ Press release in Hugin announcing the second-half and full-year 2011 results
October 20, 2011	■ Press release in *Les Echos* announcing quarterly net sales
July 29, 2011	■ Press release in *Les Echos* announcing the interim results
April 21, 2011	■ Press release in *Les Echos* announcing quarterly net sales

Press releases published on the Valeo website (www.valeo.com)

February 2012	
February 22, 2012	■ Valeo: Full-year 2011 and second-half 2011 results
February 13, 2012	■ Valeo certified as Top Employer France and Europe 2012
January 2012	
January 17, 2012	■ Valeo announces the successful outcome of its 500 million euro bond issue with maturity in 2017 and its offer to repurchase 88.862 million euros worth of notes with maturity in 2013
January 17, 2012	■ Valeo innovates by giving people access to smartphone services and applications from their vehicle's central console
January 3, 2012	■ Valeo acquires an 80% stake in Chery Group's lighting company in China
January 2, 2012	■ Valeo present at Auto Salon in Delhi for first time
December 2011	
December 6, 2011	■ Valeo acquires electric supercharger technology
October 2011	
October 20, 2011	■ Valeo: 2011 third quarter results
October 5, 2011	■ Valeo: Execution of the agreement for partial management of the share buyback program
September 2011	
September 21, 2011	■ Valeo: Execution of the agreement for partial management of the share buyback program
September 13, 2011	■ Valeo presents five major innovations at the Frankfurt Motor Show
September 6, 2011	■ Valeo: Agreement for the partial management of the share buyback program
August 2011	
August 16, 2011	■ Valeo: Agreement for the partial management of the share buyback program
July 2011	
July 27, 2011	■ Valeo: 2011 first-half results
July 22, 2011	■ Valeo announces that its subsidiary, Valeo Inc., Troy, Michigan has a subpoena from the Antitrust Division of the United States Department of Justice requesting documents and information
June 2011	
June 30, 2011	■ Valeo announces the closing of the acquisition of Japanese company Niles
June 8, 2011	■ Valeo: 2011 Combined Annual Shareholders' Meeting
May 2011	
May 18, 2011	■ Valeo at "Challenge Bibendum"
May 11, 2011	■ Valeo announces the successful outcome of its 500 million euro bond issue with maturity in 2018 and its offer to repurchase 200 million euros worth of notes with maturity in 2013
May 4, 2011	■ Valeo: Publication of the Meeting Notice for Valeo's 2011 Annual General Shareholders' Meeting
May 4, 2011	■ Valeo seeks to repurchase notes issued under its Euro Medium Term Notes (EMTN) Progam
April 2011	
April 21, 2011	■ Valeo: 2011 first quarter results
April 19, 2011	■ Valeo announces that it is participating in the Auto Shanghai show which is being held from April 21 to 28, 2011
April 1, 2011	■ Valeo inaugurates two new sites in China: an electronics development center in Shenzen and a wiper systems plant in Wenling

7.5 Information related to the Statutory Auditors

7.5.1 Statutory Auditors and Alternate Statutory Auditors

Statutory Auditors:

- **Ernst & Young et Autres**, represented by Jean-François Ginies and Gilles Puissochet – 1, Place des Saisons, 92400 Courbevoie, France
  - Member of the Versailles Institute of Statutory Auditors (*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 ending December 31, 2015.
- **Mazars,** represented by Lionel Gotlib and David Chaudat – 61, rue Henri Régnault, 92075 Paris-La Défense Cedex, France
  - Member of the Versailles Institute of Statutory Auditors (*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 ending December 31, 2015.

The term of office of the Statutory Auditors, PricewaterhouseCoopers Audit and Salustro Reydel, member of KPMG, was not renewed at the Ordinary and Extraordinary 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 Versailles Institute of Statutory Auditors (*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 ending December 31, 2015.
- **Philippe Castagnac** – 44, rue de la Faisanderie, 75116 Paris, France
  - Member of the Paris Institute of Statutory Auditors (*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 ending December 31, 2015.

7.5.2 Fees paid to the Statutory Auditors

	Ernst & Young				Mazars			
	Amount (excl. taxes)		%		Amount (excl. taxes)		%	
(in millions of euros)	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
AUDIT								
Issuer	0.0	0.0			0.0	0.0		
Consolidated subsidiaries	3.8	3.1			2.5	2.1		
Statutory audit and contractual audits	**3.8**	**3.1**	**95%**	**88%**	**2.5**	**2.1**	**96%**	**95%**
Issuer	0.0	0.0			0.0	0.0		
Consolidated subsidiaries	0.2	0.2			0.1	0.0		
Audit-related services	**0.2**	**0.2**	**5%**	**6%**	**0.1**	**0.0**	**4%**	**0%**
SUB-TOTAL AUDIT	**4.0**	**3.3**	**100%**	**94%**	**2.6**	**2.1**	**100%**	**95%**
OTHER SERVICES PROVIDED BY MEMBERS OF THE AUDITORS' NETWORKS TO CONSOLIDATED SUBSIDIARIES								
Legal and tax advisory services	0.0	0.1			0.0	0.1		
Other	0.0	0.1			0.0	0.0		
SUB-TOTAL OTHER SERVICES	**0.0**	**0.2**	**0%**	**6%**	**0.0**	**0.1**	**0%**	**5%**
TOTAL	**4.0**	**3.5**	**100%**	**100%**	**2.6**	**2.2**	**100%**	**100%**

7.6 Person responsible for the Registration Document

7.6.1 Name of the person responsible for the Registration Document containing the annual financial report

Jacques Aschenbroich, Chief Executive Officer of Valeo.

7.6.2 Declaration by the person responsible for the Registration Document containing the annual financial report

"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 and listed in Chapter 8, section 8.3 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.

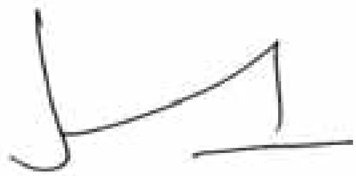
The consolidated financial statements for the year ended December 31, 2010 are the subject of a report by the Statutory Auditors which appears in Chapter 5, section 5.B.7 of the Registration Document filed with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2011, reference number D.11-0191, 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 AMF on March 23, 2010, reference number D.10-0149, which contains observations of a purely technical nature."

Paris, March 29, 2012

Jacques Aschenbroich

Chief Executive Officer



Bare chip wiring
for electronic power modules

8

CROSS-REFERENCE TABLES

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

8.1 Cross-reference table for the Registration Document

This cross-reference table lists the main headings provided for by European Regulation No. 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, 2010, registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2011, under number D.11-191 ("RD 2010") and, where necessary, to the Registration Document sections and chapters for the fiscal year ended December 31, 2009, registered with the AMF on March 23, 2010 under number D.10-149 ("RD 2009").

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/sections	Pages
1.	**Persons responsible**		
1.1	Names and functions of persons responsible	7.6.1	318
1.2	Declaration by persons responsible	7.6.2	318
2.	**Statutory Auditors**		
2.1	Name and address of the statutory auditors	7.5.1	316
2.2	Information on the resignation of the statutory auditors	N/A	
3.	**Selected financial information**		
3.1	Selected historical financial information	1.1 and 5.6.1	6-10; 279
3.2	Selected financial information for interim periods	N/A	
4.	**Risk factors**	**2**	**51-61**
5.	**Information relating to the issuer**		
5.1	History and development of the issuer		
5.1.1	Legal and commercial name of the issuer	7.1.1	306
5.1.2	Place of registration of the issuer and its registration number	7.1.6	307
5.1.3	Date of incorporation and length of life of the issuer	7.1.4	306
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	7.1.1 and 7.1.2	306
5.1.5	Important events in the development of the issuer's business	1.3.1	17-19
5.2	Investments		
5.2.1	Principal investments made	5.1.2	186-187
5.2.2	Principal investments in progress	5.1.2	186
5.2.3	Principal future investments	5.1.2	186
6.	**Business overview**		
6.1	Principal activities		
6.1.1	Nature of the issuer's operations and its principal activities	1.4	34-49
6.1.2	New products	1.4	34-49
6.2	Principal markets	1.1.1, 1.1.2, 1.2.1, 1.4.1, 1.4.2, 1.4.3, 1.4.4 and 1.4.5	6; 11-12; 36-37; 40; 43-44; 46-47; 49
6.3	Exceptional factors	N/A	
6.4	Dependence on patents, licenses, contracts and manufacturing processes	1.3.4 and 2.1.3	29-31; 55
6.5	The basis for any statements made by the issuer regarding its competitive position	1.4.1, 1.4.2, 1.4.3 and 1.4.4	36-37; 40; 43-44; 46-47; 49
7.	**Organizational structure**		
7.1	Brief description of the Group	1.3.2 and 7.2	19-20; 309
7.2	List of significant subsidiaries	4.6, 5.2.6 (Notes 2.1 and 7) 5.5.4 (Note 17) and 7.2	178-179; 205-208; 250-254; 276; 309

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/sections	Pages
8.	**Property, plant and equipment**		
8.1	Material property, plant and equipment	1.3.5	33
8.2	Environmental issues that may affect the issuer's utilization of property, plant and equipment	1.3.5, 2.1.2 and 3.3	33; 54-55; 76-80
9.	**Operating and financial review**		
9.1	Financial position	5.1.2 Section 5.A.2 of RD 2010 Sections 1-3 of RD 2009	185
9.2	Operating results	5.1.1 and 5.4 Section 5.A.1 of RD 2010 Sections 1-3 of RD 2009	182-184; 257
9.2.1	Significant factors materially affecting the issuer's income from operations	2.1.1 and 5.1	182-187; 52-53
9.2.2	Explanation of material changes in net sales or revenues	5.1	182-187
9.2.3	Any policies or factors that have materially affected or could materially affect, directly or indirectly, the issuer's operations	2.1.1 and 5.1	52-53; 182-187
10.	**Capital resources**		
10.1	Issuer's capital resources	5.1.2, 5.2.5, 5.2.6 (Notes 5.8, 5.10, 5.11 and 9.1), 6.6.1 and 6.6.2	185; 192-193; 221; 232-235; 235-236; 267; 294; 295
10.2	Source and amounts of cash flows	5.1.2, 5.2.4 and 5.2.6 (Note 5.11)	185; 191; 235-236
10.3	Information on the borrowing requirements and funding structure	2.1.5, 5.1.2 and 5.2.6 (Notes 5.10, 6.1, 6.2)	58-59; 185; 232-235; 237-239; 240-245
10.4	Restrictions on the use of capital resources	2.1.5, 5.2.6 (Note 6.2.2) and 5.5.4 (Note 1.8)	58-59; 243-245; 272
10.5	Anticipated sources of funds	2.1.5, 5.2.6 (Note 6.2.2)	58-59; 243-245
11.	**Research and Development, patents and licenses**	1.1.6, 1.3.4, 3.2, 5.2.6 (Notes 4.4 and 5.2) Sections 1.B.4, 1.C.3, 1.D.6, 5.B.6 (Note 5.2) of RD 2010 Sections 1.D, 2.B.4.4, 2.E.2, 3.B.2, 4.F.4.2 of RD 2009	8; 29-31; 67-75; 212; 216-217
12.	**Information on trends**		
12.1	Most significant recent trends in production, sales and inventory, and costs and selling prices since the end of the last fiscal year	5.3.1	256
12.2	Known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the issuer's prospects	1.2.3, 1.2.5 and 5.3.2	13; 16; 256
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	4.1.1, 4.1.2, 4.4.1 and 4.4.2	130-142; 142-143; 159-161; 166
14.2	Conflicts of interest	4.1.2, 4.4.1 and 6.6.6	142; 160; 304

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/sections	Pages
15.	**Compensation and benefits**		
15.1	Compensation and benefits in kind	4.2, 4.4.2 and 5.2.6 (Note 6.6.1)	144-156; 168; 248
15.2	Retirement and similar benefits	4.2.1, 4.2.3, 4.2.5, 5.1.2 and 5.2.6 (Note 5.9.2)	144-153; 154-155; 156; 185; 225-231
16.	**Board practices**		
16.1	Terms of office of members of the Board of Directors	4.1.1	130-142
16.2	Service contracts with members of the administrative bodies	4.1.2	142-143
16.3	Information about the Audit Committee and Compensation Committee	4.3.4 and 4.4.2	158; 163-166
16.4	Statement regarding corporate governance	4.4.6 and 7.1.3	171; 306
17.	**Employees**		
17.1	Number of employees	1.3.2, 1.3.5 and 3.4.1 Sections 1.C.1.1, 1.C.1.4 and 3.B.1.1 of RD 2010 Sections 2.B.1.1, 2.C and 3.Q.4 of RD 2009	19; 33; 93
17.2	Shareholdings and stock options	4.1.1, 4.2.1, 4.2.3, 4.4.4 and 6.4.4	130-142; 144; 148; 154-155; 169; 290
17.3	Arrangements for involving employees in the capital of the issuer	3.4.4 and 6.4.4	98-99; 290
18.	**Major shareholders**		
18.1	Identification of principal shareholders	6.4	287-290
18.2	Existence of differing voting rights	6.4.2 and 7.1.11	288-289; 308
18.3	Control of the issuer	6.4.2	288-289
18.4	Arrangements which may result in a change in control of the issuer	6.6.5	302
19.	**Related party transactions**	4.4.2, 4.6, 5.2.6 (Note 6.6) and 6.6.6 Sections 4.D.2.8, 4.D.2.9, 4.F, 5.B.6 (Note 6.6) and 6.F.6.3 of RD 2010 Sections 3.J.4-4.F.6.7-5.D.12-5.D.16-5.F-6.A.2.8-6.A.2.9 of RD 2009	167; 178-179; 248; 304
20.	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**		
20.1	Historical financial information	5.2 Section 5.B of RD 2010 Sections 1-4-5 of RD 2009	188-255
20.2	Pro forma financial information	N/A	
20.3	Financial statements	5.5 Section 5.E of RD 2010 Sections 4-5 of RD 2009	258-278
20.4	Auditing of historical annual financial information		
20.4.1	Statement that the historical financial information has been audited	5.2.7 and 5.5.5 Sections 5.B.7 and 5.E.5 of RD 2010 Sections 4.G-5.E-8.B of RD 2009	255; 278
20.4.2	Other information audited by the auditors	4.5 and 4.6 Sections 4.E and 4.F of RD 2010 Sections 5.F-6.B of RD 2009	177; 178-179
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	12/31/2011	
20.6	Interim and other financial information		
20.6.1	Half-yearly or quarterly financial information	N/A	

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/sections	Pages
20.6.2	Interim financial information	N/A	
20.7	Dividend policy	7.1.8	307
20.7.1	Amount of dividends	6.3	286
20.8	Legal and arbitration proceedings	2.1.3, 5.2.6 (Notes 4.5.1 and 6.4)	56; 212; 247
20.9	Significant change in the financial or trading position	5.2.6 (Note 6.8) and 5.3.1	249; 256
21.	**Additional information**		
21.1	Share capital		
21.1.1	Amount of issued capital	5.5.4 (Note 9.1), 6.4.2 and 6.6.1	267, 288-289; 294
21.1.2	Shares not representing capital	6.6.4	302
21.1.3	Shares held by the issuer itself	6.4.2 and 6.5.2	288-289; 291
21.1.4	Convertible securities, exchangeable securities and securities with warrants	6.6.3	296-301
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	6.6.2	295
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	5.2.6 (Note 6.3.1) and 6.6.5	246, 302-303
21.1.7	Share capital history	6.6.1	294
21.2.	Memorandum and articles of association		
21.2.1	Description of the issuer's objects and purposes	7.1.5	307
21.2.2	Summary of any provision on the issuer's articles of association, charter or bylaws with respect to the members of the administrative, management and supervisory bodies	4.3 and 4.4.2	157-158; 161-162
21.2.3	Description of the rights, preferences and restrictions attached to each class of shares	7.1.8, 7.1.9 and 7.1.11	307-308
21.2.4	Description of the actions necessary to amend the rights of the shareholders	7.1.12	308
21.2.5	Description of the conditions governing the manner in which Annual Shareholders' meetings and Extraordinary Shareholders' meetings are called	7.1.10	308
21.2.6	Description of any provision that would have an effect of delaying, deferring, or preventing a change in control of the Company	6.6.6	304
21.2.7	Indication of any provision governing the ownership threshold above which shareholder ownership must be disclosed	6.6.5	302-303
21.2.8	Description of the conditions governing changes in the capital, where such conditions are more stringent than is required by law	7.1.12	308
22.	**Material contracts**	7.3	312
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**	7.4	312-315
25.	**Information on holdings**	1.3.2, 5.2.6 (Notes 2, 5.4 and 7), 5.5.5 (Note 17) and 7.2	19-20; 205-208; 219; 250-254; 277; 309-311

8.2 Cross-reference table for the annual financial report

	Annual financial report	Chapters/sections	Pages
1.	**Parent company financial statements**	5.5	258-278
2.	**Consolidated financial statements**	5.2	188-255
3.	**Management report (French Monetary and Financial Code)**		
	Article L.225-100 of the French Commercial Code		
	– Analysis of business trends	5.1.1	182-184
	– Analysis of results	5.1.1	182-184
	– Analysis of financial position	5.1.2	185-187
	– Principal risks and uncertainties	2.1	52-60
	– Summary table of powers currently delegated by the Annual Shareholders' Meeting to the Board of Directors with respect to capital increases	6.6.2	295
	Article L.225-100-3 of the French Commercial Code		
	– Information likely to have an impact in the event of a public tender offer	6.6.6	304
	Article L.225-211 of the French Commercial Code		
	– Buyback by the Company of its own shares	6.5	290-293
4.	**Declaration by the person responsible for the annual financial report**	7.6.2	318
5.	**Statutory Auditors' report on the financial statements**	5.5.5	278
6.	**Statutory Auditors' report on the consolidated financial statements**	5.2.7	255
7.	**Statutory Auditors' special report on related party agreements and commitments**	4.6	178-179
8.	**Fees paid to the Statutory Auditors**	7.5.2	317
9.	**Report by the Chairman of the Board on corporate governance, internal control and risk management (Article L.225-37 of the French Commercial Code)**	4.4	159-176
10.	**Statutory Auditors' report on the Chairman's report**	4.5	177

8.3 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	Pages
	Share ownership structure and share capital		
24.	Share ownership structure and changes during the fiscal year	6.4 and 6.5.1	287-291
25.	Status of employee stock-ownership plans	6.4.4	290
26.	Treasury shares bought and sold by the Company	6.5	290-293
27.	Name of companies controlled and equity interest	5.2.6 (Note 7)	250-254
28.	Stock disposals to adjust reciprocal shareholdings	N/A	
29.	Amount of dividends and other distributed earnings paid during the past three fiscal years	6.3	286
30.	Disclosures likely to be material in the event of a public tender offer	6.6.6	304
	Other disclosures		
31.	Sumptuary expenses	5.4	257
32.	Five-year financial summary	5.6.1	279
33.	Injunctions or monetary penalties for anti-competitive practices	N/A	
34.	Information on stock option plans granted to corporate officers and employees	4.2.4, 4.4.4 and 5.5.4 (Notes 1.7 and 9.1.2) and 6.6.3	156; 169; 263; 268; 296-301
35.	Information on free shares granted to corporate officers and employees	4.2.4, 4.4.4 and 5.5.4 (Notes 1.7, 9.1.3 and 6.6.3)	156; 169; 263; 268; 296-301
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	6.6.2	295

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Valeo French joint stock company (*Société Anonyme*) with a capital of 237,808,788 euros
Registrered in Paris under no. 552 030 967
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