2012

Registration Document

containing **the Annual Financial Report**

Automotive technology, naturally

Valeo


Dual dry clutch

THE INFORMATION FROM THE ANNUAL FINANCIAL REPORT IS CLEARLY IDENTIFIED IN THE TABLE OF CONTENTS BY THE AFR SYMBOL

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REGISTRATION DOCUMENT

containing **the Annual Financial Report**

2012

GROUP PROFILE

Valeo is an independent industrial Group fully focused on the design, production and sale of components, integrated systems and modules for the automotive industry, mainly geared towards CO_2 emissions reduction.

Valeo ranks among the world's top automotive suppliers.

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

72,600
employees

29
countries

125
plants

21
research centers

40
development centers

12
distribution platforms

This Registration Document was filed with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 28, 2013, 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, 2011, and the Statutory Auditors' special report on related-party agreements in respect to 2011 included in the Registration Document filed with the AMF on March 29, 2012, under number D.12-0237;
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, 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.

INTERVIEW

Jacques Aschenbroich

Chief Executive Officer of Valeo

> **"The solid results achieved in 2012 testify to the success of the Group's strategy of stepping up growth through innovation and expansion in Asia and emerging countries."**

WHAT DO YOU CONSIDER TO BE THE HIGHLIGHTS FOR VALEO IN 2012?

J.A.: Valeo's 72,600 employees can be proud of the work they have achieved over the past few years.

First, the Group's order intake(1) reached a new high of 15.8 billion euros, representing an increase of almost 60% compared with the order intake recorded only five years ago.

In addition, our sales grew 8.2% and operating margin rose 3% in the context of a particularly difficult automotive market in Europe.

Operating margin(1) remained stable at 6.2% of sales in both the first half and the second half of the year, despite a marked downturn in the European market in the second half of the year.

The solid results achieved in 2012 testify to the success of the Group's strategy of stepping up growth through innovation and expansion in Asia and emerging countries.

Innovations continued to advance and represented approximately 30% of order intake for the third year running. For the first time, our R&D efforts exceeded the 1 billion euro mark and now account for more than 10% of original equipment sales, making Valeo one of the world's most innovative companies, as demonstrated by its first-time ranking among the Thomson Reuters Top 100 Global Innovators.

In 2012, the Group continued to grow rapidly in Asia and emerging countries. **The share of Asia and emerging countries accounted for 54%** of original equipment sales, compared with only 37% five years ago. With 16% growth in sales, China is well on track to joining France as Valeo's leading country by 2015. Asia contributed 34% to order intake in 2012 and therefore its share within the Group is set to continue growing.

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(1) See Financial Glossary, section 5.8, page 296.

> "WE ARE CURRENTLY IN A POSITION TO CONFIRM THE MEDIUM-TERM OBJECTIVES THAT WE ANNOUNCED TO THE MARKET. OUR CONFIDENCE LIES IN THE FACT THAT VALEO'S GROWTH AND PROFITABILITY ARE BASED ON SOLID CORE VALUES."

WHAT ARE YOUR EXPECTATIONS FOR 2013 AND WHAT NEW TARGETS HAVE BEEN SET?

J.A.: We expect the performance of the automotive market to be uneven in 2013. Based on the assumption that automotive production will grow 1% worldwide and decline 4% in Europe, we have set the following objectives for 2013:

- sales growth higher than the market in the main automotive production regions;
- operating margin in line with 2012 (in millions of euros) despite a decline in the first half of the year as a result of market conditions.

€15.8bn

ORDER INTAKE IN 2012

WHAT MAKES YOU CONFIDENT THAT YOUR MEDIUM-TERM OBJECTIVES WILL BE ACHIEVED?

J.A.: We are currently in a position to confirm the medium-term objectives that we announced to the market. Our confidence lies in the fact that Valeo's growth and profitability are based on solid core values.

We are placing ever greater priority on reducing CO_2 emissions and fuel consumption, in line with the regulations in force in our main markets and the greater focus accorded by our customers and consumers alike. We believe that reducing fuel consumption should not need to impair the pleasure of driving. Indeed, our "intuitive driving" innovations aim to make driving safer, more economical and more enjoyable, and have been well received by the market. With our main product lines ranked among the top three worldwide, we are particularly well placed to take advantage of these trends in the development of the automotive market.

Thanks to the priority we have placed these past few years on expanding our business in Asia and emerging countries, we will be able to draw on the dynamic automotive market in these regions, where car ownership remains a long way off the level in more mature markets. With Asian and German customers representing 57% of original equipment sales, we are well positioned to capitalize on the development of these automakers which is outpacing average market growth.

Valeo is therefore set to achieve its objective of annual sales growth exceeding the global automotive market rate by three percentage points on average.

Valeo's results of the past three years demonstrate the Group's return to profitability, with operating margin of between 6% and 7% since 2010 and return on capital employed(1) of more than 30% in 2010 and 2011 and 28% in 2012. Our objective is to continue improving our profitability beyond the 7% operating margin mark and maintain return on capital employed in the order of 30%.

We are confident in our medium-term growth outlook and in a context of additional investments required to support the increase in order intake, we have set priorities of generating free cash flow(1), maintaining a solid financial position and ensuring a consistent dividend payment policy.

Finally, Valeo's strong financial position provides the means to finance its development, as reflected by the investment grade granted to the Group by the two main rating agencies.

We are confident in the Group's outlook for the future, and at the next Shareholders' Meeting, **shareholders will be asked to vote on the payment of a dividend of 1.50 euros per share**, representing an increase of 7% compared with the dividend paid in 2011.

Jacques Aschenbroich

Chief Executive Officer

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(1) See Financial Glossary, section 5.8, page 296.

i-StARS starter-alternator

PRESENTATION OF VALEO AND ITS BUSINESSES

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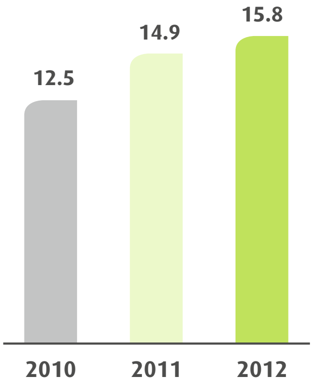
1.1 Key figures

1.1.1 ORDER INTAKE[1]

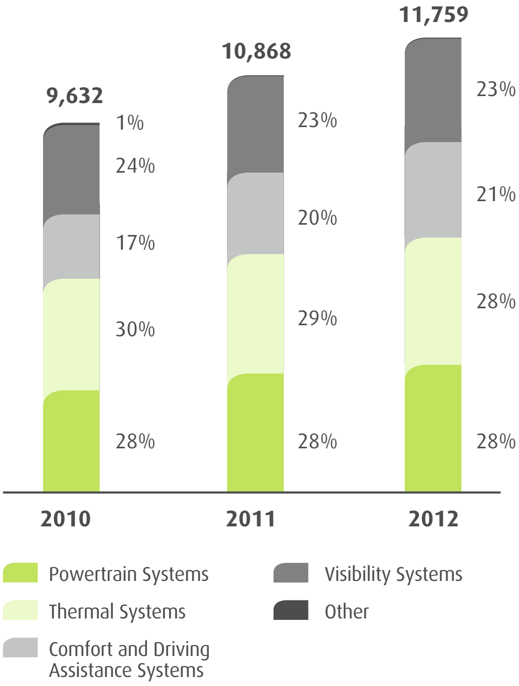
In billions of euros



Driven by Valeo's products and innovative systems, and accelerated expansion in Asia and emerging countries, order intake reached a new high of 15.8 billion euros.

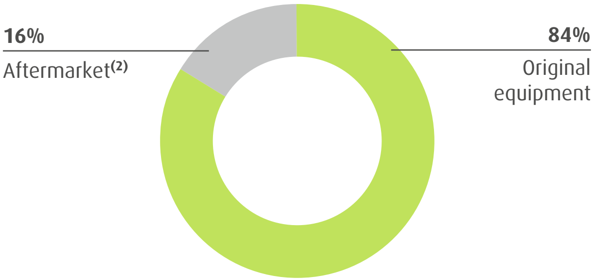
1.1.2 SALES BY BUSINESS GROUP

In millions of euros and as a % of sales



1.1.3 SALES BY MARKET

As a % of sales



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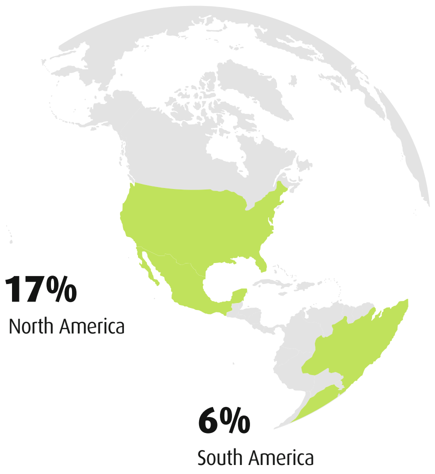
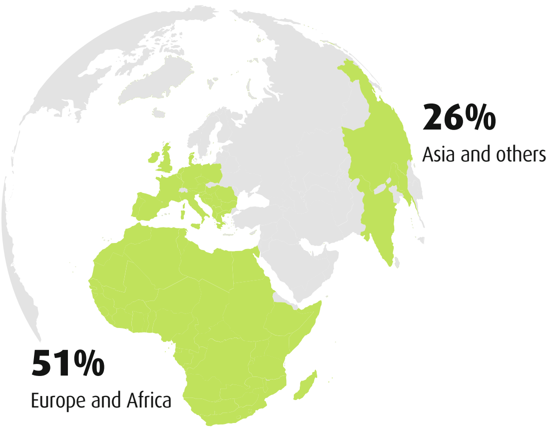
(1) Business awarded by automakers (less any cancelations) during the period, based on Valeo's best reasonable estimates in terms of volumes, selling prices and project lifespans.

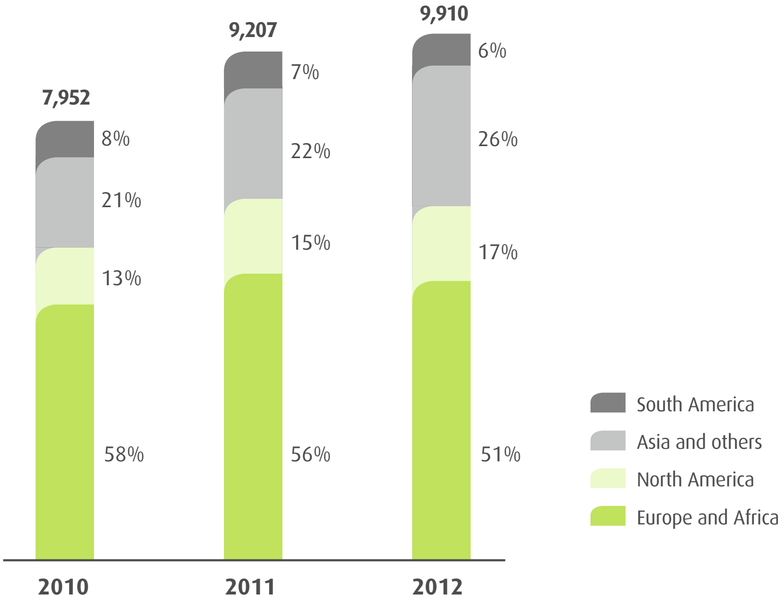
(2) Including miscellaneous sales and tooling.

1.1.4 ORIGINAL EQUIPMENT SALES BY DESTINATION

In millions of euros and as a % of original equipment sales



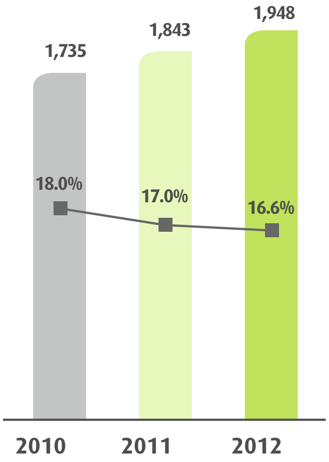




Valeo operates in 29 countries and works closely with the world's leading automakers in all their markets. The Group is continuing its expansion in Asia and emerging countries.

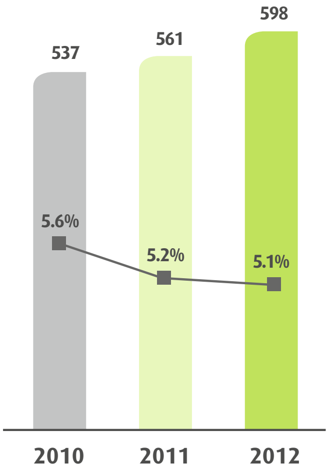
1.1.5 GROSS MARGIN

In millions of euros and as a % of sales



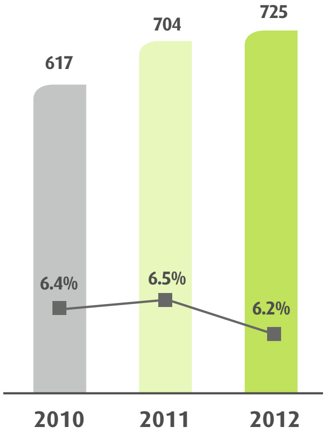
1.1.6 NET RESEARCH AND DEVELOPMENT EXPENDITURE

In millions of euros and as a % of sales, net of customer contributions, grants and research tax credits



1.1.7 OPERATING MARGIN[1]

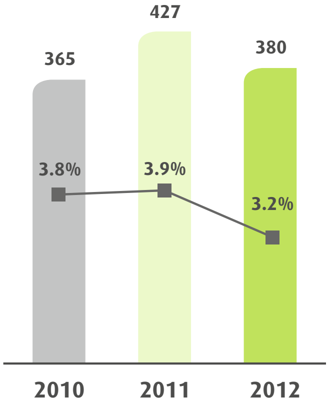
In millions of euros and as a % of sales



In line with its objectives, Valeo achieved an operating margin of between 6% and 7% from 2010 to 2012 despite the financial crisis in Europe.

1.1.8 NET ATTRIBUTABLE INCOME

In millions of euros and as a % of sales



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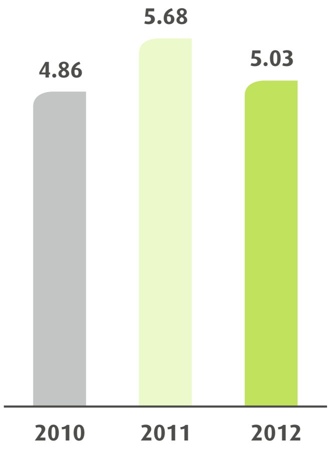
(1) Operating margin corresponds to operating income before other income and expenses (see Chapter 5, section 5.2.6, Note 4.5 to the consolidated financial statements, page 223).

1.1.9 BASIC EARNINGS PER SHARE

In euros

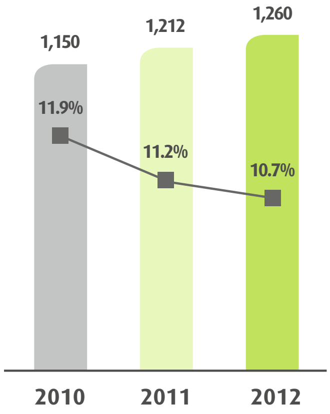


1.1.10 BASIC EARNINGS PER SHARE EXCLUDING NON-RECURRING ITEMS[1]

In euros

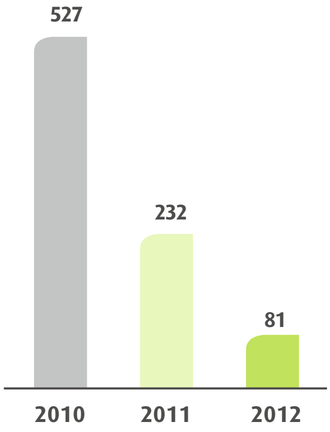
1.1.11 EBITDA[2]

In millions of euros and as a % of sales



1.1.12 FREE CASH FLOW[3]

In millions of euros



In 2012, Valeo generated free cash flow of 81 million euros, reflecting increased investments following the rise in order intake.

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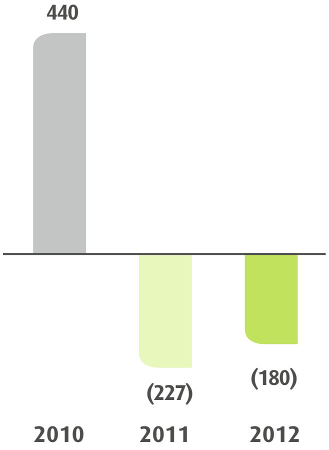
(1) Net attributable income (Group share) excluding non-recurring items/weighted average number of ordinary shares outstanding during the year, excluding the average number of shares held in treasury stock. Net attributable income (Group share) excluding non-recurring items corresponds to net attributable income (Group share) adjusted for "other income and expenses" net of tax and negative goodwill recognized in respect of Detroit Thermal Systems in "share in net earnings of associates" for 2012.

(2) EBITDA corresponds to operating income before depreciation, amortization and impairment losses (included in the operating margin) and other income and expenses (see Chapter 5, section 5.2.6, Note 3.2 to the consolidated financial statements, page 221).

(3) Free cash flow corresponds to net cash from operating activities (938 million euros) less net outflows resulting from acquisitions and disposals of property, plant and equipment and intangible assets (857 million euros).

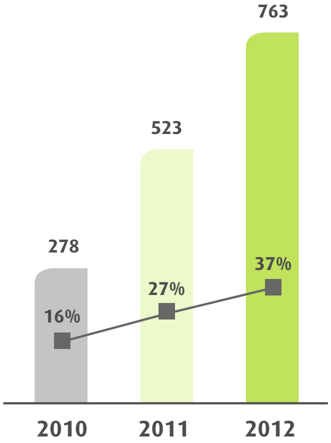
1.1.13 NET CASH FLOW(1)

In millions of euros



1.1.14 NET DEBT(2)

In millions of euros and as a % of consolidated stockholders' equity, excluding non-controlling interests (at December 31)



1.1.15 CAPITAL TURNOVER(3)

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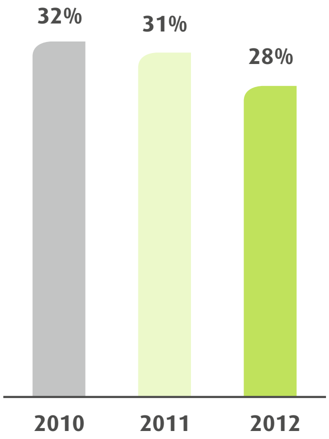
(1) Net cash flow corresponds to free cash flow (81 million euros) less (i) cash flows in respect of investing activities, relating to acquisitions and disposals of investments with a change of control (net outflows of 19 million euros and 10 million euros, respectively) and to changes in certain items shown in non-current financial assets (outflow of 5 million euros); and (ii) cash flows in respect of financing activities, relating to dividends paid (outflow of 124 million euros), treasury share purchases and sales (net inflow of 23 million euros), interest paid and received (net outflow of 66 million euros), and acquisitions of equity interests without a change of control (outflow of 60 million euros).

(2) 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 5.12.5 to the consolidated financial statements, page 248).

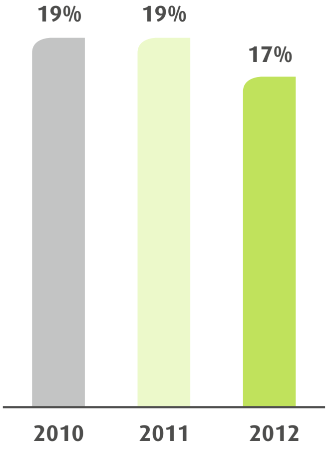
(3) Sales/capital employed excluding goodwill (see Financial Glossary, section 5.8, page 296).

1.1.16 ROCE (RETURN ON CAPITAL EMPLOYED)(1)

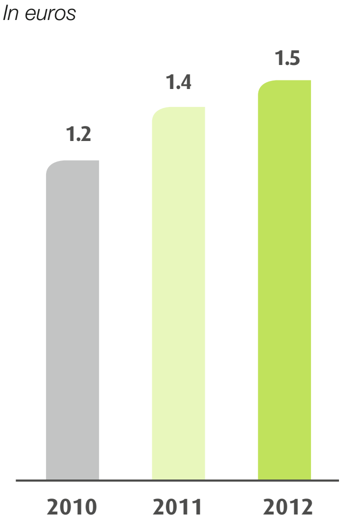


Valeo has recorded return on capital employed around 30% since 2010, in line with its objectives.

1.1.17 ROA (RETURN ON ASSETS)(2)



1.1.18 DIVIDEND PER SHARE



Valeo is confident in its outlook for the future, and at the next Shareholders' Meeting on June 6, 2013, shareholders will be asked to vote on the payment of a dividend of 1.50 euros per share, an increase of 7% compared with the dividend paid in 2011.

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(1) ROCE corresponds to operating margin/capital employed excluding goodwill (see Financial Glossary, section 5.8, page 296).

(2) ROA corresponds to operating margin/capital employed including goodwill (see Financial Glossary, section 5.8, page 296).

1.2 Valeo's strategy

1.2.1 Latest trends in the automotive industry

Major technological and regional developments are taking place within the global automotive industry.

The reduction of CO_2 emissions and intuitive driving

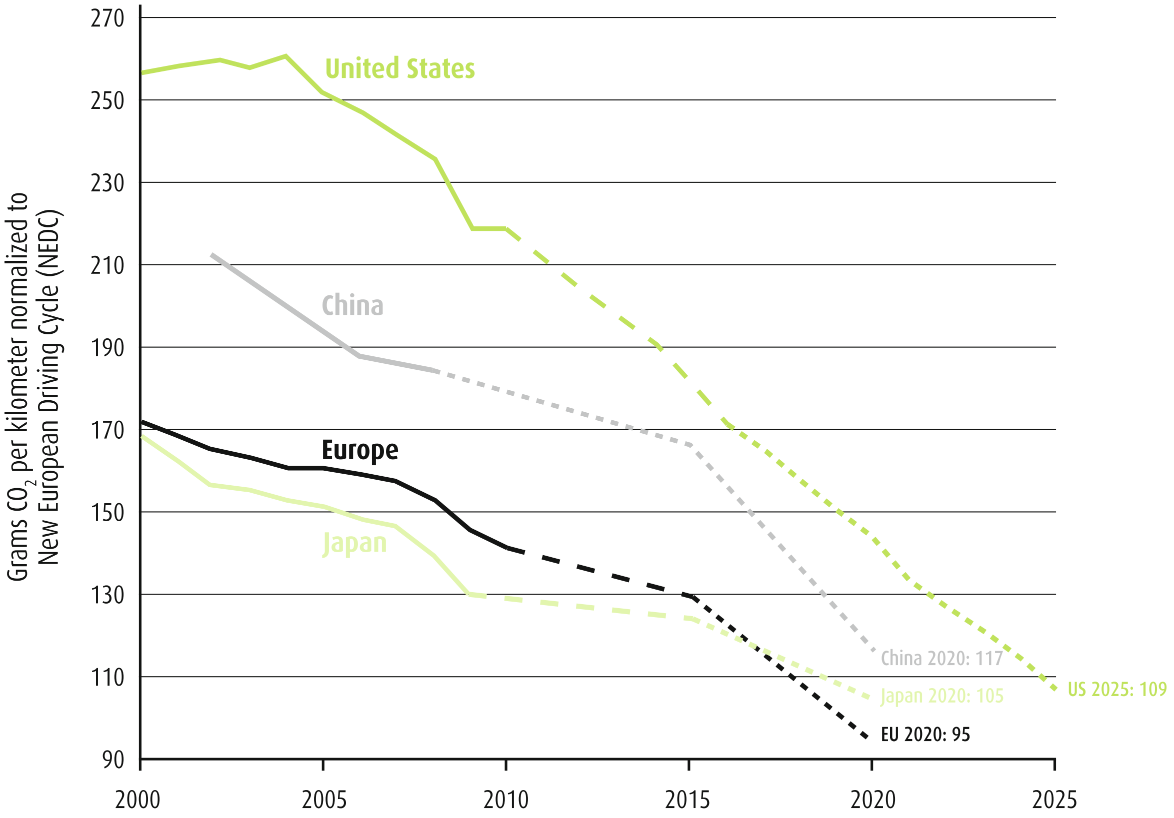
The reduction of CO_2 emissions is the main technological development in today's automotive market, which is something that both consumers and the population in general have been demanding.

Politically speaking, the issues differ significantly depending on the region. For example, Europe in particular 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, which represents a quarter of all CO_2 emissions, must find business solutions to reduce consumption of petroleum products or, in other words, reduce their carbon footprints. As a result, ever-tighter regulations have been decreed all over the globe, starting in Japan and Europe, but also in the US, China and India. New technical developments are required in all sectors of the automobile industry in order to meet the necessary standards.

In addition, mobility is a core value in society. For this reason, drivers want cars that are more energy-efficient, safer to drive, better connected, more independent and equipped with an easy to use control interface. Driving assistance systems aim to improve safety, reduce CO_2 emissions, and make driving more enjoyable – the very basis of Valeo's new "intuitive driving" concept.

Market context – Regulatory impact analysis

Current CO_2 levels by region and targets



Source: The International Council for Clean Transportation.

Expansion in Asia and emerging countries

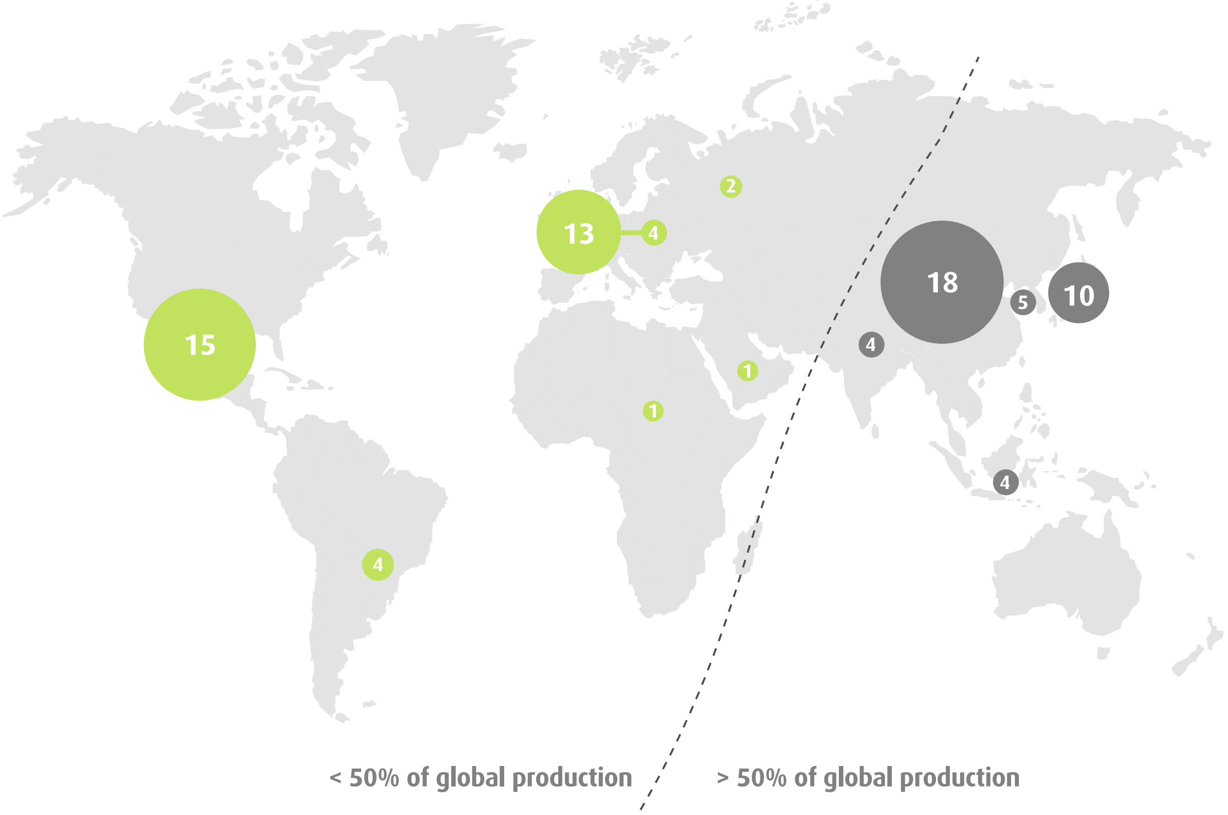
The second underlying market trend is the shift in the automotive industry's center of gravity from the western world to Asia, which now represents over 50%(1) of world automotive production. The Chinese automotive market has more than doubled since 2007, with18.3(1) million vehicles produced in 2012, representing 23%(1) of global automotive production.

While 2012 has seen North American automotive production return to pre-crisis levels, in Europe and Japan production levels remain at less than 90% of those recorded in 2007.

The shift in automotive production towards Asia and emerging countries is expected to continue over the coming years, in light of the prospects for growth and low levels of car ownership in these regions. Valeo forecasts that China could represent around a third of the global automotive market by 2030(2).

Regional breakdown of automotive production in 2012

(Word automotive production, in millions of vehicles)



Total quality, innovation and presence across all continents

Despite these shifts in the market, fundamentals in the automotive industry apply to every continent. The focus is still on quality, innovation, global platforms, and service. 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.

Automakers are also seeking new technical solutions to fit the individual needs of their customers on a local basis. Valeo is well placed to help its customers in this process, through its research and development capabilities spread across all continents.

With regard to innovation, automotive suppliers are becoming increasingly responsible for the development of new technologies. Since 2004, automotive suppliers in Europe have increased research and development spending three

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(1) Source: LMC and Valeo.

(2) Source: Beep and Valeo.

times as much as automakers. According to the European Association of Automotive Suppliers (which is known under the French acronym CLEPA), automotive suppliers carry around half of the research and development spend on every vehicle (excluding crash tests). It should be noted that many marketing drives for vehicles focus on technologies developed by automotive suppliers such as stop-start systems, smart lighting (BeamAtic® PremiumLED) and semi-automatic parking.

1.2.2 Presentation of Valeo's strategy

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 behavior, across all world regions (see section 1.3.5, Research and development, page 30). This system is unrivaled among automotive suppliers.

In response to these changes within the automotive industry, Valeo has built its growth strategy on the following:

- technologies relating to 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, reducing the amount of energy used by the vehicle's various functions, and developing lighter components. For example, several technologies developed by Valeo have met with a favorable reception by both automakers and consumers:

- Valeo was the first supplier to offer its customers the stop-start system, which automatically shuts the engine off when the vehicle is at a standstill (e.g., at a red traffic light) saving as much as 15% in fuel consumption in dense urban traffic. In 2012, Valeo unveiled its most recent innovation: the "affordable hybrid" system (Hybrid4All®), which generates half of the energy savings of a conventional hybrid system for only a quarter of the price;
- Valeo offers an improved vehicle thermal management system, which increases efficiency in internal combustion engines while reducing the energy needed to ensure passenger comfort as well as reducing harmful engine emissions. The water cooled charge air cooler system makes it possible, for example, to produce turbocharged engines that are more compact and cleaner;
- Valeo produces 100% LED lighting technology, which is the first of its type and is five times more efficient than halogen bulbs (based on the relationship between the lighting's efficiency and energy consumption) and also provides automakers with a variety of opportunities in terms of design;
- Valeo's driving assistance systems offer drivers a range of smart technologies to improve vehicle safety and comfort (including, amongst others, the detection of obstacles and other vehicles, fully-automated parking, and systems that provide an aerial view around the vehicle). Despite the complexity of the vehicles however, there is still a need to provide the end user with simple and connected interfaces, such as the touch screen interface developed by Valeo that allows the driver to replicate their smartphone display.

The Group estimates that CO_2 emission reduction technologies will account for 75% of Valeo's growth between now and 2015.

Geographic positioning in high-growth regions

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

New production facilities have been built locally to meet surging demand in these markets. Where possible these new production units have been set up on multi-activity sites in order to optimize profitability.

Consequently, the number of plants in Asia has increased from 31 to 44 between 2009 and 2012. There were 22 plants in China by the end of 2012 and 4 more are being built in 2013.

Valeo's increased sales in Asia will account for half of the Group's overall growth between now and 2015. The Group should generate over 30% of its original equipment sales on this continent by 2015.

Along with France, China will then become the Group's largest market in terms of headcount and sales.

1.2.3 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 of the Group's employees, and its strong commitment to social and environmental issues.

To ensure customer satisfaction in terms of costs, quality and delivery, Valeo has developed a 5 Axes methodology, which is strictly applied by all sites. The 5 Axes focus on 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 is the foundation of the other 4 Axes. It helps company performance by placing value on human resources and optimizing efficiency.

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

The 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, given the growth in order intake (up 72% between 2009 and 2012), recruiting engineers and technicians poses a challenge due to stretched job markets in some countries and regions. **The Group plans to recruit over 1,000 engineers a year for its Research and Development departments between now and 2015, of which 300 to 400 will be based in France, using the research tax credit system.**

Valeo has opted for a global policy that goes beyond financial compensation as the sole criterion and encompasses fixed and variable compensation to support career development, 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 work-life balance among its employees.

Involvement of Personnel is essential for improving Group profitability, especially in support functions. During the implementation of the new organizational structure in 2010, the Group set up shared service centers in various regions. Cash management, accounting, human resources, logistics, and quality were grouped together in each country with the aim of unlocking synergies and reducing general and administrative overheads. The target is to reduce these costs to 3.5% of sales (compared with 4.8% in 2008 and the current level of 3.6%).

Valeo Production System

The Valeo Production System is acknowledged throughout the industry for its efficiency in quality and cost management. Its primary objective is to produce quality products within deadlines set by automakers. These are decisive criteria for ensuring customer satisfaction as well as profitable operations and future growth.

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

Installing production capacities in emerging countries reduces inventories and logistics costs (since deliveries are local) and cuts costs and capital expenditure.

On an annual basis, Valeo 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. Valeo regularly analyzes its innovations 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 will ensure profitable growth over the coming years by maintaining **high levels of gross R&D expenditure, amounting to over 1 billion euros.**

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. At Valeo's plants, product development and manufacturing teams work in close collaboration so as to ensure compatibility between these innovations and production processes.

Lastly, Valeo relies on shared resource centers in cost-competitive countries to enhance synergies and cut development costs. These centers include the software development center in Cairo (Egypt), the electronic circuits center in Shenzhen (China), the mechanical design and simulations center in Chennai (India) and the lighting systems center in Wuhan (China).

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

Valeo's innovation policy and its development methods are widely acknowledged by the Group's customers, who increasingly look to Valeo for the development of new technologies. In fact, innovative products accounted for 28% of all order intake in 2012.

In 2012, Valeo was included in Thomson-Reuters' list of the Top 100 Global Innovators, which features only four automotive suppliers. This recognition, which sees the Group placed amongst the 100 most innovative companies in the world, is a reward for Valeo's commitment to innovation.

Supplier Integration

Valeo relies on a unique financial model with a strong capital turnover(1) (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 strategic nature of a component – is return on invested capital. For example, Valeo outsources more than its competitors in areas such as tooling and metal casting. Furthermore, it relies heavily on suppliers for developing new, more efficient, lighter, and more cost-effective products.

To optimize procurement, the Group implemented an organization improving coordination between various purchasing teams. Each Business Group is still responsible for its own procurement, which is a sizable cost component, but the Group's buyers, located 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.

In 2012, procurement accounted for 59% of the Group's sales.

Total Quality

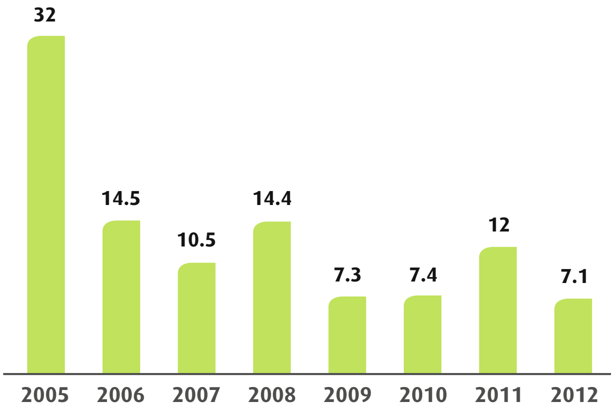
Whatever we do, whichever process is at work, customers are the focal point. Their full satisfaction is what underpins short-, medium-and long-term growth and profitability at Valeo.

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's goal is also to meet the needs of new players, in particular those in China and India.

In order to meet customer expectations in terms of product and service quality, total quality is required throughout the Group and from its suppliers. At Valeo, Total Quality is a state of mind. The process involves all employees at all levels at all times.

At end-December 2012, the Group's quality level was 7,113 ppb (defective parts per billion), which represented an improvement of 46% compared with 2011.

Number of defective parts per million produced (3 month average)



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(1) See Financial Glossary, section 5.8, page 296.

1.2.4 Strategic Plan

In light of trends in the European automotive market since 2011, Valeo has adjusted the automotive production assumptions presented at the Investor Day on March 9, 2011.

Following 2012, a year during which automotive production fell by 5% in the Europe geographic segment (including Africa), the Group now forecasts a 4% decrease in production in this region for 2013 compared with the 5% year-on-year increase initially expected for 2012 and 2013.

In view of the record order intake(1) of the past few years, driven by a portfolio of innovative products and accelerated expansion in Asia and emerging countries, we are less dependent on the European market and remain confident in our ability to achieve our objectives:

- annual sales growth exceeding the market rate by three percentage points on average(2);
- medium-term operating margin above 7%. Valeo has achieved its objective of an operating margin(1) of between 6% and 7% in each of the past three years (6.4% in 2010, 6.5% in 2011 and 6.2% in 2012);
- return on capital employed(1) in the region of 30%. Valeo achieved its objective of a return on capital employed of above 30% in 2010 and 2011 (32% in 2010, 31% in 2011 and 28% in 2012).

In a context of additional investments required to support the increase in order intake, the Group has set priorities of generating free cash flow(1) and maintaining a solid financial position.

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(1) See Financial Glossary, section 5.8, page 296.

(2) Based on LMC and Valeo estimates.

1.2.5 Confident in achieving targets

In spite of the European financial crisis, over the 2010-2012 period Valeo demonstrated that it is capable of growing faster than the market, and posted a level of profitability in line with the targets set out at the Group's Investor Day in March 2011.

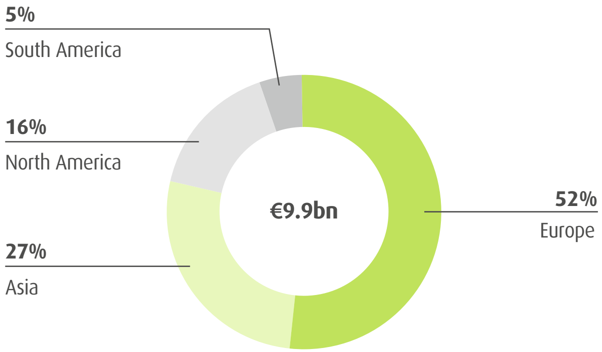
Growth

Valeo's sales grew at an average of 2.5 percentage points above the market over the 2010-2012 period(1).

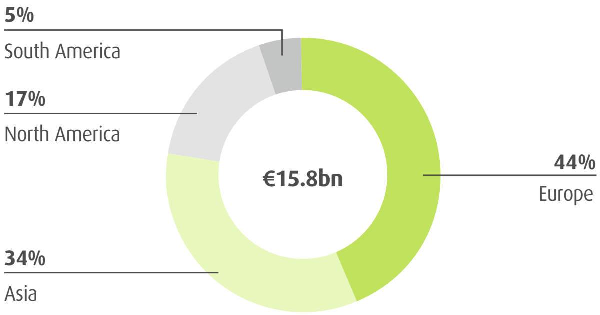
In 2012, the order intake(2) once again reached a new high of 15.8 billion euros compared with 14.9 billion euros in 2011. This performance confirms Valeo's organic growth potential which is driven by:

- the Group's innovative products and systems, which accounted for 28% of order intake in 2012;
- accelerated expansion in Asia and emerging countries. Asia and China contributed 34% and 18% respectively to order intake, eight percentage points more than their current contribution to original equipment sales by destination in 2012 (26% and 10%, respectively). By contrast, Europe contributed 44% to order intake, seven percentage points less than its contribution to original equipment sales by destination in 2012.

Regional breakdown of original equipment sales by production region in 2012



Regional breakdown of order intake in 2012



Profitability

In line with its objectives, Valeo achieved an operating margin of between 6% and 7% from 2010 to 2012 (6.4% in 2010, 6.5% in 2011 and 6.2% in 2012).

The new operating structure set up in 2010 has helped Valeo to improve its profitability, particularly through the reduction in general and administrative overheads. The Group's breakeven point now stands at 78% of sales, compared with 88% before the crisis in 2007. The expected growth in sales relating to the increase in order intake should help the Group continue to increase profitability.

Return on capital employed

In line with its objectives, Valeo achieved a return on capital employed(2) above 30% in 2010 and 2011: 32% in 2010, 31% in 2011 and 28% in 2012.

Continual arbitration between in-house manufacturing and outsourcing is intended to optimize the level of capital employed. Through the strict management of inventories and cross-continent logistics kept to the lowest level possible, Valeo operated with negative working capital during the year. As a result, the return on capital employed came in at around 30%.

Generation of cash and dividends

In view of the expected improvement of the Group's operational profitability, the optimization of its investment procedures and the management of its working capital requirement, Valeo is confident in its ability to generate significant free cash flow(2) to support a long-term dividend policy.

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(1) Based on LMC and Valeo estimates.

(2) See Financial Glossary, section 5.8, page 296.

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 business sectors (thermal systems in 1962, lighting systems in 1970 and electrical systems in 1978) and into international markets (Spain in 1963, Italy in 1964 and 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 forward-looking strategy based on:

- a new industrial culture, adopting the "5 Axes" method in 1991;
- a sustained research and development drive, setting up an electronics research center in Créteil (France) and an electronic module plant at Meung-sur-Loire (France) in 1992. Valeo opened research centers for lighting systems in Bobigny and for clutches in Saint-Ouen (France) in 1993;
- an international growth model, opening the first plants in Mexico and Wales (climate control) and Italy (lighting systems) in 1993, and creating the first joint ventures in China for wiper systems, climate control, lighting systems and electrical systems in 1994.

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 automotive 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 cost-competitive 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 automotive air-conditioning 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 air-conditioning 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 (Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd.), 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 the activity 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. CPT 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 Compresseurs 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 International Co. Ltd, through the granting of an additional seat on the Boards of these companies and changes to their governance.

2012

- Inauguration of Valeo's 22nd plant in China: Valeo Niles (interior controls) in Guangzhou. The opening of this site marked a milestone in Valeo's development strategy in China.
- Inauguration of the extension to the plant in Veszprém (Comfort and Driving Assistance Systems) in Hungary, laying the foundations for the new R&D center.
- Agreement to strengthen its Lighting Alliance with Ichikoh by creating a holding company – Valeo Ichikoh Holding Ltd. – that is 85%-owned by Valeo and 15%-owned by Ichikoh, to which the two companies will contribute their respective Chinese Lighting operations.
- Creation of a joint venture, Detroit Thermal Systems, with V. Johnson Enterprises, to acquire the air-conditioning systems business of Automotive Components Holdings (ACH). This company will produce air conditioning systems and components for automobiles.
- Signing of a contract with Japanese-based U-Shin for the sale of its Access Mechanisms business (locksets, steering column locks, handles and latches). The operation was approved by the competition authorities on February 7, 2013.

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, 2012, the Group had 125 plants, 21 research centers, 40 development centers and 12 distribution platforms and employed 72,600 people in 29 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 offering for customers and to develop new product offerings.

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 plants.

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.

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 spares to automakers and replacement parts to the Independent Aftermarket.

See section 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.

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.

Functional structure

The Group's functional structure is as follows:

- the **Audit and Internal Control Department** performs financial and operational audits on all of the Group's entities in order to ensure that procedures are carried out correctly and to establish coherent and consistent internal control practices that are deployed across the principal operational entities through the functional networks;
- the **External Relations and Sustainable Development Department** is responsible for coordinating public relations throughout all the countries the Group operates in, as well as public-private partnerships. It also oversees the implementation and monitoring of the Group's sustainable development policy within the company and external communications relating to actions undertaken and their results;
- the **Communications Department** is responsible for setting out and sharing the Group's vision and strategy both externally (with customers, shareholders, the community and the general public), and internally, in order to promote the Group's image, highlight its performance and unite employees;
- the **Ethics and Compliance Department** is tasked with putting in place, managing, and coordinating the Compliance program, as decided by the Operations Committee, of which it is a member, on a global, national, local, and site level;
- 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 **Legal Department** ensures compliance with Group procedures and with legal regulations and generally strives to defend the Group's interests.
- 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 **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 **Research & Development and Product Marketing Department** directs the Group's innovation program as well as product development methods and tools;
- the **Human Resources Department** is centered on labor relations, career development, training and skills management and involvement of personnel;
- the **Sales and Business Development Department** is organized around four main areas: a Sales Department for each Business Group, Customer Directors dedicated to each major automaker, National Directorates for each geographic area, and an International Development Department for each Business Group.

1.3.3 Operational excellence

Operational excellence is of critical importance to Valeo. The controlled development of the Group's business on a day to day basis is driven by a guiding principle: obtaining cost-effective total quality in engineering, manufacturing, projects or purchasing.

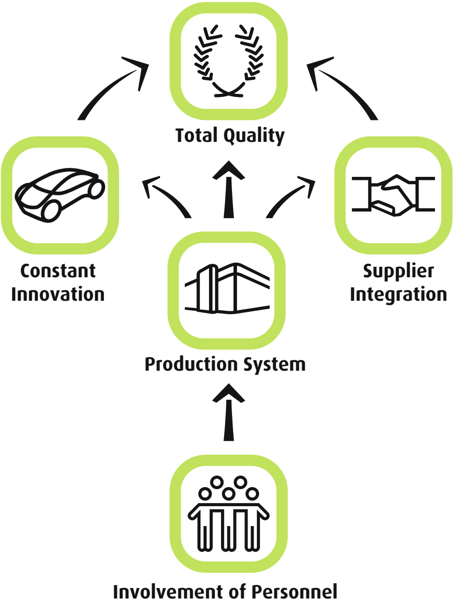
The 5 Axes

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**, which implies recognizing skills, enhancing them through training and empowering our people to carry out their responsibilities. Employees are particularly encouraged to make suggestions for improvement and participate actively in the work of autonomous teams;
- **Valeo Production System (VPS),** which 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**, with the aim of designing innovative, easy-to-manufacture, high-quality and cost-effective products while reducing development time. In view of this, Valeo has set up an organization based on project teams and the simultaneous engineering of products and processes;
- **Supplier Integration**, which involves benefiting from suppliers' ability to innovate, developing productivity plans with suppliers and improving 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**, which is essential throughout the Group and from its suppliers in order to meet customer expectations in terms of product and service quality.

THE 5 AXES



FOR CUSTOMER SATISFACTION

Awards

In 2012, 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

- Valeo received the Premier Automotive Suppliers' Contribution to Excellence (PACE) Award for its VisioBlade®/ AquaBlade® wiper system.
- Valeo was named for the first time as one of the 100 most innovative companies in the world in Thomson-Reuters' list of the 2012 Top 100 Global Innovators.

Outstanding excellence

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

- Excellent Supplier Silver Award from Shanghai Volkswagen, awarded to the Shanghai plant (China), Powertrain Systems Business Group;
- Certificate of Achievement awarded to the North American Regional Operation of Valeo's Wiper Systems business by Toyota Motor Engineering & Manufacturing North America (TEMA) for its Quality performance in 2011;
- Certificate of Achievement from Toyota Motor Europe received by the Amiens plant (France), Powertrain Systems Business Group, in the supply category; certificates of recognition awarded to the Mondeville plant (France), Powertrain Systems Business Group, in the quality category, and to the Sens and Mazamet plants (France), Visibility Systems Business Group, in the project management category;
- Supplier Quality Award given to the Czechowice plant (Poland), Powertrain Systems Business Group, by Toyota Peugeot Citroën Automobile (TPCA);
- Best supplier of the year award from Group Auto International, awarded to Valeo Service;
- Silver World Excellence Award by Ford, awarded to the Czechowice plant (Poland), Powertrain Systems Business Group;
- Regional Quality Award for North and South America, awarded by Renault to the Electrical Systems Product Group in South America;
- Supplier Quality Excellence Award for 2012 from General Motors, awarded to the Issoire plant (France), Visibility Systems Business Group, the Czechowice plant (Poland) and the Kyong Ju plant (South Korea), Powertrain Systems Business Group, and the Akita plant (Japan), Comfort and Driving Assistance Systems Business Group.

The Group also received further awards in recognition of its functional excellence and its commitment to corporate social and environmental responsibility:

- Grand Prix for Financial Transparency, the highest distinction among the top 170 companies listed on the Paris Stock Exchange, awarded to Valeo. Every year this award recognizes best practices among French listed companies relating to regulatory financial information;
- Valeo certified as a 2012 Top Employer for France, Europe, China and Brazil. This award recognizes companies for the excellence of their Human Resources management;
- "Trophée du Point Vert 2012" awarded to Valeo by Éco-Emballages in recognition of the Group's waste sorting campaign relating to the disposal of wiper blade packaging;
- on October 29, Valeo was recognized by the Automotive Aftermarket Products Expo (AAPEX) in the USA for its wiper blade packaging made from a single recyclable material.

1.3.4 Ethics and compliance

Ethics and integrity are core values for Valeo.

In 2012, the Valeo Group, which employs 72,600 people in nearly 30 countries, introduced a compliance initiative, building on its Code of Ethics and the culture of integrity that characterizes it.

The Code of Ethics, which has been in place since 1997 and was renewed in 2005, is signed by every Valeo employee and is one of the cornerstones on which the Group has been built throughout the world.

An Ethics and Compliance Department was set up in 2012 on the initiative of the Chairman of the Board of Directors and the Chief Executive Officer, which established a detailed, precise and comprehensive initiative that aimed both to train and increase awareness among its senior managers and employees of the risks related to corruption and anti-competitive practices, and to instruct them on how to reduce these risks. All of the Group's entities, all of its businesses, all of its employees, and all of its stakeholders throughout the world are involved in the compliance program. Valeo, and the management team in particular, are focused on compliance and on making these new programs and practices a top priority. Ethics and compliance also comes under the remit of the Audit and Risks Committee.

This initiative is led by the Ethics and Compliance Department and draws upon the Group's clear internal rules prohibiting illegal practices, defining the framework for acceptable conduct regarding business relationships and alliances, and establishing the authorization conditions for certain practices. Wherever possible they are adapted to take into account local legal restrictions and the culture specific to each country. This localized approach was taken in order to increase the adoption of the rules by employees.

These rules are accompanied by resources to improve understanding of their use and implementation. Valeo's employees have access to handbooks, definitions, examples and guidelines through the Ethics & Compliance intranet portal, which can be consulted at any time. This information is regularly updated with new information based on genuine cases that have taken place at Valeo. The specific and concrete nature of these recommendations is particularly emphasized. The target is to provide employees with guidelines enabling them to know how to recognize a non-compliance risk and who to contact in the event of doubt or difficulty, in order to make the right decision in the interests of the Group.

To ensure the implementation and effective and continuous use of these rules and resources, thorough training on the key issues, the legal risks, and Valeo's proposed solutions to the problems is provided, either in the classroom or via e-learning technology. In view of the diversity of Valeo's employees, these training sessions can be delivered locally in 15 different languages, while e-learning classes are available in 13 different languages. These sessions are specifically tailored to the automobile industry and feature a large range of examples and case studies to provide as many employees as possible with effective training in both theory and practice.

Together, all of these components form the basis of Valeo's compliance program. It is being carried out under the guidance of the Chief Executive Officer, the Ethics and Compliance Officer and the whole management team. The program is more specifically overseen by the Operations Committee, comprising key operational and functional managers, and by the liaison committee, which is more directly involved in the rollout of the compliance program. The different functional networks each perform a key role in defining, implementing and expanding the program.

More generally, Valeo believes that it is everyone's responsibility to implement, adhere to, and respect the measures set out in the compliance program. While it is the responsibility of the management to lead by example, it is everyone's duty to comply with these rules. Every employee in every Business Group in every country must comply with these rules, which are based on strict ethical principles. Naturally, they also extend to Valeo's various stakeholders, suppliers and service providers. The action plan for 2013 includes the creation and implementation of a systematic awareness program, describing Valeo's expectations of its suppliers and business partners.

Valeo considers compliance to be a top priority, and expects everyone's unfailing commitment in order to enable growth and profitability.

1.3.5 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, coordinating labor relations (relations with labor organizations and authorities) and developing the involvement of personnel.

The Human Resources Department supports the Group's international development by devising a global policy that is implemented in accordance with the characteristics of each local employment market.

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, particularly through the implementation of a policy to 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 all levels of the organization.

Management development

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 higher education establishments

Recruiting the best talent throughout the world in fast-growing markets and in emerging countries, as well as in technologies designed to reduce CO_2 emissions, is a key factor in 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.

- Internal mobility and individual development

The Group's employees benefit from a program that monitors their progress and development and is carried out through a series of interviews with their managers. To encourage internal mobility, further procedures are carried out in addition to these interviews, to identify any opportunities for medium-term employee professional development.

- 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.

Training and skills development

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.

Labor relations

By striving to reconcile economic, social and environmental development in each of the Group's legal entities, Valeo aims to achieve an optimal social climate. Valeo is firmly committed to a forward-looking policy of employment and skills management, as well as to engaging regularly with labor organizations.

The Group's labor-related indicators are set out in Chapter 4, section 4.4. "Valeo's labor-related indicators", pages 135 to 163.

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

The Group's Purchasing function is based on two major priorities:

- a commodities/segments priority, focusing on the specific purchasing strategy for these commodities. This 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 supplier selection process, in particular with business allocation committees.

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. This priority ensures the initiation of projects using cost-effective parts and the implementation of technical manufacturing efficiencies, as well as ensuring the re-sourcing needed to maintain the Group's competitive edge, particularly as regards manufacturing efficiencies that it must grant customers during the product lifecycle.

Furthermore, the Purchasing network is in place across all of the Group' sites. The network's global reach makes it possible for Valeo to develop its sourcing from cost-competitive regions while remaining close to its customers.

Valeo is particularly vigilant that its suppliers comply with its Code of Ethics, focusing special attention on labor rights, human dignity and environmental protection. In 2012, Valeo provided a range of awareness-raising activities for its suppliers on the subject of compliance, and in particular regarding the fight against corruption.

Valeo continues to deploy tools 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) can be accessed on a secure extranet. These enable Valeo and its suppliers to work closely together and use standardized processes, for example to share project schedules and to exchange and approve component qualification documents.

By refocusing the allocation of new business to benefit the Group's most efficient suppliers, in terms of quality, technology and productivity, Valeo is confirming its strategy of integration and loyalty towards its partners. In 2012, Valeo set up a team dedicated to supporting the Group's partners in emerging countries, particularly India. This reflects Valeo's commitment to supporting its suppliers in their policy regarding quality, and to involve them in the Group's projects.

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

In its efforts to reduce the cost of raw materials and components, Valeo has devised several measures to improve its productivity, as set out below:

- product and supplier base comparative assessments at Group level;
- joint productivity workshops 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 and carefully observed by Valeo in order to anticipate and respond as quickly as possible to potentially critical situations that could have an impact on future sourcing. The effectiveness of this plan allowed Valeo to protect its customers from possible shortages. Over the course of 2012, the production capacity of certain suppliers was affected by incidents involving fires or explosions. Thanks to the generic plan that Valeo put in place to deal with such incidents (which includes the supplier risk plan), and the responsiveness of our teams when faced with serious and unforeseeable events of this nature, the Group was able to prevent production stoppages at either its own plants or those of its customers.

Lastly, Valeo is attuned to the changes in the prices of raw materials (see Chapter 2, section 2.1.4, "Commodity risk", page 64). Copper and aluminum prices were relatively stable during 2012 and prices were in fact down slightly by the end of the year compared with those of 2011. Steel followed a downward trend throughout the world during 2012. Prices for plastic resin remained generally strong as a result of fluctuations in the prices of primary raw materials: although prices for butadiene rose significantly until July, it finished the year down slightly, while prices for benzene, styrene and phenol remained high compared with those of 2011. Prices for rare earths fell sharply throughout 2012. Japan, the United States and Europe initiated proceedings against China before the WTO to challenge the county's restrictions on rare earth exports.

Industrial and Logistics

The role of the Industrial and Logistics function 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 2012, Valeo continued to roll out its supply chain and production system model in shared service centers, set up in 2011.

These shared service centers allowed us to ensure that our standards are upheld and implemented in our production sites. Specific training and support sessions were provided for more than 1,200 people working in the plants. Training focused on improving the performance of equipment, the organization of plant, scheduling and transportation, and the use of production management information systems.

The continuation of measures to optimize transportation and storage costs resulted in savings of more than 20 million euros, thanks to improved truck loading, pick-up routes and the use of flexible and returnable packaging.

In terms of the supply chain, 2012 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 maintained. In 2012, these inventory management techniques were implemented in regions where the Group is experiencing strong growth, such as India, Mexico and China.

The ERIM program (Equipment Reliability Improvement Management)(1), which was launched in 2011 and continued through 2012, enabled the Group to exceed its objective in terms of utilization rates of critical equipment.

The ongoing introduction of assembly to order and the widespread rollout of the "truck image" technique helped maintain the plant service rate above 99%. In 2012, all of the North American plants (the US and Mexico) used the "truck image" technique for at least one production line.

These operational standards have made it possible to capitalize on experience, cut product development lead times, and stabilize new production lines quickly while avoiding start-up problems. The Group now uses a checklist to verify the implementation of standards and prerequisites for every new business set up around the world.

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; 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 in 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 integrated quality anticipation strategy (Built-in Quality), in order to preempt and avoid customers' issues.

The Valeo Quality network operates as a decentralized network and involves each of the following six 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;
- the Regional Quality Managers are in charge of harmonizing the implementation of the Group's Quality resources and leading campaigns to promote Quality.

Over the last several years, Valeo has implemented a program of resident engineers in order to provide optimal customer support. Engineers are assigned to a given customer and

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(1) Program to reduce machine downtime caused by breakdowns and micro stoppages.

then 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 2012, the Group had 86 resident engineers. A warranty and projects resident engineer program has 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 rollout 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 2012, the Group's quality level was 7,113 PPB (defective parts per billion), which represented an improvement of 46% compared with 2011. A total of 76% of the Group's sites were at less than 10,000 PPB and 31% were at 0 PPB, which represents an improvement of almost 14% compared with the situation in the previous year. At the same time, total non-quality costs (direct costs, special transport and warranty costs) improved by 11% compared with the previous year.

Sales and Business 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 2012, the Group's leading customer region was Germany, representing 29% of original equipment sales. French customers (excluding Nissan) and American customers (including Chrysler) each represented 18% of the Group's original equipment sales.

Asian customers (including Nissan) represented 28% of original equipment sales, revealing the extent of Valeo's expansion in Asia, particularly with the acquisition of Niles in June 2011, as well as the steady growth achieved with Korean and Chinese customers.

The Group's biggest customer represents less than 20% of Valeo's original equipment sales.

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

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

Strategy and structure

2012 was another record year for order intake after 2010 and 2011 (15.8 billion euros in 2012 compared with 14.9 billion euros in 2011 and 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 once again accounted for 1.6 times the original equipment sales for the year, which is evidence of the Group's expected growth over the coming years. This performance was the result of the strategy of the Sales and Business Development Department, which focused on:

- **concentrating efforts on development in high-growth countries**: in 2012, the Sales and Business 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;
- **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;
- **sales of products relating to driving assistance and comfort**, with record order intake in this sector and new innovations soon to be launched on the market.

Two key factors for the Group's success in terms of order intake in 2010, 2011 and 2012 were the reorganization of the Sales and Business 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 Business Development function is organized around:

- **Sales network**, consisting of four Sales Directors attached to each of the four Business Groups' 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.

  Since 2010, their role has been reinforced with the aim of increasing the Group's local presence in these regions;
- 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 Business 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 achieving 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 added value for automakers, enabling mobility solutions that are environmentally friendly while also being intuitive, safe, comfortable and offering high performance for the driver. 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 sub-systems and complete 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 2012, the Group had 21 research centers and 40 development centers, with a total headcount of over 8,800.

In 2012, R&D expenditure came to more than 1 billion euros and 722 new patents were filed. Less than 4% of the Group's sales in 2012 relied on external patents or licenses.

Research and development policy

In line with market expectations, Valeo's R&D 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 (downsized, direct injection, supercharged engines), with the objective of meeting future European requirements (maximum emission level of 95 g of CO_2/km in 2020), in particular through new gasoline engine management systems, depollution systems (EGR – exhaust gas recirculation), engine thermal 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 use to need and significantly improving alternator efficiency;
  - Valeo is now an indisputable player in the hybridization of internal combustion engines, with its micro-hybrid solutions (i-StARS integrated starter-alternator and Re-Start reinforced starter) and more recently mild-hybrids (8-15 kW) associated with new electrical energy management strategies and associated storage devices (batteries or ultra-capacitors). Valeo also develops superchargers that help to downsize internal combustion engines without affecting the dynamics or the comfort of driving;
  - 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 hot or cold weather conditions;
  - Valeo offers 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). This simulation capability 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;
- intuitive 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 Park4U Remote® concept (parking a car using a smart phone) is an important step towards the automation of certain driving tasks carried out at low speed. In the near future, these driving aids will also take into account minimum energy consumption targets in line with the powertrain system, thereby helping to 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 focus 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' attitudes 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 2012

In 2012, 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 R&D, in order to satisfy market expectations;
- Valeo is firmly committed to making use of the best expertise available locally where required by the market. With this in mind, Valeo launched an ambitious recruitment and training program, most notably in China, to help teams to adapt to the significant increases in the numbers of projects. Partnerships with universities in India and China are currently being organized;
- Valeo also maintained its partnerships with a number of leading universities in France such as l'École des Mines – ParisTech and ESIGELEC for electronics. In addition, Valeo has partnerships with CMT-Motores Termicos, part of the Polytechnic University of Valencia in Spain, the University of Sheffield in the UK, the Karlsruhe Institute of Technology in Germany and Hokkaido University in Japan. Working alongside the University of Versailles Saint-Quentin, the Group also created the industrial research chair Valeo Matinnov;
- 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 internal 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;
- Valeo participates 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 2012, Valeo had four Group Technical Service Centers serving the entire Group (i) in Egypt at the Cairo plant for software development; (ii) in India at the Chennai plant for mechanical design and simulation; (iii) in China at the Wuhan plants for mechanical design and simulation dedicated to lighting; and (iv) in China at the Shenzhen plant for electronic circuit design, as well as for software development, like the Cairo plant. These sites have continued to grow significantly and the number of employees increased by 20% in 2012;
- Valeo exhibited its innovations at several motor shows and conferences in 2012, including Auto Delhi, Auto China in Beijing and the Paris Motor Show. Valeo also took part in various conventions, such as SAE Hybrid Vehicle Technologies Symposium, the Aachen Colloquium, SIA Vision, and the CESA congress in Paris.

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 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 guarantees 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 site performance. 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 58.

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 risk management in 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 plants.

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 2012, Valeo's sites announced that its environmental indicators were in line with both the requirements set out in France's Grenelle 2 environmental protection act and those in the Global Reporting Initiative (GRI). The Group presents its indicators in line with the GRI format (see Chapter 4, pages 103 to 188).

- 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 R&D 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 on an annual basis, 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 2012, Valeo modified its environmental rating system in order to make the rating scale stricter, particularly in regard to potential regulatory non-compliances and cases of non-compliance with Group directives. Accordingly, any site that does not have ISO 14001 certification will be unable to receive a mark above 2 out of a possible 5.
- 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. **96% of sites were ISO 14001 certified by end-2012.** The principle is that every plant must be certified and that all new sites are immediately integrated into the system.

For a complete list of the Group’s environmental indicators, see Chapter 4, section 4.3, “Environmental Performance”, pages 115 to 134.

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 plants.

88% of sites were OHSAS 18001 certified by end-2012. Like the ISO system, this health and safety management system is based on continuous improvement.

1.3.6 Industrial resources and real estate portfolio

Geographic footprint at December 31, 2012

	Plants	Research centers	Development centers	Distribution platforms	Number of employees
Western Europe					
Germany, Belgium/Netherlands, Spain, France, Ireland, Italy, United Kingdom	42	16	13	5	24,102
Eastern Europe					
Hungary, Poland, Czech Republic, Romania, Russia, Slovakia, Turkey	14	-	5	3	11,793
North America					
United States, Mexico	13	1	5	1	9,486
South America					
Argentina, Brazil	8	-	4	2	4,015
Asia					
China, South Korea, India, Japan, Thailand	44	4	12	1	21,595
Africa					
South Africa, Egypt, Morocco, Tunisia	4	-	1	-	1,609
TOTAL	**125**	**21**	**40**	**12**	**72,600**

At December 31, 2012, the net carrying amount of the Group's real estate portfolio (land and buildings) was 563 million euros (see Chapter 5, section 5.2.6, Note 5.3 to the consolidated financial statements, page 230). The portfolio is largely composed of plants, 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 1,031 million euros at December 31, 2012, excluding fixed assets under construction (see Chapter 5, section 5.2.6, Note 5.3 to the consolidated financial statements, page 230).

Environmental constraints result from the regulations applicable in this area to all Group establishments (see Chapter 1, section 1.3.5, the "Risk, insurance, environment, health and safety" section, page 33; Chapter 2, section 2.1.2. "Industrial and environmental risks", page 58; and Chapter 4, section 4.3 "Environmental performance", page 115).

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

1.4.1 Powertrain Systems

Sales: 3.2 billion euros, or 28% of Group sales.

EBITDA[(1)] **:** 329 million euros.

17,681 employees

31 plants

11 research centers

13 development centers

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 driving performance and pleasure. These innovations cover a complete product range, from the optimization of internal combustion engines to the varying levels of electrification of vehicles, from stop-start systems to the electric car.

Powertrain Systems has five Product Groups:

- Electrical Systems;
- Transmission Systems;
- Combustion Engine Systems;
- Electronics;
- Expertise & Services.

Electrical Systems

This Product Group offers electrical systems which control the vehicle's key functions, such as electric power generation and management. Its 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 (ReStart) and the other based on a starter-alternator (StARS). 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 power and control 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

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(1) See Financial Glossary, section 5.8, page 296.

efficiency of the internal combustion engine. Valeo offers a range of electric motors ranging in power from 5 kW to 15 kW and in voltage from 48 V to over 100 V, depending on customers' specific needs and integration constraints. In particular, Valeo offers a 48 V "hybrid for all" solution.

Transmission systems

The Transmission Systems Product Group develops and produces systems that transfer torque from the engine to the transmission. It covers all types of transmission: manual, automatic, dual clutch and/or hybrid. The solutions it offers incorporate innovative systems that dampen noise, vibrations and jolting.

- Dual clutches are one innovation that represents a viable alternative to automatic transmissions. With two clutches – one for even gears and one for odd gears – this system allows the driver to change gears with no interruption to torque and no jolting, with the comfort of automatic transmission and the sporty response of manual transmission. It also improves efficiency, cutting fuel consumption by 4% to 6% over the New European Driving Cycle (NEDC).
- 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.
- This Product Group also includes 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.

Combustion Engine Systems

This Product Group specializes in electronic management systems for internal combustion engines and air management systems, from air intake to exhaust. These solutions are designed to reduce CO_2 emissions and pollutant gases while enhancing both driving pleasure and engine performance. They comprise:

- optimized system architectures representing new engine developments and offering 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,
  - actuators and engine sensors (for measuring temperature, pressure, position, etc.);
- components and systems such as EGR modules and throttles 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;
- electric superchargers are driven by an electric motor, unlike exhaust gas driven turbo-compressors. This innovative technology using a very low-inertia switched reluctance motor has a much faster response time than conventional turbo-compressors. Electric superchargers are very efficient at low RPMs and they facilitate engine downsizing which is key to delivering fuel savings.

Electronics

This Product Group is in charge of designing and selling power electronics for hybrid and electric vehicles and electric power steering systems as well as handling electronic integration for all the Group's Business Groups.

Valeo is closely involved in developing new hybrid and electric vehicles, with the goal of presenting innovative solutions. It is also focused on developing an innovative electronic power module concept that makes it possible to:

- propose competitive offerings 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.

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 48 V to 100 V – dedicated to mild hybrid vehicles.

Expertise & Services

This entity is tasked with developing Valeo's expertise in electronics and making it available to all Product Groups of the four Business Groups. It identifies and circumscribes cross-disciplinary requirements and drafts the standards that serve as a framework for reviews of electronic designs. This activity also involves anticipating and preparing for technological changes and developing the tools that will help drive the Group's growth strategy.

Expertise & Services comprises three technical centers as well as four service centers which are located in India, China and Egypt and employ 850 people. It offers hardware, software and mechanical electronic development solutions at optimal cost for all Product Groups of the four Business Groups.

2012 highlights

There was an all-time record order intake in 2012, most notably within the Transmission Systems Product Group.

Electrical Systems

- Confirmation of the success of the i-StARS micro-hybrid system based on a belt-driven alternator-starter, on the back of a new order from a Japanese automaker;
- Major orders placed by German automakers for the new ranges of high efficiency alternators with synchronous rectification that reduce CO_2 emissions.

Transmission systems

- First order for a dual wet clutch;
- Confirmed orders for dual mass flywheels from two automakers in Europe and China;
- Strong increase in torque converter business for automatic transmissions driven by new orders from China, Korea and the USA.

Combustion Engine Systems

- Strong automaker interest in electric superchargers;
- Order for an engine control unit via a “transplant” in China.

Electronics

- First order for an integrated DC-to-DC inverter/converter from an American automaker;
- Increased market share for electronic power modules, with a new contract for electro-mechanical power steering systems signed with German automakers.

Market trends

The market trends observed in previous years were confirmed in 2012, the objective being to reduce both CO_2 emissions and fossil fuel consumption.

These goals are based on three priorities:

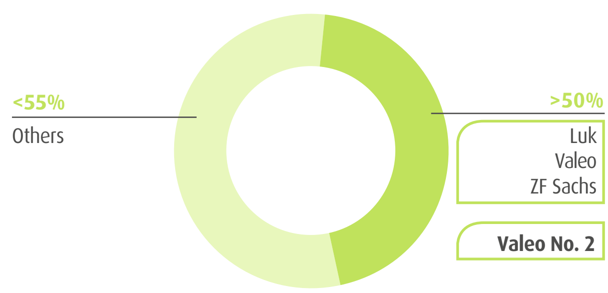
- engine downsizing with the emergence and development of small direct injection turbo-compressor engines with variable valve actuation;
- the automation of transmissions with the development of dual clutch and automatic transmissions with eight or more gears;
- the electrification of engines with the widespread implementation of stop-start systems in 2012 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 its presence in the worldwide market, especially in emerging markets.

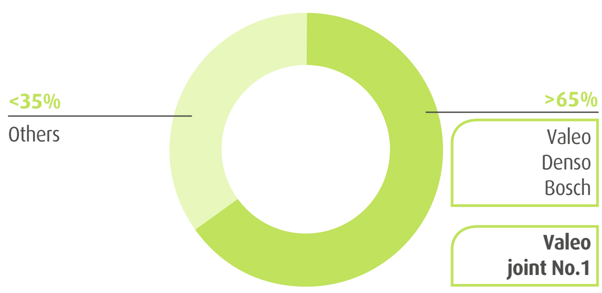
The Business Group is the world leader in electrical systems and ranks second in transmission systems, with significant market share in all regions of the world where the automotive industry operates.

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

Transmission systems



Electrical systems



Outlook

In order to meet customer requirements and ensure optimum, customized product specifications, the Business Group reorganized its Product Groups in 2012.

This new organization reflects the Business Group's goal of basing growth on powertrain systems that help to reduce CO_2 emissions, by engine downsizing, automating transmissions and electrifying systems.

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 emerging countries and notably in Asia (set to grow by 20% in China and by 10% in India in 2013(2)). The Business Group's market share has increased 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.

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(1) In market share, with no major changes since 2011. Based on Valeo estimates.

(2) Source: Polk

1.4.2 Thermal Systems

- **Sales:** 3.3 billion euros, or 28% of Group sales.
- **EBITDA**[1] **:** 383 million euros.

16,693 employees

43 plants

5 research centers

10 development centers

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 optimize 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

This Product Group mainly develops the system and components required to provide passenger thermal comfort solutions.

Air-conditioning systems are adapted to all types of powertrain - internal combustion engines, hybrid and electric engines and the key component is the Heating, Ventilation and Air Conditioning (HVAC) system.

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. It controls windshield de-misting and de-icing, distributes (usually filtered) air throughout the vehicle and constantly regulates the air flow temperature (hot or cold) and humidity. The most complex systems come with a multizone function and can be adjusted for individual passenger thermal comfort.

The main components of an HVAC system are the heat exchangers, the fan unit which blows the air through the exchangers, the control electronics, the distribution shutter systems, and usually an air filter. Certain applications also feature an additional electric heating module used mainly to heat up the cabin while starting.

Additional modules also help improve air quality inside the vehicle by purifying and ionizing the air and diffusing fragrances. In 2013, Valeo released an air conditioning filter with anti-allergenic properties: a polyphenol-based surface treatment that neutralizes pollen allergens.

Valeo designs air-conditioning systems for optimal on-board comfort as well as optimal energy consumption, weight and size, thus helping to significantly reduce vehicles' carbon footprint. In electric vehicles, for example, systems based around heat pumps minimize the need for power drawn from the batteries. This provides passenger thermal comfort without affecting vehicle travel range while also cutting the CO_2 emissions inherent in producing the electric energy stored in the batteries.

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(1) See Financial Glossary, section 5.8, page 296.

The emergence of hybrid and electric drivetrains has created a new need for temperature regulation of components such as the electric motor itself, as well as its power electronics and the batteries. Coming up with solutions to such needs represents a major growth vector for the Product Group.

For example, Valeo now offers a complete range of technologies for regulating battery temperature, from simple air blowers to electronic systems with preheating and refrigeration capabilities.

Refrigerants used in air-conditioning systems comply with the latest environmental regulations.

Powertrain Thermal Systems

This Business Group develops systems for managing thermal energy in the powertrain and the fluids (air, water, oil, etc.) used both by the powertrain itself and its ancillary features (power steering, automatic transmission, etc.).

Effectively managing this energy is key to optimal powertrain performance in terms of power consumption and lower CO_2 emissions, gas pollutants and particles.

This Product Group is composed of various systems:

- engine temperature management systems;
- charge air cooler systems;
- EGR (Exhaust Gas Recirculation) cooling systems;
- oil temperature management systems.

They mainly comprise exchangers, distribution valves and pumps. Engine temperature management systems also have a fan/motor unit placed in the front end of the vehicle.

The systems and their components are designed for optimal performance as well as optimal energy consumption, weight and size.

Examples include the following:

- UltimateCooling™ architecture uses a single heat transfer fluid to reduce the number of exchangers in the front end of the vehicle and better distribute them within the engine compartment, thus significantly improving the efficiency of the exchangers. Its modular conception is also perfectly adapted to changing powertrains;
- Valeo equips all Volkswagen and Audi vehicles with 2.0 TDI engines with air intake systems fixed directly onto the engine for optimal exchanger/valve integration;
- the THEMIS™ system, a key component in engine temperature management systems, helps to reduce fuel consumption thanks to its zero output function.

This continuous search for efficiency creates a need for innovative components which form the basis of the Business Group's growth. Advanced systems for recovering heat losses from the powertrain and transforming them into a form that can be used by thermal systems represents even more potential for growth.

Climate Control Compressors

This Product Group is a key component in air conditioning systems and offers a complete range of compressors matched to every type of powertrain and all vehicle categories:

- economic, low (fixed or variable) displacement, mechanically-driven (with pistons or rotary vanes) compressors;
- external control compressors, specially suited to reduce fuel consumption;
- electric and scroll technology compressors for hybrid and electric drivetrains.

Front End Modules

These modules are an integral part of the vehicle structure. They usually house the engine thermal management fan/motor unit and some of the heat exchangers. The development of electronically controlled shutters which regulate air flow through exchangers in the front end of the vehicle, increase the efficiency of the heat exchangers and improve the aerodynamics of the vehicle as well as helping to reduce fuel consumption.

2012 highlights

The Thermal Systems Business outperformed the market, with a 6% increase in sales in 2012(1), driven mainly by the Powertrain Thermal Systems and Front End Modules Product Groups.

Brisk business in North America partially offset lower production by French and Italian automakers in Europe.

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(1) Based on LMC and Valeo estimates.

The Business Group consolidated its global presence by opening new production units in China (Huadu), Russia (Togliatti), India (Chennai), Turkey (Bursa) and Indonesia (near Jakarta). A joint venture based in Detroit (DTS-Detroit Thermal Systems) has been set up to manage and develop the air-conditioning systems business formerly owned by Ford's ACH (Automotive Components Holdings) subsidiary.

The order intake from major customers was satisfactory and significant orders were secured with a new, market-leader Japanese customer. The order intake held up well in Europe, the Americas and Asia with excellent performances in emerging markets (China, ASEAN country markets and India).

The Group's latest innovations relating to the reduction of CO_2 emissions received a favorable market reception. These included the THEMIS™ system, the Greco high-performance EGR and water-cooled exchangers (condensers, charge air coolers).

Market trends

Today's race to reduce polluting gas emissions and the continued, sustained growth of emerging markets will enable the Business Group to continue to outperform the market.

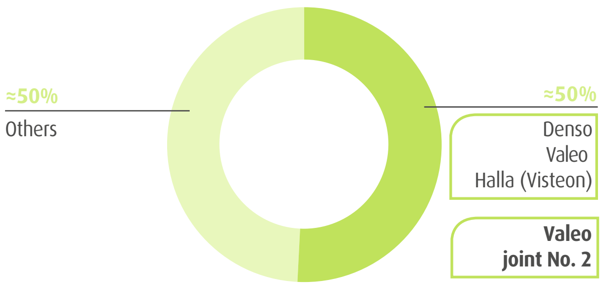
The ever stricter environmental legislation that is driving the complete makeover of internal combustion engines (downsizing, down speeding) as well as multiple emerging powertrain architectures (hybrid, electric, hydrogen, etc.) requires solid technological expertise to develop complex systems and high-tech components. The Thermal Systems Business Group is one of the few automotive suppliers that have both the technology and the expertise needed.

Even though the development of electric vehicles is a slow process, hybridization and continued improvement of internal combustion engines remain the key market trends. The Business Group will continue to reap the benefits from the innovation programs being developed in partnership with leading automakers.

Its most recently opened plants also make it one of the very few market players with a genuinely global footprint that is perfectly adapted to increasingly globalized automakers and their growing operations in emerging markets.

Finally, the development of affordable vehicles also represents a formidable growth opportunity for this Business Group which possesses all of the necessary innovation expertise.

Main competitors on the thermal systems market(1)



Outlook

The Business Group continues to step up its investment activity in line with its main strategic priorities:

- developing technology that reduces pollutant emissions: this strategy will move into a new phase once the Group begins marketing systems for recovering powertrain heat losses;
- focusing on emerging markets and winning new customers: continued investment in China, ASEAN and India, and the winning of a new customer, a leading Japanese global automaker, will help boost growth in Asia. The DTS joint venture offers even faster growth possibilities in North America.

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(1) In market share, with no major changes since 2011. Based on Valeo estimates.

1.4.3 Comfort and Driving Assistance Systems

Sales: 2.5 billion euros, or 21% of Group sales.

EBITDA[(1)] **:** 298 million euros.

16,270 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 priorities.

These four priorities consist of easy, ergonomic **interaction** with the vehicle for the user (central console, steering wheel switchgear, 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, telematics, 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 has been world leader in human-machine interfaces since 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 central electronics system of the cabin. Valeo was the first supplier to have integrated a “FlexRay” system in a top column module (communication protocol used in the automotive 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 simple 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;

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(1) See Financial Glossary, section 5.8, page 296.

- 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 vehicle's blind spots;
- cameras offer total vision around the vehicle with the 360Vue® multi-camera system, particularly in front of the vehicle at a blind crossing or on leaving a parking lot. Front cameras also provide lane departure warning systems and high/low-beam autoswitching systems.

Emergency braking features for urban environments, driving in congested traffic and automatic parking will also be enhanced by new infrared laser scanner technology.

All of these assistance systems make driving safer and more comfortable 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 a range of 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 Peugeot Citroën and Renault-Nissan groups.

Access Mechanisms

The Access Mechanisms Product Group, for which a contract for sale to Japanese-based U-Shin was signed on November 30, 2012 (see “2012 Highlights” below) 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 assisted 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).

2012 highlights

- The key commercial successes of 2012:

The Comfort and Driving Assistance Systems Business Group continues to increase its contribution to the Group as a whole and its order intake represented 31% of the Group’s consolidated order intake in 2012. Over 30% of the Business Group’s new orders related to its major innovations (see below).

New orders outside Europe grew by 15% year on year and this performance is in line with the major priorities of the Group’s strategy.

The Business Group managed to generate new orders in Japan that were 44% up on 2011 and involve developments in India, Indonesia, Thailand and a consolidation of North American operations. In China the consolidated volume of order intake was up 26% compared with the previous year.

Growth in Asia is being driven by the synergies developed with the Japanese entity, Valeo Niles, which was integrated into the Business Group in 2011 and has helped to bolster Valeo’s relationships with its traditional customers, particularly Nissan, as well as expanding its Asian footprint, notably in Japan, China and Thailand, Valeo Niles’s industrial base.

Valeo confirmed its position as the worldwide leader in the driving assistance segment with significant new orders for parking assistance products.

In 2012, Valeo secured a major strategic order from a European automaker for a concept derived from Park4U® Remote (a remote controlled automatic parking system) which involves contributions from several different Product Groups.

As regards camera systems, Valeo grew its order intake significantly and thus strengthened its position for its multi-camera 360Vue® systems and multifunction front cameras.

Business related to interior electronics was buoyed by new orders placed by a premium European automaker for a two-way key with a screen that can be used to remotely program vehicle start for example to precondition the vehicle at a comfortable temperature.

Valeo also bolstered its presence in the Asian market for hands-free access and start systems with a new order placed by a Chinese automaker. It is aiming for 20% market share.

There were big new orders for steering system torque sensors in 2012 with a move into the Korean market in addition to existing markets in China, America and Europe.

- In addition to its commercial success in 2012, the Business Group also experienced the following highlights:

- New technologies were launched on vehicles that came on the market in 2012;
- BeamAtic® automatic lighting systems and LaneVue™ lane departure warning systems are available as an option on certain Renault Scenic and Megane vehicles integrated into a Valeo multifunction camera located between the windshield and central rear-view mirror. By combining vision technology and software development in these two applications, Valeo has made cutting-edge driving assistance innovation available to most consumers.

The Group launched a new personalized key that matches the color and style of the vehicle on the new Opel ADAM unveiled at the 2012 Paris Motor Show.

In October 2012, Valeo unveiled Valet Park4U® at the Vienna ITS (Intelligent Transport Systems) World Congress under the theme of “Smarter on the way”. Using this “valet”-type fully automatic parking system, drivers may leave their cars at the entrance to a parking lot and the car will automatically find a parking space and park itself, providing further confirmation of Valeo’s leadership in automated driving systems.

Valeo also used the Vienna ITS Congress to present the “eSkin Lite” smart screen at the “Instant Mobility” stand as part of the European multimodal solutions program. This smart interface provides users with optimal multimodal trip planning solutions.

On November 30, 2012, Valeo announced the signature of a contract to sell its Access Mechanisms business to Japan-based U-Shin. This business, which is primarily mechanical, comprises products such as locksets, steering column locks, handles and latches and benefits from a broad presence in Europe and South America. The planned divestment is aligned with Valeo’s strategy of focusing on developing products that reduce CO_2 emissions and stepping up its expansion in Asia and emerging markets. U-Shin is one of Asia’s leading manufacturers of automotive access mechanisms and this acquisition will make it a world player with leading positions in Asia, Europe and South America as well as a diversified customer portfolio.

2012 was also a busy year from a manufacturing perspective:

- in May Valeo officially inaugurated the Valeo Niles plant at Huadu Auto City, Guangzhou, one of China’s major automotive manufacturing bases. This inauguration marks a milestone in Valeo’s strategy of continuous development in Asia and consolidates its position as a global leader in the interior controls market. The plant employed 250 people at end-2012. It is part of Valeo’s Comfort and Driving Assistance Business Group and helps to increase driving safety and comfort by providing an extensive array of advanced switches;
- in June 2012, Valeo inaugurated the extension to its plant in Veszprém, Hungary, which will increase the plant’s production capacity by 50% in the coming years and double the area dedicated to R&D at the site. The plant extension and new R&D facility will make this site the Group’s largest plant in Eastern Europe producing comfort and driving assistance systems. With this extension, Valeo is strengthening its development in Eastern Europe to support its customers in these growing markets. By launching construction of this new R&D center, Valeo is also demonstrating to its customers that, all around the world, they can be sure to find the best technologies for meeting motorists’ needs;
- the Business Group also began production at Nizhny Novgorod, Russia, marking the first step in a long term strategy to develop this promising market.

Market trends

The increasing importance of emerging countries is creating new product expectations and automakers in these countries want innovations as soon they are immediately accessible and affordable. In line with the Business Group’s strategy, Valeo offers solutions by adapting standards and modules.

Automakers’ offerings now cover all ranges of vehicles and leverage differentiated solutions and Valeo has developed optimized solutions to meet this demand.

The widespread use of smartphones and their continuous use in vehicles are a challenge for the automotive industry and have once 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 road users safe.

The MirrorLink® standard seeks to solve this problem: the telephone screen is replicated on the central console, allowing the driver to access their mobile applications via the vehicle dashboard. There is a protocol that blocks access to applications that are unsuited to driving situations. Automakers are also developing "connected vehicle" offerings based on telematics eCall is among the features proposed. Valeo is developing onboard systems that will help its customers to comply with future regulations.

Smartphones and their related applications and degree of personalization have totally redefined the human-machine interface, with the growing presence of screen interfaces, especially in central consoles. After the first generation of resistive-type systems, screens are now evolving towards capacitive technologies in line with the latest consumer electronics solutions such as smartphones.

Other forms of human-machine interface such as proximity sensors and movement detectors are beginning to appear in the car, integrated for example into the ceiling light.

Valeo is one step ahead of this trend, which applies to all ranges of vehicles.

Congested cities and the increasing urbanization of industrialized and emerging countries are also impacting new vehicle features.

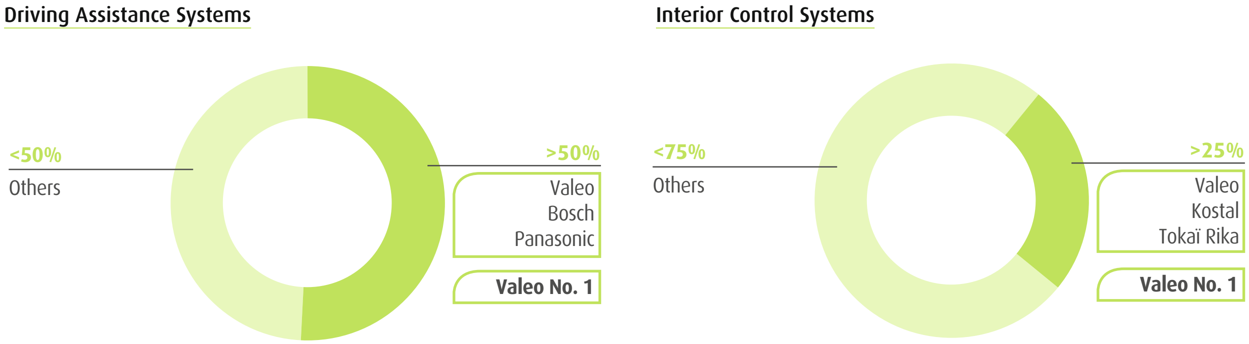
Governments and safety agencies (EuroNCAP, NTHSA) are being driven to make standards increasingly stringent in order to achieve drastic reductions in the number of road deaths. Vehicles hoping to score five stars on the Euro NCAP safety rating must be equipped with Autonomous Emergency Braking, lane departure warning systems and speeding alerts by 2015.

Automatic driving trials are also being conducted in liaison with government agencies in certain countries, including the US.

Last but not least, nightmare searches for elusive parking spaces may soon be a thing of the past thanks to "valet"-type automatic parking solutions such as the system unveiled by Valeo at the Vienna ITS World Congress.

It is also worth emphasizing the increased use of on-board cameras for simple surveillance tasks (projecting a view), for use as sensors (detecting speed limit signs), for image processing, and even for combining data captured by other sensors (360° vision around the vehicle).

Main competitors on the driving assistance systems and interior controls market(1)



Driving Assistance Systems

Interior Control Systems

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(1) In market share, with no major changes since 2011. Based on Valeo estimates.

Outlook

The Comfort and Driving Assistance Systems Business Group will continue to deploy its intuitive driving vision in 2013 based on the facts that cars are set to become increasingly automated and increasingly connected and interface solutions will need to reflect these trends. Valeo is striving to forge a unique portfolio of solutions and products that place the driving experience firmly center stage.

A marketing survey conducted by Psyma in 2012 on three continents confirmed this worldview as well as user acceptance of increasingly automated and connected systems.

This vision will start to take form in 2013 with the phased roll-out of the first interactive color touch screen and the first two-way remote control with screen.

The Business Group will also continue the process of integrating Valeo Niles, which was acquired in 2011, and the Asian teams will step up portfolio innovation development in line with Valeo's long term growth ambitions in Asia. Recent investments in plants and R&D facilities will also be leveraged to continue growing the order book and the offering for all product lines developed by the Business Group.

1.4.4 Visibility Systems

- **Sales:** 2.7 billion euros, or 23% of Group sales.
- **EBITDA[1]:** 220 million euros.

20,687 employees

32 plants

5 research centers

15 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, providing perfect visibility and improving the safety of the driver and passengers.

Visibility Systems has two Product Groups:

- Lighting Systems;
- Wiper Systems

Lighting Systems

In order to offer a solution for each category of front lighting systems, Valeo together with the Alliance formed with Ichikoh on the one hand and Valeo Sylvania on the other, has developed three major lines of LED lighting technology: PeopLED™, FullLED™ and PremiumLED.

- Valeo developed the PeopLED™ concept based on several LED low beam modules for entry level 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. Valeo has harnessed this concept to fit the new Seat Leon with all-LED headlamps, a first in this vehicle segment.
- The modular FullLED™ solutions for low beam and high beam functions offer an ecological alternative to xenon modules. The BiLED™ projector or reflector modules are dual-function systems that offer performance equal to that of xenon systems with lower energy consumption. The BiLED™ projector module equips the new Ford Mondeo unveiled at the 2012 Paris Motor Show. At the same time, to meet the requirements of designers seeking ultra-compact lighting systems, Valeo has developed PowerFullLED40® low beam and high beam modules that are 40 millimeters high.
- The positive market response to the Valeo BeamAtic® Premium xenon headlamps was confirmed in 2012 when this technology was selected for the Volkswagen Golf 7. Thanks to the flexibility that LED offers in terms of style and electronic control, Valeo has developed an exclusive range of LED technologies – BeamAtic® PremiumLED – that further improves the performance of camera-directed adaptive headlamps, making night-time driving safer.
- Rear lighting 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 MicroOptic®, 3DEffect, SeeThrough and Graphic Light.
- As a world leader in the fog lamps market, Valeo continues to develop its offering with modular or customized LED fog lamps, which help define the vehicle's identity and improve safety.

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(1) See Financial Glossary, section 5.8, page 296.

- As a major player in the cigar lighter sector and 12 V 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. The smart input from the use of electronic solutions helps improve safety and reduce weight. 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. These systems are based on a new line of electronic wiper motors rolled out worldwide, offering a range of solutions adapted to the latest vehicle architectures;
- windshield washing and de-icing systems;
- rear wiper modules with built-in washing based on a new line of rear window wiper motors for simplified vehicle integration.
- the AquaBlade® system, which ensures perfect road visibility in all driving conditions and a significant reduction in the weight of the windshield washer system.

2012 highlights

Visibility Systems ended 2012 with its sights on pursuing its growth strategy worldwide. Production operations continued to grow: existing plants were expanded in the US and Morocco and new plants were opened in Mexico and China. Valeo continued to grow its Chinese Lighting operations, in particular with the creation of a new legal entity, Valeo Ichikoh Holding Ltd., to which the two companies have contributed their respective Chinese Lighting operations. The venture is 85%-owned by Valeo and 15%-owned by Ichikoh.

The Wiper Systems Product Group obtained the prestigious 2012 Automotive News Innovation Pace Award for the AquaBlade® system. It is in series production on the Mercedes SL as well as the Evobus since 2012.

Market trends

The visibility systems market has been influenced by two major trends: automakers' widespread implementation of lighting systems with LED low beam, high beam or daytime running lights, and growing interest in electronic wiper systems and AquaBlade® wiper technology.

LED lighting systems are set to 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 also offers a great deal of flexibility in terms of style, allowing automakers to create unique lighting solutions to differentiate brand identity.

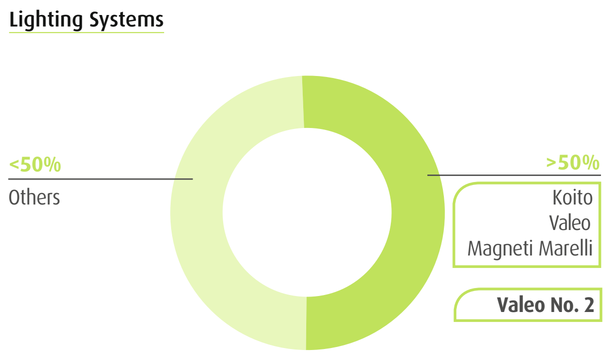
To seize these new opportunities, Valeo is developing three major lines of LED lighting technology – LED low beam headlamps, modular LED solutions and selective headlamps.

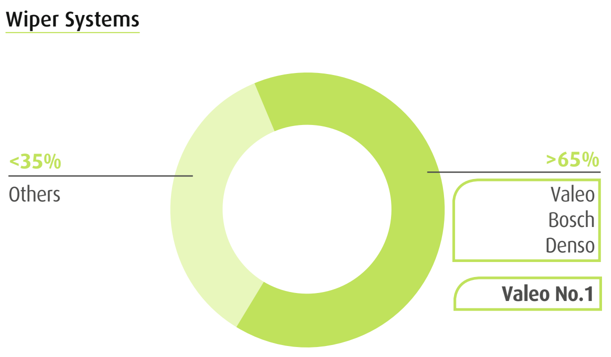
Valeo is also developing fully electronic wiper systems using direct drive blades or with mechanisms, responding to growing interest in the market for wiper systems that offer more precise and quieter wiping.

Thanks to its full range of innovative lighting and wiper systems – lighting systems with LED low beams, LED front and rear lighting systems, LED fog lamps and electronic wiper systems, the AquaBlade® system, etc. – Valeo is 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 success of the Business Group and of Valeo itself, which aims to strengthen its position in Asian markets.

Main competitors on the lighting systems and wiper systems market(1)





Outlook

A significant increase in orders has buoyed the steady growth in this Business Group's sales. Sales for the Wiper Systems Product Group are expected to increase by 5% compared with 2012 while sales for the Lighting Systems Product Group should grow by over 15%, mainly as a result of Chinese and North American operations.

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(1) In market share, with no major changes since 2011. Based on Valeo estimates.

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 and 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.

Valeo Service **acts as a "multi-specialist"** on the aftermarket for spare parts and the business is organized according to three different approaches:

- **multi-product**: a diversified but consistent product and service portfolio that adds an average of 3,000 products a year;
- **multi-region:** a footprint in over 120 countries, with subsidiaries specialized in the aftermarket that have been set up in China, Russia and India in the past five years;
- **multi-channel**: expertise across all distribution channels specialized in BtoB (traditional auto networks) and BtoC (hypermarkets, auto centers) together with internet-based channels developed over the last few years.

Valeo Service – organized around five markets (Repair, Maintenance, Crash, Post-Equipment and Heavy-Duty Trucks) – offers 14 product lines for passenger cars and 8 product lines for commercial vehicles and trucks, covering the following systems: wiper systems (under the Valeo, Marchal, PJ and SWF brand names); transmissions; front and rear lighting; air conditioning; engine cooling; electrical systems; electrical accessories; security systems and switches; braking; engine management; engine filtration; and driving and parking assistance systems.

2012 highlights

In 2012, Valeo Service developed the following initiatives to consolidate its position as a premium multi-specialist on the aftermarket. All are focused on customer satisfaction, which remains Valeo's number one priority:

1/ multi-product specialist:

- Valeo is a filter specialist and the first company on the European market to patent and market a polyphenol-based air conditioning filter for optimal protection against inhalant allergies, odors, gases and particles;
- in 2012, Valeo rounded out its engine filter offering with over 1,000 new references covering the four types of filters and it has the highest European sales in each category;
- in 2012, Valeo launched NU-LOK™, the new generation of enhanced performance anti-noise shim, which is securely attached to the back of the brake pad. NU-LOK™ offers increased resistance to the daily wear and tear of urban driving and end users enjoy silent braking over a longer period of time. It also uses an eco-friendly manufacturing process: glues are eliminated and waste considerably reduced;
- as a transmission specialist, Valeo added 658 new references to its aftermarket offering in 2012, including clutch kits, dual-mass flywheels and hydraulic parts;
- as a multi-specialist and in order to meet the needs of its distributors and repair professionals, Valeo invested across all of its product lines for Asian vehicles in order to bring its coverage, standards and performance quality into line with its European operation. In 2012, it added 120 new clutch kits, 50 new radiator references and 120 condensers. From 2013, Valeo will include a complete range of climate control products for the Asian market;
- the alternative, affordable Valeo CLASSIC range for vehicles over ten years old was launched in 2010 and now includes references for 63 alternators, 59 starters, 187 radiators and 32 clutch kits;

- this year Valeo added 370 new references to its lighting systems original equipment offering as part of its "Time-to-Market" program, which consists of offering parts to aftermarket distributors as soon as a new vehicle comes on the market;
- Valeo was awarded the 2012 Pace Award for the AquaBlade® wiper system. This innovative system offers improved efficiency in washing, wiping and fluid use by delivering washer fluid over the entire windshield surface;

2/ multi-region specialist:

- in March 2012, Valeo set up joint venture with the Anand group specifically dedicated to the Aftermarket. Valeo Service India Auto Parts Private Limited will distribute automotive products produced by the manufacturing companies of the two groups in the independent aftermarket across India, under the Valeo brand name;

3/ multi-channel specialist:

- to meet the needs of modern distribution channels (hypermarkets, auto centers), Valeo is constantly upgrading its packaging materials and offers an interactive service that allows users to replace vehicle parts themselves: QR codes placed on product packaging can be used to access installation videos for each type of product using a cell phone. Videos are already available for wiper blades and engine filters and will be made available for other products in 2013;
- Valeo was named Supplier of the Year for 2012 by GAU (Groupauto International – Distribution Platform) in recognition of its expertise and support for traditional distribution channels;
- as part of its commitment to repair professionals, 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 meet the needs of the automotive market more effectively, to develop their customer service, make them more competitive, and therefore, to increase their business. In 2012 Exponentia continued to expand its activities in Germany, Italy, the UK and France with 10 new modules designed to enhance repair professionals' technical skills, notably in hybrid technologies like Stop-Start, by leveraging Valeo's expertise as an original equipment manufacturer of starter-alternators;
- Valeo Service provides a specially tailored service to truck distribution networks:
  - Valeo has one of the broadest, most comprehensive offerings of aftermarket products and services for industrial vehicles spanning eight categories and catering to trucks, coaches, buses, agricultural vehicles and light commercial vehicles;
  - Valeo provides customers with a wide, innovative range of transmission systems and dampers for buses and trucks. It also has a full range of clutch kits providing torque of up to 3,500 Nm, as well as new concepts that can achieve torque of up to 5,000 Nm;
  - Valeo is continuing to develop optiPACK™ brake pad kits for 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 sure to have a complete kit;
  - Valeo is expanding its offering of FS60 and TS50 starters for trucks in order to cover more vehicles. This starter technology has been well received in the aftermarket as it lasts longer, is more reliable and offers better performance, while remaining as compact as possible;
  - Valeo is the world's leading supplier of wiper systems in the original equipment market. It has designed a new Flat Blade specifically adapted to trucks that can easily be fitted to replace traditional wiper blades, providing truck users with all of the benefits of the Flat Blade.

This position as a premium multi-specialist on the aftermarket is part of Valeo Service's "DNA" and this is reflected in the visual identity launched in 2012 (see below) and displayed on all Valeo Service's corporate communication materials.

Market trends

Although business remained stable in the North American zone, 2012 witnessed a marked slowdown in some European countries due to the ongoing economic difficulties. In Spain, for example, the truck market was hit by a drop in aftermarket sales of about 12%, while in Italy the markets for both passenger vehicles and trucks declined by around 10%, triggering worries over the solvency of some market players, and Greece continued to suffer the worst effects of the crisis. Nevertheless, the relative strength of the rest of Europe, buoyed by greater numbers of cars on Eastern European roads and higher average prices due to the greater presence of new technologies on mature Western markets, coupled with the rally in North Africa, limited the decline in the EMEA zone (Europe, Middle East and Africa) to just 2% and 3%, respectively, for passenger cars and trucks.

Last year's surge in the South American aftermarket ran out of steam: the Brazilian market contracted by 11% and Argentina was badly hit by the introduction of import quotas. But growth in Asia, attributable to ever greater numbers of cars on the road and the buoyancy of local economies, generated good growth in all distribution channels and product lines: aftermarket sales of product lines marketed by Valeo Service in Asia jumped by an average of 29% for passenger cars and 15% for trucks(1).

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 aftermarket subsidiaries have been opened in China, Poland, Turkey and Russia, as well as in India in 2012, and the development of product ranges adapted to the specificities of the local vehicles in those areas also enabled Valeo Service to perform better than the market in these countries.

Outlook

The total number of vehicles worldwide, estimated currently at 1 billion vehicles, increases by an average of 3% to 4% every year, and the total Aftermarket (spare parts) is estimated to be worth 260 billion euros(2).

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.

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(1) Source: Valeo.

(2) Several different sources may be used to estimate the various national car populations. We use Polk which is the main source to put together our consolidated data. As no external sources are available to estimate the value of the aftermarket, the figure shown represents Valeo's best estimate calculated using several indicators for each product family, such as car ownership rates, replacement rates, and the proportion of aftermarket sales in each distribution channel.

360Vue® camera

RISK FACTORS

2

THE INFORMATION FROM THE ANNUAL FINANCIAL REPORT IS CLEARLY IDENTIFIED IN THE TABLE OF CONTENTS BY THE **AFR** SYMBOL

The environment in which the Group conducts its business is constantly changing. Valeo is therefore exposed to risks which, if they materialized, could have a negative impact on its operations, earnings, financial position and outlook. This chapter sets out the main risks to which Valeo considers it is exposed, including operational risks inherent to its business, industrial and environmental risks, legal risks and financial risks.

In order to prevent and manage these risks, the Group's General Management and employees implement an internal control system. Internal control and risk management procedures 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.

However, these procedures can provide reasonable but not absolute assurance that the Group's objectives will be achieved and that certain risks will be prevented from occurring. The purpose of the risk management system put in place by Valeo is to reduce the probability of risks occurring and their potential impact. Other risks which the Group is not aware of at the reporting date, or which it does not consider material, could also affect its operations.

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. Production itself is affected by a number of factors, including consumer confidence, employment trends, disposable income, interest rates, consumers' access to credit and vehicle inventory levels. Production volumes are also influenced by government initiatives, especially vehicle purchase incentives, trade agreements and new regulations. The recent deterioration in the European automotive market and trends in this market in 2013 could lead to a decline in the Group's earnings and/or to the default of some of its customers and suppliers, and could thereby affect Valeo's financial position.

It should be pointed out that supply contracts with automakers take the form of open orders for all or part of the equipment needs of a vehicle model, with no minimum volume guarantee. Valeo's earnings could be affected in this case by a model's commercial failure.

Lastly, the automotive industry is highly competitive. Although the Group is a supplier for a given model, it may not be chosen to supply future generations of the model in question, and accordingly its earnings could be impacted.

Management of risk

Valeo has the appropriate expertise and resources to undertake the necessary restructuring measures should the automotive market experience a downturn. To address the consequences of a market downturn, the Group maintains a tight rein on fixed costs (particularly by ensuring good workforce flexibility) in order to reduce its break-even point.

The considerable diversity of the Group's sales in terms of region, customer, brand and model makes it less vulnerable to negative trends in one of its markets:

- thereby, and in line with its development strategy, the percentage of Valeo's original equipment sales generated by Europe-based production is decreasing (52% versus 58% in 2011), while sales generated by production based in Asia and other emerging countries (including Eastern Europe) are on the rise (54% versus 50% in 2011);
- secondly, Valeo derives 12% of its sales from the aftermarket, which is less vulnerable to fluctuations in the economic climate;
- lastly, around 29% of Valeo's sales are made with German automakers whose businesses are robust at present, owing mainly to the high-end positioning of certain brand names in the market.

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.

The Group is exposed to the risks inherent in developing and manufacturing new products and, in particular, the risk of development delays and product malfunction.

Management of risk

The Group employs every means necessary to remain at the cutting edge of technology, maintaining an in-depth technology watch and conducting a systematic review of the technological development plan over a period of ten years. Research and Development is of key importance for the Group's future growth. Valeo operates 21 research centers and 40 development centers worldwide, employing some 8,800 people. The 16% increase in staff numbers at these centers compared to 2011 was primarily in emerging countries, and was aimed at specifically addressing the needs of these markets. Net expenditure on Research and Development represented 5.1% of Group sales in 2012.

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

For more on our Research and Development policy, see Chapter 1, section 1.3.5, "Presentation of functional networks", on page 31.

Supplier risks

Risk

Valeo is highly integrated with its suppliers in an effort to continually improve the quality of the products it delivers to automakers. This does not mean, however, that there are ownership links between Valeo and its suppliers.

As Valeo mainly purchases niche products (characteristic of the automotive equipment industry), a significant portion of its supplies are vulnerable to supplier risks. Valeo is therefore exposed to the risk that one of its suppliers fails to deliver the quantities required or that the products supplied fail to meet the requisite quality standards. This could cause interruptions to supplies and prevent the Group from delivering to its customers.

Management of risk

The Group seeks to diversify its supply streams in order to lower this risk as far as possible while maintaining acceptable economic conditions. Manufacturing purchases are made with a broad range of suppliers, with several suppliers for each business and in each region where necessary. Ninety-five percent of Valeo's needs are handled by 1,176 suppliers. The Group's biggest supplier represents 2% of its purchases, the five biggest suppliers account for 8% and the ten biggest, 13%.

Valeo ensures the consistency of its supplies through continual monitoring of its suppliers based on supplier risk assessment procedures put in place by the Group. These procedures are based on multiple criteria including financial and management criteria, dependence on Valeo, integration and quality (ISO TS 16 949). Each supplier is audited on a regular basis. In this way, the Group maintains 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 sourcing supplies from several suppliers.

Geopolitical risks

Risk

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

Management of risk

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

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 measures include:

- bans on travel to countries deemed high risk;

- a list of acceptable airlines for employee travel, selected based on safety criteria;
- guides and information circulated among employees and aimed at raising awareness of safety and security risks;
- employee training on safety and security issues;
- evacuation of expatriates;
- heightened security at operating sites.

Valeo endeavors to standardize its production processes so that should production be affected at a given site, other Group sites could be used to guarantee production continuity.

IT systems failure risks

Risk

The Group depends increasingly on infrastructure and applications common to all of its businesses. These include procurement, production and distribution, billing, reporting and consolidation software. The causes of system malfunctions or breakdowns may be external (viruses and hacking, power cuts, network failure, natural disasters, etc.) or internal (sabotage, data confidentiality breaches, etc.).

Management of risk

To minimize the impact of such occurrences, the IT Department ensures that:

- equipment exists to allow operations to continue in the event of power cuts or critical network failure;
- infrastructure and computer equipment are protected by contingency plans which are to be implemented depending on the malfunction concerned (see section 2.1.2, “General principles for protecting and managing environmental and industrial risks” below);
- website access is controlled and there is only limited, secure access to critical infrastructure;
- data are protected by regular automatic back-ups and *via* the use of secure external data centers;
- each user has secure access to data based on strict security checks (intrusion tests, firewalls) and a segregation of duties matrix.

Valeo’s Security Competence Center is in charge of carrying out regular, random audits to ensure that Valeo’s sites and suppliers duly comply with these security procedures.

All users must also comply with the Information and Communications Technologies User Charter put in place by the Group.

2.1.2 Industrial and environmental risks

General principles for protecting sites and managing environmental and industrial risks

The Group has always had a policy of providing the highest level of protection for 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.

The Group has also defined procedures and action plans to ensure that it can take prompt action in crisis situations:

- 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 (Valeo Emergency and Recovery Management – VERM) was set up in 2008 enabling each site to be aware of its potential crisis situations and make effective preparations for dealing with them. This tool:
  - identifies potential dangers resulting from natural causes or related to industrial activities, as well as the areas potentially impacted,
  - organizes crisis management units and business contingency plans.

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 4, section 4.3, "Environmental performance" on page 115, 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 unit involving all Group departments. The Risk Insurance Environment Department is staffed with a Health, Safety, Environment (HSE) manager for each of the Business Groups and for Valeo Service. 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 where Valeo operates, a Country HSE manager is designated among the sites' HSE managers. He or she is in charge of training newly appointed site 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, mainly in France (see section 2.1.3 of this chapter, on page 61).
- Provisions set aside for site restoration amounted to 20 million euros at December 31, 2012 (see Note 5.11.2 to the 2012 consolidated financial statements in Chapter 5, section 5.2.6, on page 244).

In addition, new Valeo sites are located far from sites representing a significant potential risk (Seveso sites, etc.) which could, through a domino effect, endanger Valeo's sites.

Industrial risks

Risk

Valeo's production facilities may be exposed to industrial risks resulting from its activities including fire, explosions and machine breakages.

Management of risk

The vast majority of Valeo's sites are HPR (highly protected risk) classified. This means that they have a high degree of risk prevention (specific procedures and dedicated, highly trained teams) as well as a level of protection adapted to the site and its activities. To prevent fires (the most common industrial risk), most of the Group's sites have an automatic sprinkler system.

Natural disaster risks

Risk

Depending on their geographic location, Valeo's production facilities may be exposed to the risks of natural disasters such as earthquakes, hurricanes, cyclones and floods.

Management of risk

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.

Sites which Valeo may occupy in the future are reviewed when being prepared in order to determine the natural disaster risks to which they may be exposed. They are approved if the natural disaster risk is considered acceptable based on existing information (*e.g.*, past history of seismic activity and flooding).

When a site is being built or rehabilitated, appropriate safeguards are put in place to ensure that the plant is best equipped to deal with any natural disasters that could occur. These safeguards include building compliant with the most appropriate seismic standards, roofing reinforcements against hurricanes, and protection against flooding.

2.1.3 Legal risks

Intellectual property risks (patents and trademarks)

Risk

The major intellectual property risk that Valeo faces is counterfeiting by third parties or involuntary counterfeiting.

Counterfeiting can result from actions by third parties against Valeo's products or manufacturing processes. These acts have an immediate adverse impact on Group sales and earnings and can harm the reputation and quality image of the products concerned.

Valeo may also involuntarily be involved in counterfeiting, due mainly to the risk associated with the period during which patent applications are not published. Patent applications filed by third parties and known only on publication could impact current product developments or even products recently launched onto the market due to an increasing reduction in product development periods. This situation would require Valeo to modify the product, leading to an increase in the project's Research and Development expenditure, or to negotiate rights of use to the patented item. In either of these cases, the profitability of the project would be affected.

Valeo is also confronted with the risk of counterfeiting by third parties of its trademarks, the impact of which could be very significant on the aftermarket.

Management of risk

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 described in Chapter 1, section 1.3.5, "Research and Development", on page 30. These patents, covering the major automotive markets, provide the Group with an effective weapon against counterfeiting.

To identify infringements of its patented rights and trademarks, 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. In addition to customs surveillance, whenever products presented at industry trade shows seem to involve the reproduction of patented technologies or products, Valeo pursues every course of action legally available in order to stop and penalize the infringement.

Intellectual property risks are managed by the Research and Development Department's Industrial Property unit. To ensure close links with project development teams, there is an Industrial Property unit in each Business Group. Its aim is to put into practice the principle set out in the Group's Code of Ethics and to offer customers products that are freely marketable by regularly reviewing competitors' patents while new products are being developed.

Risks related to sales of products and services

Risk

Valeo is exposed to warranty claims by customers with respect to the products and services it sells.

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.

Valeo is also exposed to the risk of liability claims in the event that damage results from defective products sold or services rendered by the Group.

Lastly, Valeo is exposed to the risk of liability claims by its customers for failure to comply with contractual commitments, which result from their demands regarding operational performance. This requires complete control over development and industrialization projects run in connection with new vehicle model or equipment launches. It also requires Valeo to be able to meet demand in terms of volumes at all times, as well as full compliance with delivery deadlines and reliable logistics operations.

Management of risk

The Quality function and its Project Quality network, as well as the Purchasing, Industrial and Logistics functions, are responsible for managing these risks according to a total quality approach.

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.

To protect itself against the risk of recalls, 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.

To protect itself against liability claims, Valeo has taken out an insurance policy to cover the financial impact of claims resulting from damage caused. However, it is uncertain whether this insurance policy would be adequate to cover the full financial impact of such claims.

Provisions for product warranties amounted to 185 million euros at December 31, 2012 (see Note 5.11.2 to the 2012 consolidated financial statements in Chapter 5, section 5.2.6, on page 244).

Claims, litigation, and governmental, legal and arbitration proceedings

Proceedings arising within the ordinary course of business

In the ordinary course of its business, some Group 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”. Mainly in France, former employees exposed to asbestos in the Group’s plants could have developed an illness as a result of this exposure. If such illnesses were considered as occupational illnesses by health insurance funds, the employees concerned could bring a claim against Valeo for gross negligence. If the gross negligence claim were upheld and enforceable against the former employer, Valeo would have to pay additional compensation to its former employees or their beneficiaries. In 1999, French law introduced an early retirement scheme for workers exposed to asbestos. Under this law, employees having worked at a site recognized by law to have contained asbestos can take early retirement under certain conditions. A number of former employees entitled to early retirement on these grounds have brought claims against Valeo before the French Labor Court. Most of these claims seek damages for moral harm (anxiety) or economic loss on the grounds that the claimant was forced into early retirement.

Other claims may be filed against certain Group companies by their employees or by the tax authorities.

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.

Provisions for known disputes and litigation amounted to 160 million euros at December 31, 2012 (see Note 5.11.2 to the 2012 consolidated financial statements in Chapter 5, section 5.2.6, on page 244).

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.

Anti-trust proceedings

Since the end of July 2011, several anti-trust proceedings have been initiated against numerous automotive suppliers (including Valeo), in particular by the US, European and Japanese anti-trust authorities in the areas of equipment and systems for the automotive industry.

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.

Other proceedings

To the best of Valeo’s knowledge, and excluding these anti-trust proceedings, during the past 12 months there were no governmental, legal or arbitration proceedings, including proceedings in progress, 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 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 (see Note 6.4 to the 2012 consolidated financial statements in Chapter 5, section 5.2.6, on page 261).

2.1.4 Financial risks

Standard policy

Valeo's Financing and Treasury Department proposes and implements rules on managing liquidity, market (commodity, foreign currency, interest rate and equity) risks and the associated counterparty risks.

These risks are generally managed centrally by the parent company. Financing, investment and risk identification and hedging strategies are reviewed each month by the Group's Finance Department.

The Financing and Treasury Department relies, among other things, on a treasury management system that constantly monitors the main liquidity indicators and all of the financial derivatives used at central level to hedge commodity, currency and interest rate risks. Valeo's General Management receives periodic reports about market trends and the liquidity, commodity, currency, interest rate and counterparty risks incurred by the Group, as well as details of hedging operations and their valuation.

Liquidity risk

Risk

The Group must ensure that it maintains very broad access to liquidity in order to meet its commitments and investment requirements. To do this, it must borrow from banks and on capital markets, which exposes it to liquidity risk in the event that these markets partly or wholly dry up.

Management of risk

Cash is managed centrally whenever this is permitted by local legislation. In this case, subsidiaries' surplus cash or financing requirements are pooled and invested or funded by Valeo, the parent company.

In China and Brazil, where exchange control restrictions exist, the Group has set up a cash pooling system and regularly receives dividends.

At December 31, 2012 and December 31, 2011, Valeo had 1.3 billion euros in cash and cash equivalents. Cash comprises bank deposits for 541 million euros and cash equivalents (mainly money market funds) for 793 million euros.

Cash and cash equivalents in China and Brazil amounted to 157 million euros at December 31, 2012.

Other sources of liquidity were as follows:

- confirmed bank credit lines totaling 1.2 billion euros, with an average maturity of 3.3 years. These bilateral credit lines, none of which had been drawn down at December 31, 2012, were negotiated with ten leading banks rated A+ on average by S&P and A2 on average by Moody's. These lines of credit are subject to a commitment by Valeo to maintain the ratio of net debt(1) 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, 2012 stood at 0.61;
- 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 currently restrict its access to this market;
- a Euro Medium Term Note medium- and long-term financing program for a maximum of 2 billion euros, on which 1.3 billion euros had been drawn down at December 31, 2012.

The Group's gross debt stood at 2.1 billion euros at December 31, 2012, consisting of short-term debt totaling 73 million euros, long-term debt totaling 2,004 million euros (including 440 million euros due within one year), and certain liabilities held for sale related to gross debt for 23 million euros. The average maturity of debt was 3.5 years at the end of 2012.

Details of the Group's borrowings and debt are included in Note 5.12 to the 2012 consolidated financial statements in Chapter 5, section 5.2.6, on page 245.

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(1) See Financial Glossary, section 5.8, page 296.

The Group seeks to ensure a balanced long-term debt repayment profile. The following table summarizes the amounts and maturities of Valeo's main borrowings at December 31, 2012:

Maturity	Type	Nominal amount	Currency	Nominal interest rate
June 2013	Bond (EMTN program)	311	EUR	3.75%
June 2016	Syndicated loan	250	EUR	3-month Euribor +1.3%
August 2016	EIB loan	225	EUR	6-month Euribor +2.46%
January 2017	Bond (EMTN program)	500	EUR	5.75%
May 2018	Bond (EMTN program)	500	EUR	4.875%
November 2018	EIB loan	103	USD	6-month Libor +1.9%

- Valeo made several bond issues under its Euro Medium Term Note medium- and long-term financing program:
  - 600 million euros in bonds initially issued on June 24, 2005 and redeemable on June 24, 2013, paying fixed interest of 3.75%. Of this amount, 289 million euros were redeemed ahead of maturity following the two public redemption offers launched in May 2011 and then in January 2012;
  - 500 million euros in bonds issued in January 2012 and redeemable on January 19, 2017, paying fixed interest of 5.75%;
  - 500 million euros in bonds issued in May 2011 and redeemable on May 11, 2018, paying fixed interest of 4.875%.

  These three 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);
- A 250 million euro syndicated loan maturing on June 30, 2016. A euro/Japanese yen cross currency swap for 237 million euros was set up on inception of the loan for the same maturity (see "Foreign currency risk" on page 64). This swap fixes the nominal amount of the loan and converts variable euro interest into variable interest in Japanese yen. The loan is 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.
- A seven-year loan from the European Investment Bank (EIB) for 225 million euros, repayable in four equal annual installments starting in August 2013. This loan is subject to the same net-debt-to-EBITDA covenant as that applicable to the credit lines. The 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 EIB loan for 103 million US dollars (78 million euros based on the closing exchange rate at December 31, 2012) repayable in four equal annual installments as from November 2015. This loan was granted for a similar purpose and under similar conditions as those for the aforementioned EIB loan. A euro/US dollar swap of an equivalent amount was set up at the same time in order to fix the nominal amount in euros.

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

Credit rating

On September 14, 2012, Standard & Poor's Rating Services assigned its "BBB/A-2" long-term and short-term corporate credit ratings to Valeo with a stable outlook.

On January 29, 2013, Moody's Rating Services confirmed its "Baa3/P3" long-term and short-term corporate credit ratings for Valeo with a stable outlook.

These two ratings confirm Valeo's investment-grade status.

Commodity risk

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 1.7 billion euros in purchases in 2012 (of which 40% non-ferrous metals, 35% steel, 23% plastics and 2% rare-earth metals). The Group is exposed to adverse changes in the price of these commodities. In the event of a sharp rise in commodity prices, the Group may not always be in a position to pass on the full extent of the rise to its customers, and this may have a negative impact on its earnings.

Management of risk

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 approximately two-thirds and one-half of the Group's exposure.

Residual exposure to non-ferrous metals listed on the London Metal Exchange is hedged with leading banks using 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. An unrealized gain of 1 million euros related to these hedges was recognized directly in other comprehensive income at December 31, 2012, compared to an unrealized loss of 7 million euros recognized in other comprehensive income at end-2011.

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 the amount. Exposure to commodity risk and the related pre-tax sensitivity analysis are detailed in Note 6.2.1.2 to the 2012 consolidated financial statements in Chapter 5, section 5.2.6, on page 255.

Foreign currency risk

Operational currency risk

Risk

As the Group conducts its business in an international environment, Group entities may be exposed to transaction risks with respect to purchases or sales transacted in currencies other than their functional currency.

Management of risk

Subsidiaries' current and future business transactions 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 (leading banks). 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 in accordance with the aforementioned standard. However, on an exceptional basis, the Group sets up specific hedges for major individual transactions and applies hedge accounting rules. At December 31, 2012, an unrealized loss of 1 million euros related to these hedges was recognized directly in other comprehensive income.

Financial currency risk

Risk

Centralizing the financing needs of foreign subsidiaries outside the eurozone as well as certain Group financing transactions exposes some entities to financial currency risk. This risk corresponds to the risk of changes in the value of financial receivables or payables denominated in currencies other than the functional currency of the borrowing or lending entity.

Management of risk

The Group's borrowings are generally denominated in euros (see section 2.1.4, "Liquidity risk" on page 62). Only the loan granted by the EIB in November 2011 is denominated in US dollars and was immediately swapped for a loan in euros of an equivalent amount.

The Group also tends to finance its subsidiaries in their local currencies and systematically enters into hedges to protect itself against the resulting currency risk.

The bank loan taken out at the end of 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 interest rate for Japanese yen).

At December 31, 2012, an unrealized loss of 1 million euros related to these hedges was recognized directly in other comprehensive income.

This transaction in Japanese yen is hedged by an internal loan in yen granted to Valeo Japan in connection with the Niles acquisition.

The Group's residual unhedged exposure results mainly from euro-denominated loans granted by Valeo to subsidiaries in Eastern Europe (see the pre-tax sensitivity analysis for this risk in Note 6.2.1.1 to the 2012 consolidated financial statements in Chapter 5, section 5.2.6, on page 254).

The Group's gross and net exposure is shown in Note 6.2.1.1 to the 2012 consolidated financial statements in Chapter 5, section 5.2.6, on page 254.

Interest rate risk

Risk

Interest rate risk depends on the Group's debt and financial investments and on the fixed/variable interest rate mix.

Management of 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.

Taking into account hedging transactions, 77% of long-term debt was at fixed rates at December 31, 2012 (stable compared to end-2011).

The Group's investments are mainly at variable rates.

Details of exposure to interest rate risk and the related pre-tax sensitivity analysis are shown in Note 6.2.1.3 to the 2012 consolidated financial statements in Chapter 5, section 5.2.6, on page 256.

Banking counterparty risk

Risk

Banking counterparty risk arises on hedges taken out with leading banks (interest rate, currency and commodity derivatives), on credit lines granted by these banks and on cash and securities deposited with financial institutions.

Management of risk

The Group works with leading financial institutions and sets limits for each counterparty, taking into account ratings provided by ratings agencies (institutions must be rated A+ on average by S&P and A2 on average by Moody's). Special reports are drawn up enabling counterparty risk on each market to be monitored.

The Group invests its surplus liquidity according to the same principles, with asset management companies that are subsidiaries of leading banks. Securities are held by leading custodians.

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. In 2012, 1,660,097 shares were acquired and 2,542,430 shares were sold (including 1,952,097 in respect of the liquidity agreement in relation to stock option and free share plans), leading to a 23 million euro increase in consolidated equity at end-2012.

A detailed presentation of movements in treasury shares resulting from the liquidity agreement as well as from stock option and free share plans, is provided in Chapter 7, section 7.5.2, on page 328.

Equity investments for pension funds

Pension fund assets comprised 197 million euros in equities at December 31, 2012, or 51% of the assets invested. After a market downturn in 2011, 2012 was more upbeat, delivering a better-than-expected return on plan assets, mainly in the United States (see Note 5.10.5 to the 2012 consolidated financial statements in Chapter 5, section 5.2.6, on page 242).

The diversification of the funds among the different asset classes (equities, bonds, cash equivalents) is defined by the Investment Committees or trustees specific to each country concerned, acting on recommendations from external advisors. Asset allocation decisions depend on the market outlook and the characteristics of the pension obligations. The funds are managed by specialized asset management companies. Assisted by the same advisors, Valeo meets periodically to assess the relevance and performance of its various investments.

Investment in Ichikoh

Valeo holds a 31.6% interest in Ichikoh Industries Ltd, a company listed on the Tokyo stock market. This investment is accounted for by the equity method and carried at an amount of 67 million euros at December 31, 2012 (74 million euros at December 31, 2011).

The Group is exposed to the risk of changes in the market value of this investment. The market value of Valeo's interest in Ichikoh was 38 million euros at both December 31, 2012 and December 31, 2011. The carrying amount of the investment in the consolidated financial statements of the Group is justified by its value in use for Valeo.

Commercial credit risk

Risk

The automotive sector is by nature fairly concentrated around several large international automakers. Valeo is exposed to credit risk and, more specifically, the risk of default by its manufacturing or distribution customers.

Management of risk

Valeo works with all automakers in the sector and endeavors to diversify its customer portfolio as far as possible to include new, especially Asian, players. In 2012, Asian customers represented 28% of the Group's original equipment sales.

At December 31, 2012, Valeo's largest customer accounted for around 16% of the Group's accounts and notes receivable. The Group's five largest customers accounted for 55% of its original equipment sales, and its ten largest customers, 78% of original equipment sale. Valeo also generates more than 12% of its sales in the aftermarket, with automakers representing 45% and independent dealer networks 55%. The customer base of independent dealer networks (7% of the Group's accounts and notes receivable at end-2012) is by nature highly diversified and is constantly monitored. Credit insurance policies have been taken out to protect the Group against the risk of default.

The average days' sales outstanding stood at 49 days at December 31, 2012, compared to 51 days 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 2012 consolidated financial statements in Chapter 5, section 5.2.6, on pages 234 and 259.

2.2 Insurance and risk coverage

The Group's insurance strategy is combined with a strong risk prevention and protection approach. In the aim of optimizing insurance costs, the Group self-insures risks susceptible to recur and whose amounts are not significant.

All Group companies are insured by first-rate insurance companies for all major risks that could have a material impact on their business, earnings, assets and liabilities, or employees.

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 on the basis of the replacement cost of buildings, equipment and inventories;
- business interruption: covers any cases where activity is interrupted or reduced following an event insured under property damage coverage, or by extension, one of the following events: physical impossibility of accessing a site, client or supplier deficiencies and loss of energy supply. Business interruption is insured on the basis of loss of gross margin;
- goods 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	1,000 million
General liability, product liability, environmental liability	200 million
Goods and equipment transportation	Value of the goods transported
Directors' and corporate officers' liability	130 million
Employment Practice liability	50 million

The Group paid a total of 13.6 million euros in premiums for its insurance coverage in 2012.

Multifunction faceplate

CORPORATE GOVERNANCE

3

THE INFORMATION FROM THE ANNUAL FINANCIAL REPORT IS CLEARLY IDENTIFIED IN THE TABLE OF CONTENTS BY THE AFR SYMBOL

3.1 Corporate governance structure

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 (*Code de commerce*). Similarly, the Company also complies with the provisions set out in the French financial markets authority's (*Autorité des marchés financiers* – AMF) report on audit committees of July 22, 2010.

The application of the recommendations of the AFEP-MEDEF Corporate Governance Code is described in Chapter 6, section 6.1.6, page 309.

The French version of the AFEP-MEDEF Corporate Governance Code for Listed Companies published in December 2008 and revised in April 2010 is available on the MEDEF website, www.medef.com.

3.1.1 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 on 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 on 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 June 8, 2011 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 work performed by the Board of Directors, and presents a report on its activities 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 June 8, 2011 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 widest possible 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 the internal procedures, the Chief Executive Officer must obtain the prior approval of the Board of Directors for the acquisition or sale of any subsidiary, interest, or any other asset or investment, for a sum of more than 50 million euros per transaction.

Operations Committee

1 **Michel Boulain**
Senior Vice-President,
Human Resources

2 **Robert Charvier**
Chief Financial Officer

3 **Robert de La Serve**
President, Valeo Service Activity

4 **Catherine Delhaye**
Chief Ethics
and Compliance Officer

5 **Guillaume Devauchelle**
Group R&D Director and Product
Marketing Senior Vice-President

6 **Antoine Doutriaux**
President, Visibility Systems
Business Group

7 **Hans-Peter Kunze**
Senior Executive Vice-President,
Sales & Business Development

8 **Géric Lebedoff**
General Counsel

9 **Claude Leïchlé**
President, Powertrain Systems
Business Group

10 **François Marion**
Vice-President, Corporate Strategy and
Planning

11 **Alain Marmugi**
President, Thermal Systems
Business Group

12 **Christophe Périllat**
Chief Operating Officer

13 **Marc Vrecko**
President, Comfort and Driving
Assistance Systems Business Group

3.1.2 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 amendments were made on October 18, 2012.

These internal procedures define the Board's operating methods and the rules governing the appointment of Board members. They are applied alongside the provisions set down by law, the applicable regulations and the Company's articles of association.

Internal procedures have also been drawn up for the Board's Committees.

Composition and appointment

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 currently has 12 members. There are no directors elected by employees and no 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 financial statements 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 on 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 70th birthday. The Chief Executive Officer'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 65th birthday.

Directors may be removed from office by the Shareholders' Meeting at any time.

At December 31, 2012, 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**

Independence of directors

At December 31, 2012 the Board of Directors had nine independent directors.

Classification as an independent director is reviewed by the Appointment, Compensation and Governance Committee and the Board of Directors before the annual report is prepared. Thus, on January 22, 2013, the Board of Directors reviewed whether its members could still be classified as independent in light of the criteria in the internal procedures. In compliance with the AFEP-MEDEF Corporate Governance 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.

The independence criteria relating to directors are described in Chapter 6, section 6.1.1, page 299.

Women on the Board of Directors

Since the beginning of 2011, the Board of Directors has included three women: Helle Kristoffersen, Noëlle Lenoir and Ulrike Steinhorst. The Shareholders' Meeting on June 4, 2012 renewed the term of office of Ulrike Steinhorst.

Women currently hold 25% of the seats on the Board of 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.

Pascal Colombani

Chairman of the Board of Directors
Chairman of the Strategy Committee

French
Age: 67

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 currently held in companies other than Valeo subsidiaries

- Director, Alstom SA ♦, Technip SA ♦, Energy Solutions Inc. (US) ♦
- Member, French Academy of Technology (*Académie des technologies*)

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Director, British Energy Group Plc, Rhodia SA
- 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 SA, Alstom SA 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.

♦ *Listed company.*

Jacques Aschenbroich

Chief Executive Officer

French
Age: 58

Valeo
43, rue Bayen
75017 Paris, France

Number of Valeo shares held: 57,000(1)

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, Valeo Finance, Valeo Service, Valeo S.p.A. (Italy), Valeo (UK) Limited (UK)
- Director, Valeo Service España, SA (Spain)

Other directorships and positions currently held in companies other than Valeo subsidiaries

- Chairman of the Board of Directors, *École nationale supérieure des mines ParisTech*
- Director, Veolia ♦

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- 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)
- 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) and 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 Chairman of the Board of Directors of *École nationale supérieure des mines ParisTech*. He is also Chairman of Valeo Finance, Valeo Service, Valeo S.p.A., Valeo (UK) Limited and a Director of Valeo Service España, SA.

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 in the United States 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*.

♦ *Listed company.*

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(1) Including 50,000 shares vested on June 24, 2012 following the two-year vesting period applicable to the performance shares allotted to Mr Aschenbroich under the June 24, 2010 share plan. These 50,000 shares are subject to the mandatory two-year holding period provided for by French law (therefore they will only be available for trading from June 24, 2014). Jacques Aschenbroich must also hold half of these 50,000 shares in registered form until the end of his term of office.

Gérard Blanc

Independent director

Member of the Strategy Committee

French
Age: 69

Marignac Gestion S.A.S.
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 S.A.S.

Other directorships and positions currently held in companies other than Valeo subsidiaries

- Director, Sogeclair ♦

Experience

Gérard Blanc is Chairman and CEO of Marignac Gestion S.A.S. 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.

♦ *Listed company.*

Daniel Camus

Independent director

Chairman of the Audit and Risks Committee

French
Age: 60

The Global Fund
Chemin de Blandonnet 8
1214 Vernier, Switzerland

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

- Chief Financial Officer, The Global Fund

Other directorships and positions currently held in companies other than Valeo subsidiaries

- Member of the Supervisory Board, Morphosys AG (Germany) ♦, SGL Group SE (Germany) ♦, Vivendi SA ♦, Cameco Corp. (Canada) ♦

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Member of the Supervisory Board, EnBW (Germany) and Dalkia SAS
- Chairman of the Board of Directors, EDF International
- Chief Financial Officer and subsequently Group Executive Vice-President in charge of International Activities and Strategy, EDF group
- Director, EDF Energy (UK) and Edison (Italy)
- Senior Advisor, Roland Berger Strategy Consultants

Experience

Daniel Camus is Chief Financial Officer of The Global Fund.

He is a member of the Supervisory Boards of Morphosys AG (Germany), SGL Group SE (Germany), Cameco Corp. (Canada) and Vivendi SA. He was Senior Advisor at Roland Berger Strategy Consultants up to 2012.

Prior to this, he served as group Executive Vice-President in charge of International Activities and Strategy at the EDF group until December 1, 2010. After working in the chemicals and pharmaceuticals industry for 25 years within the Hoechst-Aventis group in Germany, Canada, the United States and France, he joined the EDF group in 2002 as group Chief Financial Officer.

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).

♦ *Listed company.*

Jérôme Contamine

Independent director
Chairman of the Appointment, Compensation and Governance Committee

French
Age: 55

Sanofi
54, rue de La Boétie
75414 Paris Cedex 8, France

Number of Valeo shares held: 2,000
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

- Executive Vice-President and Chief Financial Officer, Sanofi

Other directorships and positions currently held in companies other than Valeo subsidiaries

Sanofi group

- President, SECIPE and Sanofi 1
- Manager, Sanofi 4 and Sanofi North America
- CEO, Sanofi Europe and Sanofi Participations
- Director, Sanofi Pasteur Holding and Merial Ltd. (UK)

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Sanofi group
- Director, Zentiva NV (Netherlands)
- Outside Sanofi group
- Executive General Manager, Veolia Environnement
- Chairman, VE Europe Services (Belgium)
- Director, Veolia Transport, Veolia Propreté, VE Services-Ré, Veolia Environmental Services Plc (UK), Veolia ES Holdings Plc (UK), Veetra, Venac (US), Rhodia
- Director and Managing Director, Veolia UK
- CEO and Chairman of Venao (US)
- Chairman, VE IT
- Member of the Supervisory Board, Veolia Eau, Dalkia France
- Member, Dalkia's A and B Supervisory Boards

Experience

Jérôme Contamine has been Executive Vice-President and Chief Financial Officer of Sanofi 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 is a special advisor to the French Court of Auditors (*Cour des comptes*).

Michel de Fabiani

Director

Member of the Audit and Risks Committee

French
Age: 67

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

- Vice-President, Franco-British Chamber of Commerce and Industry

Other directorships and positions currently held in companies other than Valeo subsidiaries

- Director, BP France, EB Trans SA (Luxembourg)
- Member of the Supervisory Board, Vallourec ♦
- Chairman of the Board of Directors, British Hertford Hospital Corporation (Levallois, France)
- Founding President, *Cercle économique Sully* (a think tank) and Association for the Promotion of Ecological Vehicles (*Association pour la promotion des véhicules écologiques*)
- Vice-President, *Œuvre du perpétuel secours* (a non-profit association) (Levallois, France)

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- 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 and EB Trans SA (Luxembourg) and member of the Supervisory Board of Vallourec. In addition, he is Chairman of the Board of the British Hertford Hospital Corporation, Vice-President of the *Œuvre du perpétuel secours* in Levallois (France) and Founding President of the *Cercle économique Sully* and 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*.

♦ *Listed company.*

Michael Jay

Independent director

Member of the Appointment, Compensation and Governance Committee

British
Age: 66

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 currently held in companies other than Valeo subsidiaries

- Director, EDF ♦
- Non-executive Director, Associated British Foods (ABF) (UK) ♦, Candover Investments Plc (UK) ♦
- Independent member of the House of Lords (UK)
- Chairman, House of Lords Appointments Commission (UK)
- Vice-Chairman, Business for New Europe (UK)
- Chairman, Merlin (an international medical charity) (UK)
- Member, British Library Advisory Council (UK)

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Director, Crédit Agricole
- Chairman, Culham Languages and Sciences (an educational charity) (UK)
- Trustee, British Council (UK)

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 and of Merlin (an international medical charity), Vice-Chairman of Business for New Europe, a director of EDF and a member of the British Library Advisory Council.

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 and a member of GLOBE, an inter-parliamentary group on climate change.

Between 2002 and 2006 he held the position of Permanent Under-Secretary at the UK Foreign Office and in this role was Head of the Diplomatic Service.

In 2005 and 2006 he served as the UK Prime Minister’s personal representative at the G8 summits at Gleneagles and Saint-Petersburg.

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

♦ *Listed company.*

Helle Kristoffersen

Independent director

Member of the Strategy Committee

French
Age: 48

Total
2, place Jean Millier
La Défense 6
92078 Paris-La Défense
Cedex, France

Number of Valeo shares held: 500

First appointed: 03/22/2007

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

Other directorships and positions currently held in companies other than Valeo subsidiaries

- Director, France Télécom Orange ♦

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Deputy Vice-President of Strategy and Business Intelligence, Total
- Senior Vice-President of Vertical Markets, Alcatel-Lucent
- Vice-President of Corporate Strategy, Alcatel-Lucent
- Vice-President of Economic Analysis, Alcatel group

Experience

Helle Kristoffersen has been Vice-President of Strategy and Business Intelligence at Total since January 1, 2012.

She is a director of France Télécom Orange.

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 (previously the Alcatel group) which she joined in 1994 as Head of Financial Operations. Until December 31, 2008, she was the Alcatel-Lucent group's Vice-President of Corporate Strategy and Secretary of the Strategy Committee.

Between 1989 and 1991 she worked as an analyst in the mergers and Acquisitions Department at Banque Lazard & Cie before joining the Bolloré group, where she held the following positions: Deputy Financial Director responsible for mergers and acquisitions, Head of Operational Strategy for the Maritime Division and Head of Mergers and Acquisitions reporting to the Chairman and CEO.

Helle Kristoffersen is a graduate of *École normale supérieure* and *École nationale de la statistique et de l'administration économique* (ENSAE). She also holds a master's degree in econometrics from *Université Paris I Panthéon-Sorbonne*.

♦ *Listed company.*

Noëlle Lenoir

Independent director

Member of the Appointment, Compensation and Governance Committee

French
Age: 64

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 currently held in companies other than Valeo subsidiaries

- President, Europe Institute (*Institut de l'Europe*) at HEC
- Ethics Officer at the French National Assembly
- Member, the American Law Institute and the French Academy of Technologies
- Director, Generali France and Compagnie des Alpes ♦
- 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*)

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Member of the Steering Committee, Association of French Mayors (*Association des maires de France*), French Association of Women Lawyers (*Association française des femmes juristes*), High Level Group of Company Law Experts at the European Commission

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. She serves as Ethics Officer at the French National Assembly.

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 and a Director of Compagnie des Alpes since March 2013. She serves as Municipal Advisor of Valmondois (Val d'Oise, France).

Noëlle Lenoir is also Chairwoman of the Europe Institute HEC, Adjunct Professor at HEC, Honorary Chairwoman of the *Association des amis d'Honoré Daumier*, Founding Chairwoman of the *Cercle des Européens* and lecturer at *Paris I Panthéon-Sorbonne*.

She is a member of the American Law Institute, of the French Academy of Technology, of the Comparative Law Society (*Société de législation comparée*), and of the Board of Directors of the French Association of Constitutionalists. She previously served on the Steering Committee of the Association of French Mayors, the French Association of Women Lawyers and the High Level Group of Company Law Experts at the European Commission.

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

♦ *Listed company.*

Thierry Moulonguet

Independent director

Member of the Audit and Risks Committee and the Strategy Committee

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 2015 financial statements

Other directorships and positions currently held in companies other than Valeo subsidiaries

- Director, Fimalac SA ♦, Fitch Ratings Ltd., Lucien Barrière group, HSBC France, HSBC Europe (UK)

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Special advisor to the Chairman and CEO of Renault
- Director, Ssangyong Motor Co. (Korea), Avtovaz (Russia), RCI Banque, Renault Retail Group

Experience

Thierry Moulonguet is a director of Fimalac SA, Fitch Ratings Ltd., Lucien Barrière group, HSBC France and HSBC Europe.

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.

He served as Board director of Ssangyong Motor Co. (Korea), Avtovaz (Russia), RCI Banque and Renault Retail Group.

Thierry Moulonguet is a graduate of *École nationale d'administration* and *Institut d'études politiques de Paris* (IEP).

♦ *Listed company.*

Georges Pauget

Independent director
Member of the Audit and Risks Committee and the Appointment, Compensation and Governance Committee

French
Age: 65

Économie, Finance et Stratégie SAS
2, rue de Monceau
75008 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 2015 financial statements

Main position held outside the Company

- Chairman, Économie, Finance et Stratégie SAS

Other directorships and positions currently held in companies other than Valeo subsidiaries

- Honorary Chairman of the Board of Directors, LCL – Le Crédit Lyonnais
- Member of the Supervisory Board, Eurazeo ♦
- Chairman, Insead OEE Data Service and the *Institut pour l'éducation financière du public* (IEFP)
- Director, Danone Communities, Club Med ♦ and Tikehau
- Chairman, Finance Innovation cluster – Europlace
- Scientific Director, and Chair of Asset Management, *Université de Paris Dauphine*
- Adjunct Professor, *Université de Paris Dauphine*
- Visiting Professor, University of Beijing

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Representative for Crédit Agricole S.A. at the Partners Club (*Club des Partenaires*) of TSE (Toulouse School of Economics)
- Chairman of the Board of Directors, Amundi Group and Viel & Cie
- Chairman, French Banking Federation (*Fédération bancaire française* – FBF)
- Chairman, Crédit Lyonnais
- CEO, Crédit Agricole S.A.
- Chairman, Crédit Agricole Corporate and Investment Bank (formerly Caylon)
- Chairman, Monnet project for European bank cards

Experience

Georges Pauget is President of Économie Finance et Stratégie SAS, member of the Supervisory Board of Eurazeo and member of the Board of Directors of Club Med, Danone Communities, and Tikehau.

He is also Honorary Chairman of the Board of Directors of LCL – Le Crédit Lyonnais, Chairman of Paris Europlace's Finance Innovation cluster, Chairman of Insead OEE Data Service and of IEFP, Scientific Director, Chair of Asset Management and Adjunct Professor at the Université de Paris Dauphine, and Visiting Professor at the University of Beijing.

Georges Pauget was also Chairman of the Board of Directors of the Amundi Group until the end of February 2011 and of Viel & Cie until March 14, 2012.

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 S.A. 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 S.A. 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.

♦ *Listed company.*

Ulrike Steinhorst

Independent director

Member of the Appointment, Compensation and Governance Committee

German
Age: 61

EADS
12, rue Pasteur
BP 76
92152 Suresnes Cedex, 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 2015 financial statements

Main position held outside the Company

- Strategy, Planning and Finance Director at EADS Technical Corporate division

Other directorships and positions currently held in companies other than Valeo subsidiaries

- Member of the Board of Directors of *Fondation Imagine*, a scientific research foundation and of the French union of metallurgical industries F2I (*Union des industries et métiers de la métallurgie* – UIMM)

Other directorships and positions previously held in companies other than Valeo subsidiaries during the past five years

- Chairwoman, Degussa France Groupe SAS and Rexim SAS
- Director of the Cabinet of the Chief Executive Officer of EADS

Experience

Ulrike Steinhorst is Strategy, Planning and Finance Director at EADS Technical Corporate division.

She is also a member of the Board of Directors of *Fondation Imagine* and F2I (UIMM).

She started her career as a technical advisor to the French Minister for European Affairs where she was in charge of relations with Germany during the reunification. From 1990 to 1998, she worked at EDF in the International Division, as an advisor in charge 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 was Head of Human Resources of a division, and then Vice-President, Executive Development. She later headed the subsidiary Degussa France before being responsible for the group's representation office in Brussels. She then served as Director of the Cabinet of the Chief Executive Officer of EADS.

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

Separation of the roles of Chairman and Chief Executive Officer and limitation of powers of the Chief Executive Officer

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.

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 that the Company's governance functions effectively and in particular 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.

The Chief Executive Officer must obtain the prior approval of the Board of Directors for the acquisition or sale of any subsidiary, interest, or any other asset or investment, for a sum of more than 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.

Roles and operation 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 expressly granted to Shareholders' Meetings and within the scope of the corporate purpose, the Board of Directors deals with any issues relating to the proper operation 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 2012, the Board of Directors held nine meetings with a 94.4% average attendance rate (in person or by proxy).

Board meetings are chaired by the Chairman of the Board or, by any director who has been temporarily authorized to chair Board meetings, a Vice-Chairman or any director selected by the other members of the Board.

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.

Directors' rights and duties

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) they 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 sets the compensation of the Chairman and Chief Executive Officer.

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.

Assessment of the operation of the Board of Directors

In accordance with its internal procedures, the Board of Directors includes an assessment of its organization and operation on the agenda of one meeting per year. At its meeting on October 18, 2012, the Board of Directors decided to engage the services of an outside adviser for the assessment of its operation. The Board's assessment report issued on January 16, 2013 is based on interviews conducted with all the directors. The directors' assessment of how the Board functions and suggestions for improvement were provided. The topics covered included the operation, structure, composition and the duties 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.

At its meeting on January 22, 2013, the Appointment, Compensation and Governance Committee reviewed the assessment report 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, 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, in Chapter 6, section 6.1.2, under "Assessment of the operation of the Board of Directors", page 305.

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 and Risks Committee, the Appointment, Compensation and Governance Committee, and the Strategy Committee.

The work of the Audit and Risks Committee, the Appointment, Compensation and Governance Committee, and the Strategy Committee in 2012 was presented on a regular basis to the Board of Directors throughout the year in the form of reports.

Audit and Risks Committee

In accordance with its internal procedures, the Audit and Risks Committee must be composed of at least two-thirds of independent directors according to the criteria set out in the internal procedures.

At the date of this Registration Document, the Audit and Risks Committee is composed of four members: Daniel Camus (Chairman of the Audit and Risks 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 and Risks Committee but may be invited to attend its meetings.

Through their training or business experience, all members of the Audit and Risks Committee have financial and accounting skills.

For details of the experience of the members of the Audit and Risks Committee, see section 3.1.2, page 73.

At its meeting on March 27, 2012, acting on the recommendation of the Appointment, Compensation and Governance Committee, the Board of Directors decided to expand the duties of the Audit Committee. At its meeting on October 18, 2012, acting on the recommendation of the Audit Committee, the Board of Directors approved the amendments to the iInternal procedures of the Audit Committee which became the Audit and Risks Committee on that date.

In accordance with Article L.823-19 of the French Commercial Code, the responsibilities of the Audit and Risks Committee include monitoring the process used to prepare financial information, ensuring that internal control and risk management systems are effective, monitoring the statutory audit work on the parent company and consolidated financial statements and monitoring the independence of Statutory Auditors.

For details of the responsibilities of the Audit and Risks Committee, see Chapter 6, section 6.1.2, page 301.

The Audit and Risks Committee met five times in 2012 with an attendance rate of 100%.

Appointment, Compensation and Governance Committee

In accordance with its internal procedures, the majority of the Committee's members must be independent directors as defined by the criteria set out in the internal procedures of the Board of Directors. 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 date of this Registration Document, the Appointment, Compensation and Governance Committee was 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 responsibilities of the Appointment, Compensation and Governance Committee include studying and making recommendations concerning the compensation paid to corporate officers, giving its opinion on the Group's general stock option policy, making recommendations regarding the appointment of corporate officers and directors, reviewing the status of each director in light of the independence criteria set out in the Board's internal procedures, analyzing how the Board and its committees operate, and assessing and updating corporate governance rules.

For details of the responsibilities of the Appointment, Compensation and Governance Committee, see Chapter 6, section 6.1.2, page 304.

The Appointment, Compensation and Governance Committee met three times in 2012 with an attendance rate of 93.3%.

Strategy Committee

The Strategy Committee, created on October 20, 2008 comprises several directors and a Chairman appointed by the Board.

At the date of this Registration Document, the Strategy Committee is composed of four members (including a Chairman) appointed by the Board of Directors: Pascal Colombani (Committee Chairman), Gérard Blanc, Helle Kristoffersen and Thierry Moulonguet. All the members of the Strategy Committee, 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 responsibilities of the Strategy Committee include submitting to the Board its opinions and recommendations on (i) 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 (ii) the analysis of the Group's development projects, particularly external growth transactions involving acquisitions and sales of any subsidiary, interest or any other asset or investment for a sum of more than 50 million euros per transaction.

The Strategy Committee met three times in 2012 with an attendance rate of 91.7%.

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 towards Valeo and their private interests and/or other duties.

According to the 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 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.

At its meeting on March 27, 2012, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, amended its internal procedures by adding a provision prohibiting a director to accept responsibilities that may be in conflict with his/her responsibilities in the Company.

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

At its meeting on March 27, 2012, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, amended its internal procedures by adding a provision requiring a director to inform the Chairman of the Board and the Chairman of the Appointment, Compensation and Governance Committee if he/she is sollicited to hold a corporate office outside the Company so as to consider the decision to be taken, in consultation with the Board of Directors, where appropriate.

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 Fonds stratégique d'investissement (FSI) (see Chapter 7, section 7.6.6 "Relations with the Fonds stratégique d'investissement", page 340) 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.

3.2 Compensation of corporate officers

3.2.1 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 on June 8, 2011 held to approve the financial statements for the year ended December 31, 2010, the 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 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 term of office of Pascal Colombani as Chairman of the Board of Directors at its meeting on 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 on 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 2012, Valeo paid Pascal Colombani fixed compensation of 300,000 euros (compared with 279,167 euros in 2011).

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 from companies controlled by Valeo.

Stock options and performance shares

No subscription options, stock options or performance shares were allotted to Pascal Colombani in 2012 or in previous years.

Pension plan

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

Termination benefits

Pascal Colombani is not entitled to termination benefits.

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)	2011	2012
Compensation	279,167	300,000
Value of stock options allotted during the year	0	0
Value of performance shares allotted during the year	0	0
TOTAL	**279,167**	**300,000**

Summary of compensation paid to Pascal Colombani

	2011		2012	
(in euros)	Amount owed	Amount paid	Amount owed	Amount paid
Fixed compensation	279,167	279,167	300,000	300,000
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	**279,167**	**279,167**	**300,000**	**300,000**

Stock options and subscription options allotted 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 financial statements	Number of options allotted during the year	Strike price	Exercise period
Not applicable	Not applicable	Not applicable	0	Not applicable	Not applicable

Stock options and subscription 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 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 the method used for consolidated financial statements	Vesting date	Shares available as at	Performance criteria
	Not applicable	0	Not applicable	Not applicable	Not applicable	Not applicable

Performance share allotments that became available for trading for Pascal Colombani

Plan no. and date	Number of share allotments that became available for trading during the year	Vesting requirements
Not applicable	0	Not applicable

Allotments of stock options and subscription options – information concerning stock options and subscription 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 a non-competition clause
Pascal Colombani **Chairman of the Board of Directors** **First appointed as a director: 05/21/2007** **Term of office began: 06/08/2011** **Term of office ends: 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 pension plan from which he benefits (see "Pension plan" on page 93 of this section).

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. This amount was maintained in 2012.

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. This coverage was maintained in 2012.

In 2012, Valeo paid Jacques Aschenbroich fixed compensation of 916,940 euros (compared with 895,881 euros in 2011). This consists of fixed compensation of 900,000 euros gross (compared with 879,167 euros in 2011) and 16,940 euros (compared with 16,714 euros in 2011) 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 according to quantitative objectives based upon the Group's operational and financial performance and partly on a qualitative basis, according to specific and predetermined objectives.

For 2011, the quantitative component of the Chief Executive Officer's variable compensation depended on the following five criteria: (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 ranged from 0 to 15% for each quantitative criterion.

For the qualitative criteria, the quality of financial communications was attributed a value of 0 to 10%, and strategic vision was attributed a value of 0 to 35% of fixed compensation.

Variable compensation was capped at 120% of Jacques Aschenbroich's 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 for 2011 to 85% of his fixed compensation, i.e., 747,292 euros.

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) return on capital employed (ROCE) and (v) orders booked by the Group, whose expected level of achievement has been determined precisely but is not publicly disclosed for reasons of confidentiality; 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 financial communications 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 Jacques Aschenbroich's fixed compensation.

At its meeting on February 21, 2013, 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 2012 were 41.8% and 44.2%, respectively, bringing the amount of variable compensation to be paid to Jacques Aschenbroich for 2012 to 86% of his fixed compensation, i.e., 774,000 euros (compared with 747,292 euros in 2011).

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 2013 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, whose expected level of achievement has been determined precisely but is not publicly disclosed for reasons of confidentiality; 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 17% for each quantitative criterion and for the qualitative criteria, from 0 to 10% for the quality of financial communications, and from 0 to 20% for strategic vision and risk management.

Variable compensation for 2013 was capped at 135% of Jacques Aschenbroich's fixed compensation.

Attendance fees

Jacques Aschenbroich 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 the Chief Executive Officer in respect of directorships held in the Group.

Compensation paid by companies controlled by Valeo

In 2012, Jacques Aschenbroich did not receive any compensation of any kind from companies controlled by Valeo. At the Board of Directors' meeting on April 9, 2009, acting on a recommendation of the Appointment, Compensation and Governance Committee, it was decided that attendance fees would not be payable to the Chief Executive Officer for offices held within the Group.

Stock options and performance shares

Allotments in 2011

At its meeting on 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 under the terms and conditions announced to shareholders in the Board of Directors' report on the resolutions presented at the Shareholders' Meeting on 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, as applicable (however, this presence condition 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 allotment date at the latest.

In addition, the shares allotted to the Chief Executive Officer are also 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. 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 must keep 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 statutory two-year holding period, he will have to hold at least 50% of the 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 his or her risk.

Allotments in 2012

At its meeting on March 27, 2012, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided to allot stock options and performance shares to Jacques Aschenbroich under the terms and conditions adopted by the Board of Directors at its meeting on February 24, 2011 and announced to shareholders in the Board of Directors' report on the resolutions presented at the Shareholders' Meeting on June 8, 2011. The Board of Directors decided to allot 35,300 stock options and 11,400 existing 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 2012, 2013 and 2014 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 2012, (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 2012, 2013 and 2014 are reached, all of the stock options can be exercised and all the performance shares will vest;
- if two of the three average ratios for fiscal years 2012, 2013 and 2014 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 three average ratios for fiscal years 2012, 2013 and 2014 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 none of the three average ratios for fiscal years 2012, 2013 and 2014 are reached, no stock options can be exercised, no performance shares will vest, and all the stock options and performance shares will be canceled.

Stock options can be exercised from the end of the third year at the earliest, to the end of the eighth year after the allotment date at the latest, at the strike price of 40.78 euros set by the Board of Directors at its meeting on March 27, 2012.

The performance shares shall vest after the expiration of a minimum three-year vesting period, the Chief Executive Officer will then have to hold the shares for at least two years.

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, as applicable (however, this presence condition may be waived by the Board of Directors unless his departure is attributable to gross negligence or misconduct).

In addition, the shares allotted to the Chief Executive Officer are also 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. 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 and at least 50% of the vested performance shares in registered form until the end of his term of office.

The Chief Executive Officer shall not use hedging transactions to reduce his or her risk.

The shares to which the stock options give access and the performance shares allotted to Jacques Aschenbroich during 2012 had a limited dilutive impact and represented respectively 0.04% and 0.01% of the Company's share capital at December 31, 2012. At its meeting on March 27, 2012, the Board of Directors estimated that the performance shares and stock options allotted to the Chief Executive Officer in 2012 valued at 32.60 euros and 10.08 euros, respectively, under IFRS, represented 81% of his fixed annual compensation.

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 with a view to 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 supplementary defined benefit pension plan for the Group's senior executives. The main characteristics of this plan are described in section 3.2.3, page 100. 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 Officer, 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 supplementary pension plan with which Jacques Aschenbroich was registered would be maintained without any modification.

At its meeting on February 21, 2012, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided to amend the supplementary pension plan by including the payment of benefits to the surviving beneficiary in the event of the death of an active contributor if the event occurs after the legal voluntary retirement age.

Termination benefits 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 termination benefits that would be paid in the event of termination related to a change in control or strategy (except on the grounds of gross misconduct in the performance of his duties) that was granted to him by the Board of Directors' meeting on February 24, 2010, acting on the recommendation of the Appointment, Compensation and Governance Committee and after consulting the *Comité des Sages.* The amount of the termination benefits would depend on the termination date (2011, 2012, or 2013 or thereafter). This renewal was subject to the approval of the Shareholders' Meeting on June 8, 2011 and was adopted in its twelfth resolution. No modifications were made in 2012.

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 would be maintained without any modification, subject to the renewal of his directorship by the Shareholders' Meeting on June 8, 2011, and the renewal of his term of office as Chief Executive Officer.

The amount of the termination benefits would be equal to 24 months of reference compensation in the event of forced departure in 2013 or thereafter.

These termination benefits would be subject to the following five 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 reference compensation used to calculate the termination benefits will be the average compensation (fixed and variable) paid for the two fiscal years preceding the departure.

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

- if five criteria were met: Jacques Aschenbroich would receive 100% of the termination benefits;
- if four criteria were met: Jacques Aschenbroich would receive 80% of the termination benefits;
- if three criteria were met: Jacques Aschenbroich would receive 60% of the termination benefits;
- if two criteria were met: Jacques Aschenbroich would receive 40% of the termination benefits;
- if fewer than two criteria were met: Jacques Aschenbroich would receive 0% of the termination benefits.

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

The termination benefits would 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 for termination.

In consideration, Jacques Aschenbroich will receive a non-competition payment equal to 12 months of compensation (calculated on the same basis as the termination benefits). The payment will be made in equal monthly installments over the entire period to which the non-competition clause applies.

The Company reserves the right to waive the non-competition clause, in which case the related payment will not be owed.

If the Company invokes the non-competition clause, the amount owed will be offset against the termination benefits. As a result, with effect from 2013, the maximum amounts to be paid to Jacques Aschenbroich in the form of a non-competition payment and/or termination benefits would be equal to 24 months of the reference compensation.

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

Compensation paid to the Chief Executive Officer over the last two years

The following tables show the compensation paid and payable 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)	**2011**	**2012**
Compensation	1,643,173	1,690,940
Value of stock options allotted during the year	384,204	355,824
Value of performance shares allotted during the year	539,604	371,640
TOTAL	**2,566,981**	**2,418,404**

Summary of compensation paid to Jacques Aschenbroich

	2011		**2012**	
(in euros)	**Amount owed**	**Amount paid**	**Amount owed**	**Amount paid**
Fixed compensation	879,167	879,167	900,000	900,000
Variable compensation	747,292	1,020,000	774,000	747,292
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)	16,714	16,714	16,940	16,940
TOTAL	1,643,173	1,915,881	1,690,940	1,664,232

(1) Company car, annual contribution to the unemployment insurance fund for Company managers and annual contribution to pension fund.

Stock options and subscription 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 financial statements	Number of options allotted during the year	Strike price	Exercise period	Performance criteria
03/27/2012	Purchase	€355,824	35,300	€40.78	Until 03/26/2020 (1)	(2)

(1) Obligation to hold 50% of the shares until the end of his term of office.
(2) The performance criteria to which these options are subject are set out in this section.

Stock options and subscription 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 the method used for consolidated financial statements	Vesting date	Shares available as at	Performance criteria
	03/27/2012	11,400	€371,640	03/27/2015	03/27/2017 (1)	(2)

(1) Obligation to hold at least 50% of the vested shares as registered shares until the end of his term of office.
(2) The performance criteria to which these shares are subject are set out in this section.

Performance share allotments that became available for trading for Jacques Aschenbroich

Plan no. and date	Number of share allotments that became available for trading during the year	Vesting requirements
Not applicable	0	Not applicable

Allotments of stock options and subscription options – information concerning stock options and subscription options

Date of Shareholders' Meeting	06/08/2011	06/08/2011
Date of Board meeting	06/08/2011	03/27/2012
Total number of shares that can be purchased	292,840	367,160
o/w total number of shares that can be purchased by Jacques Aschenbroich	30,300	35,300
Start of exercise period	06/08/2014	03/27/2015
Expiration date	06/07/2019	03/26/2020
Purchase price(1)	€42.41	€40.78
Number of shares purchased on March 22, 2013	0	0
Number of stock options and subscription options canceled or forfeited (cumulative)	26,080	7,800
Stock options and subscription options remaining at year-end	266,760	359,360

(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	Payment relating to a non-competition clause
	No	Yes	Yes	Yes
Jacques Aschenbroich **Chief Executive Officer** **First appointment: 03/20/2009** **Term of office began: 06/08/2011** **Term of office ends: Shareholders' Meeting called to approve the 2014 financial statements**		The pension plan covering Jacques Aschenbroich is detailed on page 93 "Pension plan". At December 31, 2012, the supplementary pension benefits of Jacques Aschenbroich represented 8% of his reference salary, i.e., a yearly pension allowance of 70,111 euros	For a description of these benefits, see page 94, "Termination benefits and non-competition payment".	For a description of this benefit, see page 94, "Termination benefits and non-competition payment".

3.2.2 Non-executive directors

Non-executive directors are paid attendance fees. 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 variable fee of 2,000 euros per Committee meeting attended. Each director who chaired a committee (other than the Audit and Risks Committee) will be paid a supplementary fixed fee of 12,000 euros per year plus a variable fee of 2,000 euros per meeting attended, and the Chairman of the Audit and Risks Committee will be paid a supplementary fixed fee of 15,000 euros per year plus a variable fee of 2,000 euros per meeting attended. These payments are not capped; however if the budget of 600,000 euros approved by the Ordinary and Extraordinary Shareholders' Meeting on June 20, 2008, is exceeded in any one year, the following formula is applied: (fees paid to an individual director divided by total 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, subscription 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 476,000 euros in 2012, compared with 483,500 euros in 2011. Attendance fees were distributed as follows:

	Attendance fees		Other compensation (fixed, variable or exceptional compensation, benefits in kind)	
(in euros)	**2011**	**2012**	**2011**	**2012**
Executive directors				
Pascal Colombani	0	0	279,167	300,000
Jacques Aschenbroich	0	0	1,915,881	1,664,232
Non-executive directors				
Gérard Blanc	48,000	46,000	0	0
Daniel Camus	63,000	65,000(1)	0	0
Jérôme Contamine	54,000	54,000	0	0
Michel de Fabiani	50,000	50,000	0	0
Philippe Guédon(2)	29,000	0	0	0
Michael Jay	40,000(3)	40,000(4)	0	0
Helle Kristoffersen	44,000	23,000	0	0
Noëlle Lenoir	46,000	46,000	0	0
Thierry Moulonguet	27,000	52,000	0	0
Georges Pauget	52,000	54,000	0	0
Ulrike Steinhorst	30,500	46,000	0	0
TOTAL	**483,500**	**476,000**	**2,195,048**	**1,964,232**

(1) The amount corresponds to the gross amount of attendance fees subject to a 30% withholding tax since July 1, 2012, as Daniel Camus is no longer a French resident.
(2) Philippe Guédon's term of office came to an end on June 8, 2011.
(3) The amount corresponds to the gross amount of attendance fees subject to a 25% withholding tax at the time, as Michael Jay is not a French resident.
(4) The amount corresponds to the gross amount of attendance fees subject to a 30% withholding tax since January 1, 2012, as Michael Jay is not a French resident.

3.2.3 Other Group executive managers

The other executive managers are members of the Operations Committee, which is made up of the 13 members and the Chief Executive Officer. The total gross compensation paid to the members of the Operations Committee (excluding the Chief Executive Officer but including one member who ceased his functions on June 30, 2012 and one member who joined the Committee in February 2012) came to 8,427,024 euros in 2012 (compared with 10,123,989 euros in 2011) of which 5,750,625 euros in fixed compensation and 2,326,971 euros in variable compensation, 100,116 euros in benefits in kind, 24,157 euros in profit-sharing and incentive compensation bonuses, 39,183 euros in Service Medals, and 185,972 euros in statutory retirement bonuses.

At its meeting on March 27, 2012, the Board of Directors, on the recommendation of the Appointment, Compensation and Governance Committee, decided to allot stock options and performance shares to the employees and corporate officers under the terms and conditions adopted by the Board of Directors' meeting on February 24, 2011 and announced to shareholders in the Board of Directors' report on the resolutions presented at the Shareholders' Meeting on June 8, 2011. The Board of Directors decided to allot 331,860 stock options and 201,740 performance shares to employees and corporate officers (excluding Jacques Aschenbroich) as follows:

- 84,700 stock options and 32,800 performance shares to the Operations Committee members (excluding Jacques Aschenbroich);
- 43,300 stock options and 17,100 performance shares to the liaison committee members (other than the Operations committee members);
- 203,860 stock options and 111,840 performance shares to the main direct reports of the liaison committee members; and
- up to 40,000 free shares to the Group French companies' employees, the allotment of such shares not being subject to performance criteria.

In accordance with the principles adopted by the Board of Directors at its meeting on March 27, 2012 and acting on the recommendation of the Appointment, Compensation and Governance Committee, all the stock options and performance shares allotted to the Operations Committee members (excluding Jacques Aschenbroich) are subject to the same performance criteria as the stock options and performance shares allotted to the Chief Executive Officer by the Board of Directors on the same day (described in section 3.2.1 under "Stock options and performance shares", page 92).

All the stock options and performance shares allotted to the Operations Committee members are conditional upon the achievement of performance criteria measured over the 2012, 2013 and 2014 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 2012, (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 2012, 2013 and 2014 are reached, all of the stock options can be exercised and all the performance shares will vest;
- if two of the three average ratios for fiscal years 2012, 2013 and 2014 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 three average ratios for fiscal years 2012, 2013 and 2014 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 none of the three average ratios for fiscal years 2012, 2013 and 2014 are reached, no stock options can be exercised, no performance shares will vest, and all the stock options and performance shares will be canceled.

In accordance with the principles adopted by the Board of Directors at its meeting on March 27, 2012 and acting on the recommendation of the Appointment, Compensation and Governance Committee, all the stock options and performance shares allotted to the liaison committee members (other than the Operations Committee members) and 50% of the stock options and performance shares allotted to the main direct reports of the liaison committee members (other than the Operations Committee members) are conditional upon the achievement of two performance targets: (i) an average operating margin ratio for fiscal years 2012, 2013 and 2014 greater than the annual guidance for 2012, and (ii) an average ROCE ratio over the same period equal to or greater than 30%. The following rule applies to allotments of stock options subject to performance criteria and performance shares:

- if both average ratios for fiscal years 2012, 2013 and 2014 are reached, all of the stock options can be exercised and all the performance shares will vest;

- if only one of the two average ratios for fiscal years 2012, 2013 and 2014 is reached, only 50% of the stock options can be exercised and 50% of the performance shares will vest, and the remainder will be forfeited;
- if none of the two average ratios for fiscal years 2012, 2013 and 2014 are reached, no stock options can be exercised, no performance shares will vest and all the stock options and performance shares will be canceled.

Stock options can be exercised from the end of the third year at the earliest, to the end of the eighth year after the allotment date at the latest, at the strike price of 40.78 euros set by the Board of Directors at its meeting on March 27, 2012.

For beneficiaries of performance shares, except non-French tax residents, the performance shares will vest after the expiration of a three-year vesting period and are then subject to a two-year holding period. For beneficiaries who are non-French tax residents, the performance shares will vest after the expiration of a five-year period with no holding period requirement.

All stock options and performance shares will be allotted to such employees and corporate officers 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, such as in the case of death, total and permanent disability, retirement, early retirement, the sale of the beneficiary's entity, or the Board of Directors' discretionary decision.

The shares to which the stock options give access and the performance shares allotted to employees and corporate officers, including Jacques Aschenbroich, during 2012 had a limited dilutive impact and represented respectively 0.46% and 0.27% of the Company's share capital at December 31, 2012. All the shares to which the stock options give access and the performance shares allotted to employees and corporate officers, including Jacques Aschenbroich, since 2010, represented respectively 2.09% and 1.18% of the Company's share capital at December 31, 2012.

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 office at the date the new plan is implemented, including Jacques Aschenbroich. Entitlements under the old plan were frozen at 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 at 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 "Pension plan" under section 3.2.1, page 93).

At its meeting on February 21, 2012, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided to amend the supplementary pension plan by including the payment of benefits to the surviving beneficiary in the event of the death of an active contributor if the event occurs after the legal voluntary retirement age.

3.2.4 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 the internal control and risk management procedures put in place by the Valeo Group (Chapter 6, section 6.1.4, page 307).

Stock options and subscription options allotted and exercised during the year

Stock options and subscription 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[1]	Number of options allotted/ exercised	Weighted average strike price	Expiration date	Date of Board meeting
Options allotted in 2012 by Valeo and/or other Group companies to the ten employees of the issuer or other Group companies receiving the greatest number of options	77,900	€40.78	03/26/2020	03/27/2012
Options exercised in 2012 by the ten employees of the issuer or other Group companies holding the greatest number of options	129,396[2]	€31.33	11/07/2012 11/16/2013 11/19/2014 11/16/2015 06/23/2018	11/08/2004 11/17/2005 11/20/2006 11/15/2007 06/24/2010

(1) *Valued at 10.08 euros on grant date, under IFRS.*
(2) *Of which 546 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 one share per bond to 1.013 shares per bond and of which three 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[1]	29,800	03/27/2012

(1) *Valued at 32.60 euros on grant date, under IFRS.*

3.2.5 Pensions and other post-employment benefits and related provisions

At December 31, 2012, the total amount of provisions set aside by Valeo or its subsidiaries for the payment of pensions or other post-employment benefits to members of the Board of Directors and other executive managers of the Group came to 11 million euros, as opposed to 9 million euros at December 31, 2011.

At December 31, 2012, total provisions set aside and the total amount paid by Valeo or its subsidiaries for these benefits to former Board members or other executive managers of the Group came to, respectively, 6.2 million euros, as opposed to 5.5 million euros at December 31, 2011 and 103,448 euros, as opposed to 99,950 euros at December 31, 2011.

Valeo believes that its employees are its most vital asset.

SUSTAINABLE DEVELOPMENT

4

THE INFORMATION FROM THE ANNUAL FINANCIAL REPORT IS CLEARLY IDENTIFIED IN THE TABLE OF CONTENTS BY THE AFR SYMBOL

4.1 Sustainable development policy

Sustainable development is an integral part of Valeo's activities. Valeo's commitment to sustainable development is based on two principles:

- promoting a cross-disciplinary approach to sustainable development within the Group;
- ensuring that internal and external stakeholders accept sustainable development as a key factor to success.

These two priorities remain the starting point of the Group's sustainable development policy.

4.1.1 Pursuit of Valeo's cross-disciplinary approach to sustainable development

Integrating Ethics and Compliance: resources in support of values

The deployment of the full range of measures and commitments in respect of ethics and compliance, both preventive and corrective, has reinforced and rounded out the ethical dimension of the Group's existing sustainable development policy, based on its Code of Ethics.

Thus, going beyond traditional support from the Human Resources and Risk Insurance Environment networks, the Sustainable Development Department has initiated collaborative projects in conjunction with the Ethics and Compliance Department to provide firmer foundations for and promote adherence to the Group's ethical values within the framework of its transactional and social responsibilities, in a context of increasing demands from stakeholders. As such, the implementation of an intranet portal providing "Ethics and Compliance" information, manuals, guides of "DOs and DON'Ts", e-learning courses in more than ten of the Group's languages and whistleblowing procedures reflects real and meaningful support for efforts aimed at encouraging all employees, across all countries and sites, to appropriate the ethical dimension.

Ongoing progress in research on CO_2 emission reductions and intuitive driving

Beyond the ongoing reduction in the weight of components and the relentless search for greater energy efficiency, the Group also emphasizes the link between sustainable development and intuitive driving.

The Group's research & development (R&D) has conducted social studies in all markets worldwide in order to foster the necessary proactive approach to the direction of future technologies to explore and roll out.

The Group's expertise in building safety systems is being used in the service of a more targeted approach to connectivity in vehicles. These technologies will subsequently make it possible to build more autonomous vehicles, making them more pleasant and safer to drive, as well as being energy efficient and economical.

Continuous efforts to improve products and processes

Valeo's products are designed for its automaker customers and bear the hallmark of its vision and innovation policy. This policy stems from an approach that is:

- forward-looking in terms of consumer demand;
- collaborative, involving all players in the business;
- local, taking into account the specific needs of different markets.

All products designed and manufactured according to this approach also take into account the latest sustainability requirements as well as their upstream and downstream environmental impact:

- eco-design;
- reduction in energy consumption;
- reduction in water consumption;
- reduction in greenhouse gas emissions;
- industrial risks.

4.1.2 Sustainable development performance

Increasingly ambitious environmental objectives

Valeo's products along with its design and manufacturing processes embrace technological innovations that meet the expectations of customers, society at large and regulatory bodies in the field of CO_2 vehicle emissions reduction. The Risk Insurance Environment Department has set increasingly ambitious objectives for 2015, aimed at slashing water and energy consumption at its plants (2012 base) along with direct and indirect greenhouse gas emissions, by around 10%.

Continuous and measurable improvement

For the first time, the Group had 100% feedback from its sites on sustainable development initiatives. The commitment of the Group's 125 sites to take action and to assess their impacts on local populations (see section 4.5.4, page 170) made it possible to measure continuous improvement on all initiatives undertaken.

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, the employees at the Group's sites and their local communities enjoy an improved relationship between sustainable development and their professional commitment.

Going beyond sustainable development commitments

As part of its ongoing determination to adopt a more cross-disciplinary approach to sustainable development, the Group has made progress in terms of communication, both externally and internally. With the support of the Communications Department, better dissemination techniques and media have allowed us to better convey the place of sustainable development, in its entirety as well as in its simplest manifestations, with the explicit intention of increasing the awareness of all staff: more informative content on sustainable development on the website, as well as on the intranet, in the Group's publications and on sites, with dedicated inserts and messages.

In terms of the Group's external commitments, 2012 was marked by a dramatic increase in requests for social studies on sustainable development. Valeo contributes to the development of solutions to different demands made by stakeholders: governments of the major countries in which the Group operates (Sustainable Development, Transport, Industry, Research, Energy and Trade ministries), multilateral platforms (European Commission, see section 4.2.2, page 109) and international organizations (OECD, UN). The sustainable development policy is accordingly enjoying strong demand for corporate social responsibility from external stakeholders, even those active outside the automotive sector.

Consolidation work and an exemplary role within the automotive industry

At the operational level, the Sustainable Development Department has deployed best sustainable development practice within the automotive industry in a more incisive and tangible manner. Joint work between the main actors of the supply chain (manufacturers, tier-one and lower suppliers) has allowed the emergence of a number of methodological principles and best practices that intensify the influence of sustainable development on all stakeholders.

At Valeo, this work has involved the Purchasing, Quality and Labor Relations Departments in coordination with the Sustainable Development Department. Valeo has therefore placed the concept of sustainable development at the junction between the anticipation of needs, the Group's prospective operational activities and the succession of demands in respect of the challenges arising from social trends in mobility and the desire for greater harmony.

It is this inclusive approach, which is central to the daily challenge facing all employees, that the Group addresses within the framework of the sustainability guidelines sketched out here and discussed below in greater detail.

Valeo reports on all core GRI indicators and on the additional GRI indicators that it considers relevant. Core indicators are identified in this report by black font in a green box, while additional indicators are identified by white font in a green box. A cross-reference table is available on page 176.

4.2 The R&D process at Valeo: from major trends to innovation

4.2.1 Valeo's vision and innovation policy

To ensure that its products dovetail with market expectations and anticipate future needs, Valeo bases its R&D policy on predefined and complementary criteria aimed at making it:

- **far-sighted**: through studies and analyses of major social trends, Valeo works on roadmaps spanning periods of ten years. They allow it to anticipate future consumer demand and as such to establish the Group's key development thrusts;
- **integrated:** every innovation project is conceived and managed in response to studies on major trends. Any innovation must include social benefits, factor in eco-design criteria, reduce the consumption of energy and raw materials as well as greenhouse gas emissions, and offer tools helping to prevent accidents in the context of sustainable and safer mobility;
- **local**: trends and customer needs are studied from a local perspective. Accordingly, through the study of test groups of consumers, Valeo is able to adapt to the specific needs of certain markets (e.g., emerging markets) and to offer innovation that provides clear value added to its customers;
- **customer-centric**: Valeo conducts regular in-depth surveys with groups of consumers on the future consumption patterns of its end customers. In analyzing the results, the Group determines areas of work permitting these corporate-citizenship changes to be anticipated, thereby allowing it to respond to future demand;
- **collaborative**: Valeo develops collective and collaborative solutions with numerous actors. It focuses on multi-party development programs that enable the sharing of expertise, reduced development costs and greater staff involvement through partnerships with other players in the automotive industry, universities, research centers, within public/private partnerships or as part of European or French research programs.

Valeo aims to be a "facilitator" of technological solutions in the automotive industry.

From analysis of megatrends to the notion of autonomous vehicles

Analysis of future trends informs Valeo's innovation strategy. It allows the Group to anticipate structural change in the sector and to determine its ability to respond to change.

Global trends indicate that the world population is set to grow, age, migrate, have a larger proportion of women, become more urban and see the emergence of new working conditions.

Urban mobility is also set to change in the coming years. Users will use their vehicles differently (frequency, distance, travel range, sharing), leading to different forms of interaction with the vehicles of tomorrow. Other factors must also be taken into account, such as ongoing legislative change (European standard setting maximum average emissions at 95g CO_2/km by 2020), improved safety, the gradual downsizing of engine displacement and the emergence of the electric vehicle.

These analyses have seen Valeo identify several strategic objectives for the future of the automobile:

- **reduction of greenhouse gas emissions and pollution**. Valeo is a leading automotive supplier in technologies that reduce CO_2 emissions. With its broad portfolio of innovative products, it is an essential partner for automakers. The CO_2 emissions quota of 95g CO_2/km imposed by the European Commission by 2020 will be a catalyst. Automakers are increasingly keen to adopt these technologies in order to comply with future legislation and avoid financial penalties for non-compliance. Moreover, in the major industrialized economies, particularly in North America and the European Union, standards governing emissions of CO_2 as well as other pollutants such as nitrogen oxides are being reinforced. These standards impose considerable technical constraints and new challenges: some technologies reducing CO_2 emissions can paradoxically undermine a vehicle's overall environmental performance, in areas such as particulate emissions (diesel). Automotive suppliers, especially their powertrain divisions, can play a crucial role alongside automakers in rising to new challenges and achieving regulatory objectives;

- **savings on energy and raw materials**. Reducing fuel consumption is not the only way to reduce a vehicle's overall environmental footprint. Eco-design and the use of recycled materials can help as well, and Valeo takes care to make eco-design central to its R&D process;
- **safety and intuitive driving.** User safety is a priority for Valeo. Enhanced safety means improved driving quality. So-called "intuitive" driving has three objectives: to facilitate urban maneuvers, to assist drivers in various driving situations and to encourage interaction between the vehicle, the driver and the surrounding environment. In December 2011, Valeo became a leading member of the Car Connectivity Consortium (CCC), which brings together the major automakers and automotive suppliers. The goal of the consortium is to drive innovation in automotive connectivity solutions via phones or smartphones. With new technologies such as detection cameras and ultrasonic sensors, Valeo offers driving assistance systems that help drivers deal with potentially dangerous situations more safely;
- **progressive automation of vehicles.** The Group is examining future technologies that will allow users to rely on the vehicle's "intelligence". We can expect to see an increase in vehicle automation in the coming ten years. Valeo aims to use its expertise in connective technologies to develop driving assistance, risk warning and safety systems. The human/machine interface is an essential challenge for the future of cars, because it reassures users and greatly reduces the risk of accidents. Valeo has already developed automatic braking systems triggered when obstacles are identified on the road, as well as lane departure warning systems. The objective is to propose a set of intelligent systems that interact with each other and give vehicles a degree of decision-making autonomy.

Valeo develops products that meet an identified need.

4.2.2 Organization and principles for the integration of Corporate Social Responsibility in R&D GRI PR1

Business growth underpinned by attracting, retaining and developing talent dedicated to R&D

In 2012, Valeo's R&D teams managed nearly 2,300 client projects as a direct result of the Group's strong presence in all automotive markets worldwide.

Globally, the number of people working in R&D increased by 16% year-on-year, rising from 7,600 engineers and technicians in 2011 to 8,800 in 2012. Its strong presence in France, where nearly all its upstream research centers are located, meant that employees dedicated to R&D numbered 2,950 in 2012. With 5.1% of its sales ploughed back into R&D, Valeo maintains a high level of spending in order to offer its customers the best of technological innovations.

By identifying five major types of R&D centers and promoting the grouping of activities by project and by skill, Valeo uses a functional and operational organization allowing each center to appropriate and contribute to the Group's objectives:

- **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 front office personnel;
- **launch and support teams** tasked with launching new products and providing support throughout the production phase;
- **front office personnel** working alongside customers, assisting with product definition and providing back-up for project teams;
- **technical service centers** providing specific skills in a cross-disciplinary manner. Electronics-related skills, for example, are covered by the VIAS(1) centers in Egypt, VIPL(2) R&D in India and VEHC(3) R&D in China, which are all housed in the Group's GEEDS(4) entity.

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(1) Valeo Interbranch Automotive Software.

(2) Valeo India Partnership Limited.

(3) Valeo Engineering Hardware China.

(4) Group Electronics Expertise and Development Services.

A network of experts and key training to foster innovation

As a large international group, Valeo needs to recruit large numbers of talented engineers. Areas of expertise are vast, and represent new technological challenges. As such, it is sometimes difficult to recruit qualified engineers. Valeo has consequently set up its own three-level network of “experts”: “expert”, “senior expert” and “master expert.” The Group has nearly 600 experts, representing approximately one expert for every ten engineers. It issues them with “research warrants” for periods of three years. They are tasked with defining best practices that will be incorporated into design standards and explained to newcomers. They are a driving force within the team, and are expected to spread their expertise throughout the network.

On top of its network of experts, Valeo trains engineers with a view to encouraging innovation at all levels. The number of hours of training received by engineers increased by 86% in 2012 compared with 2011, demonstrating Valeo’s commitment to invest in R&D in line with its innovation strategy.

Change in the number of hours of training for engineers by Business Group between 2011 and 2012

Business Groups	2011	2012	Change
Powertrain Systems	16,778	26,903	60%
Thermal Systems	11,842	23,040	95%
Comfort and Driving Assistance Systems	9,400	15,000	60%
Visibility Systems	14,938	33,592	125%
TOTAL	**52,958**	**98,535**	**86%**

Local expertise to meet the demands of new markets

Due to the broad geographical spread of its activities, Valeo focuses on hiring engineers locally. Local engineers are better equipped to analyze the needs of customers and consumers through their knowledge of local society, lifestyles and consumption patterns in the countries where the Group operates, especially in emerging markets which represent a channel of growth for automakers. Production and R&D capacity is growing in areas such as Central and Eastern Europe, the CIS, India, South-East Asia and Brazil.

Valeo assists automakers in coping with change and developing innovation aimed specifically at meeting demand from these new markets in a manner that is mindful of sustainable development issues. The Group’s capacity to adapt to local markets is a strong focus of its expansion. This is why the standardization of practices, important for the efficiency and quality of Valeo’s processes, also takes into account the specificities of its various markets. Valeo focuses its R&D activity on competitively priced design solutions in emerging countries, for example dust- and monsoon-resistant products in India; the detection of uneven road surfaces and obstacles in China; and enhanced vehicle interior air quality in Japan and Europe. Engineers at the VIPL(1) Technical Services Center in India have completed their first alternator and starter prototypes. One of the Center’s key aims is to focus on low-cost projects, such as clutches and air-conditioning systems specifically for the Brazilian, Russian, Indian and Chinese markets.

Key recruitment indicators:

- R&D headcount in 2012: 8,800
- number of new hires in 2012: 1,800 engineers
- 2013 hiring targets: more than 1,000 engineers worldwide, of which between 300 and 400 in France
- number of customer projects managed: 2,300
- skills sought: electronics, mechatronics
- doctoral theses submitted as part of collaborative academic projects: more than 50

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(1) Valeo India Partnership Limited.

A technological and socially responsible R&D approach

Valeo is involved in numerous research programs, at the national, European and broader international level. These programs involve public and private actors with a view to advancing R&D in the automotive sector.

Thanks to these programs relating to technologies that improve safety and reduce environmental impact, Valeo was able to negotiate a 300 million euro loan from the European Investment Bank in 2009. It received the final installment in 2011. Loans of this nature are granted to companies fulfilling strict criteria in the development of their research projects. As such, the loan to Valeo demonstrates the support and confidence of major European institutions in the vehicle decarbonization and safety programs of which Valeo is a leading player. Each year, teams from the EIB review the development of projects within the Group.

Valeo is also involved in numerous industry initiatives, making its expertise available to various organizations:

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. Valeo is an active member, providing a Vice-Chairman since 2008. The Chairman hails from an automaker, namely the Volkswagen Group.

ERTRAC's main goal is to guide transportation stakeholders to sustainable, ecologically friendly and connected solutions building on research roadmaps endorsed by all stakeholders. This implies shared interaction in respect of both technology content and social choices.

ERTRAC is built around public and private organizations (countries, NGOs, associations), national governments and six European Commission directorates. It is led by an industrial steering committee comprising automakers, automotive suppliers and other players in research.

Valeo and its fellow stakeholders are pursuing several objectives within the context of ERTRAC:

- develop a strategic vision of the future of the road transportation sector:
  - endorse electrification roadmaps (2010, updated in 2011 and 2012),
  - finalize the roadmap on the challenge of trucks (2012);
- clarify the objectives of the Strategic Research Agenda (SRA): prepare the contents of Horizon 2020 (H2020) and Framework Programme 8 (FP8) in line with the objectives of the EU budget allocated to research on transportation (before approval by the European Commission and the European Parliament, 2012);
- establish a roadmap for challenges in respect of the competitiveness of the automotive supply chain (2012);
- consolidate and finalize the public/private consortium for the upcoming Framework Programme 8 (FP8).

International Transport Forum (ITF)

The International Transport Forum is an intergovernmental organization within the OECD (Organisation for Economic Cooperation and Development). Its main members are the Transport Ministers of the organization's 53 member countries (plus China, India, Russia and Indonesia).

The purpose of the Scientific Council is to guide intergovernmental decisions drawing on lessons from the private and public sectors. **Valeo is a permanent member** (alongside Nissan, Michelin, Venice Port Agency, International Energy Agency and Cintra).

Work in 2012 focused on innovation promoting seamless transportation: Valeo was able to promote its technology on intuitive driving and connectivity and to gather social impacts that will help better adapt its approach to its automaker customers and end users.

Car Connectivity Consortium (CCC)

In 2012, Valeo became an active member of the Car Connectivity Consortium (CCC), an organization driving global innovation for phone connectivity solutions for the automotive industry. By joining CCC, Valeo will help accelerate the pace at which new solutions, such as the safe use of smartphones in cars, can be made available to drivers. Valeo's ultimate ambition is to provide drivers with innovative interfaces in which smartphone services are integrated dynamically and seamlessly into vehicle-specific services. To this end, Valeo creates simple, powerful, cross-platform and cross-fluid interfaces based on the user interface.

Valeo's positioning in this area of innovation is part of the trend by which people seek to remain connected to their everyday environment at all times and in the best conditions, even in their car.

Creation of an industrial chair with the University of Versailles Saint-Quentin-en-Yvelines (France)

To meet very specific needs in terms of skills and build relationships with young talent, Valeo has partnered with the University of Saint-Quentin-en-Yvelines and France's National Research Agency (*Agence nationale de recherche* – ANR) to create an industrial chair known as Matinnov. Its aim is to initiate a process of change in the automotive sector in favor of the development of low-carbon mainstream vehicles. Two main research thrusts have been selected: **innovative materials and reliability of mechatronic materials and systems.**

The program aims to:

- support Valeo, which works with public research institutions to develop activities with significant value-creation potential;
- stimulate research-based training;
- offer career opportunities to teacher/researchers wishing to embark on projects with a view to finding an application for the results;
- endow public research institutions with the means to investigate strategic areas for industry.

Partnership with the French Atomic Energy Commission* (Commissariat à l'énergie atomique – *CEA) through the acquisition of a stake in the Computing Center for Research and Technology (*Centre de calcul recherche et technologie – *CCRT)

Valeo has partnered with this renowned organization in order to use its latest computer, known as AIRAIN. AIRAIN is one of the world's 15 most powerful supercomputers. It will allow Valeo to perform calculations that are out of the reach of its own computers. In 2013, the Group plans to double its interest in order to allow all Business Groups and engineers to perform tests on the technologies they are developing.

Valeo has the means to achieve its ambitions, namely to become one of the top automotive suppliers worldwide and to offer breakthrough technologies. These different partnerships help create and promote standards of quality and environmental performance that are both demanding and stimulating for the sector. In line with one of its key strategic priorities, Valeo takes part in this collaborative and constructive approach for the automotive industry alongside the sector's committed players.

Tools for integrating eco-design into R&D

Valeo's R&D function factors **product-related environmental issues** into its approach.

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**. This is known as eco-design. This approach was formally integrated into Valeo's processes in 2007, and is part of the RAISE methodology.

Standardization and globalization of R&D practices

In October 2010, Valeo began the development of its RAISE methodology. The name is an acronym based on the following words:

- **Robustness**;
- **Accountability**;
- **Innovation**;
- **Standards**;
- **Expertise**.

RAISE aims to ensure the robustness of Valeo'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;
- communicate on the standards and disseminate them internally;
- verify that standards are properly implemented.

RAISE is also instrumental to ensuring the adherence of all future recruits to the Group's culture of sustainable growth.

Another priority for the Group is the elimination of hazardous substances in the Group's products.

For REACH purposes, the Valeo Group is generally considered to be a user of chemicals.

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.

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.

Eco-design integrated into R&D projects

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.

The directive above all makes it possible to factor in **sustainable development constraints** from the use of the product, as this phase of the product accounts for 90% of its total impact.

Valeo has also published an **Eco-design checklist** in order to track 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 sustainable development into product development as early as possible.

To translate one of its priorities, namely protection of the environment and the fight against climate change through the development of ecological products and systems, Valeo has developed **simulation software that accurately calculates the impact of innovation on the emissions of the vehicle as a whole.** Thanks to the enrichment of the documentation related to this software, the Group now takes into account interactions between a given enhanced parameter and the rest of the vehicle.

As a result, Valeo no longer reasons in terms of a single component's contribution to emissions reductions, which might not yield synergistic outcomes. **Instead, the reductions calculated are those resulting from the impact of innovations on the vehicle as a whole.**

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

4.2.3 An acknowledged approach and new product offerings integrating sustainability

An acknowledged R&D approach: Valeo, one of the 100 most innovative groups worldwide

In 2012, Valeo entered the Thomson-Reuters ranking of the **100 most innovative companies worldwide**. The automotive sector has seven representatives.

Evaluation criteria are based on four factors:

- the success rate of patents (i.e., the difference between patents filed and patents granted);
- the global dimension (recognition of patents outside the country of origin);
- the originality of patents, i.e., the genuine innovation they represent (as opposed to improvements to existing techniques);
- the influence of patents (the number of times an original patent is cited by other applicants).

This is real recognition of Valeo's culture of innovation. It acknowledges the Group's technological know-how and the efficiency of its work and practices. Valeo is recognized for its innovations in the reduction of energy consumption and the reduction of CO_2 emissions from vehicles. With the development of human/machine interfaces, Valeo is promoting increasingly connected technologies contributing to the increasing automation of vehicles.

Key figures in 2012:

- net R&D expenditure as a proportion of sales: 5.1%
- number of collaborative projects: 60
- number of patents filed in 2012: 722
- 6th-biggest private filer of patents in France in 2011
- proportion of innovation in the order intake: 28%

Examples of socially responsible innovations combining significant social and environmental benefits

Innovations fall into three categories:

- CO_2 emission reduction and eco-design solutions (environmental dimension);
- improvements in safety, comfort and ease of driving;
- sustainable mobility solutions (urbanization, connectivity and vehicle/driver interactivity, intuitive vehicles) for autonomous vehicles.

Innovations to reduce CO$_2$ emissions, improve safety and move towards autonomous vehicles

Innovation	CO$_2$ gain/ eco-design	Improved safety	Towards autonomous vehicles	Features
Hybrid4All	√			By combining a conventional internal combustion engine and a low-power electric motor, this system delivers a reduction of up to 15% in fuel consumption and halves the cost per gram of CO$_2$ saved compared with hybrids currently on the market. It is compatible with all types of gasoline and diesel vehicles. **This technology will allow automakers to comply with the European standard of 95g CO$_2$/km by 2020 on mid-range segments (B and C).**
BiLED™ modules	√			This bi-functional module is used for low- and high-beam headlamps. Two multichip LEDs are used in low-beam headlamps, with power consumption cut to 26W. A third LED is activated for high-beam usage. **The BiLED™ module delivers a reduction in energy consumption by using LED technology.**
AquaBlade®	√	√		AquaBlade® eliminates the visual discomfort caused by jets of liquid when washing the windshield. The system distributes the washer fluid directly on the wiper blade thanks to the perforated distribution edge built along its entire length. This ensures an unobstructed view of the road while washing the windshield, **while at the same time halving the amount of liquid required.** It ensures uninterrupted visibility **for safer driving.** Being lighter, it also offers a massive reduction in CO$_2$ emissions, up to 0.2g/km.
Air intake module	√			The air intake module improves the energy efficiency of turbo-charged combustion engines. It reduces fuel consumption and pollutant emissions. Temperature control of intake air, lower overall air route volumes and reduced ventilation losses make for **a more responsive motor during acceleration.**
Dual dry clutch	√			Dual clutch transmissions can **reduce CO$_2$ emissions by 6% to 10%** compared with conventional automatic transmissions, while at the same time improving driving pleasure and sportiness. Valeo has developed a dry dual clutch whose consumption and CO$_2$ emissions are lower than those of a wet dual clutch. It also has a reduced number of components compared with competitors, for greater reliability. Dry dual clutches are extremely compact, thanks to the wear adjuster integrated into **the electromechanical actuator, and provide additional driving comfort by using friction material with high thermal resistance.**
Variable displacement compressor	√			The variable displacement compressor allows flows of fluids (refrigerant) to be controlled independently of a combustion engine's rotational speed. This "strictly necessary" adjustment, combined with innovative technologies for valves and oil separation, **ensures maximum energy efficiency and improved acoustic performance.**
THEMIS™ valve	√			The THEMIS™ valve can **save up to 3% on fuel consumption and reduce exhaust emissions such as CO$_2$ and No$_x$ by up to 10%** in two ways: optimized engine warming and intelligent management of the temperatures of the engine's water circuit. Intelligent management of the different loops offered by THEMIS™ **helps accelerate engine warming while ensuring better management of cabin heating systems.**
Electric supercharger	√			Valeo is the first automotive supplier to offer its customers a range of electric superchargers that improve the dynamic response of combustion engines at low RPM while optimizing engine efficiency. This supercharger (operating with an electric motor) offers instant response. The increase in engine torque at low RPM offsets turbo response time and improves the vehicle's acceleration. This innovation helps reduce the displacement of internal combustion engines (downsizing the engine), an important factor in reducing fuel consumption. **With 12-volt architecture, it can achieve a fuel saving of 8% to 10%.**

Innovations to reduce CO_2 emissions, improve safety and move towards autonomous vehicles

Innovation	CO_2 gain/ eco-design	Improved safety	Towards autonomous vehicles	Features
Park4U®			√	This constantly changing system offers parallel parking along sidewalks as well as angle parking. A space of 40cm at both the front and the rear is sufficient to park the vehicle. Park4U® can also help the driver out of a parking space. It measures the space at the front and rear of the vehicle and determines the best strategy for exiting the space. While the driver manages the vehicle speed, Park4U® takes over the steering, in the same way as it does for parking. It senses the best time to leave the parking space and automatically turns itself off, allowing the driver to join the flow of traffic. This technology reduces congestion and gives the driver more comfort and less stress.
Park4U® Remote			√	**Fully automated parking**: while the system currently on the market takes control of steering during parking, leaving the driver in charge of the pedals, **Park4U® Remote** (which made its world debut at the 2011 Frankfurt Motor Show) is a fully automated solution. The driver can leave the vehicle, initiating and controlling the maneuver via a smartphone. **This technology reduces congestion and gives the driver more comfort and less stress.**
360 Vue™		√	√	The 360 Vue™ system helps the driver by offering a perfect view of the vehicle's surroundings. Miniature cameras film the surroundings and transmit the images to an intelligent control unit that prepares and optimizes them before displaying them on the vehicle's color screen. The system offers the driver different views, including an aerial view of the vehicle, giving a seamless picture of the immediate surroundings. Another feature is the cross traffic perspective, which allows the driver to see blind spots – very useful in blind intersections or when exiting a parking space. **360 Vue™ brings more safety and comfort to parking maneuvers while enhancing safety for pedestrians and other road users.**
BeamAtic®		√	√	This system makes it possible to drive with high beams on at all times without dazzling other motorists. In the presence of other vehicles, the shape of the beams adjusts so as not to blind other drivers. Detection and localization of oncoming or preceding vehicles are provided by a camera and powerful image-processing software. **This technology multiplies the use of high beam by 5 and reduces the risk of accidents at night by improving visibility.**
InSync		√		The InSync key is a compatible key using contactless technology allowing the driver to access information concerning the car remotely, via a mobile device. The key allows the driver to check tire pressure, fuel level and battery charge (very useful for electric vehicles), to activate the air conditioning and to detect the GPS signal so as to locate the vehicle. **This technology improves driver comfort and information, and promotes "smart" exchanges between the vehicle and the driver.**
LaneGuide™		√		LaneGuide™ helps prevent inadvertent lane changes by alerting the driver before the vehicle crosses the line, and can even bring the vehicle back into the right lane. The system uses a compact camera placed behind the rear view mirror on the windshield. The camera can also be used for other functions. On top of the LaneGuide™ function, it can interpret road signs and warn the driver when the distance from the preceding vehicle becomes critical. **This system helps reinforce user safety.**

Example of a partnership with an automaker to develop technology to reduce vehicle consumption: the BiLED™ lighting system of the Ford Mondeo

In 2008, Valeo teams initiated meetings with Ford to present their latest technology under development, the BiLED™ module. LEDs allow for better lighting and reduced energy consumption, and have a significantly longer lifetime than conventional light bulbs. They also offer the possibility of customizing lighting system design, a key competitive advantage for automakers. Won over by the innovation, Ford decided to come on board, agreeing to share the potential risks associated with the development of the new technology. The first Ford vehicle equipped with BiLED™ lighting systems, the Lincoln MKZ, was unveiled at the Detroit Motor Show in 2012. The high-end version of the new Ford Mondeo, which made its public debut at the Paris Motor Show in September 2012, also features BiLED™ lighting systems. Ford's customer feedback has been very positive, meaning that the new technology has been able to prove itself with a major global automaker.

This four-year partnership between Valeo and a world class automaker such as Ford in the establishment of a new technology also shows how players in the automotive sector can work together to develop innovations that allow constant reductions in energy use with ever greater safety for end users.

Valeo, a participant in the Remanufacturing market

Through its Remanufacturing activity, 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 offers two ranges of parts – one new and one remanufactured. Remanufactured systems are mainly alternators and starters, with a choice of 1,700 products.

With e-CORPS, Valeo has set up efficient collection of used parts. The system 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.

Valeo then initiates a remanufacturing process containing more than 40 testing points on test benches. Original equipment standards are applied, and all remanufactured products are tested 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.

Awards

- In December 2012, **Valeo received the 2012 Trophée du Point Vert awarded by Eco-Emballages** for its **approach to sorting awareness on its wiper blade packaging.**

  This trophy **rewarded the entire environmental process** initiated on Valeo's Reilly site in 2010, with the "Packaging, Environment and Regulation" training course that tackles the themes of eco-labeling, eco-design, recycling (eco-packaging), standards and directives related to waste, COTREP and ADEME actions(1), areas of improvement on environmental issues in packaging (reduction in thickness, integration of recycled materials, smaller formats, etc.) and an extensive study on various products incorporating environmental criteria already existing.
- In October 2012, Valeo received an award in Las Vegas from the **Automotive Aftermarket Products Expo (AAPEX) for the packaging of its "ULTIMATE Connect Master" wiper blade range**. These packs are made using a single recyclable material that has the added advantage of being "universal" because it can be used for wiper blades of any technology: conventional, front or rear, flat or hybrid.

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(1) See Sustainable Development Glossary, section 4.6.3, page 182.

4.3 Environmental performance

4.3.1 A long-standing commitment to the environment

Environmental governance consistent with the challenges

For 20 years, Valeo has worked to limit the impact of its activities on the environment. Valeo sets out its environmental commitments in its Environment Charter developed by the **Risk Insurance Environment Department** (RIE). These environmental commitments are included in the Group's Sustainable Development Charter:

- ensure the compliance of its activities with applicable laws and international agreements;
- deploy the ISO 14001 environmental management system on all sites;
- improve the environmental performance of its processes;
- optimize the transportation of people and goods in order to reduce greenhouse gas emissions;
- limit the use of natural resources and promote the use of renewable resources and energy;
- eliminate the presence of substances that are dangerous to the environment and health.

By its position in the organizational structure of the Group, the RIE department plays a central role in environmental governance. Its head is notably a permanent member of the Risk Committee, the body responsible for establishing and monitoring action plans in risk mapping reported to the Audit and Risks Committee.

To translate strategic commitments at the operational level, the RIE department sets targets for improving environmental performance: 2012 marked the completion of the second three-year plan (2010-2012) and the implementation of the **2013-2015 plan**. These plans aim to reduce the environmental impacts of active sites; the Group takes into account the reduction of these impacts over the **entire lifecycle of each site**: selection of land, construction or acquisition of a site, operations and closure or sale. As such, before the creation or extension of a site, regardless of its location, Valeo performs an audit to identify the potential existence of an environmental liability, hazardous surroundings or environments that are sensitive to potential natural hazards.

Key dates in the Group's environmental commitment

- Early 1990s: Definition of the Environmental Policy
- 1991: Launch of the program of environmental audits
- 1997: First Group site to receive ISO 14001 certification
- 1998: Risk Management Manual and Environmental Charter
- 2001: Introduction of centralized environmental reporting
- 2004: Signature of the UN Global Compact
- 2008: Sustainable Development Charter

Commitment to transparency

In the interests of transparency and openness towards its stakeholders, including shareholders and investors, the General Management presents the Group's main environmental results at the Annual Shareholders' Meeting. Valeo also regularly responds to requests bearing on its extra-financial performance.

In 2012, the Group once again took part in the survey of the Carbon Disclosure Project⁽¹⁾ (CDP) which assesses companies on the transparency of their communications in respect of climate impact: Valeo was accordingly among the 32% of SBF 250 companies to take part in the "CDP 2012 France" survey. It was given a score of 61 out of 100 on transparency.

Valeo's environmental performance is also evaluated by other international rating agencies, such as Sustainable Asset Management⁽¹⁾ (SAM), as part of the establishment of the Dow Jones Sustainability Indexes (DJSI). The Group obtained a score of 80 out of 100 on environmental issues in 2012, well above the sector average of 51.

The Group pays close attention to shifts in its ratings from one year to the next, with a view to achieving **continuous improvement in its environmental reporting.**

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(1) See Sustainable Development Glossary, section 4.6.3, page 182.

Valeo is also keen to play an exemplary role in the environment with regard to the communities within which it operates. This commitment was reflected for instance with the Clean Production System Award for the Nanjing site (China) in 2012, on the heels of the Green Company award in 2011.

The following chapters follow the structure of the environmental issues listed in ***Decree No. 2012-557 of April 24, 2012 on the obligation of transparency in respect of social and environmental issues***. In the interests of transparency, Valeo has also opted to include in each chapter indicators from the Global Reporting Initiative (GRI) in order to present its environmental performance.

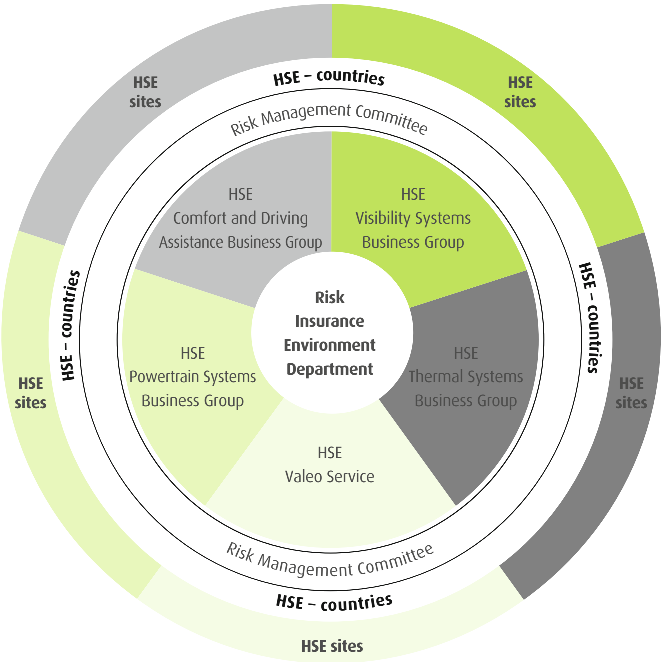
All core GRI indicators (identified in the text by a green box in black font) are dealt with, as well as a number of additional GRI indicators deemed relevant (identified in the text by a green box in white font). A cross-reference table is available on page 176.

4.3.2 General policy on environmental issues

Valeo's organization to factor in environmental issues, and evaluation and certification processes

A sound multi-tiered organization

Valeo's environmental management is based on continuous improvement driven by the **Risk Insurance Environment Department,** based on an organization structured around Business Groups, countries and sites: a **network** of Health, Safety, Environment (HSE) managers is tasked with ensuring that the Group's HSE policy is adhered to and that its environmental objectives are met.



Cross-company bodies

The **Risk Management Committee** is the central steering body of the Risk Insurance Environment Department (RIE). Comprising the Head of the RIE department and the HSE managers of the four Business Groups and Valeo Service, it meets on average three times a year to capitalize on the feedback from each of its members and to advance the Group's environmental policy and management of its industrial risks. Committee meetings also provide an opportunity for Valeo to invite external speakers in different fields of expertise.

Every month, the RIE department also brings together the Business Groups' HSE managers to review progress on **new real estate projects** and to adopt the best possible environmental and safety solutions for each facility. To monitor progress on all these projects, the RIE department uses standardized tools to gather relevant information and ensure compliance with the Group's rules.

Health, Safety, Environment network

The RIE department relies on a network of HSE managers in line with the Group's matrix-based organization. HSE managers working in each of the four Business Groups and at Valeo Service provide technical assistance to the site HSE managers who report to them. As key players in the Group HSE structure, their role is to help promote continuous improvement by assisting sites in applying Group directives and complying with regulations in force. Their role is also to foster the spread of best practice between the sites of their respective Business Groups and to support investment requests aimed at meeting environmental objectives assigned by the RIE department.

At each site, an HSE manager is tasked with overseeing the practical implementation of Group standards with respect to health and safety at work, the environment, and the safety and security of buildings and installations. They lead and coordinate existing management systems and train staff with regard to compliance with internal and external requirements. They are also internal auditors within the meaning of the ISO 14001(1) and OHSAS 18001(1) standards.

Since 2011, the RIE department has designated HSE managers in each country to coordinate the process at the national level. These managers are selected among the site HSE managers and assume a complementary role to Business Group HSE managers. In particular, their position allows them to overcome cultural, linguistic and regulatory hurdles in the deployment of projects that are either initiated locally or requested by the Group: they provide the translation of the Group's standards in the local language, for example. Their proximity to the sites further strengthens the **sharing of best practices** and enables the completion of cross-cutting work at the national level (monitoring of local regulations, for instance). To establish their credibility in the field, the country HSE managers are also actively involved in the integration of new HSE managers at the plants.

In total, **nearly 150 people** are directly involved in the day-to-day management of HSE issues within the Group.

The main environmental issues facing sites

The industrial activities of the Group's sites differ in nature. Accordingly, the risks they pose to the environment vary as well. As part of its risk management policy, the RIE department has conducted an analysis of the key issues facing each Business Group. A summary of this analysis is set out in the table below.

"Grenelle" theme	**Powertrain Systems Business Group**	**Thermal Systems Business Group**	**Comfort and Driving Assistance Systems Business Group**	**Visibility Systems Business Group**	**Valeo Service**
Organization and policy			■ ISO 14001 certification ■ Regulatory compliance		
Sustainable use of resources	■ Energy consumption	■ Water and energy consumption	■ Energy consumption	■ Water and energy consumption ■ Packaging consumption	■ Packaging consumption
Emissions and pollution	■ VOC emissions(1) ■ Management of chlorinated solvents	■ Management of refrigerants	■ VOC emissions(1)	■ VOC emissions(1)	
Waste management	■ Production of waste				■ Reuse of waste
Climate change	■ Indirect GHG emissions(1)	■ Direct and indirect GHG(1) emissions			■ GHG emissions(1) related to the transportation of goods

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(1) See Sustainable Development Glossary, section 4.6.3, page 182.

Active certification policy

Nearly 15 years ago, Valeo undertook a process of certification of management systems in order to meet its commitment to reduce its environmental impacts and improve health and safety conditions for its employees. ISO 14001 environmental certification and OHSAS 18001 health and safety certification by independent third parties provide further assurance to stakeholders of the Group's firm commitment to HSE issues. The current practice is to conduct certification of individual sites, but the Group is reviewing the possibility of obtaining multi-site certification by Product Group or product line.

In view of the percentage of certified sites, the certification process is currently considered mature for plants and distribution platforms. **At the end of 2012, 96% of sites**(1) **had obtained ISO 14001 certification and 88% had obtained OHSAS 18001 certification**. The objective set in 2009 of having all sites certified in both areas has not been fully achieved. Some sites present in the Group in 2009 have not yet been certified (two for ISO and six for OHSAS), while sites integrated since 2009 are in the process of implementing their system.

The Group aims to bring new sites (acquired or created) into this dual certification process as quickly as possible, helping bring them up to the required level.

ISO 14001 and OHSAS 18001 certification

Employee training and information on environmental protection

Valeo uses various channels for internal communications and employee training on HSE issues, including:

- centralized information in the Group's quarterly internal newsletter, "Valeo Info", translated into all languages, with a "Planet" page and relevant articles;
- training of HSE managers using modules approved by the RIE department;
- training for site employees on environmental procedures and respect for the environment, particularly as part of the integration of new managers;
- awareness-raising for all site staff on measures aimed at controlling risks and impacts through ISO 14001 and OHSAS 18001 management systems;
- information for employees through newsletters and dedicated displays, and at meetings of task forces, etc.;
- dedicated events such as "Sustainable Development Week", featuring local initiatives.

In 2012, nearly 28,000 hours of environmental training were provided across all sites.

Resources devoted to the prevention of environmental risks and pollution

The Group has developed **working and assessment tools** to ensure that sites comply with both the prevailing regulations and internal standards, and to help them rein in their environmental impacts and improve their performance.

High risk-control standards

Sites' compliance with the prevailing regulations is an essential requirement for the Group. As such, each site has the obligation of maintaining a **regulatory watch** on HSE issues. Since 2010, the RIE department has promoted the development of national monitoring tools by the network of country HSE managers.

The **Risk Management Manual** contains all of Valeo's standards (known as directives) with respect to the environment, health and safety at work, and the safety and security of installations. The RIE department, which periodically updates this manual, aims to maintain binding requirements at least equivalent to the most stringent local regulations. Implementation of these directives is mandatory for all Group sites.

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(1) The scope used to calculate these data is set out in section 4.6.1, page 173.

The Risk Management Manual includes a specific chapter on the **prevention of crisis situations and the preparation of emergency plans**. The Group requires each site to establish an emergency plan to fight against foreseeable accidents. In this context, Valeo has developed a powerful tool to assist in the design and implementation of emergency plans, crisis management and the resumption of work in facilities: Valeo Emergency and Recovery Management (VERM).

The directives contained in the Risk Management Manual were updated in 2012. The year also saw the issuance of new directives, notably covering the following HSE issues: biodiversity, noise, odors and explosions. To aid the accurate comprehension and application of the Risk Management Manual on the various sites, the RIE department plans to embark on an **ambitious training program** for operational teams in 2013. The program was successfully tested in Thailand in July 2012.

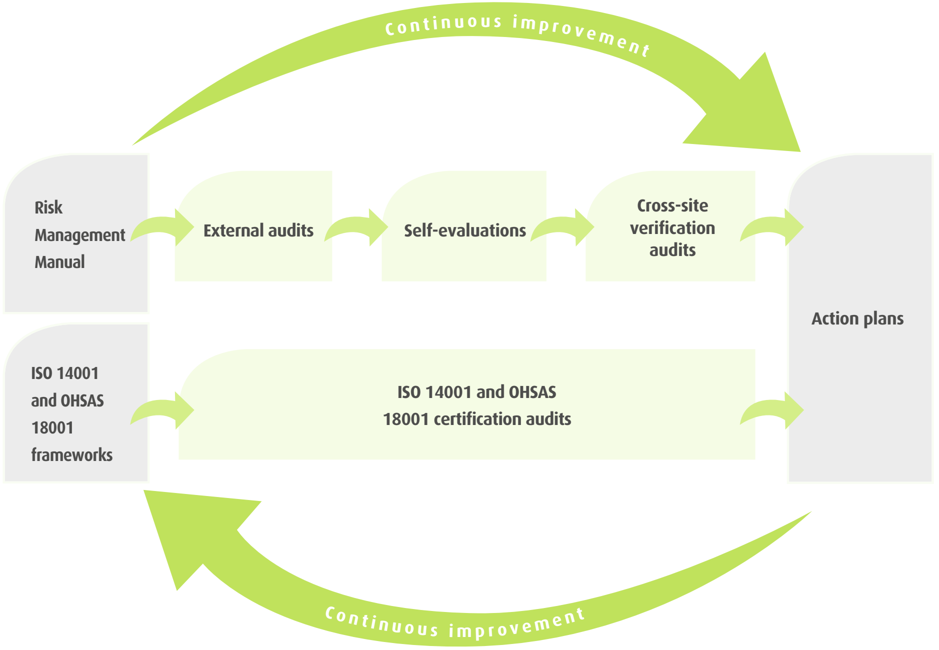
Maintaining a high level of operational safety

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 either not located in flood-prone areas or are equipped with flood-protection systems and contingency plans; the sites in Thailand did not suffer any physical damage during the floods in that country towards the end of 2011; moreover, no major natural hazard significantly affected any of the Group's sites in 2012;
- Valeo's new facilities are located as far as possible from sites representing significant potential risks (for example, Seveso(1) sites, etc.) 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.

An ambitious audit program worldwide

Valeo is implementing a comprehensive program of audits worldwide, including external compliance and certification audits, self-evaluations performed by the site HSE managers, and cross-site verification audits.



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(1) See Sustainable Development Glossary, section 4.6.3, page 182.

Program of external audits worldwide

At the initiative of the RIE department, **audits** of the Group's sites are regularly performed **by external consultants** to ensure compliance with and proper implementation of the Risk Management Manual in respect of the environment, occupational health and safety, and the safety and security of buildings and facilities. In place for nearly 20 years, this audit program is a major component of Valeo's policy of reducing risk and improving the performance of its sites, which are audited every three years on average. At the beginning of each year, the RIE department lists the sites to be audited, taking the three-year average into account.

At the end of each audit resulting in a detailed report, the sites are given a score based on objective criteria periodically redefined by the RIE department. In 2012, HSE scoring criteria were toughened to reflect the **objective of operational excellence.**

On the basis of the findings and recommendations ordered in accordance with the level of risk, these audits give rise to the drafting of action plans by the various sites. The progress of these plans is reported to the RIE department and monitored by the Business Group HSE managers via Road Map Manager, a centralized tool used by all Group sites.

In 2012, **159 external audits** were performed, in addition to 203 ISO 14001 and OHSAS 18001 certification and monitoring audits.

Self-evaluations

In addition to external audits, a **self-evaluation tool** has been in place since 2008, as part of the Road Map Manager. Self-evaluations allow sites to monitor their compliance with Group directives. The tool also provides the Business Groups' HSE managers and the RIE department with an overview of the degree of compliance with the directives at the operational level.

To incorporate the requirements set under the new directives, the tool will be updated in 2013.

Cross-site verification audits

Cross-site verification audits are carried out on one site by the HSE manager of another site. Their purpose is to verify the implementation of HSE management systems and to ensure 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 auditors were formalized in 2011. The process was introduced in France in 2012 and will gradually be rolled out in other countries.

Expenditure and investment in the environment

Total environmental protection expenditures and investments by type GRI EN30

Operating expenses related to the environment totaled approximately 14 million euros in 2012. They include the cost of waste treatment, analysis of effluents, operation of internal treatment plants and environmental studies. On top of these expenses come clean-up costs on active sites, in the amount of 450,000 euros.

In 2012, Valeo invested nearly 2 million euros for the protection of the environment on active sites. This amount includes for instance the cost of installing air-treatment systems, the implementation of retention systems for better management of hazardous materials and the development of waste storage areas.

Amount of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations relating to the environment GRI EN28

Valeo did not receive any significant fines on environmental issues in 2012. By contrast, two Group sites were the object of administrative sanctions: they took immediate action to comply. This aspect is monitored very closely by the RIE department.

Amount of provisions and guarantees for environmental risks

Provisions set aside for site restoration or for the environment amounted to 20 million euros at December 31, 2012.

In addition, the Group has identified the French sites covered by the obligation to set aside financial guarantees with a view to making them safe under Decree No. 2012-633 of May 3, 2012: six sites were concerned in 2012, and six others will have to start setting aside guarantees in 2017.

4.3.3 Rigorous management of environmental performance

Centralized environmental reporting

For the past ten years, Valeo has deployed a **centralized reporting tool,** Valeo Risk Indicators (VRI), across all of its sites to measure its sites' environmental performance via an internet platform. Quarterly, or annually for some parameters, this tool permits the collection of over 200 indicators, allowing constant control of the environmental performance of the Group's sites and ensuring that its goals are met. Among the many indicators available in VRI, every year the Group selects those to be published in the Registration Document in view of its key environmental issues, its performance objectives and the relevance of the indicator to the automotive suppliers sector. These indicators are presented in a manner consistent with the guidelines of the Global Reporting Initiative (GRI).

The environmental data published concern **all plants and distribution platforms** worldwide, excluding subsidiaries in which the Group has a minority interest, administrative sites and centers dedicated to R&D activities, i.e., a total of **126 sites** for environmental indicators, nine more than in 2011.

ISO 14001 and OHSAS 18001 certification indicators do not include the assembly plants for vehicle front-end modules in their calculation, as these plants are located directly at the automakers' site or nearby. ISO 14001 and OHSAS 18001 certification is therefore open to 121 sites.

Valeo works each year to make its reporting more reliable, using feedback and numerous exchanges with sites during phases of data validation. In 2012, this effort also resulted in the organization of a dedicated external audit of the Taegu site (South Korea), a major contributor to environmental reporting whose reported 2011 data needed to be confirmed. Moreover, as in previous years, responses from all sites were consolidated and checked by an external firm in order to ensure their quality. For this purpose, nearly 100,000 data items were processed and validated.

The procedures for defining the reporting scope and validating indicators are described in the **methodological note** provided in section 4.6.1, page 173.

External audit imposed by the Grenelle 2 law

Pursuant to Article 225 of the Grenelle 2 law dated July 12, 2010, Decree No. 2012-557 of April 24, 2012 on companies' obligation of transparency in respect of social and environmental issues provides for the verification by an independent third party of information disclosed by French companies. In this context, and in the absence of the publication of the Ministerial Order defining the terms of this audit, Valeo nevertheless decided to designate an independent verifier to perform an audit of its labor-related and environmental information.

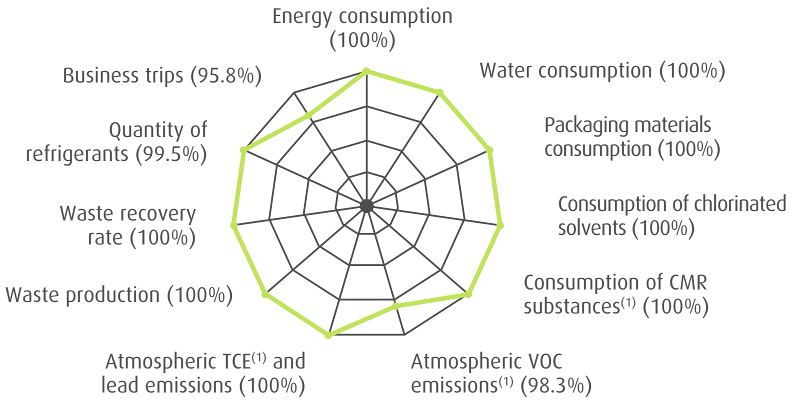
This assignment took place in three stages:

- the first stage was a review of the reporting process: a review of the scope, definitions of indicators, methods of calculation, consolidation process and controls;
- in the second stage, four site audits were performed to verify the proper implementation of reporting procedures and the pertinence of the information reported. This stage was rounded out by a review of consolidated information (review of the completeness and accuracy of the information);
- the third stage saw the independent verifier produce a synthesis of observations in the form of a limited assurance report including a statement of completeness and an opinion as to the accuracy of the information it contained in the management report in respect of 2012. This report appears in section 4.8, pages 187 to 188 of this chapter.

The goal of excellence: 100% response rate expected for each indicator

The representativeness of each indicator is measured by a response rate. The rate is expressed as sales of the sites having responded to the indicator divided by total sales of all sites in the reporting scope. In 2012, the response rate per indicator was excellent, as shown in the following diagram: readings of 100% for practically all indicators published, as in previous years, confirming the sites' commitment to reporting.

Response rate for main indicators in 2012



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(1) See Sustainable Development Glossary, section 4.6.3, page 182.

Environmental objectives in keeping with the Group's commitment

Assessment of the performance for the 2010-2012 period

As part of its Environmental Action Plan for 2010-2012, the RIE department set ambitious quantified targets based on the performances of sites in 2009.

In 2012, the Group substantially exceeded its targets in respect of water and energy consumption. It significantly improved its performance in terms of consumption of packaging materials, direct and indirect greenhouse gas emissions, and deployment of ISO 14001 and OHSAS 18001 management systems, while nevertheless missing its targets. With regard to waste management, Valeo will have to make considerable efforts to reverse the trend during the next three-year plan.

2012 readings for each indicator are described in more detail in sections 4.3.4 to 4.3.7. In addition, a summary table of environmental data is available in section 4.7.1.

Objective	Unit	2012 target (base = 2009)	2012 result (base = 2009)	Status
Environmental performance of sites				
Reduction in energy consumption	MWh/€m	-10%	-18%	🟩🟩
Reduction in water consumption	cu.m/€m	-7%	-32%	🟩🟩
Reduction in packaging materials consumption	kg/€m	-15%	-3%	☐
Waste management:				
Reduction in waste production	metric tons/€m	-15%	+13%	■
Waste recovery rate	%	+15%	-3%	
Carbon emissions				
Reduction of direct and indirect greenhouse gas emissions[1]	metric t CO_2/€m	-10%	-9%	☐
Environmental and occupational health and safety certification				
ISO 14001 certification		100%	96%	☐
OHSAS 18001 certification	% of sites	100%	88%	☐

(1) See 4.6.1 for a description of the scope covered by the target.

Legend of the "status" of the desired outcome:
🟩🟩 *Target exceeded by more than 5%.*
🟩 *Target achieved.*
☐ *Improvement of indicator but target not achieved.*
■ *Deterioration of indicator.*

Continuous performance improvement

In the wake of the encouraging results of the second plan for the 2010-2012 period, the Group intends to continue to improve its environmental performance over the next three years, with the following ambitious targets underscoring its determination:

Theme	2013-2015 objectives (base = 2012)	Target	Unit
Sustainable use of resources	Reduction in water consumption	**-10%**	cu.m/sales
	Reduction in energy consumption	**-10%**	kWh/sales
	Reduction in packaging materials consumption	**-7%**	metric t/sales
Production of waste	Reduction in the production of hazardous and non-hazardous waste	**-7%**	metric t/sales
Carbon emissions	Reduction of direct and indirect greenhouse gas emissions	**-10%**	metric t CO_2/sales
Management systems	ISO 14001 and OHSAS 18001 certification	**100%**	% of sites
	ISO 50001 certification (energy management)	**10%**	% of sites
	Note: for new sites, ISO 14001 and OHSAS 18001 certification to be obtained within three years of entry into the Group		
Biodiversity	Promotion of local biodiversity initiatives		
Suppliers and service providers	Reinforcement of performance-evaluation criteria and environmental compliance of the Group's subcontractors, suppliers and service providers		

4.3.4 Prevention of pollution and management of waste

Measures to prevent, reduce or remedy emissions into air, water and soil

Reducing atmospheric emissions and ozone-depleting substances

Emissions of nitrogen oxides (NO_x) and sulfur oxides (SO_x) and other significant emissions into the air GRI EN20

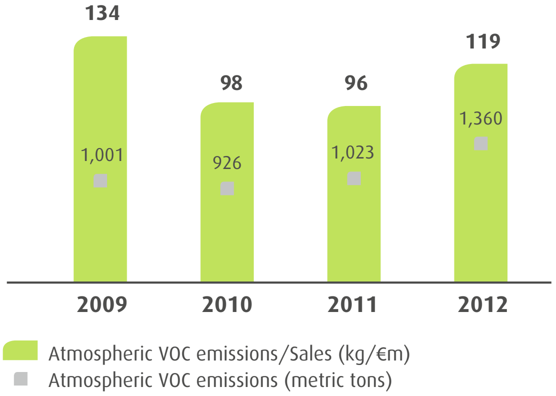
Valeo monitors emissions into the air of volatile organic compounds (VOCs), nitrogen oxides (NO_x), lead (Pb) and trichlorethylene (TCE) resulting from its activities.

Emissions of sulfur oxide (SO_x) are not monitored, as combustion plants mainly use natural gas.

In 2012, NO_x emissions were estimated at 134 metric tons.

With regard to VOC emissions, the increase as a proportion of sales compared with 2011 was attributable to the consolidation of the eight Niles sites (Comfort and Driving Assistance Systems Business Group) in the environmental reporting scope for the first time in 2012, and an underestimate of emissions from the Taegu site in South Korea in 2011. This increase should not obscure the efforts undertaken by the Group's legacy sites, which are actively working to reduce their VOC emissions, primarily attributable to the use of chemicals such as solvents and paint. The Veszprem site in Hungary, for instance, acquired a biological treatment plant for VOCs in late 2011, allowing a decrease of nearly 75% in its emissions. Other sites seek to use water-based products when automakers' constraints allow.

Atmospheric VOC emissions



In addition, the Group monitors the release into the atmosphere of lead and TCE, two compounds used in legacy production processes. Lead emissions are not significant (6kg in 2012). Emissions of TCE, which is still used at one Group site (Taegu, South Korea), increased significantly in 2012 (249 metric tons) due to the underestimation of the prior year data.

Emissions of ozone-depleting substances GRI EN19

Valeo has for several years sought to be proactive in reducing emissions of ozone-depleting substances. Its commitments on the subject are set out in a dedicated directive within the Risk Management Manual: chlorofluorocarbons (CFC) and halons are banned on all sites; for hydrochlorofluorocarbons (HCFC), the Group's objective is to anticipate elimination targets under the Montreal Protocol. To comply with this directive, the sites have taken action to replace and periodically monitor leaks from equipment containing refrigerants.

For the first time, the Group made an overall estimate of emissions of CFCs and HCFCs in 2012: 478kg of CFC-11 equivalent (reference component for measuring the potential depletion of the ozone layer).

Measuring and containing wastewater discharge

Total water discharge GRI EN21

Broadly speaking, the Group's activities do not generate highly pollutant effluents. When required by local regulations, sites measure the degree of pollution of effluents and, where necessary, equip a facility to treat wastewater before discharging it into the natural environment or the public system. In 2012, more than a quarter of the Group's sites had such a treatment facility, with a total discharge of 604,000 cu.m., representing an increase of 4% for these sites compared with 2011.

In 2012, the amount of heavy metals discharged from internal treatment stations totaled 55kg, a decline of 65% compared with 2011 in absolute terms, explained by the overestimate of historical data.

Prevent accidental discharges into the soil

As part of their environmental management system, and in accordance with Group directives, sites are equipped to prevent accidental spillage into the environment. In addition, underground tanks have been banned within the Group since the early 1990s, in the aim of eliminating the risk of significant pollution of soil and groundwater associated with such facilities. Moreover, internal landfills are prohibited on all sites regardless of their location.

When a business is sold or shut down, the Group systematically commissions an audit, generally accompanied by an investigation of the soil and groundwater, to determine whether any pollution occurred during its 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.

Total number and volume of significant spillage GRI EN23

No significant spillage occurred on the Group's sites in 2012.

Prevention, recycling and disposal of waste

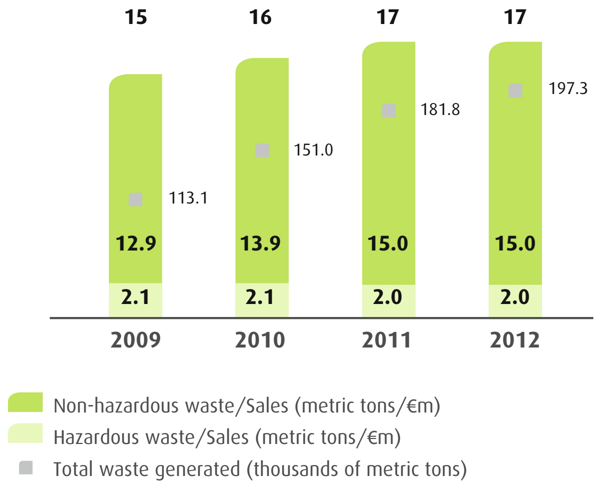
Total weight of waste by type and nature of treatment GRI EN22

The main waste products generated by the Group's facilities, in descending order of weight, are metal, wood and plastics:

- almost all metal waste is sold for recycling;
- wood is recycled or used to generate heat;
- some plastic is sold for recycling.

Hazardous waste accounts for less than 15% of the total share of waste produced by the sites in recent years.

Production of hazardous and non-hazardous waste



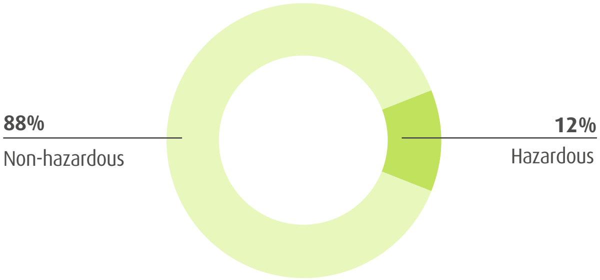
In 2012, for the first time since 2009, the amount of waste produced as a proportion of sales stabilized. This stemmed from efforts by the sites of all Business Groups to reduce their waste production. Progress was particularly noteworthy in the Visibility Systems Business Group, which achieved an 8% reduction in waste as a proportion of sales between 2011 and 2012.

Despite these efforts, the goal of reducing waste by 15% between 2009 and 2012 was not achieved. Valeo has set a new reduction target under its next three-year plan.

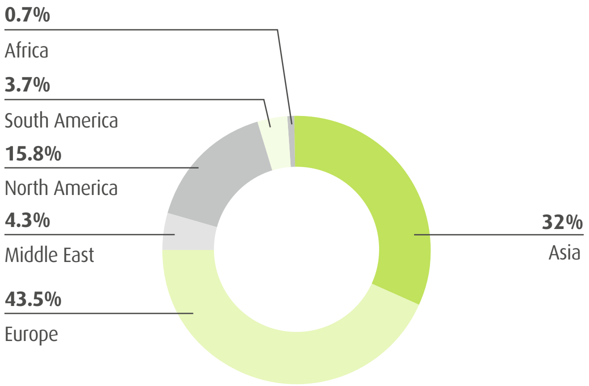
The proportion of waste recovered was approximately 80% in 2012. While satisfactory, the outcome fell short of the initial target.

Quantities and characteristics of waste generated in 2012

	2009	2010	2011	2012
Total waste generated (thousands of metric tons)	113.1	151.0	181.8	197.3
of which hazardous waste (%)	14%	13%	12%	12%
Intensity of waste production (metric t/€m)	15	16	17	17
Percentage of waste recovered	82%	83%	83%	79%



Regional breakdown of waste production in 2012



Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention, and percentage of transported waste shipped internationally GRI EN24

In 2011, the Group began monitoring the amount of hazardous and non-hazardous waste exported by its sites. Some sites have to ship their waste to another country to overcome the lack of adequate treatment systems locally. This is the case for the Rio Bravo and Juarez sites in Mexico for instance.

In 2012, 748 metric tons of waste were exported, approximately 10% of which was hazardous waste. These amounts accounted for less than 1% of total waste generated across all Group sites.

Noise and other forms of pollution

Valeo strives to follow up all complaints addressed to its sites on environmental issues. In 2012, a total of five complaints were received, three of which regarding noise and odors. As part of their ISO 14001 certified environmental management systems, the sites concerned took the appropriate measures.

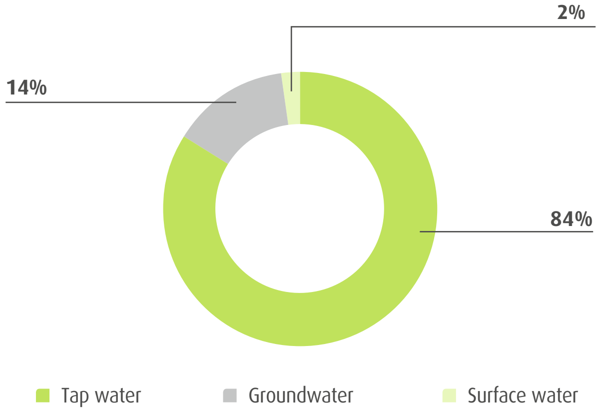
4.3.5 Sustainable use of resources

Water consumption and water supply in line with local constraints

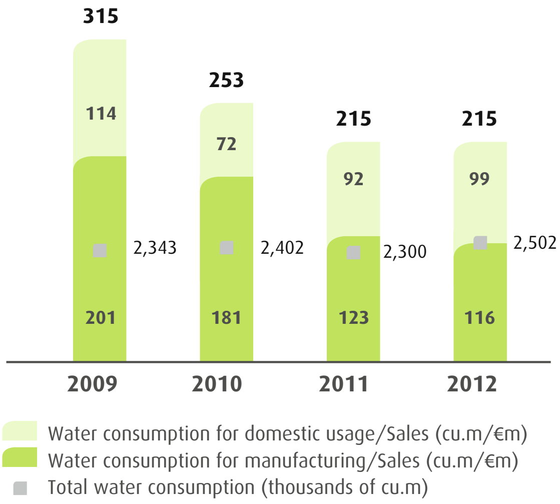
Total water withdrawal by source GRI EN8

To measure the overall impact of its activities on water resources, Valeo measures its consumption by distinguishing the different sources of its withdrawals (city water, groundwater, surface water) and uses of water on its sites (industrial water, domestic water). Valeo's sites use fairly little groundwater and surface water (16%), and industrial usages account for 54% of consumption.

Water supply sources



Water consumption



Valeo set a target of reducing its water consumption as a proportion of sales by 7% for the 2010-2012 period. **This target was largely exceeded, with a reduction of 32% compared with the 2009 level**. This success was the result of many years of efforts by all sites, particularly in the search for leaks and efforts to reduce consumption of industrial water for cooling (removal of all open systems by the end of 2011).

In absolute terms, the sites' water consumption increased by 9% compared with 2011, in line with the increase in the Group's activity. As a proportion of sales, it remained stable.

Following this phase of stabilization in 2012, the Group aims to take its commitment further, and has set a target of a 10% reduction in consumption as a proportion of sales by 2015. Sites will continue their systematic efforts to locate leaks on industrial and domestic networks, and to reuse water.

Water sources significantly affected by withdrawal of water GRI EN9

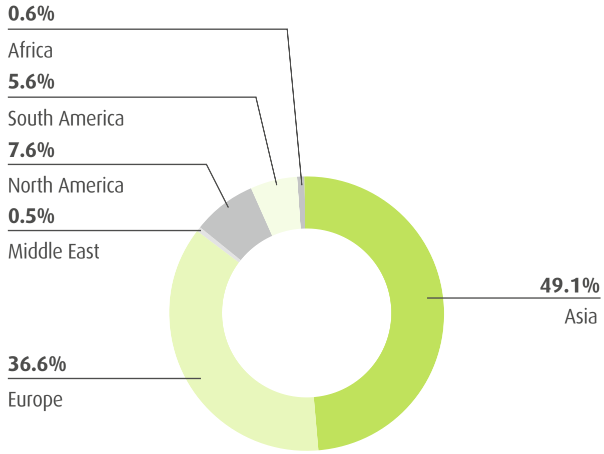
Group sites also take into account water restrictions, which reflect pressure on local water resources. In 2012, only seven cases of temporary limits or cut-offs of water supply were identified on the 126 sites reporting environmental indicators: five in Asia (China, Japan, Thailand), one in the United States and one in France.

To refine the analysis of its impact on water resources, the Group plans to evaluate its **water footprint** in 2013.

Percentage and total volume of water recycled and reused GRI EN10

Plants use water to cool production lines: water circulates in a closed loop in accordance with the Group's requirements. In addition, in 2012, 20 sites declared that they internally recycle and reuse their industrial water; nine sites recover rainwater, mainly for domestic purposes.

Regional breakdown of water consumption in 2012



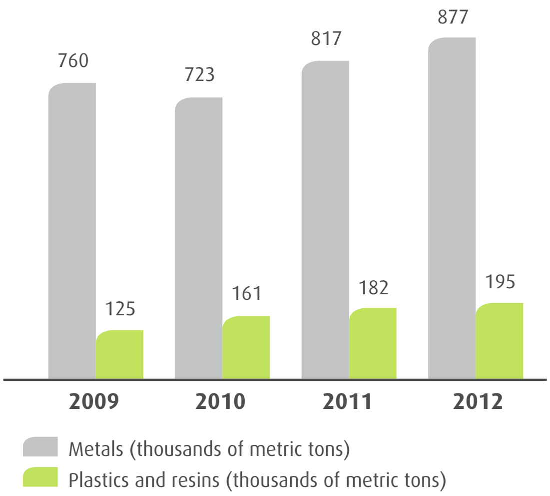
Consumption of raw materials and measures taken to improve efficient use

Materials used by weight or volume GRI EN1

Valeo is pursuing two areas for improvement in terms of resource consumption: reduction in the consumption of raw materials and use of recyclable and recycled materials. These areas are taken into account systematically by R&D teams (see page 110 for more information on internal eco-design requirements).

The main raw materials used by the sites are metals and plastics, used directly in the composition of finished products and packaging materials.

Raw material consumption

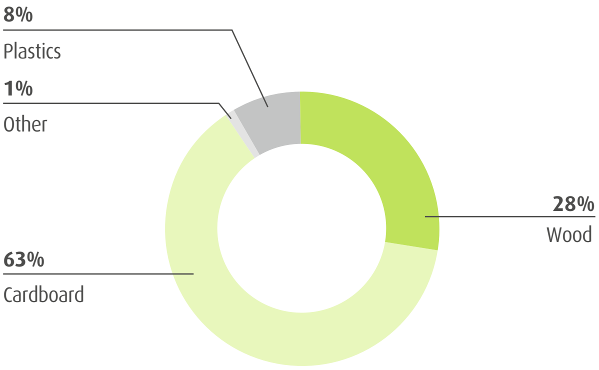


The increase in consumption of the key raw materials stemmed directly from the overall increase in the activity of the Group's sites.

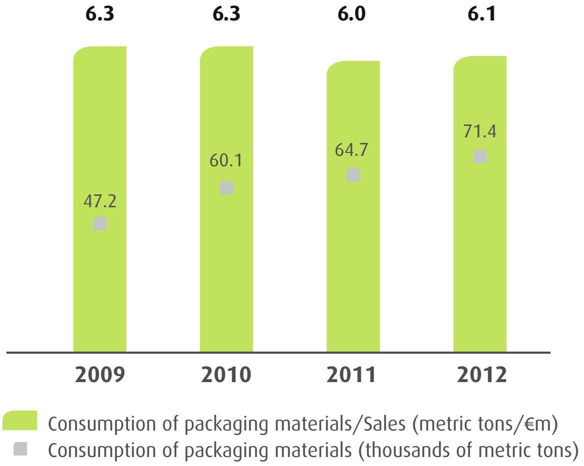
Limiting the quantity of packaging materials

Packaging is essential to the handling of Valeo products. It is required for transportation, facilitates storage, protects products and, in the case of aftermarket products, helps sell them. For these various purposes, Valeo uses many different kinds of packaging materials, mainly cardboard, wood, plastics and metal. Cardboard and wood together account for approximately 90% of packaging materials used.

Breakdown of packaging materials consumption



Packaging materials consumption



In 2012, consumption of packaging materials as a proportion of sales edged up slightly (2%) compared with 2011. In absolute terms, there was a 10% increase attributable to the consolidation of the new Niles sites, particularly Chonburi in Thailand, and a significant increase in activity on the San Luis Potosi (Mexico) and Skawina (Poland) sites of the Thermal Systems Business Group, which are big users of packaging materials.

Despite Valeo's efforts to reduce its consumption of packaging, particularly through the reuse of materials (see "GRI EN2"), **the target for the 2010-2012 period was missed.** Among the reasons cited by the sites were constraints imposed by customers for the packaging and shipment of parts. The Group will continue to monitor progress on this indicator during the next three-year plan. It has set a new target of a 7% reduction in the consumption of packaging materials as a proportion of sales compared with 2012 levels for the 2013-2015 period.

Elimination of hazardous substances used by sites

Because of their danger and their legacy use in industrial processes on its sites, the Group also monitors the consumption of heavy metals (lead, mercury, chromium VI, cadmium), chlorinated solvents and substances classified under European regulations as carcinogenic, mutagenic and reprotoxic (CMR).

The Group's consumption of heavy metals has been steadily declining for more than five years (19 metric tons in 2012).

For chlorinated solvents (273 metric tons) and CMR substances (279 metric tons), the main contributor is the Taegu site in South Korea. This site was voluntarily removed from the reporting scope for these two indicators in 2011, due to the unreliability of data, and was fully reintegrated in 2012, explaining the significant increase compared with the prior year.

The Group is pursuing an active policy of elimination of all substances deemed hazardous, formalized in a directive on "regulated or prohibited substances", which applies to all sites and is based on the general principles of REACH[1] (see the section on R&D, page 110). 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 those for which substitute products are either still undergoing approval or are currently prohibitively expensive, or those whose use is required by customers.

Percentage of materials used that are recycled input materials GRI EN2

As part of its commitment to reducing its environmental footprint, Valeo puts particular emphasis on the use of recycled materials, primarily through the reuse of packaging materials and the purchase of recycled plastics for manufacturing purposes. In 2012, more than 1,200 metric tons of packaging materials were recovered internally and reused, an increase of 20% compared with the prior year. Purchases of recycled plastics represented 11,709 metric tons in 2012, an increase of 10% compared with 2011.

In addition, Valeo promotes the use of reusable packaging (extensive use of shuttle crates between Valeo and its customers and/or suppliers) and eco-design of packaging from recycled materials (cardboard, paper, plastic) with a low environmental impact.

Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation GRI EN26

Initiatives to mitigate environmental impacts caused during use and at the end of life are dealt with in the section on R&D, which describes the Group's commitments in terms of eco-design (see pages 111 and 112).

Percentage of products sold and their packaging materials that are reclaimed by category GRI EN27

Valeo pays particular attention to the recyclability and reuse of its products through its "Eco-Design Standard" Directive, which incorporates the requirements of the End-of-Life Vehicles Directive (ELV[1]). In addition, the Group is a major player in the remanufacturing market (aftermarket, spare parts) through efficient collection of used parts (eCORPS system, see page 114).

In packaging, Valeo has focused its efforts on the design of recyclable packaging and the promotion of sorting. In this area, the Group received two awards for its wiper blades in 2012:

- the *Trophée du Point Vert 2012* for its approach to raising sorting awareness on its packaging (symbols and explanations);
- an award at the Automotive Aftermarket Products Expo in the United States in the Environmental Impact category for packaging consisting of a single recyclable material.

For more details, see section 4.2.3, page 114

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[1] See Sustainable Development Glossary, section 4.6.3, page 182.

Energy consumption, measures to improve energy efficiency and use of renewable energy

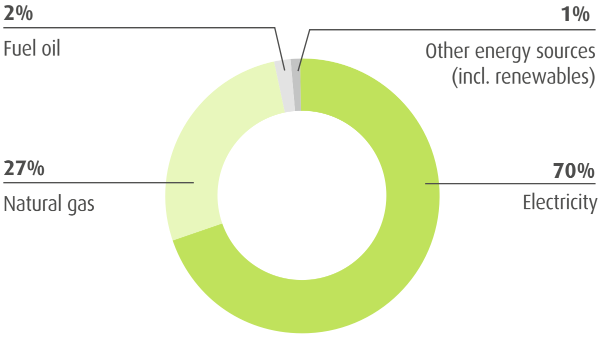
Direct and indirect energy consumption by primary energy source GRI EN3 and GRI EN4

Valeo sites use the following three types of energy for industrial and domestic usages:

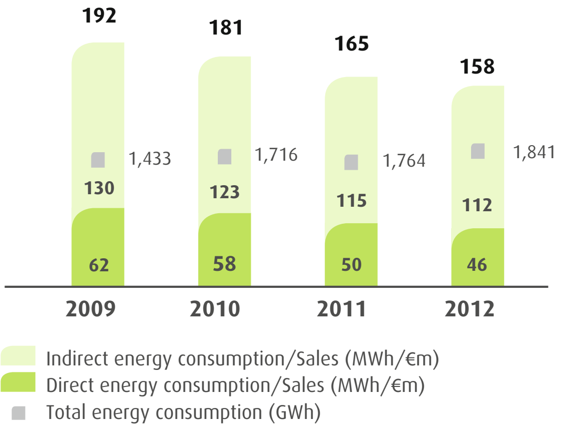
- direct energy as primary energy sources (fuel oil, natural gas);
- indirect energy in the form of electricity, steam and compressed air;
- direct renewable energy generated on site, of solar origin, which to date provides only a very small amount of energy.

Electricity and natural gas have for several years been the two main sources of energy used by sites: together, they account for nearly 98% of the total energy consumption. The Group does not have detailed information on the primary sources used for the generation of electricity consumed on its sites. It does not take into account energy consumed in the operation of handling equipment (propane, fuel).

Breakdown of direct and indirect energy consumption

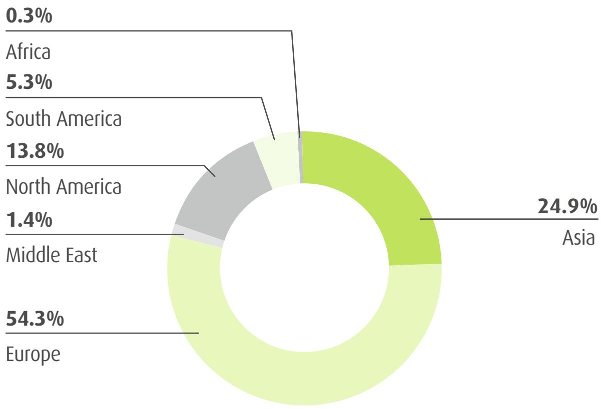


Energy consumption



Energy consumption as a proportion of sales declined by 4% compared with the prior year. However, it rose by 4% in absolute terms, mainly due to the consolidation of the eight Niles sites by the Comfort and Driving Assistance Systems Business Group. The 2012 performance confirmed the trend of recent years and **allowed the target for the 2010-2012 period to be beaten: reduction of 18% compared with 2009, as largely exceeding the target of 10%.**

Regional breakdown of energy consumption in 2012



Energy saved due to conservation and efficiency improvements GRI EN5

The indicator used by Valeo for quantifying savings is the energy intensity ratio (MWh/€m). The calculation of this ratio at constant reporting scope between 2011 and 2012 highlights energy savings: the gain amounted to 45 GWh, in line with the anticipated gain declared in the prior year by the sites (40 GWh).

The good energy performance recorded by the Group in 2012 was obtained thanks to numerous individual initiatives on the sites. The main projects were:

- recovery of energy generated by compression facilities for heating offices and workshops: this is the case, for instance, on the sites in Skawina (Poland), Veszprem (Hungary) and Etaples-sur-Mer and Saint-Florine (France), with Saint-Florine obtaining an Energy Saving Certificate;
- automatic timers for heating and lighting: San Luis Potosi (Mexico), Frosinone-Ferentino (Italy) and Suze-sur-Sarthe (France);
- management of stand-by mode for production equipment: Jedeida (Tunisia), Laval and Sens-Saint-Clément (France);
- searches for leaks in compressed air systems: such action is widely used in all Business Groups, especially during annual production shutdowns.

In total, 78 sites declared that they adopted new energy efficiency measures in 2012. In 2013, the sites aim to achieve overall energy savings amounting to 1% of the Group's total consumption in 2012, or about 24 GWh.

In conjunction with these local initiatives, Valeo ordered **16 energy performance audits** of its French sites from an external provider in 2012, with the aim of identifying potential savings and energy solutions that will ultimately be deployed on all Group sites on the basis of anticipated returns on investment. These audits came on top of substantive work undertaken in 2010 leading to the distribution in late 2011 of **good practices for energy conservation.**

To take its approach to energy efficiency further, Valeo plans to begin in 2013 the deployment of ISO 50001 energy management systems on its sites. The Group aims to have 10% of its sites certified by the end of 2015.

Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives GRI EN6

Initiatives taken by Valeo in this area are described in the section on R&D (see pages 112 and 113).

Land use

The 126 sites in the reporting scope occupy a total area of approximately about 700 hectares, of which approximately 10% are left in their natural state. The rest is used for buildings, traffic areas and gardens.

4.3.6 Fight against climate change

Greenhouse gas emissions

Since 2009, Valeo has made progress in the analysis of its carbon footprint by evaluating the direct and indirect greenhouse gas (GHG) emissions resulting from its activities. For 2012, the following emission sources are included in the review:

- **direct GHG emissions**: combustion emissions from stationary sources on sites, emissions from fuel combustion by Group-owned vehicles, direct emissions from non-energy processes such as the incineration of VOCs, and direct fugitive emissions relating to refrigerant leaks (included in Scope 1 of the international framework);
- **indirect GHG emissions** associated with energy consumption, related to the consumption of electricity, steam, compressed air and other sources (included in Scope 2 of the international framework);
- **other indirect GHG emissions** related to purchases of products used in industrial processes, and the transportation of goods and people (included in Scope 3 of the international framework).

Total direct and indirect greenhouse gas emissions GRI EN16

To contribute to the fight against global warming, Valeo made a significant commitment to reduce by 10% its direct and indirect GHG emissions as a proportion of sales over the 2010-2012 period, based on the 2009 performance.

On a comparable reporting scope in terms of GHG emission types (sum of direct emissions from combustion and indirect emissions from electricity consumption), **the three-year target of a 10% reduction was almost reached in 2012, with an outcome of 54.3 metric t CO_2 eq./€m, 9% below the 2009 level.** This significant reduction stemmed from efforts by the sites to improve their energy efficiency.

The direct and indirect emissions of the Group's sites increased significantly between 2011 and 2012 (17% and 11% respectively in absolute terms), due to a combination of several factors: consolidation of nine more sites than in the 2011 reporting scope, significant increase in activity in some countries and, most important, the inclusion of new GHG emission types in the calculation.

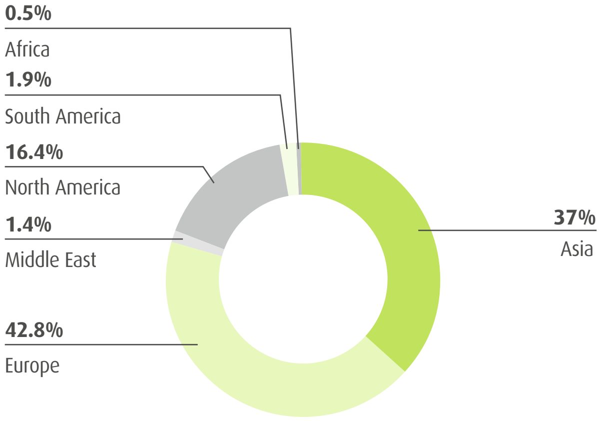
In 2012, Valeo sought to complete the evaluation of its carbon footprint by estimating the magnitude of GHG emissions relating to the leakage of refrigerants, mainly used for air-conditioning systems for buildings and some industrial facilities. Using the methodology for quantifying leakage defined by France's Environment Agency and Energy Management (*Agence de l'environnement et de la maîtrise de l'énergie* – ADEME[1]), these emissions are estimated at approximately 17,400 metric tons of CO_2 equivalent. This estimate may be fine-tuned in future years.

Emission category	Emission source	2009	2010	2011	2012
Direct GHG emissions *(thousands of metric tons CO_2 eq)*	Emissions generated by fuel oil and gas combustion at sites	108.1	129.1	124.5	126.0
	Direct emissions from non-energy processes	NC	NC	2.8	4.6
	Emissions caused by Valeo's vehicle fleet	NC	NC	4.2	5.2
	Fugitive emissions (refrigerant leakage)	NC	NC	NC	17.4
	TOTAL DIRECT EMISSIONS	**108.1**	**129.1**	**131.5**[(1)]	**153.2**
Indirect GHG emissions *(thousands of metric tons CO_2 eq)*	Emissions from electricity consumption[(2)]	336.1	410.5	456.3	505.3
	Emissions from consumption of other energy	NC	NC	1.4	1.1
	TOTAL INDIRECT EMISSIONS	**336.1**	**410.5**	**457.7**	**506.4**

(1) Re-evaluation of the 2011 data for the vehicle fleet and change of methodology for emissions from non-energy processes: the latter stem notably from VOC incinerators and no longer include the emissions of internal wastewater treatment stations.

(2) The calculation takes into account the primary energy source used by each country to generate electricity; the coefficients used for the 2012 data are the latest published by the International Energy Agency, at the end of 2012.

Regional breakdown of greenhouse gas emissions[(2)] in 2012



Other relevant indirect greenhouse gas emissions GRI EN17

Based on the evaluation of the carbon footprint made in previous years, other indirect GHG emissions considered relevant by Valeo are:

- **emissions linked to purchases of materials** entering into industrial processes (steel, aluminum, copper, zinc, plastics, electronic components, chemicals and packaging);
- **emissions from the transportation** of products (logistics).

These two types of emissions accounted for 82% and 4% respectively of the Group's overall footprint in 2011. GHG emissions associated with waste treatment are not considered relevant (less than 1% in 2011), and are no longer reported.

By contrast, Valeo monitors **emissions from passenger transportation**, even though they account for only a small proportion of the overall footprint. Emissions relating to business air travel by Group employees working at the headquarters and the headquarters of the various Business Groups were taken into account for the first time in 2012 in order to improve reporting.

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(1) See Sustainable Development Glossary, section 4.6.3, page 182.

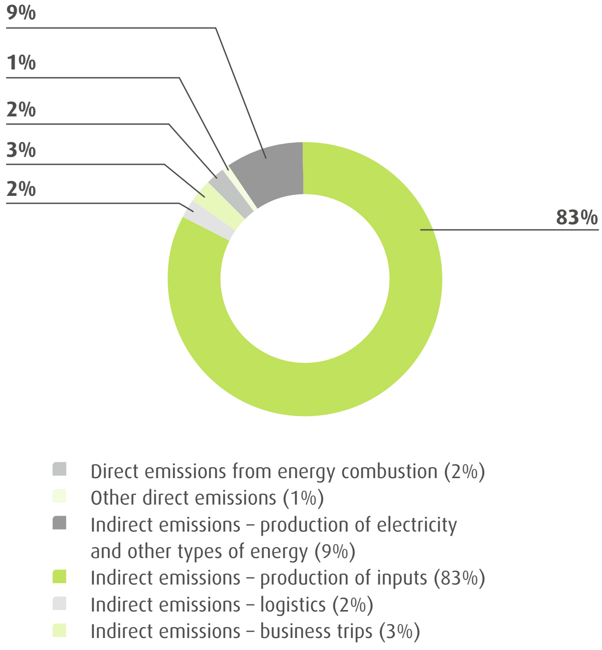
(2) The chart shows direct emissions related to gas and fuel oil combustion at sites and indirect emissions related to electricity consumption.

Emission category	Emission source	2009	2010	2011	2012
Other relevant indirect GHG emissions *(thousands of metric tons CO_2 eq.)*	Emissions generated by the production of the main materials used in industrial processes	2,782.9	3,643.2	4,198.2	4,468.0
	Materials (metals)	1,887.0	2,470.1	2,817.0	2,906.3
	Materials (other)	895.9	1,173.1	1,381.2	1,561.7
	Emissions generated by logistics	120.8	142.3	207.1	134.3
	Road/rail/sea transportation	87.0	92.8	117.4	102.0
	Air/express transportation	33.8	49.5	89.7	32.3
	Emissions generated by employee travel	146.2	101.9	110.4	136.0
	Work commute	89.8	68.7	77.9	86.0
	Business trips	56.4	33.2	32.5	50.0
	TOTAL OTHER INDIRECT EMISSIONS (1)	**3,049.9**	**3,887.4**	**4,515.7**	**4,738.3**

(1) *Total emissions presented in the table differ from previous years because the calculation published in respect of 2012 only takes into account those emissions that were considered relevant ("GRI EN17" indicator).*

The Group's overall carbon footprint totaled approximately 5.4 million metric tons of CO_2 equivalent in 2012. As a proportion of sales, it was stable compared with previous years.

Breakdown in 2012 of main GHG emissions



The chart shows the preponderant contribution of materials used in industrial processes to the Group's overall carbon footprint (83%, of which two-thirds for metals), whereas direct emissions represent only 3%.

Initiatives to reduce greenhouse gas emissions and reductions achieved GRI EN18

The Group is stepping up its initiatives to reduce its carbon footprint, both at site level, in logistics and upstream in the product design phase. Initiatives include:

- projects undertaken at sites to improve their energy performance (see GRI EN5);
- the optimization of the transportation of finished products (see GRI EN29);
- local initiatives implemented by plants for the transportation of employees, such as the purchase of low-carbon vehicles (Humpolec, Czech Republic), engine maintenance of employee vehicles (San Luis Potosi, Mexico), carpooling (Seymour, United States) and the use of the public transportation (Créteil, France).

Moreover, plants are generally built close to customers, thereby minimizing emissions from the transportation of finished products.

Carbon efficiency of infrastructure and logistics

Significant environmental impacts of transporting products and other goods and materials used for the Group's operations and transporting members of its workforce[1] GRI EN29

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. The main environmental impacts of these logistics flows stem from the consumption of packaging materials and emissions of greenhouse gases attributable to the use of non-renewable fuels.

Valeo continued its efforts to rein in these impacts in 2012, working on the following three areas:

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

The optimization of truck routes and load factors by several suppliers and/or on several sites within a region continued in 2012. Thus, despite the growth in activity resulting in increased volumes and, in turn, supplies, **flow optimization implemented by Valeo helped support this growth without increasing transportation volumes.**

Valeo also continued to work on the optimization of the energy consumed in storage areas, as well as on reducing the number of external stores. Standardization work on internal storage areas also permitted better control of space and management of storage areas.

In packaging, 2012 saw Valeo continue the innovative approach that has made it a pioneer in its sector. Work to standardize packaging was undertaken by the **Logistics Committee of GALIA** (*Groupement pour l'amélioration des liaisons dans l'industrie automobile*), a group tasked with promoting information and product exchanges in the automotive industry, which since 2011 has been chaired by the head of development and continuous improvement of supply chain management at Valeo. This work focused on the optimization of containers used for the transportation of products to boost truck and container load factors, thereby **reducing greenhouse gas emissions**. A new model of pallet roller was also tested for trucks, allowing better loading in several layers, maximizing the available space. The ensuing "GALIA" standard is pending approval by the Logistics Committee.

In 2012 Valeo initiated a process that helped finalize the creation of a joint document for the Finance, Logistics and Purchasing Departments: Group Orientations for Transportation, Warehousing, Packaging of Material Procurement Flows. This document, approved by department heads, lays down Valeo's requirements in terms of the organization of transportation, the positioning of external storage facilities owned by suppliers and in terms of packaging to facilitate just-in-time delivery. This formalization of Valeo's requirements is a strong signal of its commitment to optimizing logistics costs, but also to reducing its greenhouse gas emissions.

The various measures concerning the three priorities in logistics management policy delivered a 9% reduction in the Group's transportation-related expenditure in 2012.

Adaptation to the consequences of climate change

Valeo operates in areas that in recent years have experienced exceptional natural events, particularly Asia and America. Although the Group's sites have not suffered major damage in these areas, the RIE department has imposed the deployment of preventive measures, such as work to make roofs able to withstand hurricanes, flood protection and the elevation of land before building.

Systematic analysis of natural hazards is performed before any acquisitions of new land or new sites. This issue is followed closely by insurers, who are tightening their standards for buildings.

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(1) Information relating to the transportation of personnel is presented in the GRI EN17 and EN18 indicators.

4.3.7 Protection of biodiversity

Location and size of land owned, leased or managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas GRI EN11

Almost all of the land used by Valeo, i.e., 87% of its operating plants, is located in urban areas or areas zoned for industrial use. In addition, its activities are not liable to significantly alter ecological processes (no extraction or spraying, for instance).

To understand its potential impacts more precisely, the Group conducts an annual inventory of sites located in or near (within 10 km) protected areas in respect of biodiversity. Twenty sites were accordingly identified in 2012, of which five in Brazil and nine in France. They include plants located in the vicinity of Natura 2000(1) areas or natural areas of ecological, flora and fauna interest (ZNIEFF(1)). The relevant sites take care to adhere to the requirements related to these constraints. For example, the Itatiba site (Brazil) is located along the Atibaia River, a preserved environmental zone. In conjunction with the competent Brazilian administration, Valeo has agreed to demolish buildings located within 50 meters of the river.

Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas GRI EN12

The precise identification of significant direct impacts on biodiversity is conducted across sites through their environmental analysis: this step is crucial in the implementation of an ISO 14001 certified environmental management system.

Strategies, current actions and future plans for managing impacts on biodiversity GRI EN14

The **Biodiversity Directive** drafted in late 2011 was distributed to all sites in 2012. It lays down guidelines to regulate practices in terms of biodiversity conservation during the phases of selection, construction, operation and closure of plants.

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(1) See Sustainable Development Glossary, section 4.6.3, page 182.

4.4 Valeo's labor-related indicators

4.4.1 Introduction

Valeo's Human Resources strategy is a critical part of its international development drive and of its search to acquire and/or enhance essential skills, particularly in terms of innovation.

The Human Resources strategy is both global and local, adapted to the specific cultural and economic conditions in the different countries where the Group does business. This enables it to deal with a broad range of situations, such as:

- competing for high performers in certain professions, not only in fast-developing countries but also in many other countries;
- maintaining workforce flexibility as part of a job and skills planning approach.

The priorities of the Human Resources Department are to:

- maximize employee safety;
- promote diversity across the Board (gender, disability, generational, cultural);
- continue putting in place the "Well-being at work" program;
- boost skills in order to keep pace with technological changes and the Group's international development, and improve staff employability;
- adhere strictly to the Valeo Code of Ethics and compliance obligations promoting respect for others, and act in accordance with anti-trust and anti-corruption laws.

These fundamental issues are also taken up in Valeo's corporate social responsibility policy. This policy was strengthened by the Corporate Social Responsibility (CSR) agreement signed on July 10, 2012 between Group management and the Committee members of its European Works Council. The purpose of this agreement is to ensure that an appropriate labor framework is in place to accompany the Group's international expansion, in line with its principles of responsibility, Code of Ethics and sustainable development policy. The agreement also seeks to promote labor and environmental practices which go beyond legal and regulatory obligations, by:

- giving due consideration to people's health and safety issues when thinking about new capital investments;
- making one-to-one employee meetings a common practice in order to encourage skills development and adaptation;
- in the event of changes in the economic and industrial environment impacting its workforce, anticipating how employees will be impacted by strategic decisions taken, through informative meetings with employee representative bodies, and ensuring that adequate assistance is provided to those affected, in line with the best industry practices in the local market concerned.

The employment indicators presented below are based on the requirements and recommendations set out in Articles L.225-102-1 and R.225-105-1 of the French Commercial Code (*Code du Commerce*) resulting from the "Grenelle 2" decree of April 24, 2012. The Group has opted to take into account the entire worldwide scope of consolidation, except for the following joint ventures (where only the workforce are included): Minda Valeo Security Systems Private Limited in India, Nitto Manufacturing Co. Ltd in Japan, Niles CTE Electronic Co. Ltd in Taiwan, Fuzhou Niles Electronics Co. Ltd and Huada Automotive Air Conditionner (Hunan) Co. Ltd in China.

4.4.2 Headcount in line with the Group's international development

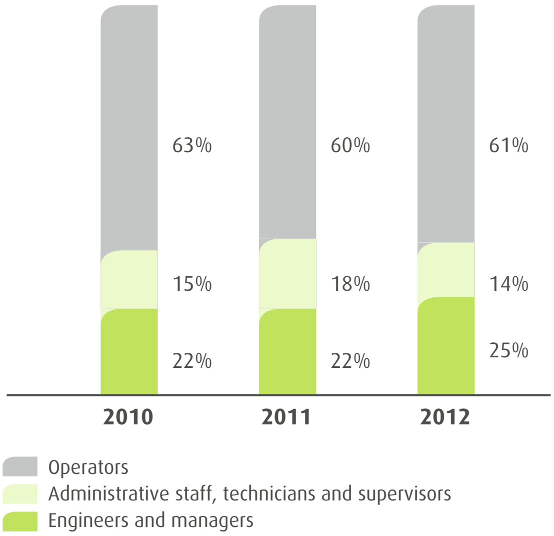
Total headcount and breakdown of employees by gender, age and geographic area GRI LA1

Change in headcount over three years

	2010	2011	2012	Change 2011-2012
Engineers and managers	11,375	13,611	15,929	17%
Administrative staff, technicians and supervisors	7,637	10,910	9,333	-14%
Operators	31,767	35,268	39,748	13%
REGISTERED HEADCOUNT	**50,779**	**59,789**	**65,010**	**9%**
Temporary staff (full-time equivalent at December 31)	7,151	8,211	7,590	-8%
TOTAL HEADCOUNT	**57,930**	**68,000**	**72,600**	**7%**
of which:				
Permanent staff	47,146	54,897	60,708	11%
Non-permanent staff *(fixed-term and temporary)*	10,784	13,111	11,892	-9%

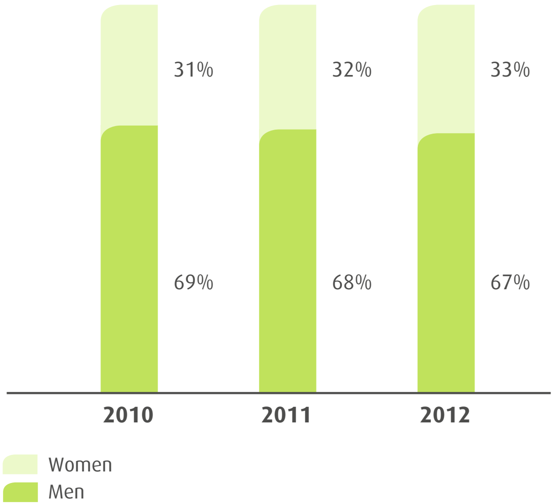
At December 31, 2012, the Group employed 72,600 people worldwide, an increase of 7% compared with 2011. This increase chiefly reflects an increase in engineers and managers (up 17%) and operators (up 13%), partly offset by the fall in administrative staff, technicians and supervisors (down 14%).

Breakdown of registered headcount by socio-professional category



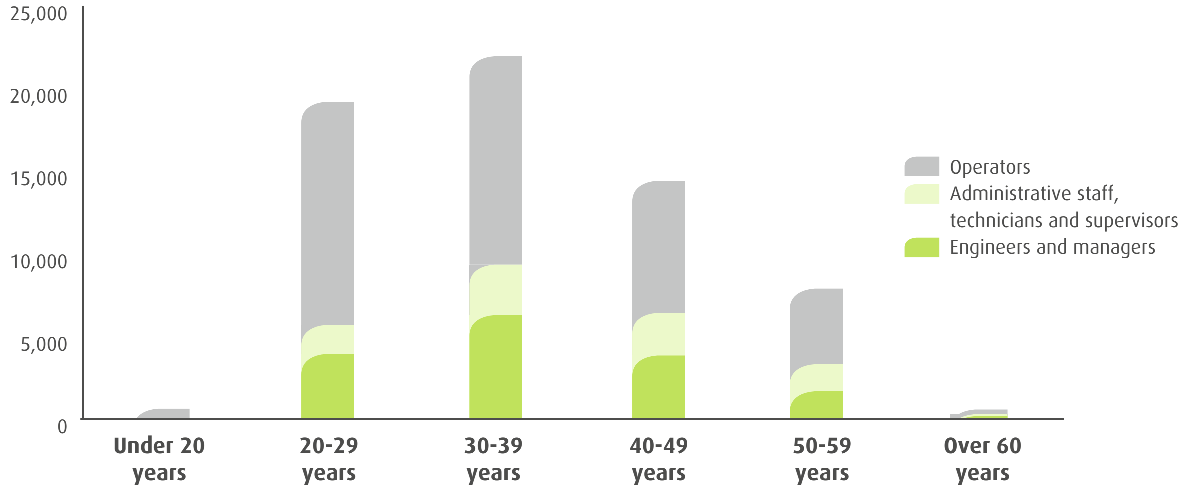
The growth in the number of engineers and managers reflects the Group's massive investment in innovation, chiefly in Europe and Asia, as well as vigorous expansion in fast-growing markets such as Eastern Europe, North America and Asia, in line with the Group's strategy.

Breakdown of registered headcount by gender



For the first time, women represent one-third of the Group's employees. Group management has set up a special committee to promote diversity and increase the proportion of women in the workforce. However, these aggregate ratios vary widely from one region to the next (see section 4.4.6, page 157).

Registered headcount by age bracket



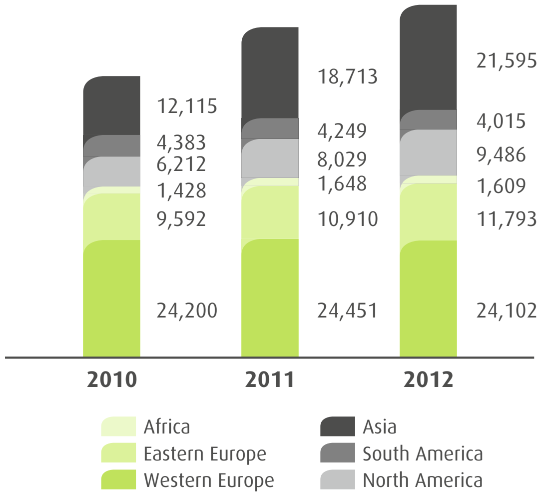
At December 31, 2012, the Group's registered headcount by age is as follows:

- 0.9% aged under 20;
- 29.7% aged between 20 and 29;
- 34% aged between 30 and 39;
- 22.3% aged between 40 and 49;
- 12.2% aged between 50 and 59;
- 0.9% aged 60 or over.

In all, 39.6% of engineers and managers are in the 30-39 age bracket, compared with just 33.3% of administrative staff, technicians and supervisors, and 31.9% of operators. In all, 34.1% of operators are in the 20-29 age bracket.

Given the large number of young people among the employees hired each year, generational turnover remains significant, as staff numbers are reinforced in fast-growing regions.

Breakdown of total headcount by geographic area



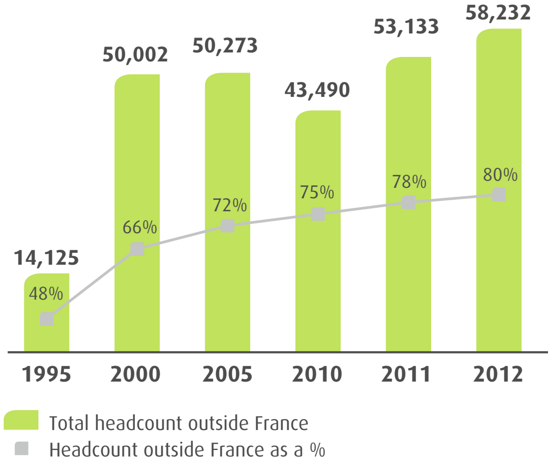
In 2012, headcount fell 5.5% in South America, 1.43% in Western Europe, and 2.4% in Africa compared to 2011. In contrast, headcount rose 18.1% in North America, 8.1% in Eastern Europe, and 15.4% in Asia. The 15.4% increase in staff numbers in Asia is a consequence of the Group's strategy, in which expansion in Asia is a priority.

New hires and employee turnover GRI LA2 GRI LA9 GRI EC7

Valeo's policy of international expansion led to a 7% rise in the number of employees worldwide. Today, 80% of employees are based in a country other than France, compared with 66% in 2000.

Growth in employee numbers was particularly pronounced in Asia, with headcount up 15.4%. However, the manufacturing industry and the automotive sector in particular were once again hard hit by the economic crisis, resulting in selective workforce adjustments as part of a job and skills planning approach.

Headcount outside France



Valeo's success hinges on being able to attract top international performers, particularly in fast-growing markets and in emerging countries, and developing CO_2 emissions reduction technologies. 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.

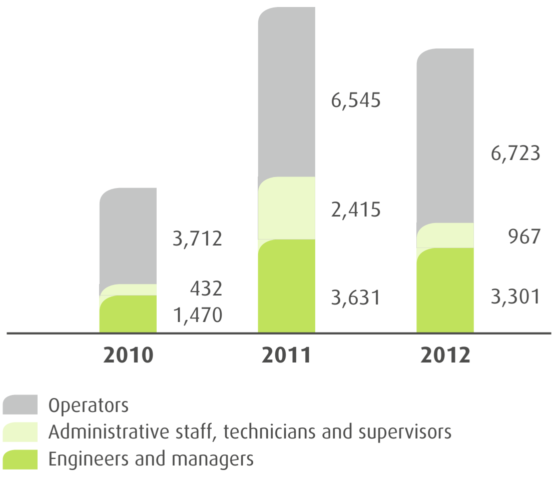
To ensure that recruitment, both internal and external, is managed coherently and professionally, all managers are trained using a recruitment kit. This kit brings together in a single document all existing tools such as the Employer Brand, fully revised in 2008 with a new visual identity, the Internal 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. 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 transversal 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 were given recruitment training in 2012.

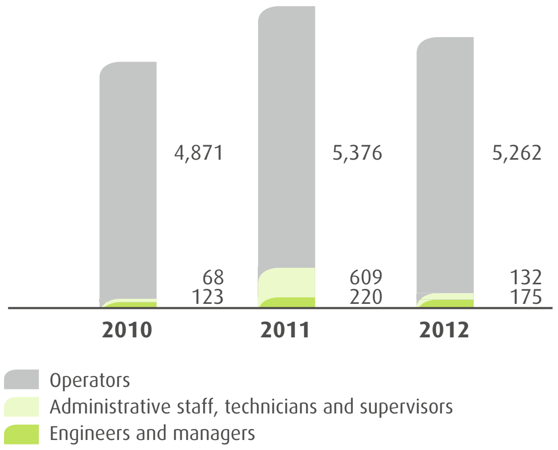
In order to ensure the efficient management of external applicants, the Group has also improved the functionalities of its website with a new "Candidates" section and has completely revisited its corporate identity guidelines for press and web communication in order to improve the visibility of its brand on employment markets. In 2012, Valeo hired 16,559 people worldwide, of which 10,991 were hired on permanent contracts, including more than 3,301 engineers and managers.

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.

Number of new hires on permanent contracts



Number of new hires on fixed-term contracts



The number of employees hired on permanent contracts fell by 13% to 10,991 in 2012 from 12,591 in 2011.

A total of 5,569 employees were hired on fixed-term contracts in 2012, representing a fall of 10% compared to 2011.

Breakdown of new hires by geographic area

	Permanent contracts				Fixed-term contracts			
	2010	2011	2012	Change 2011-2012	2010	2011	2012	Change 2011-2012
Western Europe	537	1,452	1,408	-3%	2,160	2,255	2,031	-10%
Eastern Europe	688	1,686	1,437	-15%	650	780	942	21%
Africa	140	227	268	18%	58	381	402	6%
North America	1,151	1,338	2,559	91%	1,286	1,904	1,331	-30%
South America	1,087	946	573	-39%	35	39	41	5%
Asia	2,010	6,942	4,746	-32%	873	846	822	-3%
TOTAL	**5,613**	**12,591**	**10,991**	**-13%**	**5,062**	**6,205**	**5,569**	**-10%**

While the growth in the number of new hires appeared to slow in 2012 versus 2011, this is actually due to the acquisition of Niles (now Valeo Niles), whose workforce comprising almost 4,000 employees were added to 2011 figures. Stripping out this impact, new hires on permanent contracts rose from 5,600 in 2010 to 8,600 in 2011 and around 11,000 in 2012, reflecting a significant increase in new hires.

This explanation concerns figures for Asia in particular, which is where most Valeo Niles' employees are based. Stripping out this impact, new hires on permanent contracts in Asia increased from around 2,000 in 2010 to 2,950 in 2011 and 4,750 in 2012. The pick-up in the pace of new hires is therefore in line with the Group's strategy of expansion in Asia.

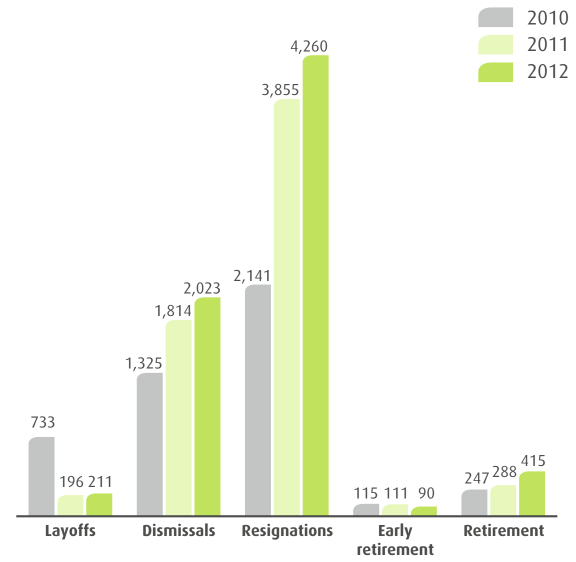
Other changes respond to trends in the automotive market across different regions, with new hires slowing in Europe (excluding for research centers in Western Europe), on the rise in Africa, up sharply in North America and down significantly in South America, due to the sluggish order intake in previous years.

The Group's hiring policy favors permanent contracts over fixed-term contracts, and for every one new hire on a fixed-term basis, two employees are hired on a permanent contract. However, this ratio is higher in regions with strong structural growth (Asia, Eastern Europe or America) as opposed to regions with a more stable headcount or regions affected by the prevailing economic climate (e.g., Western Europe).

Breakdown of departures by geographic area

	Western Europe	Eastern Europe	Africa	North America	South America	Asia
Layoffs	35	11	0	58	89	7
	17.5%	5.5%	0%	29%	44.5%	3.5%
Dismissals	202	239	7	428	585	573
	9.9%	11.8%	0.3%	21%	28.8%	28.2%
Resignations	484	533	68	672	195	2,308
	11.4%	12.5%	1.6%	15.8%	4.6%	54.2%
Early retirement	88	0	0	0	0	2
	97.8%	0.0%	0.0%	0.0%	0.0%	2.2%
Retirement	160	75	2	74	3	101
	38.6%	18.1%	0.5%	17.8%	0.7%	24.3%

Breakdown of departures by category



Valeo terminated 2,234 contracts in 2012, corresponding to 3.7% of permanent employees (compared with 3.7% in 2011 and 4.4% in 2010).

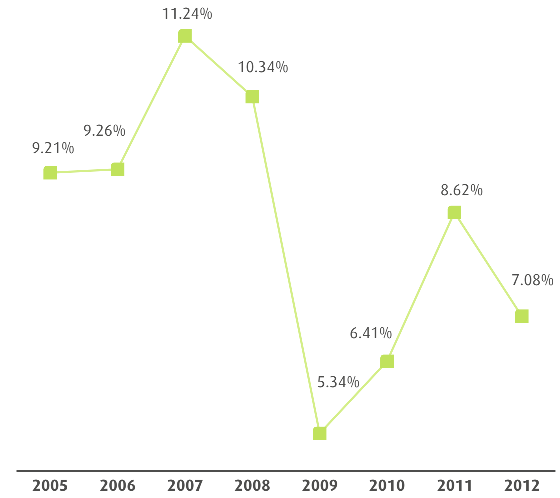
Layoffs accounted for 9.4% of the total compared with 9.8% in 2011 and 35.6% in 2010.

Contract terminations and particularly layoffs remain fairly low. Other contract terminations were for personal reasons, some of which on disciplinary grounds. Depending on local laws and regulations, terminations can occur for professional incompetence or a job/skills mismatch.

Valeo is firmly committed to strategic workforce planning. In the event of economic difficulties, it implements measures to delay and, wherever possible, avoid terminations such as granting leave or vacations, cutting overtime, reducing the number of temporary staff and subcontractors, and putting employees on short-time working arrangements. When there is a clear need to optimize industrial performance, Valeo undertakes restructuring operations. In this case, the Group liaises regularly 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.

Early retirements and statutory retirements represented 0.8% of permanent employees versus 0.7% in 2011 and 0.8% in 2010.

Turnover of engineers and managers



Resignations, which were again one of the main reasons for departure, represented 7% of the permanent headcount in 2012 (7% in 2011 and 4.5% in 2010). By occupational category, resignations represented 7.2% of permanent engineers and managers, 3.4% of permanent administrative staff, technicians and supervisors, and 7% of permanent operators.

Headcount turnover at Valeo represents the number of voluntary departures of engineers and managers expressed as a percentage of the total number of engineers and managers on the payroll (retirements and contract terminations are not taken into account).

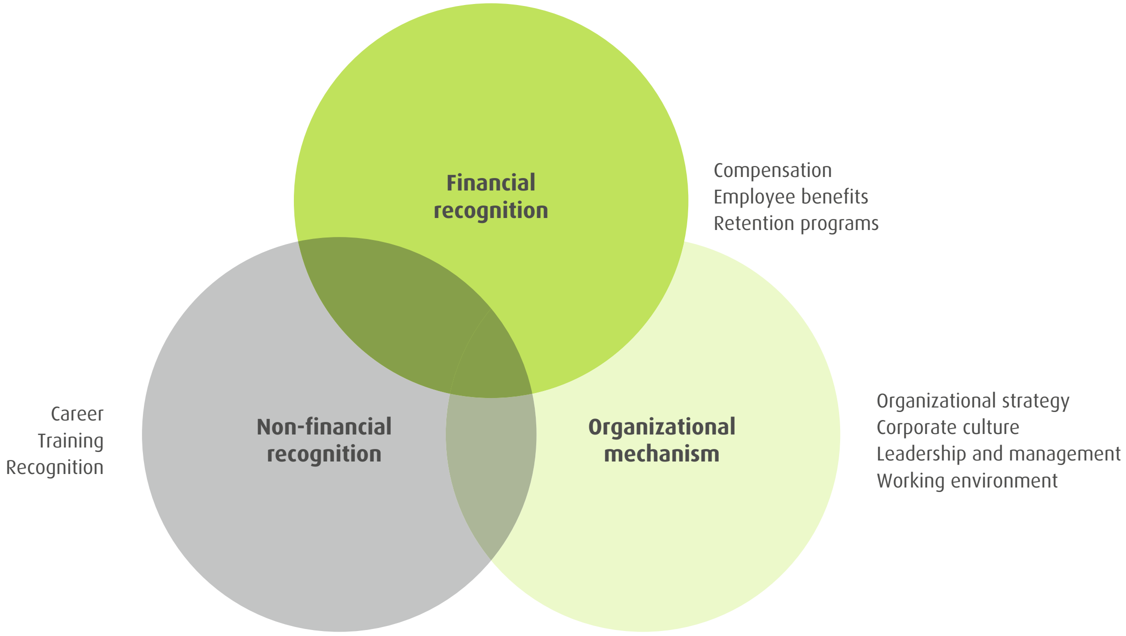
Engineer and manager turnover is analyzed in detail every month, by Business Group, network, function, age, country, gender, level in the organization and seniority.

The aim of this analysis is to identify the reasons for departures and put in place measures to address them.

In 2012, the turnover of engineers and managers in the Group was 7.08% compared to 9.21% in 2005, representing an overall decrease of 23%. This is despite turnover having increased sharply in 2007 and then fallen sharply in 2009. These trends reflect a more stable organization, a downbeat economic climate in certain countries, and the voluntary initiatives taken in response. Turnover was lowest in Spain (1.95%), Japan (2.66%) and Korea (3.73%).

Turnover is higher in emerging countries such as China, where it stood at 9.8%. However, Valeo’s turnover in China is five points below the national average, thanks to a global talent retention policy, which has yielded results over the past few years.

This strategy is based on three key concepts:



Forging loyalty among engineers and managers and being able to retain them is essential.

In order to boost loyalty and reduce turnover on a long-term basis, Valeo decided that career plans would be discussed during mid-year reviews held for engineers and managers.

Organization of work according to Group needs

Working week of full-time employees

The working time of employees at the Group's 125 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 the laws and regulations in each country.

The most common 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 working time as follows:

- 215 days annually for engineers and managers (fixed daily basis);
- 35 hours per week for administrative staff, technicians and supervisors (excluding employees with a fixed working time of 37.5 hours);
- 35 hours per week for operators.

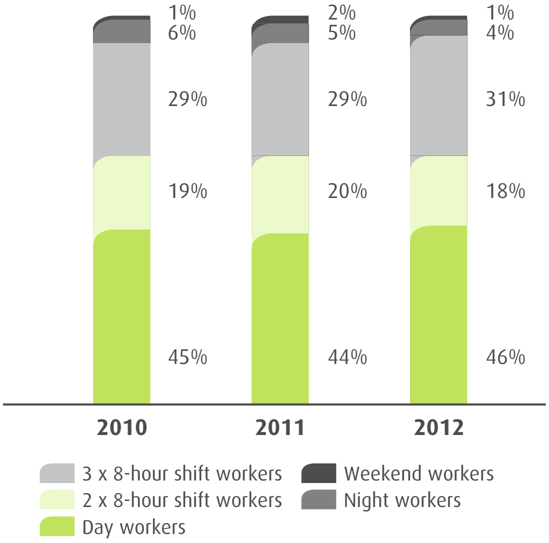
Working week of part-time employees

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 the country and occupational category.

A total of 1,070 employees were working part-time in the Group in 2012, or 1.6% of the registered headcount (versus 1.9% in 2011 and 2.1% in 2010).

Women represent 68% of part-time employees (72% in 2011 and 74.5% in 2010). By category, part-time employees break down as engineers and managers (11%), administrative staff, technicians and supervisors (13%), and operators (76%).

Breakdown of registered headcount by working hours (%)



Valeo adapts working time so as to optimize plant utilization. Certain machinery is operated round-the-clock, thereby requiring three different shifts: a morning shift, an afternoon shift and a night shift, as part of 3 x 8-hour shift arrangements. In some plants, employees working nights may be part of a fixed shift, which mean that they work nights on a regular basis. These are known as the permanent night shift teams. When there are no night shifts, work is organized into 2 x 8-hour shifts. Certain employees, including production staff, may work standard working hours during the day. This applies in particular to staff with certain impairments or disabilities.

In 2012, 54% of the registered headcount worked on the basis of shifts.

Structural staff work during the day, with working time depending on local laws and regulations. To ensure a good work-life balance, Valeo has rolled out certain initiatives (depending on the entity in question) such as flexi-time arrangements, bans on late meetings, company concierge services and reservation of nursery places.

Paid overtime hours

Paid overtime corresponded to 9.8% of total possible working hours (i.e., the number of basic hours that could be worked by all Group employees).

In 2012, Valeo saw a 60% increase in overtime compared with 2011, reflecting excess activity at certain plants.

It should be noted that following the acquisition of Niles in 2011, Valeo only included Niles' headcount and new hires in this document, whereas in 2012, all Niles' indicators are included in the report, including overtime (2,300,000 hours).

4.4.3 Health and safety among the Group's top priorities

Description of health and safety at Valeo

In the field of safety and working conditions, Valeo's goal is "zero accidents".

Valeo has implemented systematic audits performed by external consultants so that risks can be better assessed and managed and quality standards improved. The aim is for all sites to obtain ISO 14001 and OHSAS 18001 certification. In 2010, a new self-evaluation tool was developed by Valeo to allow each HSE manager to perform a self-assessment audit against benchmarks based on Group HSE 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 2012, in keeping with its policy of continuous improvement, Valeo continued to roll out tools for analyzing each occupational accident or incident (Quick Response Quality Control – Safety QRQC). This tool was introduced in 2007 and have been optimized each year since then thanks to management input. This has resulted in a significant decline in the accident rate.

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.

The large majority of these policies were included in the European Works Council agreement on Corporate Social Responsibility.

Health and safety topics covered in formal agreements with trade unions GRI LA9

Valeo signed a Corporate Social Responsibility (CSR) agreement in 2012. Chapter 3 of this agreement dealing with social, corporate citizenship and environmental practices includes several articles discussing health and safety at work.

For the first time, shared commitments were enshrined in a European agreement and will be gradually extended to all of the Group's companies outside Europe. At December 31, 2012, the agreement was applicable to 84% of Group entities worldwide. Despite it covering a wide range of issues, this arrangement was recognized as a single "CSR agreement".

The main tenets of this agreement are as follows:

- investments shall not jeopardize the health or safety of employees;
- working conditions shall be put in place to protect the health, safety, and physical and mental integrity of employees. Employee well-being shall be a constant focus for improvement;
- training programs shall be developed in all Group entities to raise each employee's awareness of the importance of wearing appropriate protective gear and behaving in a manner that does not endanger his/her colleagues;
- risk prevention initiatives shall be rolled out as part of a continuing improvement initiative aimed at eliminating accidents and occupational illnesses and improving the management of risks with delayed consequences (chemical risks, musculoskeletal diseases, psychosocial disorders, etc.);
- discussions with trade unions and similar bodies about individual health and safety shall be encouraged;
- employees shall be reminded that no bullying or moral or sexual harassment will be tolerated;
- appropriate indicators shall be set up and reported on to employee representatives.

In addition to the European agreement, 24 more specific health and safety agreements were signed by companies in ten different countries, including two in Germany, two in Brazil, two in Spain, six in France, one in Hungary, one in Italy, five in Mexico, three in the Czech Republic, one in Romania and one in Thailand (see the table of agreements by country in section 4.4.4, "Collective bargaining agreements", on page 151).

Frequency and severity of occupational accidents and occupational illnesses GRI LA7

Besides systematically implemented internal and external audits, Valeo uses three indicators to gauge the efficiency of its measures:

- Frequency rate 2 (FR2): number of accidents with or without lost time per million hours worked;
- Frequency rate 1 (FR1): number of accidents with lost time per million hours worked;
- Severity rate (SR1): number of days lost owing to an occupational accident per thousand hours worked.

The calculation of this indicator includes all Valeo employees whatever their type of employment contract, including fixed-term employees, trainees, temporary employees, contractors and VIEs (international corporate volunteers).

The number of days lost is calculated based on calendar days.

Only actual working hours are taken into account in the number of hours worked. Accordingly, paid vacation and paid or unpaid absences of any kind are not included.

In calculating the severity rate, the number of lost time days for temporary staff is capped based on the term of their employment contract.

These three indicators show the Group's improved safety performance since 2007, owing largely to management's commitment to this issue.

Valeo formally analyzes every incident/accident (Safety QRQC) in order to better organize risk prevention and put in place appropriate protective measures for its employees.

In all, 15% of training hours organized within Valeo in 2012 were dedicated to safety. In 2012, 65% of employees attended at least one training session on safety (58.6% in 2011).

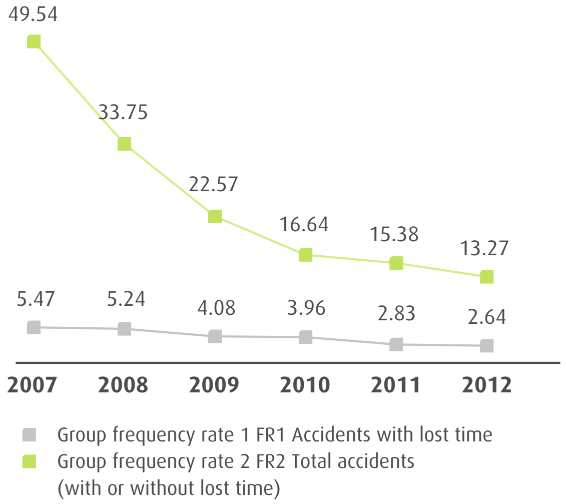
The main causes of lost-time accidents in 2012 were:

- failure to respect ergonomic principles (posture) (23%);
- faulty machinery or equipment, a lack of safety instructions or inadequate safety regulations (16%).

Valeo aims to improve accident risk prevention and detection in three ways:

- identifying "near misses" at all levels of the organization;
- designing safe and secure equipment, machines and workstations (during project development phases);
- constantly improving standards (continuous improvement initiative) and sharing best safety practices across the entire organization.

Group frequency rate (FR1/FR2)



In 2012, the FR2 ratio was 13.27 (compared to 49.54 in 2007), illustrating the ongoing improvement in the Group's safety record, with a drop of 73% in accidents over the past five years (with and without lost time).

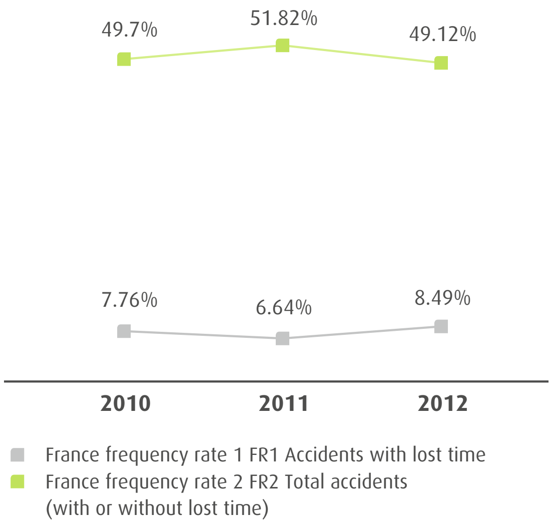
In 2012, the number of lost-time accidents continued to fall, with an FR1 ratio of 2.64 compared to 5.47 in 2007, representing a 52% improvement over the past five years.

Group severity rate (SR1)

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.

Frequency rate in France (FR1/FR2)



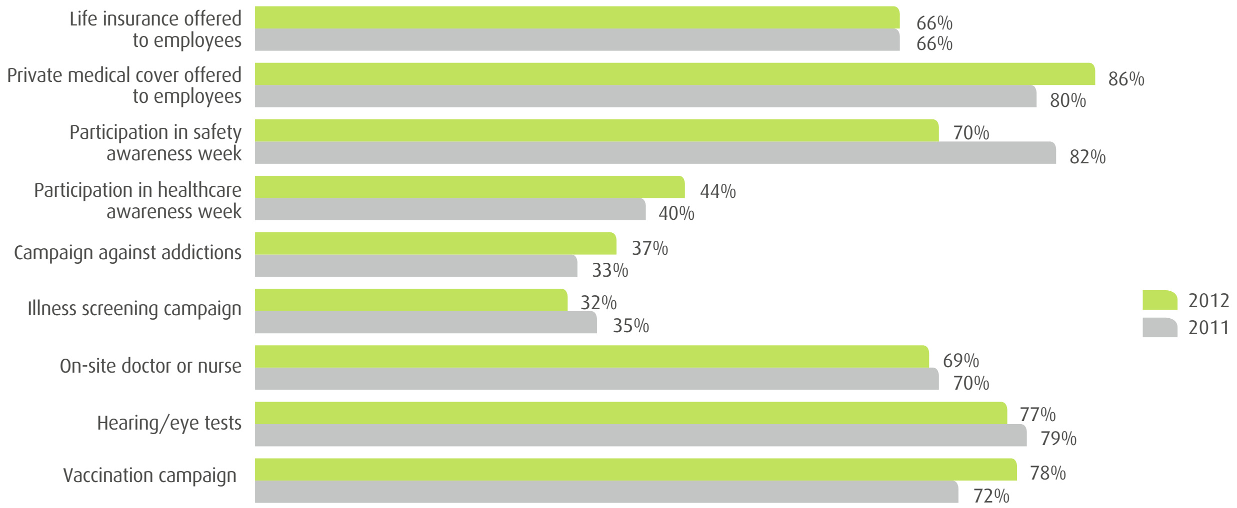
Severity rate in France (SR1)

The number of lost-time accidents expressed as a percentage of the total number of accidents reported is an effective way of measuring the reliability of the information provided by Group sites.

This ratio varies widely from one country to the next, for example from 5% in Thailand and the US to 62% in Germany and 64% in Poland. In view of these differences, the Group will continue to improve communication around on this issue and encourage sites to report all site accidents – even those causing no injuries or lost-time days. In fact, reporting even minor accidents may help avoid more serious ones in the future, thanks to the analysis of the causes of accidents occurred and to the implementation of appropriate action plans.

The Group seeks to raise safety awareness at different levels of its organization. Indicators are presented at Operational Committee and Liaison Committee meetings, as well as at meetings of the Risk Management Committee.

Percentage of sites having implemented health and safety initiatives



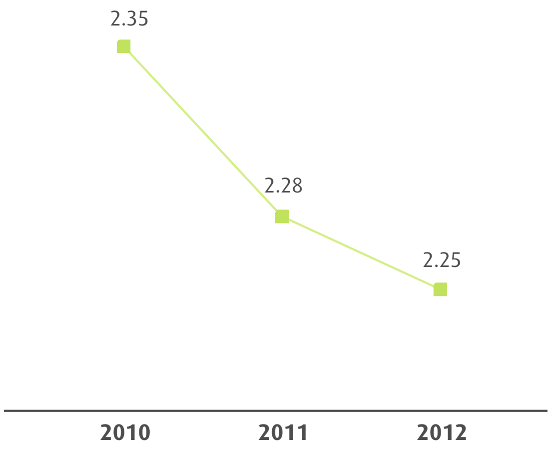
Absenteeism GRI LA7

The absenteeism rate includes absences for illness, unjustified absences, authorized absences (unpaid leave, etc.), absences due to occupational accidents and accidents on the way to work, strikes, layoffs or other reasons. The absenteeism rate has fallen slightly over the past three years, from 2.35% to 2.25%.

However, this relative stability at Group level conceals regional differences; with absenteeism stable between 2011 and 2012 for South America and down in Europe (excluding France) and Africa, but increasing in France, North America and Asia.

Although Valeo has a consistent policy to track absenteeism, the level of social security coverage as well as cultural differences have a strong bearing on national rates.

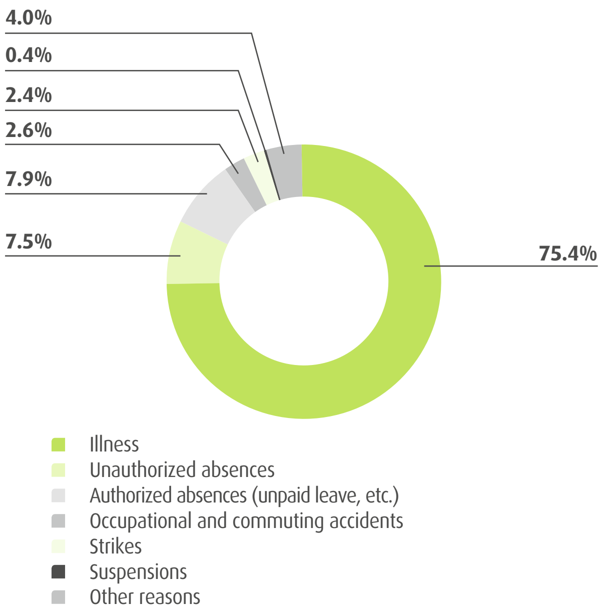
Group absenteeism rate



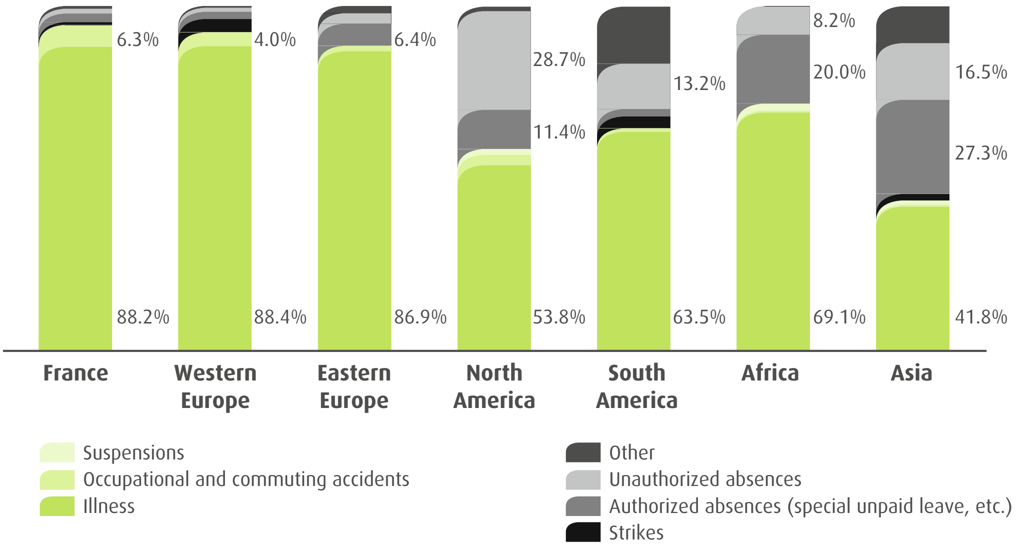
Calculation: actual hours of absence expressed as a percentage of total possible working hours.

Absenteeism rate by geographic area

Breakdown of absences by cause



Breakdown of absences by cause and geographic area



Well-being at work

Timeline of main initiatives

2004	■ Risk analysis framework for occupational accidents certified at all Group sites. ■ Common accident-prevention methodology rolled out as part of Group companies' ongoing improvement initiatives.
2007	■ Formal ergonomic policy set up and integrated into internal site certification.
2008	■ "Play Safe" training module designed, enabling employees to put into practice risk prevention and safety measures both in and outside the workplace.
2009	■ First discussions take place regarding a "Well-being at work" initiative, extending risk prevention and treatment to employees' psychological health.
2010	■ "Well-being at work" agreement signed in France. ■ A list of 63 actions for improving well-being at work circulated to all Group entities. ■ Labor climate survey launched at all French sites. ■ "Well-being at work" committees set up at all French sites to adapt and implement action plans at a local level.
2011	■ Local action plans defined and implemented following findings of the survey. ■ "Well-being at work" film produced and shown to all French sites.
2012	■ "Well-being at work" program rolled out worldwide. ■ "Well-being at work" film subtitled in English.

Update on the worldwide implementation of the "Well-being at work" program

Worldwide implementation of the "Well-being at work" program was launched at the Group Human Resources convention in December 2011.

It culminated in an October 2012 report on the roll-out and assimilation of the program by the different countries concerned, issued at the time of the annual senior management convention.

The process drew on a survey of existing best practices at the Group's different sites and used the "inquiry, analysis, action" methodology that has been tried and tested in the French sites.

The implementation of the program worldwide testifies to a global commitment at the highest level of the organization to encourage local take-up over the long term.

The Group's Executive Committee asked selective managers to oversee communication and implementation efforts worldwide.

Seminars were organized in 11 regions, involving country heads, site managers and HR managers in these regions.

These seminars helped train local managers and raise awareness of the issues and the cultural changes involved. A concrete action plan was prepared for each country and site by working groups.

For example, at the Group's six sites in Brazil, Valeo rolled out 77 concrete measures adapted to specific local conditions in 2012.

The launch of this communication offensive was accompanied by some remarkable local initiatives, adapted to local culture and expectations, and by more sophisticated management tools for employees. Since 2012, these have included (worldwide scope):

- a Group management training module on well-being issues known as "Play Well", along the lines of the previous "Play Safe" training initiative on safety;
- a reminder of existing rules and a review of the Code of Ethics at annual appraisal meetings between employees and their line manager;
- the inclusion of behavioral performance on an equal footing with business performance during annual appraisals;
- specific discussions during annual appraisals designed to gauge employees' feelings about workload and work-life balance;
- a specific channel for reporting any suspicions of harassment, so that they may be treated centrally and a formal objective inquiry carried out before any conclusions are drawn;
- particular emphasis on recognition and reward, including for hard work and progress as well as actual results;
- the first reporting on employee well-being indicators in the monthly review of operational divisions' financial performance.

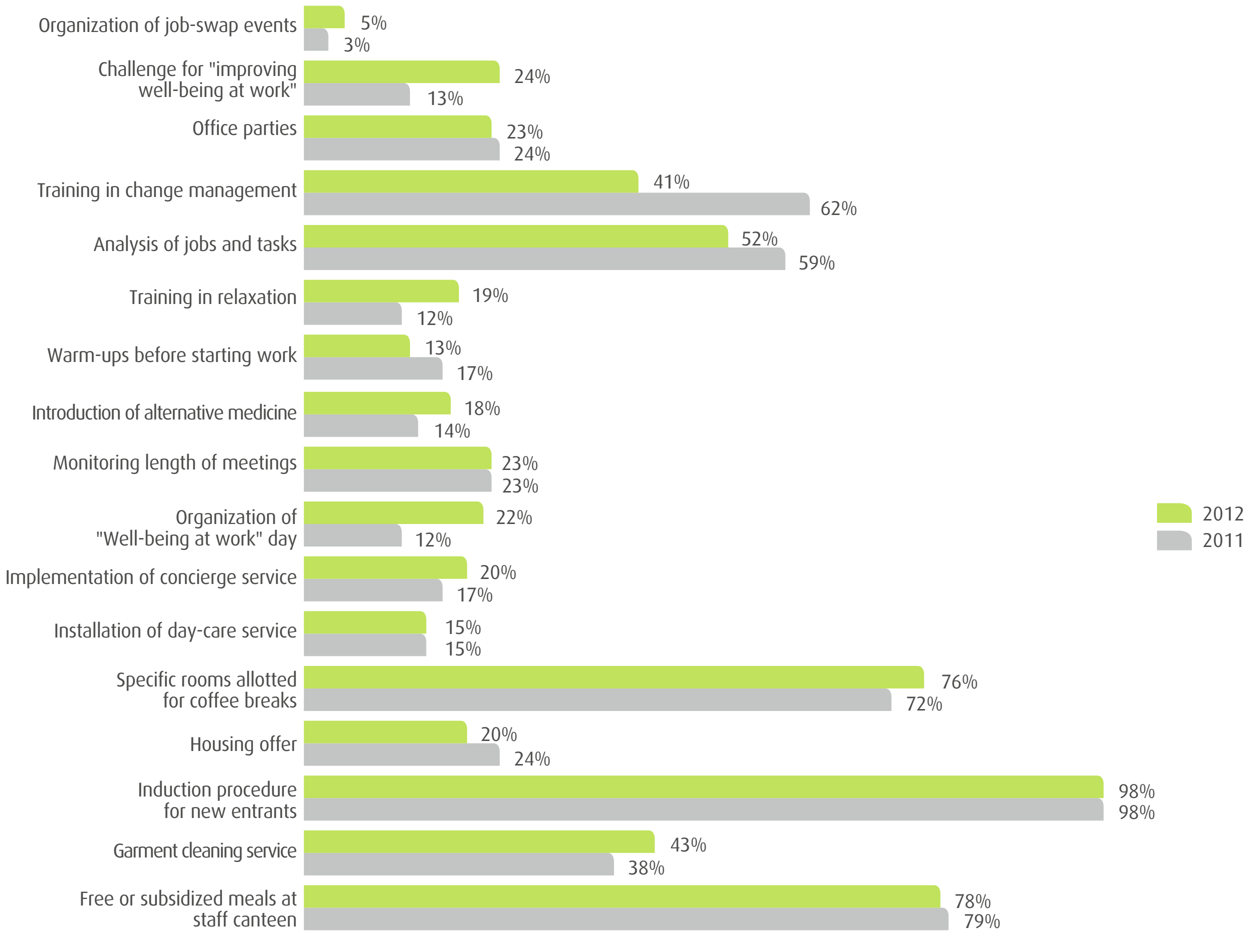
This approach is now embedded in Valeo's management culture.

From now on, initiatives undertaken by each country will therefore be monitored at Group level on the basis of this "Well-being at work" program, the worldwide implementation of which was finalized in 2012.

Valeo is convinced that its "Well-being at work" program:

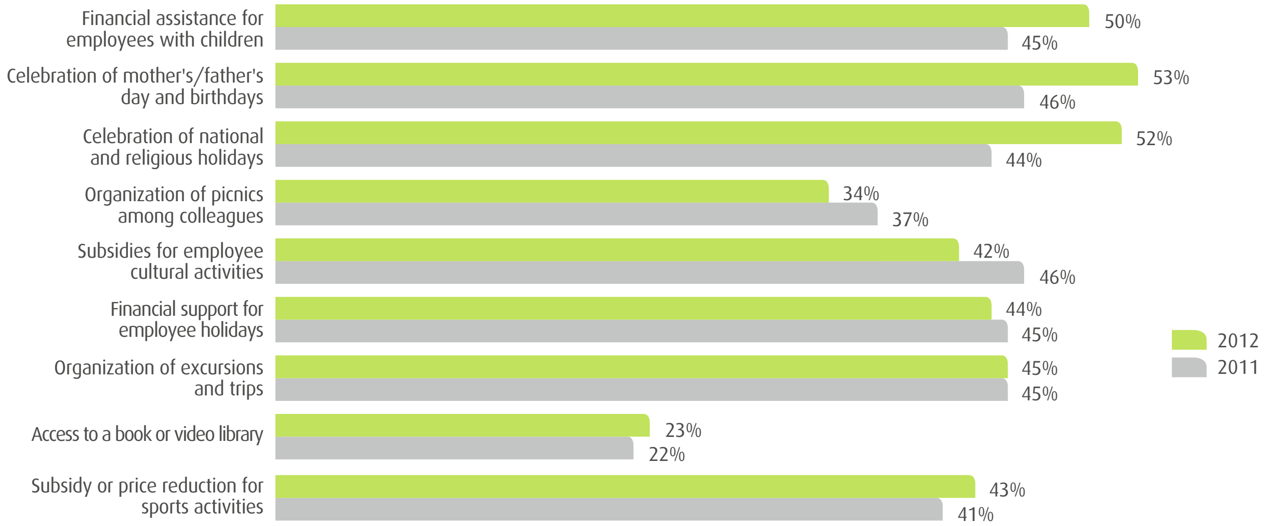
- responds to a concern of its workforce as a whole;
- represents an important investment for the future; and
- currently allows the Group to be exemplary in these issues thanks to strong employee commitment.

Percentage of sites with having implemented "Well-being at work" initiatives

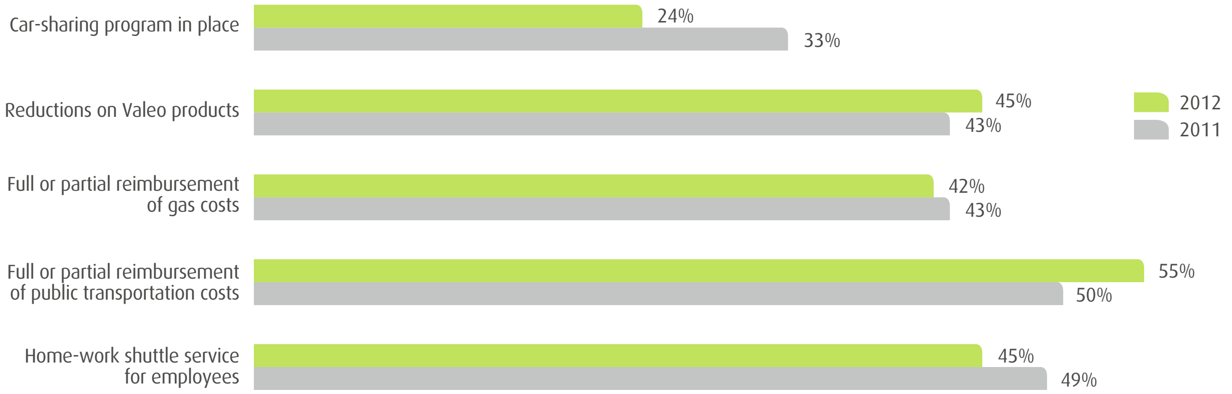


Besides initiatives taken within the scope of the "Well-being at work" program, the Group also encourages its sites to develop leisure, cultural and transport-based initiatives.

Proportion of sites with leisure and cultural initiatives



Proportion of sites with transportation-based initiatives



4.4.4 Labor relations and compliance with the Code of Ethics GRI HR5

Organization of labor relations

Valeo is convinced that sound labor relations are 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, Valeo 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.

Employee representative bodies GRI LA4 GRI SO9 GRI LA9

In 1984, Valeo 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 entity and site levels. They represent the Group's various French entities. 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 dialog between 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 represents 48.3% of the Group's registered headcount, or 31,384 employees.

A new European Works Council agreement (composition, competencies, organization, rights and obligations of members, etc.) was signed by Group management and all members of the Committee in March 2012.

The European Works Council was widely consulted as regards the contents of the CSR agreement, signed with members of the Committee in July 2012.

There is no Global Works Council representing the Group's employees worldwide. Each country sets up specific bodies in line with local laws and regulations.

Valeo does not have to contend with many strikes at its sites, and strikes account for only 2.4% of absences worldwide. In France, the main area of conflict is usually wage negotiations, which take place in the first quarter of each year. In 2012, 10 out of 37 sites in France were affected by strikes, with between 30 minutes to 1.5 hours lost per shift. Other causes of conflict were either local negotiating difficulties or a call for a nationwide strike from one or more trade unions. Attendance at these strikes by Valeo employees in 2012 was fairly low.

Collective bargaining agreements

GRI LA4 GRI LA9

Valeo has an active contractual bargaining policy with trade unions and other such bodies, and 221 agreements were signed in 2012 (compared with 269 in 2010 and 211 in 2011) in 19 countries. These agreements covered a wide variety of issues, in accordance with arrangements under national jurisdictions.

		Type of agreement					
	Number of agreements	**Working hours**	**Wages**	**Profit-sharing/ incentives**	**Bonuses**	**Health and safety**	**Other**
Germany	38	16	6	1	6	2	13
Argentina	2	0	2	0	2	0	0
Benelux	0	0	0	0	0	0	0
Brazil	15	3	8	5	2	2	0
China	2	1	1	0	0	0	0
Korea	7	1	7	1	1	0	0
Spain	14	8	2	0	0	2	5
France	55	15	13	0	2	6	25
Hungary	2	1	1	0	0	1	1
India	2	0	1	0	0	0	2
Italy	13	5	0	0	3	1	7
Japan	9	4	3	0	4	0	1
Mexico	22	16	11	6	6	5	4
Poland	1	0	1	0	0	0	0
Czech Republic	15	6	9	4	7	3	8
Romania	2	2	2	0	2	1	2
Thailand	14	2	5	0	4	1	6
Tunisia	8	4	2	1	1	0	2
Turkey	0	0	0	0	0	0	0
TOTAL	**221**	**84**	**74**	**18**	**40**	**24**	**76**

NB: agreements can cover a single entity, all the entities belonging to a single legal entity, or all French or European entities. An agreement could fall into more than one of the above categories. A total of 316 issues were covered in 221 agreements in 2012 (excluding French and European agreements).

In 2012, collective bargaining agreements focused primarily on wage terms and working time.

In France, the five groupwide negotiations in 2012 concerned the 13 legal entities and their 37 sites. Agreements concerning the integration of those with disabilities and the representation of France within the European Works Council were signed unanimously by all representative trade unions. The amendment interpreting the agreement on incentive plans was signed by three representative trade unions, and that concerning profit-sharing bonuses by two unions. A comparative report on the freedom of association at the Group's entities in France resulted in talks regarding new labor relations oversight arrangements. After a first unsuccessful outcome in 2012, the talks should result in an agreement being signed in the first six months of 2013.

In Europe, two rounds of talks were held with the European Works Council in 2012, covering 44 companies and their 67 sites. These talks concerned the revised European Works Council agreement and corporate social responsibility.

The agreement on corporate social responsibility automatically applies to all Group subsidiaries in Europe and will be gradually extended to all entities outside Europe through the adhesion of the legal sites represented by their Chairman. At December 31, 2012, corporate social responsibility principles as defined in this agreement applied to 84% of Group entities.

The UK, Ireland, US, Netherlands, Slovakia, Russia, South Africa, Egypt and Turkey did not sign the agreement as most do not have employee representative bodies.

Labor relations in 2012 and 2013

	Achievements in 2012	On the agenda for 2013
France	■ Talks regarding the award of a profit-sharing bonus: agreement signed in September 2012 for a gross bonus of €100. ■ Talks leading to a French agreement signed in May 2012 on employees with disabilities. ■ Agreement on the nomination of French employees on the European Works Council, signed in June 2012.	■ Labor relations oversight arrangements set up pursuant to agreement. ■ Talks regarding the generational contract. ■ Ongoing talks on harmonizing healthcare and welfare costs. ■ Talks regarding the profit-sharing bonus.
Europe	■ Following talks, agreement signed in July 2012 on corporate social responsibility. ■ Revision of the agreement setting up the European Works Council, signed in March 2012.	■ CSR agreement monitoring arrangements.
Worldwide	■ Nationwide wage negotiations. ■ Worldwide implementation of the "Well-being at work" program.	■ Roll-out of the Disability policy. ■ Roll-out of the CSR agreement.

Labor relations oversight

Talks on setting up labor relations oversight arrangements continued in 2012 and should culminate in an agreement in the first quarter of 2013. The oversight mechanism would be designed to ensure a regular dialog between management and trade union representatives on the economic and labor issues concerning the Group in France.

Health and welfare protection systems

Talks on harmonizing health and welfare protection systems in France across the Group were launched in the second half of 2012. Participants in these talks have been trained in this complex and technical subject. Negotiations will continue in 2013.

Promoting and respecting the core conventions of the International Labour Organization (ILO)

Valeo's corporate social responsibility policy is part of a universal framework of international commitments designed to guarantee the dignity of individuals and fundamental social rights.

United Nations

- Universal Declaration of Human Rights (UN – 1948).
- Declaration of the Rights of the Child (UN – 1959).
- Declaration on the Elimination of Discrimination against Women (UN – 1967).

Valeo adheres to the terms of the UN Global Compact and reports each year to the United Nations on its progress in the area of corporate social responsibility. This underlines the Group's commitment to the Ten Principles set out in the July 2000 Global Compact, which are taken up in its own Code of Ethics. Valeo also undertakes to promote these principles in its dealings with suppliers.

International Labour Organization (ILO) Core Conventions

The Group respects the ILO's Conventions on basic principles and rights at work:

- Discrimination (employment and occupation) (Conventions 100 and 111);
- Child labor (Conventions 138 and 182);
- Forced labor (Conventions 29 and 105);
- Freedom of association and collective bargaining (Conventions 87 and 98);
- Protection of workers' representatives and union members (Convention 135);
- Equal rights and opportunities for workers with family responsibilities (Convention 156).

The Group also adheres to the OECD's Guiding Principles for multinationals, adopted on June 27, 2000.

Code of Ethics

In 2005, the commitments listed above were enshrined in a Code of Ethics drawn up and distributed by Valeo worldwide. The Code of Ethics is binding on all Group employees and sets out the rules applicable in all of the Group's 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 Code of Ethics covers issues such as child labor, the employment of people with disabilities, discrimination, harassment and health and safety in the workplace. It demonstrates the Group's commitment to sustainable development issues including the environment, human resources, labor relations and freedom of expression, as well as the development of employee potential. It covers corporate citizenship commitments (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 (see section 4.5.2, page 168).

The Group has set up a whistleblowing procedure allowing it to be informed of any unethical behavior. For each incident, an inquiry is opened, driven and coordinated by the Group and the HR network.

The Code of Ethics is an essential element of the Group'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 selected as a best practice by Halde, France's anti-discrimination and equal opportunities body.

A detailed compliance program was introduced under the aegis of the Ethics and Compliance Department, combining on-site training and e-learning. The aim of this program is to give Valeo's employees a precise understanding of the specific rules drawn up by the Company, and help them assimilate and respect those rules.

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

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

Sustainable Development Charter

Valeo's sustainable development policy has been in place for several years, and complies with the principles of the UN's Global Compact signed by the Group in 2004. Covering environmental and social responsibility and corporate citizenship, the sustainable development policy seeks to respond to legitimate human, environmental and economic concerns expressed by the Group's different stakeholders. These include employees, customers, shareholders, suppliers, local communities and public authorities.

4.4.5 Employee profit-sharing and share ownership policy

Compensation

To boost its image as an employer of choice, Valeo is intent on determining "fair" compensation levels in each country where it is based. Valeo's compensation policy must not only respect all applicable laws, regulations and collective bargaining agreements, but also and more importantly, enhance its appeal as a leading employer in each of its businesses. The economic climate in each country and even at each site, is a major consideration in attempting to protect the competitive edge of Group entities, irrespective of their location.

Compensation policies are defined based on a broad range of reliable sources such as government forecasts, Valeo's financial services, National Directorates or national HR Directors, the OECD and specialist compensation consulting firms. Valeo favors individually tailored compensation packages to develop motivation through individual recognition. The more senior the employee, the more tailored the package.

(in millions of euros)	**2010**	**2011**	**2012**	**Change 2011-2012**
Payroll costs excluding social charges and temporary staff	1,460	1,579	1,764	12%
Social charges	404	422	458	9%
Pension costs under defined benefit plans	26	20	32	60%
Pension costs under defined contribution plans	71	64	70	9%
Loaded payroll costs	1,961	2,085	2,324	11%
Loading rate	32.5%	30.8%	29.93%	

(in millions of euros)	**2010**	**2011**	**2012**	**Change 2011-2012**
Loaded personnel costs (including temporary staff)	2,114	2,294	2,495	9%
% of sales	21.9%	21.1%	21.2%	

Breakdown by geographic area in 2012

(in millions of euros)	**France**	**Europe (excl. France)**	**Outside Europe**
Payroll costs excluding social charges and temporary staff	602	508	654
Social charges	243	113	102
Loaded payroll costs (excluding pension costs)	845	621	756
Loading rate	40.4%	22.2%	15.6%

Financial benefits GRI LA3 GRI EC3

Statutory profit-sharing

All of the Group's French companies have implemented profit-sharing agreements. No amount will be set aside to the special profit-sharing reserve for 2012.

Incentive plans

An incentive plan is in place at Valeo's French subsidiaries, either pursuant to the Group agreement signed in June 2011, or pursuant to a company agreement.

Using the formulas set out by this Group agreement or the Company agreements still in force during 2012, a total of 4,672,000 euros should be paid out to employees at 11 of the Group's 13 French entities.

Profit-sharing bonus

In 2012, Group management renewed its talks with trade unions and other such bodies regarding the profit-sharing bonus. Under the terms of the agreement that was signed by two representative trade unions at Group level, each of Valeo's French companies paid a gross bonus of 100 euros per employee. This bonus was paid to employees during the fourth quarter of 2012.

Improvement bonus in France

For many years, all entities within the Valeo Group worldwide have offered an improvement bonus. The purpose of this arrangement 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 6.6 million euros, equating to an annual average of approximately 500 euros per employee.

Employee savings plans

Three different employee savings plans introduced by the collective bargaining agreement are available to Valeo's employees in France. These plans provide for specific contributions from the Company, as follows:

- Group savings plan (*Plan d'épargne Groupe* – PEG): maximum gross contribution of 275 euros;
- Collective pension savings plan (*Plan d'épargne pour la retraite collectif* – PERCO): maximum gross contribution of 750 euros;
- Valeo share plan: maximum gross contribution of 350 euros.

At December 31, 2012, 12,205 employees in France had signed up to the Group savings plan, or 94% of the registered headcount in France, while 1,986 employees in France had signed up to the collective pension savings plan, or 15% of registered headcount in France.

Employee share ownership in France

Based on recommendations by Group management, on March 27, 2012 the Board of Directors of Valeo decided to grant each eligible employee three free Valeo shares. The operation took place during the second quarter of 2012 and benefited 13,294 employees in France.

4.4.6 Promoting diversity and equal opportunities at work

Convinced of the benefits that a broader diversity would bring in terms of leadership, talent, and markets at all levels of the Company and within every profession, **Valeo created a diversity think tank in late 2011.**

In 2012, it chose to make diversity one of the key priorities of its Human Resources policy.

Diversity is not only a social responsibility issue; it is also a vital means of boosting competencies, creativity and performance. A diverse workforce has a competitive edge allowing it to capture top performers across the globe.

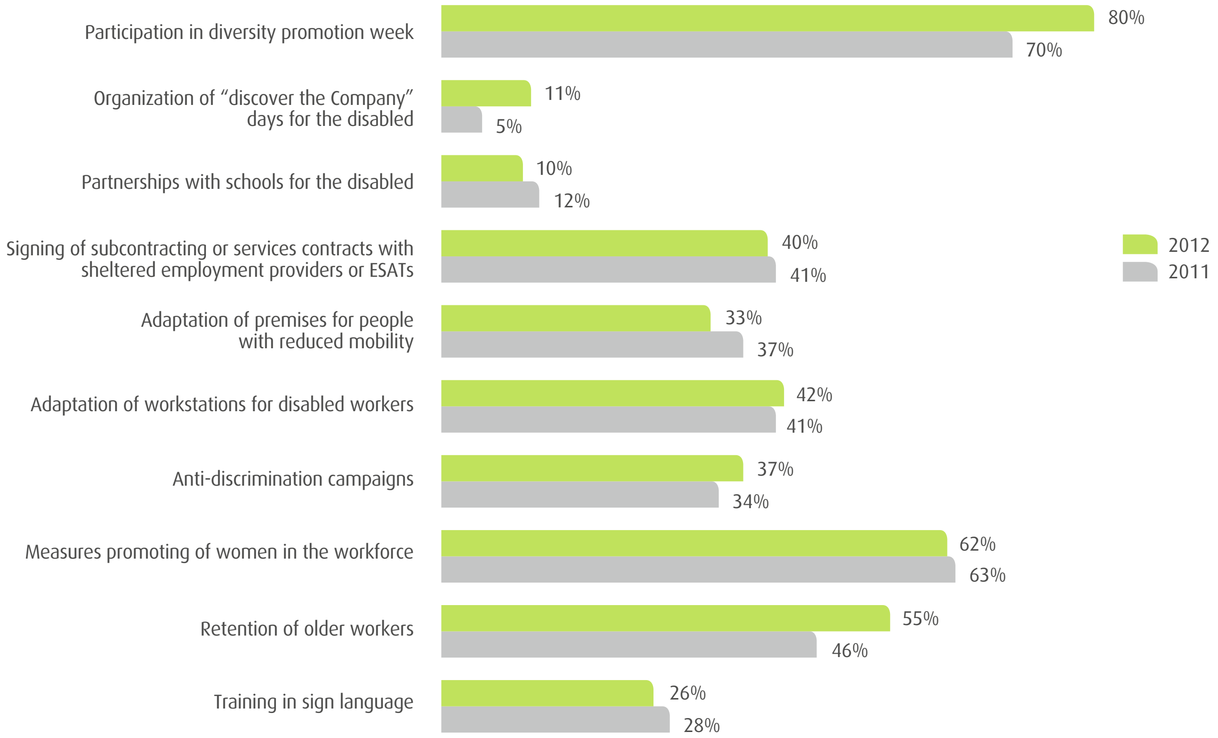
A Diversity Committee was set up on the initiative of General Management, chaired by the Group HR Vice-President.

The Committee's work focuses on four initiatives: (i) gender, (ii) disability, (iii) generational, and (iv) cultural issues. Four employees of different nationality, gender, position and age, have been given responsibility for these initiatives and to build improvement proposals in each area concerned.

In the last quarter of 2012, the Group also decided to launch a diversity awareness and training initiative for employees in the form of various e-learning modules.

To improve and standardize communication on these issues, Valeo has designed a Diversity logo, highlighting its four priorities: (i) gender, (ii) disability, (iii) generational, and (iv) cultural issues.

Percentage of sites having implemented diversity initiatives

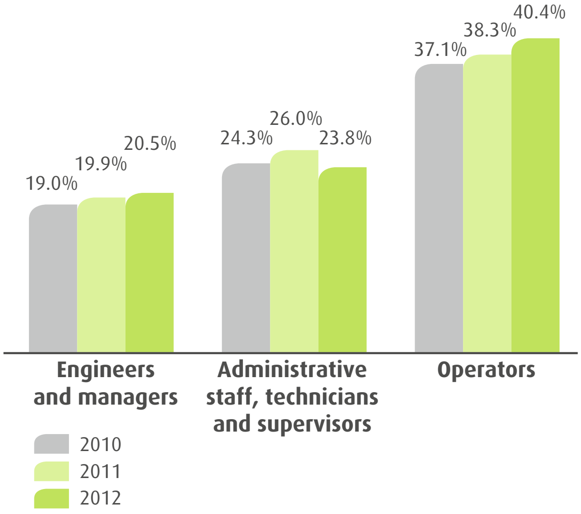


Women at Valeo GRI LA13

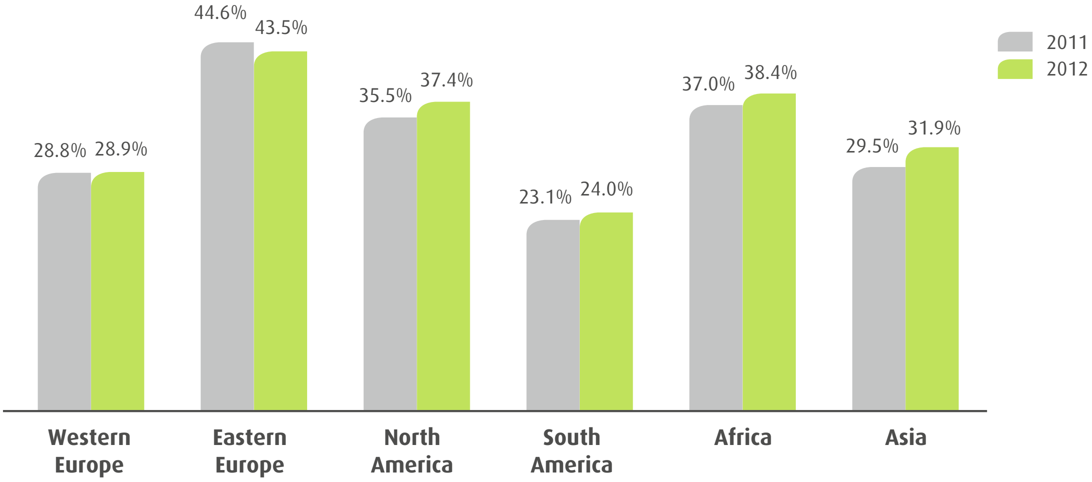
In endeavoring to be an employer of choice, Valeo seeks to attract, promote and retain the best talents in a fiercely competitive market. The Group boasts a diverse mix of cultural backgrounds. However, in spite of a commitment to enforce gender parity in comparable situations (in terms of career development, training possibilities and compensation), women are not as well represented within the Group as men.

The proportion of female engineers and managers was up by 0.5 points compared to 2011 and by 1.5 points compared to 2010. The proportion of women in the workforce across all categories was 33.1%.

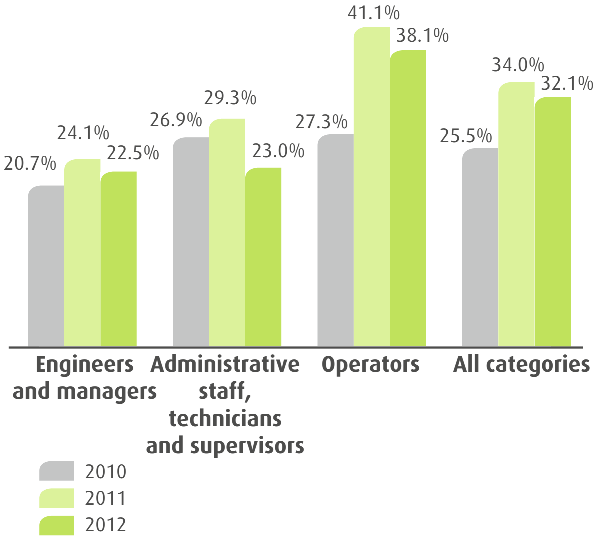
Breakdown of women by socio-professional category



Breakdown of women by geographic area (registered headcount)



Proportion of women among new hires on permanent contracts over three years



In 2012, a working group was tasked with formulating recommendations on how more women could be attracted, retained, and promoted in order to ensure better gender equality at all levels of the organization, including top management.

During November's Diversity week, the Group launched its "Valeo Women Connected" initiative along with a dedicated Google website. The aim of this initiative is to organize local events in different countries in order to encourage female networking within the Group. The initiative is also the official interface between Valeo and external women's organizations. A specific organization has been set up to coordinate this program on a worldwide level. The main areas in which action needs to be taken have been identified, laying the foundation for further initiatives. These include improving the Group's image as an employer of choice in order to attract more applications from women, monitoring diversity indicators, implementing measures to help improve work-life balance, improving human resources management processes, and supporting personal development through mentoring, coaching, and internal networks.

Valeo has drawn up a **standard 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.

Valeo commissioned an independent econometric report to measure the importance of 67 different variables that may account for disparities between men and women in annual salaries in France. The main reasons turned out to be training, absence, working time, proficiency in English, mobility, age, profession, variable remuneration, 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 sites concerned to define action plans. A decision-making tool is currently being rolled out to help Group entities identify situations where no factors exist to justify the pay gap and to simulate the consequences of reducing this gap on payroll costs. The tool will be operational in 2013.

Through partnerships with leading French business and engineering schools and associations such as *Elles Bougent*, which promotes engineering professions to female high-school students and undergraduates, Valeo is striving to increase the percentage of female employees in its workforce.

Elles Bougent organizes conferences where participants learn about engineering professions with support from mentors from the different member companies (Valeo has around ten such mentors) as well as events designed to provide insight into industrial sectors such as the automotive industry, with site visits or competitions (e.g., designing the car of 2050).

At the Paris Motor Show in October 2012, *Elles Bougent* invited over 100 female high-school and university students to participate in a competition organized at partner stands. The students also had the chance to meet with senior executives from the automotive industry at a conference attended by Valeo's Group HR Senior Vice-President, who spoke about the Group's diversity policy.

At the conference, a competition was launched by the association calling on students' creative skills and asking them to design "the car of 2050". The winning entry should be announced at a prize-giving ceremony during the Week of Industry in March 2013.

Valeo played an active role in creating the association's first two regional delegations in Rhône-Alpes and Normandy, allowing local initiatives to be developed as closely as possible to female high-school students and undergraduates.

On October 12, 2012 during the Paris Motor Show, Valeo adopted the *Les Elles de l'automobile* Charter, aimed at promoting women's access into professions in the automotive industry.

Measures promoting the employment and integration of people 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 promoting the employment and integration of workers with disabilities.

On May 29, 2012, Group management and representative trade organizations at Group level signed an agreement to promote the employment and integration of people with disabilities.

This three-year agreement was approved by the Prefecture of Paris on July 25, 2012, with retroactive effect from January 1, 2012, and will expire on December 31, 2014. It is part of the Group's continuous efforts in the field of corporate social responsibility.

Amid a tough competitive environment in France, and given fast-paced changes in manufacturing processes and products, Group companies took several different measures aimed at hiring and retaining people with disabilities and work hand-in-hand with organizations promoting protective working environments for the disabled.

The Group's French entities have designed and rolled out a large number of practical initiatives (reorganization of work stations, flexi-time arrangements, disability training, etc.) to improve employment conditions for those with disabilities over the long term.

They also forged a close relationship with sheltered employment providers and organizations that help disabled people back into work (*établissements et services d'aide par le travail* – ESAT). In 2011, there were 228 ESAT individual units (232 in 2010), however, only 181 (156 in 2010) were included in the calculation of the employment rate due to their legal cap.

Valeo intends to continue, pool and step up the different initiatives promoting employment for those with disabilities, while respecting the specific characteristics and constraints of each of its entities in France. It will also look to encourage bottom-up local initiatives.

In connection with this agreement on disability, a large-scale awareness campaign was launched to help change attitudes and bring another perspective on disability. A film was made featuring interviews of employees with disabilities, helping to embed disability issues within the Group's corporate culture. The film is expected to be broadcast in the first half of 2013.

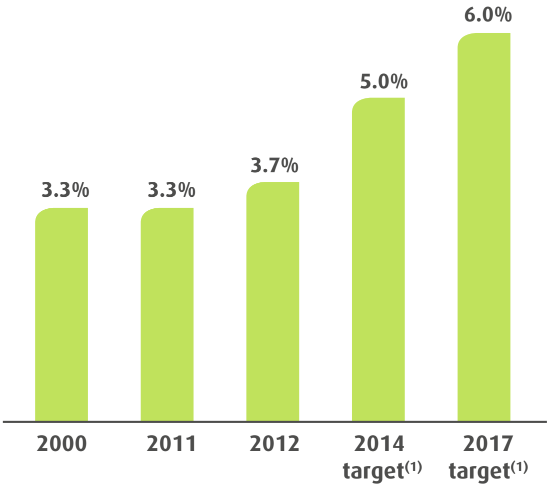
The film sets out to highlight the competencies and know-how of those with disabilities rather than focus on the disability itself.

In order to increase the proportion of disabled employees in the workforce over the long term, the Group has set itself a number of targets:

- continue with its active policy of hiring people with disabilities;
- maintain disabled workers in employment and develop their tasks;
- improve their integration and training;
- adapt their jobs to new technologies;
- talk openly about disability and raise the awareness of all stakeholders;
- step up collaboration with the sheltered sector.

This disability policy will be rolled out to the 29 countries within its reporting scope as from 2013.

Percentage of employees with disabilities in France (direct employment)



(1) As per authorities.

Percentage of employees with disabilities worldwide (direct employment)

The definition of disability used is that which applies in the countries where the Group is based.

Valeo's policy for young and older workers GRI LA11 GRI LA13

Professional integration of young people

Valeo has maintained close relations with higher education establishments, in particular by developing selective partnerships with schools and universities of international renown, and fostering diversity within its workforce. In 2012, the Group took part in a host of events and educational forums, bringing it into contact with future graduates. These forums included Audencia, Collégium (ENSEA, EISTI and Supméca), EDHEC, ESEO, ESTACA, Sup'Optique, UPMC, UTC and UTT (France), the VIE forum organized by UbiFrance and the apprenticeship forum with CEFIPA (France). It was also present at events held in 30 Chinese universities (Shanghai, Nanjing, Guangzhou, Wuhan, Chengdu, Changchun, etc.), and in Brazil, India, Mexico, Poland, and Thailand, and ten forums in Germany.

Valeo also sponsors the Engineers' curriculum of *Audencia Nantes*, which allows graduate engineers to qualify at this renowned business school through a specific program.

The Group was 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, and at the Handi2day forum targeting disabled people in France. Valeo also sponsors the *Elles Bougent* association which promotes careers in the transportation sector among female high school and university students by organizing business presentation events with the active involvement of the Valeo mentors.

Valeo took an active part in the campaign to promote automotive industry professions conducted by the FIEV (*Fédération des industries des équipements pour véhicules*), which produced a brochure on this topic, including contributions from Valeo.

Valeo sponsors the student association ShARE, for students from the most prestigious Asian universities, and also played a role in organizing the association's international seminar held in Shanghai, China, in November 2012.

In December 2012 Valeo signed up to the Brazilian government's Science without Borders scholarship program, which helps Brazilian students studying in France find work placements.

Policy towards older workers

Valeo is committed to employing older workers, and this is an important part of its career development policy. It is also central to its policy for encouraging diversity.

Hiring older workers gives access to important know-how while making it possible to anticipate changes, pass on competencies and expertise, 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 competencies or, if so desired, change career orientation.

In 2012, Valeo had 8,443 employees worldwide aged above 50 (versus 7,210 in 2011 and 6,920 in 2010), representing 13% of the registered headcount.

In France, Valeo had 2,951 employees aged above 50 (versus 2,771 in 2011 and 2,703 in 2010), or 22.8% of the French registered headcount.

An action plan applicable to all French sites was implemented in 2009, with the aim of anticipating career and job development among older workers. The plan seeks to:

- emphasize the development of competencies and qualifications together with access to training, making it possible to broaden professional expertise or grow into another role within the Group;
- encourage knowledge sharing and competency transfer by formalizing and developing mentoring;
- focus on forward planning in the area of career development.

As a result, the action plan will focus especially on:

- forward planning for career evolution;
- developing competencies and access to training;
- passing on know-how and expertise;
- developing mentoring;
- keeping workers aged 55 and over in the workforce.

In 2012, a working group was set up in France looking at generational issues as preparation for talks on the generational contract to be held in 2013.

Cultural diversity within the Group GRI LA13

Valeo's operations, spanning 29 countries, strongly promote diversity.

In 2012, the Group's workforce comprised employees of 106 different nationalities.

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

The countries where Valeo has the largest number of different nationalities are France (72 nationalities), Germany (49), Ireland (30), the US (23), and the Czech Republic (22).

Nationalities by Business Group

Powertrain Systems	Thermal Systems	Comfort and Driving Assistance Systems	Visibility Systems
58	63	69	48

4.4.7 Development of competencies for all Group employees

Developing internal mobility GRI LA11

To offer attractive career prospects to the 15,929 engineers and managers employed by Valeo, the Group's policy requires that at least three out of four vacant 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 on the internal candidates for open positions. The process was strengthened in 2011, when 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 career step, Valeo has a standard "individual development plan" which compares the competencies acquired with those required in the next position. This allows very detailed individual action 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 career appraisal meetings to help identify potential career developments for each engineer and manager, based on an analysis of their personal and professional interests.

Using these tools, nearly 2,545 engineers and managers benefited from career opportunities in 2012.

To encourage the transfer of working cultures, technologies and methods, and to offer international career opportunities, the Group must be able to send almost 100 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 for managing international mobility, which ensures high-level support for these moves.

Training GRI LA10 GRI LA11

In 2012, the Group spent 23,310,018 euros on training, an increase of 9.7% compared to 2011. Expenditure on training represented 1.32% of payroll costs, excluding social charges (1.34% in 2011).

In absolute terms, the number of training hours and trainees rose by 8.7% and 28.6%, respectively, year-on-year.

In 2012, the Group continued to extend its training policy to a larger number of employees. In all, 87.6% of employees took part in at least one training session during the year (compared with 79.4% in 2011). There was a 13.8% rise in engineer and manager attendance, with 97.5% of this employee category attending training. The training participation rate for operators and for administrative staff, technicians and supervisors was up by 6.9% and 4%, respectively.

	2010	2011	2012
Number of training hours provided	944,671	1,029,768	1,119,584
Training expense	€25,231,511	€21,251,589	€23,310,018
Number of employees trained	41,317	44,298	56,954
% of employees trained	81.4%	79.4%	87.6%
Engineers and managers	88.4%	83.7%	97.5%
Administrative staff, technicians and supervisors	93.9%	80.3%	84.3%
Operators	75.9%	77.5%	84.4%

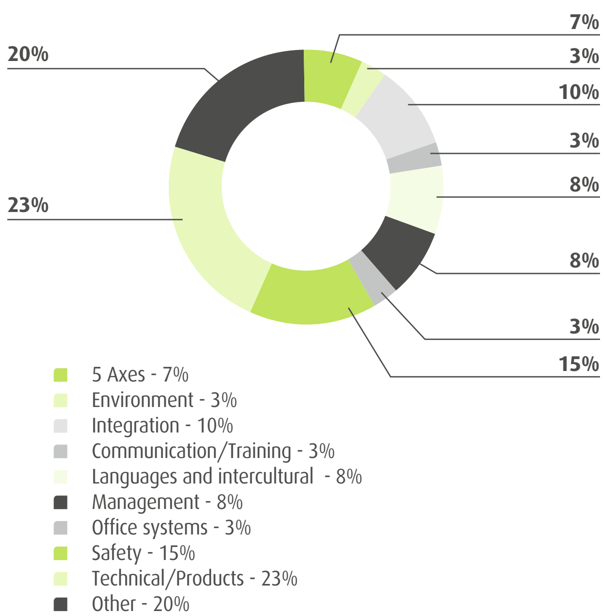
The average number of training hours per employee was down slightly across all categories (23 hours in 2010 and 2011 versus 20 hours in 2012).

New-entrant and job-instruction training fell, from 66% in 2011 to 63% in 2012, as the Group's organization stabilized. Training initiatives dedicated to the development of transversal competencies for internal mobility purposes or for an evolution within one of the Group's professions rose 37% in 2012.

Average number of training hours per socio-professional category

	2010	2011	2012
Engineers and managers	37	35	30
Administrative staff, technicians and supervisors	28	28	26
Operators	16	17	13
TOTAL	**23**	**23**	**20**

Breakdown of training hours by subject category in 2012



Training needs are analyzed on the basis of competency assessments for given jobs, evolution within one of the Group's professions 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) mentoring and practice-sharing.

To support the Group's innovation and technological development policy, programs relating to materials, products and production systems and processes continued to rank the highest in terms of the number of training hours given, accounting for 23% of the total in 2012. These programs, led by Group technical Experts or independent specialists, are constantly evolving under the guidance of the R&D and Industrial departments and the Valeo Technical Institutes.

As in previous years, safety training initiatives continued apace, and safety training now accounts for 15% of total training hours. In 2012, 65% of Group employees attended a training session on safety, compared to 60% in 2010. The increase in the number of employees trained reflects the deployment of the "Play Safe" module in France, Spain and Egypt as well as the continued roll-out by the "5 Axes" school in Asia of the "Safety First" module created in China in 2011. This module is now available in English and will gradually be adapted and rolled out to other regions.

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

In this respect, alongside classroom training or distance learning (virtual classroom, visioconference or telephone courses) conducted by external instructors or Valeo's Experts, field training initiatives have also been developed involving local management in order to increase operator polyvalence and multi-skilling. Training is also given by the "5 Axes" schools to enhance expertise in Valeo's specific working methods and tools.

The Group designs its training sessions drawing on the complementary nature of these training methods to provide effective instruction while also helping to support international growth and meeting cross-cultural challenges.

The new-look "5 Axes" training path (training hours up 45% in absolute terms, representing 7% of total training hours), along with integration programs for new hires (representing 10% of training hours, a rise of 35%) characterizes this multi-modal training policy. The new "5 Axes" path combines distance learning (e-learning, virtual classrooms), in-class training (a mix of traditional learning with practical experience and games) and projects mentored by managers, providing trainees with the competencies and knowledge required for their work at Valeo.

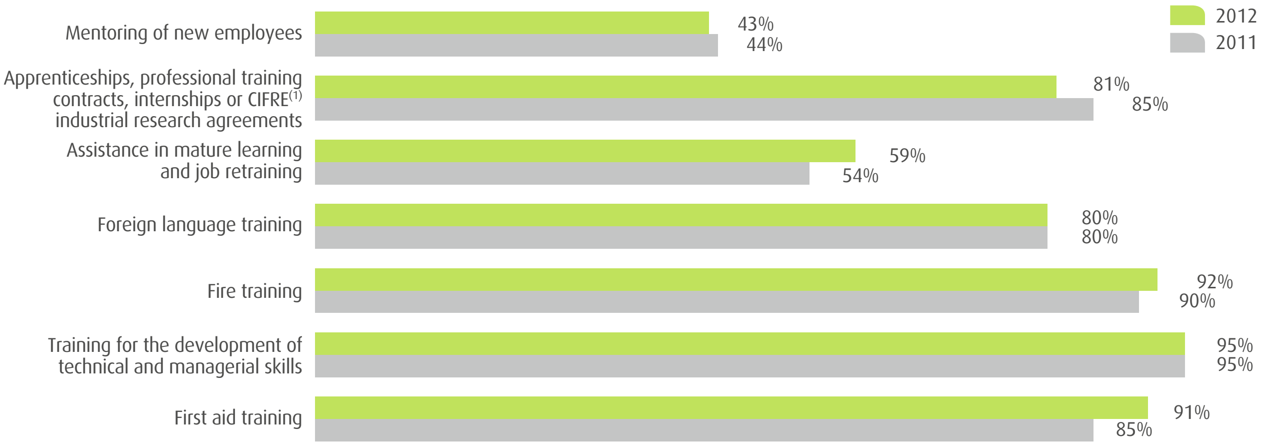
The "Compliance" program rolled out in 2012 also uses a combination of e-learning modules (one on anti-corruption and three on anti-trust practices). It provides attendees with theoretical knowledge and face-to-face training based on practical cases and allows them to discuss these issues with legal experts. The Compliance program represents one of the Group's most important training initiatives in 2012, with 5,004 employees attending in-class sessions and 8,319 employees successfully completing the four e-learning modules (requiring 100% of correct answers at the end of the session).

All training offered to managers at Valeo includes an e-learning activity (either upstream and/or post-training) and an in-class session, allowing trainees to experience real-life situations and improve personal development. Management training accounts for 8% of total training hours (up 22% in terms of the number of training hours) and includes modules designed to enhance managerial competencies, as well as leadership development programs in Europe, Asia and the Americas operated in association with CEDEP (European Centre for Executive Development).

The popularity of both tutored and untutored e-learning modules continued to grow in 2012, particularly those relating to the Group's corporate culture (including Compliance modules). 2012 was the tenth anniversary of Valeo's online training platform, Valeo C@mpus. This platform offers more than 150 lessons in 22 languages, and has allowed employees to complete over 570,000 training hours, with 1,500,000 log-ons since it was created. The anniversary was celebrated by five specific training campaigns, with 8,648 modules completed by 3,226 employees across the globe.

The Group's international scale and the growth of its business outside France underline the importance of language and intercultural training (8% of training hours in 2012, up 6% in terms of training hours completed). This international drive can also be seen in the popularity of training sessions attended on Valeo C@mpus in China, where 3,176 people participated in 9,766 e-learning programs (containing several modules), compared to 4,041 people completing 9,131 programs in France.

Percentage of sites having implemented training initiatives



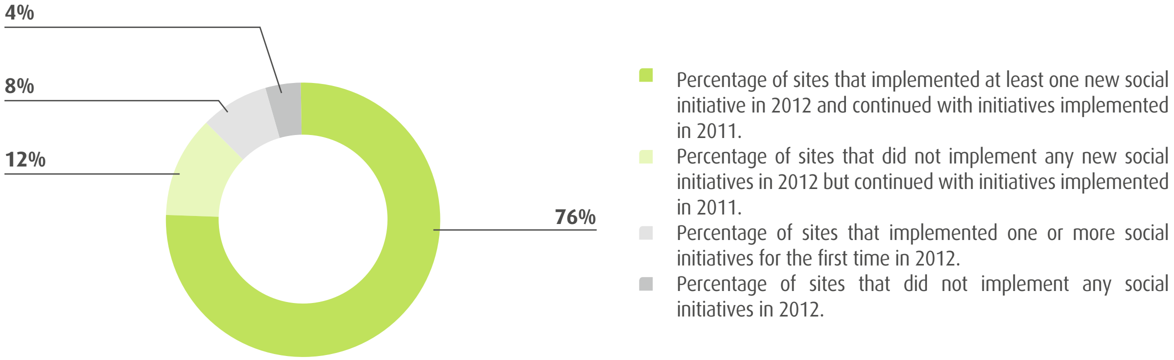
(1) Industrial agreements for training through research (CIFRE).

4.4.8 Plants' Initiatives

To keep track 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 extensive involvement by its sites shows Valeo's commitment to labor, corporate citizenship and environmental issues.

Roll-out of social initiatives at sites



In 2012, 96% of sites implemented at least one social initiative; of this number, 8% implemented one or more social initiatives for the first time.

Social initiatives implemented by Group plants are classified by subject and presented on the following pages:

- Leisure and culture (page 150);
- Transportation (page 150);
- Well-being at work (page 149);
- Health and safety (page 145);
- Diversity (page 156);
- Training (page 163).

4.5 Valeo's commitment to corporate citizenship

The Group operates in 29 countries worldwide and is active in a variety of businesses. Through its industrial and commercial operations, its presence on the markets and its relationships with suppliers, the Group has an influence on society and its stakeholders.

Valeo is aware of the driving role it plays in certain local communities. Due to its industrial activities, the Group represents an important entity in the local communities in which it operates and, in some cases, whole towns or areas can work for or with Valeo.

As part of its strategy, Valeo is developing its international presence. Each year the Group's footprint evolves, as new sites are created, companies are acquired together with their own plants, and existing businesses are sold.

When Valeo moves into a new region it has the intention of remaining there long term. It therefore has a positive impact on local communities, workers and local authorities by creating jobs and boosting the local economy. As a major player in the automotive industry supply chain, Valeo often calls on services and assistance from a whole range of local companies.

In 2011 Valeo engaged in dialog with the World Bank Group. With its plants and ambitious investment programs that benefit the populations of peripheral and emerging countries, Valeo is regarded by the World Bank as a company that contributes to better land planning and to a reduction in social and professional inequality.

According to various international bodies, such as the International Organization of Motor Vehicle Manufacturers (OICA, based in Paris), the European Automobile Manufacturers' Association (ACEA, based in Brussels) and sector analysts at Natixis, a direct job in the automotive sector generates, on average, between three and five indirect jobs in the regions and communities concerned. On that basis, with 72,600 employees, Valeo estimates its impact on employment at between 217,000 (at the low end) and 363,000 (at the high end) people. With 125 sites worldwide, the average number of employees working at each site exceeds 500. This therefore implies that on average Valeo has an indirect impact of between 1,500 and 2,000 people per industrial site.

By way of example, in 2005 Valeo set up an R&D center in Cairo, Egypt, with a view to developing its own software. Having started off with around 50 employees in 2005, the number of people working at the site exceeded 500 in 2012. These employees are all university educated and 95% of them graduated from local engineering schools. With women representing almost 30% of its workforce, Valeo contributes towards the integration of women in highly qualified roles. Further examples, particularly relating to employment in China, can be found in the section on Labor-related data in this chapter, section 4.4.7.

Through its actions in Egypt, Valeo has demonstrated that it knows how to be a major local player that supports local talent.

The Group's policy is to maintain serious relations with local representatives and to retain their trust. For example, when Valeo opens a site in a new region, the site director and the Head of Human Resources are encouraged by the Group's Labor Relations Department to establish contact with local stakeholders (through meetings with local enterprises, information sessions and contact with city halls or prefectures). This includes other companies operating in the area, local authorities, suppliers, public service providers, and even residents' associations. These measures are taken with the aim of establishing the best conditions possible while respecting the activities and boundaries of other economic players and local regulations.

4.5.1 Application of corporate social responsibility principles in purchasing processes

Monitoring CSR with respect to suppliers and subcontractors GRI EC6 GRI HR2

As a tier-one[1] automotive supplier, Valeo lies at the heart of the automotive industry supply chain. While representing an order-giver to tier-two, three or four suppliers, the Group is at the same time a supplier of components, technologies and systems to the automakers. Valeo is therefore a key player within this sector, positioned right in the middle of the supply chain.

This role gives the Group an important responsibility towards the stakeholders that are involved with, or impacted by, its activities. Among these stakeholders, suppliers occupy a unique position. The relationship Valeo has with its suppliers is strategic for its business. The Group must be able to do business with suppliers that can meet its requirements in terms of quality, quantity and delivery times. Since 2010 the Group has reduced the overall number of suppliers it uses with a view to establishing long-term relations and working methods and reinforcing cooperation, a move which has produced positive results.

Management of the supplier list

Adopting a **centralized purchasing system organized by Product Family** (commodities and segments) provides the Group with a global view of its purchasing needs and how they evolve. It also allows the Group to identify opportunities to develop the supplier list and to adapt supplier relationships to its targets and needs.

At the same time, this organization also gives suppliers a better understanding of their own growth potential, of the sorts of technologies needed and the priority areas for development, which in turn allows them to point their development strategies in the right direction.

The selection and award process takes place during **selection and/or approval meetings** which are chaired by the global buyers. All proposals are subject to an objective and rigorous analysis based on the various award criteria.

In addition to the standard economic criteria, the Group also sets criteria relating to financial risks, and logistical, environmental and labor risks, including, for example, criteria relating to respect for human rights, environmental protection, employee health and safety, sustainable development, quality and corporate governance.

Before any supply agreement is awarded, suppliers must qualify for Valeo's supplier list, based on the following process:

Each supplier is required to complete a detailed questionnaire to enable Valeo to identify potential risks and to determine the overall level of risk. Based on these evaluations, Valeo checks the main requirements, detects potential weaknesses and decides whether it needs to examine certain issues further during a visit to the supplier's plant. If so, a team of auditors, consisting of buyers, quality specialists and engineers, is selected and sent to the site to verify the supplier's statements. Following the site visit, the team decides whether or not the supplier can be included on the supplier list, potentially once an improvement plan, jointly agreed with the supplier, has been implemented.

In order to be included on the list, **all suppliers must sign and respect the "Supplier Sustainable Development Commitments",** which follows all the principles of the UN Global Compact, the Valeo Code of Ethics and the principles of fundamental human rights. Any supplier that fails to respect these rules of conduct faces possible sanctions, ranging from temporary suspension of business with Valeo to definitive exclusion from the supplier list.

The Sustainable Development and Purchasing Departments work together to identify suppliers that pose CSR risks. If any shortfalls or irregularities are identified, the two departments jointly decide on the appropriate response. Valeo thus transmits its CSR experience to its suppliers by communicating quality and responsibility requirements which are important aspects in risk management. By talking with its suppliers and setting a good example, Valeo shares its knowledge and seeks to help improve practices.

With this system, Valeo aims to secure control of its supply chain while building trusting relationships with its suppliers through cooperation on remedial action or improvement programs that are aimed at preventing or limiting operating risks.

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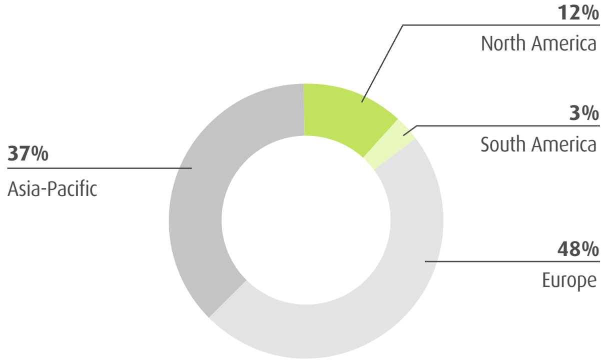
(1) The tier corresponds to the automotive supplier's position relative to the automakers, thus a tier-one supplier delivers directly to the automaker and a tier-two supplier delivers to the tier-one automotive supplier.

Key figures

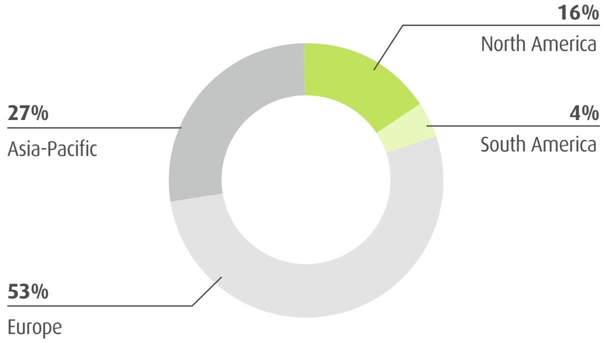
- **1,176** suppliers account for **95%** of the amount attributable to direct purchases
- **560** suppliers are French
- **142** suppliers account for **50%** of the amount attributable to indirect purchases

Breakdown of direct purchases by geographic area

Amount of 2012 purchases by area of origin (location of suppliers)



Breakdown of 2012 purchases by geographic area of consumption

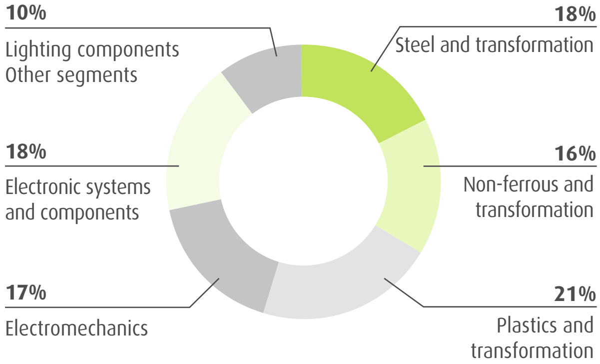


Increasingly, the strategy to reduce risks relating to currency effects and logistical complexity is leading Valeo to favor local suppliers that comply with its supplier selection criteria.

Accordingly, due to its historical presence in Europe, Valeo consumes 53% of its purchases in this region, where 48% of its suppliers are located. Asia now represents the second largest region, both in terms of consumption and number of suppliers. This reflects the Group's purchasing strategy of establishing a local supplier base in high growth regions.

China, France and Germany account for more than 40% of Valeo's suppliers, but are also its three largest markets in terms of production units. This correlation reflects the Group's preference for suppliers that are located close to its plants in order to reduce both transfer times and transportation-related CO_2 emissions.

Key figures by commodity in 2012



The Group's manufacturing purchases can be divided into seven large categories of components. Strategic decisions relating to the five largest component categories (steel and transformation, non-ferrous metals and transformation, resins and transformation, electromechanic components, components and electronic systems) are centralized at the Group level, where they are each managed by a designated Commodity Manager.

The importance of subcontracting

Valeo engages subcontractors to perform specific services at its many sites. As a result, 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 respect the provisions of the Valeo Code of Ethics concerning fundamental human rights. All subcontractors are required to sign the Supplier Sustainable Development Commitments before entering into any form of commercial relationship with the Group.

Subcontracting expenditure currently amounts to 300 million euros per year, making it a significant cost item. The expenditure relates to maintenance, security, cleaning and catering services, waste treatment, reception staff and IT and technical support staff. Specific attention is paid to the companies selected for outsourcing to make sure they comply with the Group's principles described above.

Appointment of an internal mediator on the initiative of the French finance ministry

Respecting suppliers is not only an internal issue for Valeo. Following the initiative of the French ministry of economy and finance which sought to improve relations between large order-givers and their suppliers (micro enterprises and SMEs), Valeo signed the "Charter of Intercompany Relations" on January 10, 2012.

In January 2013, 342 companies had signed the charter, representing nearly 400 billion euros of purchases. The aim is to construct balanced long-term relationships between the large corporations and their suppliers, with each party acknowledging and respecting the rights and obligations of the other.

The charter requires that each signatory appoints a supplier representative to act as an internal mediator to facilitate the settlement of any disputes with suppliers and to help develop healthy long-term relationships.

A mediator was appointed on March 13, 2012.

Dialog with suppliers

In 2012, Valeo set up purchasing policies in various regions: France, North America, South America, India and China. These policies provide Valeo with an opportunity to gather together all its suppliers and to present its Group strategy. Emphasis is also put on respect for ethical policies and compliance as well as on the CSR criteria set by Valeo.

Sustainability commitment within the automotive industry

Aside from maintaining relations with its own partners, Valeo plays an important role within the automotive industry, notably as a sector leader, representing the automotive supplies sector in dealings with the automakers. By virtue of its size and scale, the Group is able to influence decisions taken by the automotive industry players.

Commitment to the Automotive Industry Platform (*Plateforme de la Filière Automobile* – PFA)

Following the automotive industry round-table organized by the French ministry of economy, finance and industry at the beginning of 2009, a code of performance and best practices for customer-supplier relations in the automotive industry 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).

This code, which establishes a number of rules to guide customer-supplier relations, recommends that the cooperation efforts between the automakers and the suppliers should be made permanent through the creation of a platform for liaison and dialog between automakers and suppliers, to prepare for the successful transformation of the automotive industry.

A number of working groups were set up to address various challenges: "promote the industry in order to attract talent", "facilitate the sharing of resources", "communicate the strategic vision of the industry among all the players", "identify areas for improving competitiveness and innovation and encourage their implementation".

In June 2010 all members of the PFA signed a common charter on corporate and social responsibility within the automotive industry. This put forward the industry's view on subjects such as fundamental human rights, forced and child labor, freedom of association, non-discrimination, working hours, environmental issues, the fight against corruption and respect for the rule of law.

The PFA members also signed up to a code of performance and best practices. This is available on the Group's intranet site so that to buyers can consult the code and convey its messages to suppliers.

Valeo is convinced that adopting a common global approach to CSR issues within the automotive industry is the best way to achieve customer-supplier relationships built on trust and respect.

CCFA/FIEV working group on corporate social responsibility (France)

In 2012 the French automotive sector set up a CSR working group. The participants include France's two major automakers and the tier-one(1) automotive suppliers, including Valeo. The principle objective is take stock of the CSR practices currently being implemented by each member company and then to harmonize them in order to make them easier to apply throughout the industry. A major part of the work focuses on **responsible purchasing policies** – the procedures and methods employed by the members to monitor and support suppliers – with a view to standardizing practices and developing a set of industry guidelines.

By participating in this working group, Valeo is striving alongside the main industry players to create a common set of CSR criteria with a view to standardizing best practices, facilitating cooperation in these areas and ultimately improving industry standards.

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(1) The tier corresponds to the automotive supplier's position relative to the automakers, thus a tier-one supplier delivers directly to the automaker and a tier-two supplier delivers to the tier-one automotive supplier.

Commitment through the Automotive Suppliers' Modernization Fund – FMEA (2)(1)

In response to the 2009 economic and automotive industry crisis, 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, bringing the fund's total balance to 600 million euros. The fund was set up to take non-controlling interests 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 tier-two or lower-tier(1) 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(1) automotive suppliers, including Valeo, Bosch, Faurecia, Hutchinson and Plastic Omnium, together with the SIF and the FMEA.

The main aim of FMEA (2) was 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 automakers and tier-one automotive suppliers(1).

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 in France.

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. Valeo has so far contributed 2.1 million euros. In 2012 the fund continued to focus on buying equity interests in SMEs operating in the plastics and metal/plastic composites segments.

This represents an efficient way of supporting these companies, thanks to the leverage provided by the Caisse des dépôts et consignations (owner of the fund) and the automotive subscribers. Valeo's contribution, both in financial terms and in determining the suitability of the suppliers selected, is a sign of recognition and trust on the part of a major government finance institution. By acting responsibly towards small- and medium-sized manufacturers in a particularly tough environment Valeo is also demonstrating its commitment to the industry in France.

4.5.2 Fair practice and due diligence with regard to compliance

GRI S01 GRI S02 GRI S03 GRI S04 GRI S05 GRI S06 GRI HR3

At the request of the Chairman of the Board of Directors and the Chief Executive Officer, Valeo created an Ethics and Compliance Department in 2011.

With operations spanning 29 countries and workforce of 72,600, Valeo decided to reinforce the efficiency and scope of its ethics policy by setting up a dedicated department and compliance programs.

Valeo has developed a full and formal compliance policy, based on the original Code of Ethics drawn up in 1997, which was subsequently revised in 2005. Since 2011, the Code has been resubmitted to all Group employees for signature (refer to Chapter 1, section 1.3.4, page 25 and Chapter 4, section 4.4.4, page 153).

Devoted initially to the fight against corruption and anti-competitive practices, this policy affects the Group's various stakeholders in the broader sense:

- **all members of staff,** above all from whom Valeo expects irreproachable behavior and the utmost integrity;
- **Valeo's suppliers**, who need to demonstrate the greatest respect, not only for the anti-corruption rules, but for all the applicable rules, in accordance with the principles of the United Nations Global Compact to which Valeo has been a signatory since 2004;
- **other partners**, who may represent Valeo either directly, or while performing their own services, and who must adopt the strictest standards with regards to the fight against corruption and money laundering.

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(1) The tier corresponds to the automotive supplier's position relative to the automakers, thus a tier-one supplier delivers directly to the automaker and a tier-two supplier delivers to the tier-one automotive supplier.

To take into account the diversity of the risks, Valeo has set out rules and general principles applicable to different countries, types of risks and stakeholders in the form of specific measures and targeted procedures.

The Code of Ethics is not only declarative. It draws partly on whistleblowing which is also encouraged by the rules and procedures. Formal whistleblowing procedures are in the process of being rolled out worldwide. This process requires time due to the large number of countries in which Valeo is present and therefore the different sets of regulations to which it must comply.

Creation of an intranet portal

In 2012 Valeo created an Ethics and Compliance intranet site to enable its employees to consult the procedures put in place and to access the available tools, for example manuals, definitions, examples and guides, at any time. Employees can also use the portal to find instructions or recommendations specific to the country in which they work, follow training courses in their own language and to access the list of people to contact if necessary.

The results for 2012

The Group has educated more than 5,000 employees on the fight against corruption and anti-competitive practices, through live training sessions, conducted in 23 countries and 15 languages. Valeo has also trained more than 10,000 managers thanks to its e-learning modules which are available in 13 different languages. Among these employees, over 8,300 have completed four e-learning modules covering all topics relating to the fight against corruption and anti-competitive practices. This represents a real step forward for the Group and these training programs are to be accentuated and expanded over the course of 2013.

In line with its principles and general policy and with a view to setting a good example, Valeo does not finance any political party, or take part in any public action or lobbying. Nevertheless, when government supervisory authorities or other public or international bodies consult Valeo with regards to the automotive industry, the Group makes itself available to assist these parties in its capacity as a tier-one automotive supplier and central player in the industry.

In the past year, the Group has set up a framework to address risks relating to corruption and anti-competitive practices by giving itself the means to limit these risks to a minimum. The Group has thus implemented the basis of the program and in 2013 it will extend these rules to all its stakeholders.

4.5.3 Consumer health and safety GRI PR1

As mentioned in the environmental performance chapter, Valeo has made reducing CO_2 emissions one of the principle pillars of its growth strategy. It offers automakers a large number of innovations that help reduce the amount of pollutants released into the atmosphere. The Group has also made driver safety a focus for development. The increasing use of cameras and ultrasonic sensors mean vehicles are getting better and better at anticipating dangerous situations with the help of "intelligent" systems that enable drivers to make better decisions in terms of safety. Valeo also developed the first passenger compartment air conditioning filter with anti-allergenic properties in Europe. The filter serves to limit the level of allergens in the vehicle, along with dust, harmful gases and smells.

Valeo designs innovative solutions that assist drivers, improve vehicle safety, and reduce CO_2 emissions in accordance with current and future regulations.

4.5.4 Voluntary commitment to local communities

Guidelines on Valeo's voluntary commitment

Valeo has a policy of encouraging its sites to take responsibility and to support local initiatives around the world.

Thus, each site organizes plant initiatives which reflect locally identified needs. With the assistance of the site Human Resources Departments, the site managers decide on actions that can be carried out to help the local population. The Group suggests possible areas for study by sending out internal questionnaires and examples of best practice, but the final decision is down to the local management team.

Each year Valeo takes stock of the actions undertaken at its sites. The most effective and useful initiatives are showcased via internal and external communication channels to encourage other sites to support the same sort of actions.

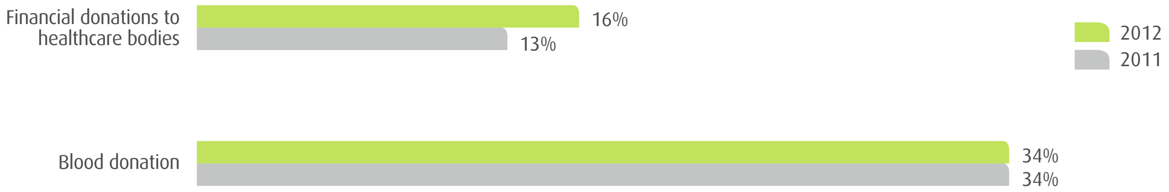
The most inspiring site initiatives are often highlighted in the Group's newsletters which are transmitted to all employees by email. These sites are also acknowledged in official documents, such as the management report, which presents these achievements alongside the Group's targets and results. The Group's website is also used to highlight these initiatives by showing personal accounts and illustrations.

A year after the tsunami in Japan and the floods in Thailand, the money raised by Valeo employees helped to rehouse certain staff members and renovate a school and gymnasium in Japan.

Since 2012 was less marked by natural disasters in the regions in which Valeo operates, there were no fund-raising initiatives launched at the Group level. In 2012, numerous local schemes were initiated by the sites.

Local initiatives GRI LA8 GRI S01

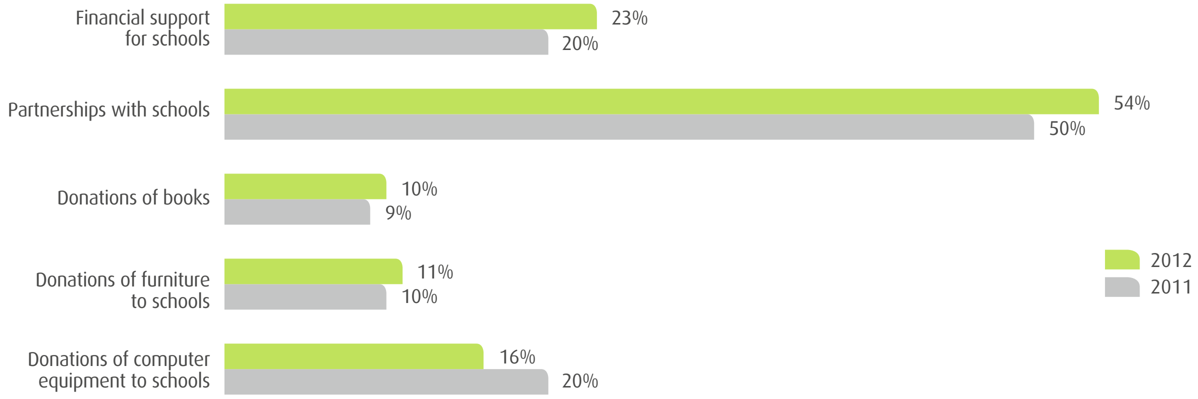
Proportion of sites that have implemented a health plan



With the exception of a decline in the amount raised for natural disasters and a slight drop, in the amount but not volume of donations, of IT equipment, all categories of local initiative saw progress in 2012, as described below.

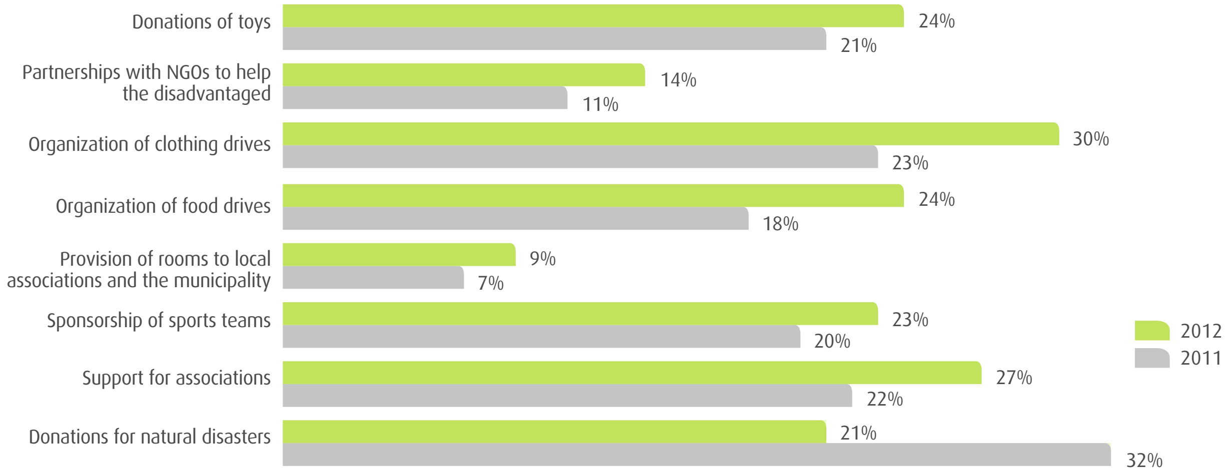
- The Châtellerault site in France donated funds to Amnesty International and *Fondation Abbé Pierre*, two initiatives started by the Works Council.
- The Sablé-sur-Sarthe site in France joined forces with CPAM (the national health insurance organization) to set up a health check campaign on the site. Around 40 volunteers benefited from free health checks.
- The Mioveni site in Romania created the "2% campaign", which allowed staff volunteers to donate 2% of their tax to non-governmental organizations (associations, hospitals, centers for people with disabilities) in order to help people in difficulty.
- The Foshan site in China launched an internal initiative to raise funds to pay for a brain tumor operation for one of the site's employees.

Proportion of sites that have implemented an education plan



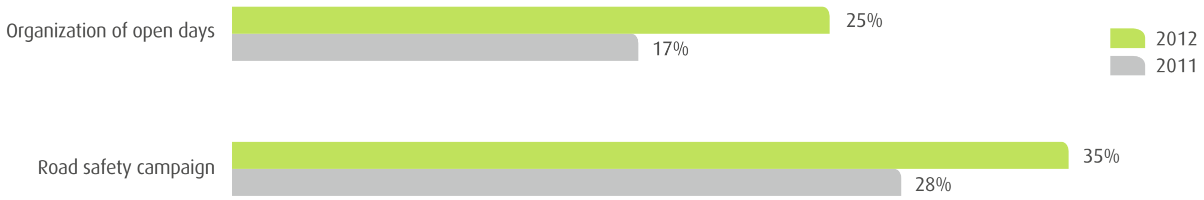
- The Issoire site in France launched the "A scientist in the class" initiative which sent a research employee to a high school to give lessons to students for a project based on the theme of innovation and to explain the various career possibilities in engineering.
- The Ben Arous site in Tunisia started an initiative to assist the pupils of two local schools located in the north of the country (Ain Drahem) by donating computer equipment and food.
- The Chonburi site in Thailand donated 117,000 Thai baht, or around 3,000 euros, to a local school to help finance the construction of the playground.

Proportion of sites that have implemented a solidarity plan



- The Cordoba site in Argentina set up collection points for clothes, shoes, food and toys to help disadvantaged people.
- The Amiens site in France held a Croix Rouge (French Red Cross) collection week to collect clothes and toys in June.
- The São Paulo site in Brazil took part in the Formare program developed by the Lochpe Foundation. The program enabled 20 young people from disadvantaged backgrounds living close to the plant to attend classes. Overall, 800 hours of training were provided at the São Paulo site by staff volunteers.
- The Pianezza site in Italy set up a collection for the victims of the earthquake in Emilia Romagna.

Proportion of sites that have implemented a communication and information plan



- The site in Suze-sur-Sarthe in France opened its doors to employees' families and relatives to celebrate the 65th anniversary of the site. Guests were able to visit the R&D center, take part in events and test vehicles equipped with products developed by Valeo.
- The Créteil site in France organized a program to raise awareness about eco-driving among its employees and gave them the opportunity to test-drive electric vehicles, such as the Renault Twizzy and the Ion.

Valeo partners the *Fondation Garches* (Garches Foundation), a recognized public-interest organization, which aims to improve the lives of people with motor disabilities

As a founding member of the *Institut Garches*, Valeo assists with development at the foundation's wheelchair selection and test center. This organization, which was founded in 1988 and became a foundation in May 2005, works to encourage the independence and professional and personal integration of people with motor disabilities. The foundation has put together a considerable network of expertise, including doctors, heads of motor disability associations and heads of partner enterprises. In addition to financial sponsorship, in 2007 Valeo set up a **skills sponsorship program** to develop the technological link between the automobile and the wheelchair. The Group's R&D department thus launched a **technological innovation program** to build an obstacle detection system to fit into wheelchairs.

Valeo is working alongside other stakeholders to try to find better solutions to assist disabled people and facilitate their integration in society, thus reinforcing the beneficial relationship between medical research and automotive research.

4.6 Methodology and international guidelines

4.6.1 Sustainable development reporting methodology

Environmental reporting methodology

In view of the lack of public guidelines applicable to the automotive supplier business, environmental indicators were reported in compliance with internal procedures developed by the Group. The main methodology rules used to prepare the indicators published in this Registration Document are described below.

Scope and consolidation

Scope

Published environmental data concern all plants and distribution platforms in which Valeo's interest equals or exceeds 50%, covering all countries and Business Groups, including Valeo Service.

In order to publish data within the required time frame, Valeo considers that the reporting year begins on December 1 of the prior year and ends on November 30 of the reporting year.

In line with its commitment to ongoing improvement, Valeo is progressively rounding out its reporting scope by integrating new types of sites. Accordingly, some R&D sites will be included in the published data as of 2013.

ISO 14001 and OHSAS 18001 certification indicators do not include the assembly plants for vehicle front-end modules located at or nearby the manufacturer in their calculation. Accordingly, ISO 14001 and OHSAS 18001 certification is applicable to 121 sites.

Changes in scope

Data for sites newly consolidated in a given year (i.e., new acquisitions or sites in which the Group increases its interest and gains control) are only consolidated as of the following year.

Sites that have been sold or shut down during a given year are excluded entirely from that year's data. However, data for previous years are retained.

Consolidation rules

The environmental impacts generated by sites which are up to 50% held or controlled by Valeo are included on the basis of a 50% share. The impacts of sites that are controlled or held at over 50% are included on the basis of a 100% share.

Most indicators are expressed in absolute value (total quantity) as well as a ratio to sales. The ratio per million euros is calculated by dividing total quantity by sales for the relevant sites.

Source of data

Environmental data are collected by a centralized online application (VRI[1]), except for environmental indicators relating to the consumption of raw materials, ISO 14001 and OHSAS 18001 certification and indirect greenhouse gas emissions relating to logistics and inputs. Other above-mentioned data are collected and consolidated by the Risk Insurance Environment Department from the relevant internal department.

Financial data (sales) are sent directly by the Finance Department.

Controls and external verification

Consistency checks on data for each site in the scope are performed by the Business Groups' HSE managers, the Risk Insurance Environment Department and an external service provider. These controls include reviews of year-on-year changes, comparisons between sites in the same Business Group, and an analysis of major events during the year. Furthermore, VRI applies automatic upstream controls designed to prevent data entry errors and allow sites to provide reporting information with regard to material differences versus previous years.

Certain environmental data are also subject to external verification by the statutory auditors.

Ernst & Young, an independent audit firm, performed an engagement to verify the environmental data which resulted in a report including a statement of completeness and an opinion as to the accuracy of the information contained therein.

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(1) Section 4.3.3, "Centralized environmental reporting", page 121.

Methodological limits

Methodologies relating to certain environmental indicators may be limited due to:

- the lack of harmonized definitions and national or international legislation, especially concerning hazardous substances and waste;
- estimates used where measurements are not possible, for example for atmospheric VOC emissions;
- the limited availability of external data required in particular for calculating indirect greenhouse gas emissions (logistics and transportation).

Certain plants located on manufacturers' sites cannot always report their waste quantities or water and electricity consumption.

Precise definitions of indicators included in VRI and user guides have been prepared in French and English, to improve the reliability of reporting and reduce unreliable sources. These definitions and user guides are regularly updated and distributed to all contributors.

Reporting methodology for labor-related indicators

The labor-related indicators were prepared using the obligations and recommendations of Articles L.225-102-1 and R.225-105-1 of the French Commercial Code resulting from the "Grenelle 2" Decree of April 24, 2012.

Scope and consolidation

Scope

The Group has opted to include its entire worldwide scope of consolidation, consisting of 125 plants, 21 research centers, 40 development centers and 12 distribution platforms, located in the 29 countries where Valeo operates. This covers all countries and Business Groups, including Valeo Service.

However, only workforce data are included for the joint ventures listed below:

- Minda Valeo Security Systems Private Limited in India;
- Nitto Manufacturing Co. Ltd;
- Fuzhou Niles Electronics Co. Ltd in China;
- Niles CTR Electronic Co. Ltd in Taiwan;
- Huada Automotive Air Conditionner (Hunan) Co. Ltd in China.

Valeo reports its labor-related indicators for the calendar year, i.e., January 1 to December 31 of the year in question.

Changes in scope

Data for companies newly consolidated during the current year and presented at December 31 are included where such data are available. By default, only workforce data are reported.

Sites that have been sold or shut down during the reporting year are excluded entirely from that year's data. However, their data for previous years are retained.

Consolidation rules

All data for companies that are 100% consolidated by Valeo are reported in their entirety. Data for joint ventures are included based on the Group's percentage of interest.

Source of data

Labor-related indicators are collected by the Business Groups' Human Resources Departments and are consolidated in an Excel application by the Group's Human Resources Department.

Financial data are sent directly by the Group Finance Department.

Controls and external verification

Consistency checks on data for each site in the scope are performed by the site and the Business Group Human Resources Departments. Furthermore, the Excel application applies automatic upstream controls designed to prevent data entry and consolidation errors and also to check for consistency.

All labor-related indicators have been audited by Ernst & Young and are also subject to external verification by the Statutory Auditors.

Precise definitions of indicators included in the Excel application and user guides have been prepared in French and English, to improve the reliability of reporting and reduce unreliable sources. These definitions and user guides are regularly updated and distributed to all contributors.

Reporting methodology for social indicators

The social indicators were prepared using the obligations and recommendations of Articles L.225-102-1 and R.225-105-1 of the French Commercial Code resulting from the "Grenelle 2" Decree of April 24, 2012 as well as the Global Reporting Initiative (GRI).

Scope and consolidation

The Group takes into account the entire worldwide scope of consolidation, consisting of 125 plants, 21 research centers, 40 development centers and 12 distribution platforms, located in the 29 countries where it operates.

Valeo reports its social indicators for the calendar year, i.e., January 1 to December 31 of the year in question.

Source of data

Social data are collected as follows:

- data on "Plants' Initiatives" are reported through an internal questionnaire system which allows the Group to monitor initiatives aimed at local populations and communities. As all sites responded to this questionnaire, the published data covers the Group's entire scope of consolidation;
- data concerning Valeo's purchases and suppliers were collected and analyzed with the Purchasing Department;
- data concerning fair practices and compliance were prepared with the Ethics and Compliance Department. Quantified data on training on risks related to corruption and unfair competition practices were collected by the Human Resources network which regularly records and analyzes training data.

Specifications

- As a tier-one automotive supplier with a major business-to-business activity, the Group's role is not to regularly participate in sponsorship activities and/or lobbying with interest groups. Valeo focuses solely on its direct stakeholders (customers, suppliers, universities, trade unions).
- Concerning the impact of Valeo's activities on local communities, over recent years Valeo has initiated a dialog with teams at the World Bank in order to determine the regions in the world where new investments would be beneficial to local populations. Accordingly, Valeo has been able to define the impact in terms of jobs of its industrial activities, particularly the automotive sector, on indirect jobs near Group sites. As a result of the collaboration with a renowned international organization and based on other analyses, a Valeo job was calculated as indirectly generating between three and five jobs for the local economy.
- "Megatrend" studies quoted in section 4.1 refer to forecasts on future passenger behavior. These surveys are carried out by the Marketing Department with stakeholders (consumers, associations, automakers) in order to improve forecasts of social trends among users. The Group's R&D teams use these results to develop technology in line with market expectations.
- Valeo sells its products primarily to automakers and to a lesser extent, through Valeo Service, to end consumers through the aftermarket distribution network. The Group only rarely engages in advertising or promotional campaigns for the general public.

Controls and external verification

- All social indicators in the report have been audited by Ernst & Young in the form of a statement of completeness and a limited assurance report, and are also subject to external verification by the Statutory Auditors.

4.6.2 Cross-reference with national and international guidelines

GRI code	Full/partial indicator	GRI indicator	Relevant article of the French Commercial Code	Chapter/Section	Pages
Strategy and analysis					
1.1	√	Statement from the most senior decision-maker of the organization	-	Introduction of the Governance and Sustainable Development report, published separately on the website	
1.2	√	Description of key impacts, risks and opportunities	-	4.1	104-105
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, 1.4, 7.6.1, 8.1	19-35, 36-53, 331, 342
2.7	√	Markets served	-	1.4	36-53
2.8	√	Scale of the reporting organization	-	1.1, 1.3.2	6-11, 22-23
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	23-24
Report parameters					
3.1		Reporting period	-	01/01/2012 – 12/31/2012	
3.2		Date of most recent previous report	-	12/31/2011	
3.3		Reporting cycle	-	Annual	
3.4		Contact point	-	7.2	320-321
3.5		Process for defining report content	-	Through committees	
3.6		Boundary of the report	-	Group	
3.7		State any specific limitations on the scope or boundary of the report	-	4.6.1	173-175
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	-	4.6.1	173-175
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	

Legend:
√: full indicator
√: partial indicator
The basic indicators are in bold.

GRI code	Full/partial indicator	GRI indicator	Relevant article of the French Commercial Code	Chapter/Section	Pages
3.11		Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	-	N/A	
3.12		Table identifying the location of the Standard Disclosures in the report	-	4.6.2	176-181
3.13		Policy and current practice with regard to seeking external assurance for the report	-	4.8	187-188
Governance, commitments and engagement					
4.1	√	Governance structure of the organization	-	3.1	70-87
4.2	√	Independence of the Chairman of the Board of Directors	-	6.1.1	299
4.3	√	Number of Independent Directors	-	3.1.2, 6.1.1	72-87, 299
4.4	√	Mechanisms for shareholders and employees to provide recommendations to highest governing body	-	8.1.10	344
4.5	√	Linkage between compensation for members of highest governing body and corporate officers and the organization's performance (including social and environmental performance)	-	3.2	88-101
4.6	√	Processes in place for the highest governance body to ensure conflicts of interest are avoided	-	3.1.2, 6.1.1	87, 298-299
4.7	√	Process for determining the composition of the highest governing body and its Specialized Committees, and the qualifications and expertise of its members	-	3.1.2, 6.1.1 and 6.1.2	72-87, 298-299, 300-306
4.8	√	Internally developed codes of conduct and principles relevant to the organization's economic, social and environmental performance	-	1.3.4, 6.1.2 and 6.1.10	25, 300-306, 311-313
4.9	√	Procedures defined by the highest governing body for overseeing the organization's identification and management of economic, environmental and social performance	-	6.1.2	300-306
4.10	√	Processes for evaluating the highest governing body' own performance	-	6.1.2	300-306
4.12	√	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	-	6.1.6	309
4.13	√	Memberships in associations and/or national/international advocacy organizations	-	4.2.2 and 4.5.1	107-110, 165-168
4.14	√	List of stakeholder groups engaged by the organization	-	1.3.4 and 1.3.5	25, 26-34
4.15	√	Basis for identification and selection of stakeholders with whom to engage	-	1.3.4 and 1.3.5	25, 26-34

Legend:
√: full indicator
√: partial indicator
The basic indicators are in bold.

GRI code	Full/partial indicator	GRI indicator	Relevant article of the French Commercial Code	Chapter/Section	Pages
4.16	√	Engagement with different stakeholder groups	-	1.3.4, 1.3.5 and 4.4.4	25, 26-34, 150-153
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, 1.3.5 and 4.4.4	25, 26-34, 150-153
Economic					
EC1	√	**Direct economic value generated and distributed by Valeo**	**-**	**1.1**	**6-11**
EC3	√	**Coverage of the organization's defined benefit plan obligations**	**-**	4.4.5	**154**
EC4	√	**Significant financial assistance received from government**	**-**	**5.2.3 and 5.2.6 (Note 4.3)**	**200, 223**
EC6	√	**Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation**	**Art. R. 225-105-1-I-3°-a), c)**	**4.5.1**	**165**
EC7	√	**Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation**	**Art. R. 225-105-1-I-1°-a)**	**4.4.2**	**137**
EC8	√	**Impact of infrastructure investments and services**	**Art. R. 225-105-1-I-3°-a)**	**5.1.4**	**194-197**
EC9	√	Indirect economic impacts	Art. R. 225-105-1-I-3°-a)	4.5	164
Environmental					
EN1	√	**Materials used by weight or volume**	**Art. R. 225-105-1-I-2°-c)**	**4.3.5**	**127**
EN2	√	**Percentage of materials used that are recycled input materials**	**Art. R. 225-105-1-I-2°-c)**	**4.3.5**	**128**
EN3	√	**Direct energy consumption by primary energy source**	**Art. R. 225-105-1-I-2°-c)**	**4.3.5**	**129**
EN4	√	**Indirect energy consumption by primary source**	**Art. R. 225-105-1-I-2°-c)**	**4.3.5**	**129**
EN5	√	Energy saved due to conservation and efficiency improvements	Art. R. 225-105-1-I-2°-c)	4.3.5	129
EN6	√	Initiatives to provide energy-efficient or renewable energy-based products and services	Art. R. 225-105-1-I-2°-c)	4.2.3	111-114, 130
EN8	√	**Total water withdrawal by source**	**Art. R. 225-105-1-I-2°-c)**	**4.3.5**	**126**
EN9	√	Water sources significantly affected by withdrawal of water	Art. R. 225-105-1-I-2°-c)	4.3.5	126
EN10	√	Percentage and total volume of water recycled and reused	Art. R. 225-105-1-I-2°-c)	4.3.5	126

Legend:
√*: full indicator*
√*: partial indicator*
The basic indicators are in bold.

GRI code	Full/partial indicator	GRI indicator	Relevant article of the French Commercial Code	Chapter/Section	Pages
EN11	√	**Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas**	**Art. R. 225-105-1-I-2°-e)**	**4.3.7**	**134**
EN12	√	**Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas**	**Art. R. 225-105-1-I-2°-e)**	**4.3.7**	**134**
EN14	√	Strategies, current actions and future plans for managing impacts on biodiversity	Art. R. 225-105-1-I-2°-e)	4.3.7	134
EN16	√	**Total direct and indirect greenhouse gas emissions by weight**	**Art. R. 225-105-1-I-2°-d)**	**4.3.6**	**130**
EN17	√	**Other relevant indirect greenhouse gas emissions by weight**	**Art. R. 225-105-1-I-2°-d)**	**4.3.6**	**131**
EN18	√	Initiatives to reduce greenhouse gas emissions and reductions achieved	Art. R. 225-105-1-I-2°-d)	4.3.6	132
EN19	√	**Emissions of ozone-depleting substances by weight**	**Art. R. 225-105-1-I-2°-b)**	**4.3.4**	**124**
EN20	√	**NOx, SOx, and other significant air emissions by type and weight**	**Art. R. 225-105-1-I-2°-b)**	**4.3.4**	**123**
EN21	√	**Total water discharge, by quality and destination**	**Art. R. 225-105-1-I-2°-b)**	**4.3.4**	**124**
EN22	√	**Total weight of waste, by type and disposal method**	**Art. R. 225-105-1-I-2°-b)**	**4.3.4**	**124**
EN23	√	**Total number and volume of significant spills**	**Art. R. 225-105-1-I-2°-b)**	**4.3.4**	**124**
EN 24	√	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention	Art. R. 225-105-1-I-2°-b)	4.3.4	125
EN26	√	**Initiatives to mitigate environmental impacts of products and services**	**Art. R. 225-105-1-I-2°-c)**	**4.3.5**	**128**
EN27	√	**Percentage of products sold and their packaging materials that are reclaimed by category**	**Art. R. 225-105-1-I-2°-c)**	**4.3.5**	**128**
EN28	√	**Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations**	**Art. R. 225-105-1-I-2°-a)**	**4.3.2**	**120**

Legend:
√: full indicator
√: partial indicator
The basic indicators are in bold.

GRI code	Full/partial indicator	GRI indicator	Relevant article of the French Commercial Code	Chapter/Section	Pages
EN29	√	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	Art. R. 225-105-1-I-2°-d)	4.3.4	133
EN30	√	Total environmental protection expenditures and investments	Art. R. 225-105-1-I-2°-a)	4.3.2	120
Labor practices and decent work					
LA1	√	**Total workforce by employment type, employment contract and region, broken down by gender**	**Art. R. 225-105-1-I-1°-a)**	**4.4.2**	**136**
LA2	√	**Total number and rate of new employee hires and employee turnover**	**Art. R. 225-105-1-I-1°-a)**	**4.4.2**	**137**
LA3	√	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Art. R. 225-105-1-I-1°-a)	4.4.5	155
LA4	√	**Percentage of employees covered by collective bargaining agreements**	**Art. R. 225-105-1-I-1°-c)**	**4.4.4**	**150-151**
LA7	√	**Rates of injury, occupational diseases, lost days, absenteeism and number of work-related fatalities by gender**	**Art. R. 225-105-1-I-1°-b), c)**	**4.4.3**	**143, 146**
LA8	√	**Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases**	**Art. R. 225-105-1-I-1°-d)**	**4.5.4**	**170**
LA9	√	Health and safety topics covered in formal agreements with trade unions	Art. R. 225-105-1-I-1°-d)	4.4.3, 4.4.4	143, 150-151
LA10	√	**Average hours of training per year per employee by gender**	**Art. R. 225-105-1-I-1°-e)**	**4.4.7**	**161**
LA11	√	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Art. R. 225-105-1-I-1°-e)	4.4.6, 4.4.7	159-161
LA13	√	**Composition of governance bodies and breakdown of employees per employee category according to gender, age group and other indicators**	**Art. R. 225-105-1-I-1°-f)**	**4.4.6**	**156, 159-160**
Human Rights					
HR2	√	**Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening**	**Art. R. 225-105-1-I-3°-b), c)**	**4.5.1**	**165**
HR3	√	**Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained**		**4.5.2**	**168**

Legend:
√*: full indicator*
√*: partial indicator*
The basic indicators are in bold.

GRI code	Full/partial indicator	GRI indicator	Relevant article of the French Commercial Code	Chapter/Section	Pages
HR5	√	**Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights**	**Art. R. 225-105-1-I-1°-f)**	**4.4.4**	**150**
HR6	√	**Prohibition of child labor Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor**	**-**	**1.3.4**	**25**
HR7	√	**Abolition of forced and compulsory labor Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor**	**-**	**1.3.4**	**25**
Society					
SO1	√	**Percentage of operations with implemented local community engagement, impact assessments, and development programs**	**Art. R. 225-105-1-I-3°-a)**	**4.5 – Introduction, 4.5.4**	**164, 170**
SO2	√	**Percentage and total number of business units analyzed for risks related to corruption**	**Art. R. 225-105-1-I-3°-d)**	**4.5.2**	**168**
SO3	√	**Percentage of employees trained in organization's anti-corruption policies and procedures**	**Art. R. 225-105-1-I-3°-d)**	**4.5.2**	**168-169**
SO4	√	**Actions taken in response to incidents of corruption**	**Art. R. 225-105-1-I-3°-d)**	**4.5.2**	**168-169**
SO5	√	**Public policy positions and participation in public policy development and lobbying**	**Art. R. 225-105-1-I-3°-b)**	**4.5.2**	**169**
SO6	√	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	Art. R. 225-105-1-I-3°-b)	4.5.2	169
Product responsibility					
PR1	√	**Life cycle stages in which health and safety impacts of products and services are assessed for improvement**		**4.2.2, 4.5.3**	**107, 169**

Legend:
√: full indicator
√: partial indicator
The basic indicators are in bold.

4.6.3 Sustainable Development Glossary

ADEME	French Environment and Energy Management Agency (*Agence de l'environnement et de la maîtrise de l'énergie*): public body undertaking operations with the aim of protecting the environment and managing energy. www.ademe.fr
CDP	Carbon Disclosure Project: an independent, non-profit organization working to drive greenhouse gas emissions reductions for companies and cities. www.cdproject.net
VOC	Volatile organic compound: VOCs are composed of carbon, oxygen and hydrogen and are readily found as atmospheric gases.
ELV Directive	European Directive no. 2000/53 of September 18, 2000 to reduce end-of-life vehicle waste through prevention, collection, treatment and recycling measures.
GHG	Greenhouse gas: gases which absorb infrared rays emitted by the Earth's surface and contributing to the greenhouse effect.
GRI	Global Reporting Initiative: a non-profit organization which develops internationally-applicable directives on sustainable development. www.globalreporting.org
ISO 14001	International standard on environmental management systems
Natura 2000	All European natural sites, whether land- or water-based, identified for the rarity or fragility of their wildlife or plant species and their habitat. http://ec.europa.eu/environment/nature/natura2000/
OHSAS 18001	International standard on occupational health and safety information
CMR product	A carcinogen, mutagen or substance toxic for reproduction
QRQC	Quick Response Quality Control: Four step problem resolution method: Detection, Communication, Analysis and Verification
REACH regulation	European regulation no. 1907/2006 of December 18, 2006 (Registration, Evaluation and Authorization of Chemicals)
SAM	Sustainable Asset Management: an international investment company focused on sustainable investments. The company jointly manages with Standards and Poors' the Dow Jones Sustainability Indexes, that track the sustainability performance of 2,500 of the largest companies listed on the Dow Jones Global Total Stock Market Index. http://www.sustainability-index.com/
Seveso	The Seveso European Directive requires European Union member states to identify industrial sites which present risks of major accidents. Companies can be Seveso-classified based on the quantities and types of hazardous products on site.
ZNIEFF	French natural zone of interest for ecology, flora and fauna (*Zone naturelle d'intérêt écologique, faunistique et floristique*): an inventory program aiming at collecting exhaustive and up-to-date information on the natural environment, whether land- or water-based, whose interest lies either in the balance or richness of the ecosystem, or in the presence of rare or endangered plant or animal species. http://www.centre.developpement-durable.gouv.fr/zone-naturelle-d-interet-r95.html (French only)

4.7 Summary of Valeo's CSR performance

4.7.1 Summary of environmental performance

The indicators are presented in the order that they appear in section 4.3.

Environmental indicator	Unit	2009	2010	2011	2012
Scope					
Total sales across all sites in reporting scope	€m	7,448	9,482	10,704	**11,626**
Number of sites in reporting scope	-	118	115	117	**126**
General policy on environmental issues					
Number of sites able to obtain ISO 14001 and OHSAS 18001 certification[1]	-	115	115	108	**121**
ISO 14001-certified sites	%	90	98	98	**96**
OHSAS 18001-certified sites	%	82	89	93	**88**
Functional expenditure allocated to environment	€k	11,740	11,123	12,454	**13,911**
Capital expenditure allocated to environment, excluding cleanup costs	€k	2,080	1,796	5,260	**1,884**
Cleanup costs, sites in operation	€k	1,358	710	704	**447**
Total provisions allocated to environmental risks	€k	22	22	22	**20**
Number of fines and compensation awards	-	4	3	3	**2**
Amount of fines and compensation awards	€k	113	8	4	**3**
Prevention of pollution and management of waste					
Atmospheric No_x emissions	metric tons	-	-	-	**134**
Atmospheric No_x emissions/Sales	kg/€m	-	-	-	**11.5**
Atmospheric VOC emissions[1]	metric tons	1,001	926	1,023	**1,360**
Atmospheric VOC emissions/Sales	kg/€m	134	98	96	**119**
Atmospheric TCE emissions	metric tons	42	19	34	**249**
Atmospheric TCE emissions/Sales	kg/€m	5.6	2.0	3.2	**21.5**
Atmospheric lead emissions	kg	11	1	3	**6**
Atmospheric lead emissions/Sales	g/€m	1.5	0.1	0.3	**0.5**
Emissions of ozone-depleting substances	kg eq. CFC-11	-	-	-	**478**
Volume of industrial effluents treated	thousands of cu.m	642	684	580	**604**
Heavy metal content in these effluents	kg	278	563	155	**55**
Number of significant spills	-	-	-	0	**0**
Total waste generated	thousands of metric tons	113.1	151.0	181.8	**197.3**
Of which hazardous waste	%	14	13	12	**12**
Of which non-hazardous waste	%	86	87	88	**88**
Total waste generated/Sales	metric t/€m	15	16	17	**17**

(1) See Sustainable Development Glossary, section 4.6.3, page 182.

Environmental indicator	Unit	2009	2010	2011	2012
Waste recovery rate	%	82	83	83	**79**
Total waste exported	metric tons	-	-	302	**748**
Ratio of total waste exported/Total waste generated	%	-	-	0.2	**0.4**
Number of environmental complaints	-	-	-	14	**5**
Sustainable use of resources					
Total water consumption	thousands of cu.m	2,343	2,402	2,300	**2,502**
Total water consumption/Sales	cu.m/€M	315	253	215	**215**
Packaging materials consumption	thousands of metric tons	47.2	60.1	64.7	**71.4**
Proportion of plastic packaging	%	6	7	7	**8**
Proportion of cardboard packaging	%	63	63	62	**63**
Proportion of wood packaging	%	30	28	30	**28**
Proportion of other types of packaging	%	1	2	1	**1**
Consumption of raw materials – metals	thousands of metric tons	760	723	817	**877**
Consumption of raw materials – plastics and resins	thousands of metric tons	125	161	182	**195**
Packaging materials consumption/Sales	metric t/€m	6.3	6.3	6.0	**6.1**
Consumption of heavy metals	metric tons	37	25	24	**19**
Consumption of heavy metals/Sales	kg/€m	5.0	2.7	2.3	**1.6**
Consumption of chlorinated solvents	metric tons	220	114	6	**273**
Consumption of chlorinated solvents/Sales	kg/€m	29.5	12.0	0.5	**23.5**
Consumption of CMR substances(1)	metric tons	188	134	110	**279**
Consumption of CMR substances/Sales	kg/€m	25.0	14.1	10.5	**24.0**
Consumption of recycled plastics	thousands of metric tons	7.5	10.3	10.7	**11.7**
Total energy consumption	GWh	1,433	1,716	1,764	**1,841**
Proportion of electricity	%	67	67	69	**70**
Proportion of natural gas	%	30	30	29	**27**
Proportion of fuel oil	%	2	2	1	**2**
Proportion of other energy sources	%	1	1	1	**1**
Total energy consumption/Sales	MWh/€m	192	181	165	**158**
Direct energy consumption/Sales	MWh/€m	62	58	50	**46**
Indirect energy consumption/Sales	MWh/€m	130	123	115	**112**
Energy efficiency: expected gain	MWh	-	-	39,693	**23,582**
Fight against climate change					
Direct greenhouse gas emissions (GHG)(1)	thousands of metric tons CO_2 eq.	108.1	129.1	131.5	**153.2**
Indirect GHG emissions(1)	thousands of metric tons CO_2 eq.	336.1	410.5	457.7	**506.4**
Other relevant indirect GHG emissions(1)	thousands of metric tons CO_2 eq.	3,049.9	3,887.4	4,515.7	**4,738.3**

(1) See Sustainable Development Glossary, section 4.6.3, page 182.

4.7.2 Summary of labor-related indicators

	2009	2010	2011	2012
Valeo Group headcount				
Engineers and managers	10,834	11,375	13,611	15,929
Administrative staff, technicians and supervisors	7,433	7,637	10,910	9,333
Operators	28,789	31,767	35,268	39,748
Registered headcount	**47,056**	**50,779**	**59,789**	**65,010**
Temporary staff	5,054	7,151	8,211	7,590
Total headcount	**52,110**	**57,930**	**68,000**	**72,600**
Permanent staff	44,705	47,146	54,897	60,708
Non-permanent staff	7,405	10,784	13,111	11,892
Total headcount outside France	36,492	43,490	53,133	58,232
Number of new hires on permanent contracts				
Engineers and managers	713	1,470	3,631	3,301
Administrative staff, technicians and supervisors	194	432	2,415	967
Operators	1,729	3,712	6,545	6,723
TOTAL	**2,636**	**5,614**	**12,591**	**10,991**
Number of new hires on fixed-term contracts				
Engineers and managers	73	123	220	175
Administrative staff, technicians and supervisors	65	68	609	132
Operators	3,746	4,871	5,376	5,262
TOTAL	**3,884**	**5,062**	**6,205**	**5,569**
Departures				
Contract terminations	3,806	2,058	2,010	2,234
o/w layoffs	2,619	733	196	211
Resignations	2,038	2,141	3,855	4,260
Early retirement	225	115	111	90
Retirement	285	247	288	415
Overtime (hours)	4,393,339	5,463,551	7,647,515	12,265,653
Number of part-time employees	1,036	1,072	1,120	1,070
Rate of absenteeism	2.55%	2.35%	2.28%	2.25%
Breakdown of women by occupational category (%)				
Engineers and managers	18.50%	19%	19.90%	20.5%
Administrative staff, technicians and supervisors	24.60%	24.30%	26.00%	23.8%
Operators	38.10%	37.10%	38.30%	40.4%
Diversity (number of nationalities in Valeo Group's workforce)	91	96	96	106
Number of collective bargaining agreements signed	315	269	211	221
Number of lost-time occupational accidents per million hours worked, Group (FR1)	4.08	3.96	2.83	2.64

	2009	2010	2011	2012
Number of occupational accidents, with or without lost time, per million hours worked, Group (FR2)	22.57	16.64	15.38	13.27
Number of days lost owing to an occupational accident per thousand hours worked, Group (severity rate)	0.1	0.08	0.07	0.06
% of training hours devoted to safety	18.40%	16.40%	18.80%	15%
% of employees attending at least one training session devoted to safety	51.50%	59.60%	58.60%	65%
Number of training hours provided	780,413	944,671	1,029,768	1,119,584
Expenditure on training (in euros)	20,180,632	25,231,511	21,251,589	23,310,018
Number of employees trained	36,285	41,317	44,298	56,954
Number of disabled employees	716	768	824	956
Number of interns	1,281	2,593	1,216	1,611
Number of apprentices	743	713	770	882
Number of international corporate volunteers	183	150	137	129

4.8 Independent verifier's statement of completeness and limited assurance report on social, environmental and societal information

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. 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, 2012

To the Chief Executive Officer,

Pursuant to your request and in our capacity as independent verifier of Valeo, we hereby report to you on the consolidated social, environmental and societal information presented in the management report issued for the year ended December 31, 2012 in accordance with the requirements of Article L.225-102-1 of the French Commercial Code (*Code de commerce*).

Management's Responsibility

The Board of Directors is responsible for the preparation of the management report including the consolidated social, environmental and societal information (the "Information") in accordance with the requirements of Article R.225-105-1 of the French Commercial Code, presented as required by the entity's internal reporting standards (the "Guidelines") and available at the entity's premises.

Our Independence and Quality Control

Our independence is defined by regulatory requirements, the Code of Ethics of our profession (*Code de déontologie*) and Article L.822-11 of the French Commercial Code. In addition, we maintain a comprehensive system of quality control including documented policies and procedures to ensure compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Independent verifier's responsibility

It is our role, on the basis of our work:

- to attest whether the required Information is presented in the management report or, if not presented, whether an appropriate explanation is given in accordance with the third paragraph of Article R.225-105 of the French Commercial Code and Decree no. 2012-557 dated April 24, 2012 (statement of completeness);
- to provide limited assurance on whether the Information is fairly presented, in all material respects, in accordance with the Guidelines (limited assurance).

1. Statement of completeness

Our engagement was performed in accordance with professional standards applicable in France:

- we compared the Information presented in the management report with the list as provided for in Article R.225-105-1 of the French Commercial Code;
- we verified that the Information covers the consolidated scope, namely the entity and its subsidiaries within the meaning of Article L.233-1 and the controlled entities within the meaning of Article L.233-3 of the French Commercial Code;
- in the event of the omission of certain consolidated Information, we verified that an appropriate explanation was given in accordance with Decree no. 2012-557 dated April 24, 2012.

On the basis of our work, we attest that the required Information is presented in the management report.

2. Limited assurance report

Nature and scope of the work

We conducted our engagement in accordance with ISAE 3000 (International Standard on Assurance Engagements) and French professional guidance. We performed the following procedures to obtain limited assurance that nothing has come to our attention that causes us to believe that the Information is not fairly presented, in all material respects, in accordance with the Guidelines. A higher level of assurance would have required more extensive work.

Our work consisted in the following:

- we assessed the appropriateness of the Guidelines as regards their relevance, completeness, neutrality, clarity and reliability taking into consideration, where applicable, the good practices in the sector;
- we verified that the Group had set up a process for the collection, compilation, processing and control of the Information to ensure its completeness and consistency. We examined the internal control and risk management procedures relating to the preparation of the Information. We conducted interviews with those responsible for social and environmental reporting;

- we selected the consolidated Information to be tested and determined the nature and scope of the tests, taking into consideration their importance with respect to the social and environmental consequences related to the Group's business and characteristics, as well as its societal commitments.
- Concerning the quantitative consolidated information that we deemed to be the most important:
  - at the level of the consolidating entity and the controlled entities, we implemented analytical procedures and, based on sampling, verified the calculations and the consolidation of this information,
  - at the level of the sites that we selected(1) based on their business their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews and we performed tests of detail based on sampling to verify that the procedures were correctly applied.

    The sample thus selected represents on average 4.5% of the workforce and between 3% and 15% of the quantitative environmental information tested.
- Concerning the qualitative consolidated information that we deemed to be the most important, we conducted interviews and reviewed the related documentary sources in order to corroborate this information and assess its fairness. On the subject of fair practices, interviews were conducted only at the consolidated entity's level.
- As regards the other consolidated information published, we assessed its fairness and consistency in relation to our knowledge of the Company and, where applicable, through interviews or the consultation of documentary sources.

Comments on the Guidelines

We wish to make the following comments on the Social Guidelines:

Concerning the average number of training hours per person, the Guidelines do not sufficiently detail the different criteria to be considered to decide whether training hours should be taken into account or not.

Comments on the Information

We wish to make the following comments on the Environmental Information:

- Valeo should standardize its practices related to updating annual figures for the indicator on total consumption of packaging materials;
- regarding the waste recovery rate, Valeo should improve the collection of supporting documentation for recovered waste;
- regarding greenhouse gas emissions, the sources taken into account exclude certain secondary sources such as fuel for test benches or methanol.

Conclusion

Regarding Volatile Organic Compounds (VOC) emissions, we were not able to confirm the completeness of the reported information given that some of the potentially concerned sites did not report data.

Based on our work described in this report, except for the effects of the matter described above, nothing has come to our attention that causes us to believe that the Information is not fairly presented, in all material respects, in accordance with the Guidelines.

Paris-La Défense, February 28, 2013

The Independent Verifier

Ernst & Young et Associés

Sustainable Development Department

French original signed by:

Éric Mugnier

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(1) Amiens (Powertrain Systems, France), Etaples-sur-Mer (Powertrain Systems, France), Issoire (Visibility Systems, France), and Zaragoza (Thermal Systems, Spain).

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FINANCIAL AND ACCOUNTING INFORMATION

5

THE INFORMATION FROM THE ANNUAL FINANCIAL REPORT IS CLEARLY IDENTIFIED IN THE TABLE OF CONTENTS BY THE AFR SYMBOL

5.1 Analysis of 2012 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 2012 consolidated financial statements in Chapter 5, section 5.2.6, Note 1, page 204 and onwards.

5.1.1 Sales

Record order intake(1) at 15.8 billion euros

In 2012, the order intake once again reached a new high of 15.8 billion euros compared with 14.9 billion euros in 2011. This performance confirms Valeo's organic growth potential which is driven by:

- the Group's innovative products and systems, which accounted for 28% of order intake in 2012;
- accelerated expansion in Asia and emerging countries.

  In particular, Asia and China contributed 34% and 18% respectively, to order intake, eight percentage points more than their current contribution to original equipment sales by destination in 2012 (26% and 10%, respectively). By contrast, Europe contributed 44% to order intake, seven percentage points less than its contribution to original equipment sales by destination in 2012.

Sales up 8.2% (2.5% on a like-for-like basis) to 11.8 billion euros

In 2012, **global automotive production** advanced 6%, reflecting widely contrasting results across the various regions:

Change in automotive production	2012 vs. 2011*
Asia & Middle East	+9%
Europe & Africa	-5%
North America	+18%
South America	- 1%
TOTAL	**+6%**

* *LMC & Valeo estimates.*

- European (and African) automotive production shrank 5% due to the economic crisis and the resulting fall in new vehicle registrations;
- global automotive production was driven by growth in Asia and the rise in new vehicle registrations in North America.

In 2012, sales came in at 11,759 million euros, representing an increase of 8.2% on a reported basis (2.5% like-for-like). In the same period, changes in exchange rates and changes in Group structure had positive impacts of 2.5% and 3.2%, respectively. Changes in Group structure were mainly attributable to the consolidation of Niles on July 1, 2011.

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(1) See Financial Glossary, section 5.8, page 296.

Sales *(in millions of euros)*	**(as a % of 2012 sales)**	**2012**	**2011**	**Change**
TOTAL	**100%**	**11,759**	**10,868**	**+8%**
of which:				
Original equipment	84%	9,910	9,207	+8%
Aftermarket	12%	1,454	1,412	+3%
Miscellaneous	4%	395	249	+59%

In 2012, **original equipment sales** advanced 8% on a reported basis (up 2% like-for-like).

Aftermarket sales rose 3% in 2012 on a reported basis. Due to the deteriorating economic climate in Europe, aftermarket sales fell 2% on a like-for-like basis.

Miscellaneous sales benefited from significant increases in tooling revenues resulting from the launch of new production lines, climbing 59% as reported (52% like-for-like).

Trends in Valeo's customer portfolio

In 2012, Asian and German customers represented 57% of the Group's original equipment sales. The share of Asian customers accounted for 28% of original equipment sales (versus 25% in 2011). The share of German customers remained stable at 29%.

Trends in Valeo's original equipment sales by destination compared with global automotive production

Original equipment *(in millions of euros)*	**2012**	**2011**	**Original equipment sales growth** (1)	**Automotive production growth** (2)
TOTAL	**9,910**	**9,207**	**+2%**	**+6%**
Europe & Africa	5,056	5,188	-3%	-5%
Asia, Middle East & Oceania	2,542	1,997	+8%	+9%
of which China	*1,006*	*753*	*+16%*	*+7%*
of which Japan	*738*	*585*	*-1%*	*+20%*
North America	1,735	1,355	+15%	+18%
South America	577	667	-8%	-1%

(1) Like-for-like.
(2) LMC & Valeo estimates.

In 2012, growth in original equipment sales was four percentage points lower than the market, reflecting the rally in the activity of Japanese customers and the economic slowdown in Europe.

Excluding Japanese customers, Valeo's global performance was in line with the market.

The Group's performance in 2012 on a like-for-like basis was as follows:

- **in Asia**, total original equipment sales were up 8%, standing at one percentage point lower than the market. This performance testifies to the Group's strong performance in India, China and South Korea (with growth outpacing automotive production by 7, 9 and 10 percentage points, respectively) but also an unfavorable customer mix in Japan as automotive production returned to normal market conditions.
- **in Europe**, original equipment sales growth was two percentage points higher than the market thanks to a favorable product and customer mix.
- **in North America**, excluding Japanese customers, Valeo outpaced the market by four percentage points thanks to the increase in its market share in the three American automakers. This region's performance relative to automotive production was affected by the strong rally among Japanese automakers and as a result, original equipment sales came in at three percentage points lower than the market.
- **in South America**, Valeo's original equipment sales were seven percentage points lower than the market on the back of a low order intake in 2006 and 2007.

Geographic trends in Valeo's production facilities

By location of assets, 54% of the Group's original equipment sales in 2012 were recorded in Asia and emerging countries (including Eastern Europe) versus 50% in 2011. In 2012, 52% of sales were recorded in Europe compared with 58% in 2011.

5.1.2 Results

Operating margin(1) up 3% year on year to 725 million euros, or 6.2% of sales

Gross margin amounted to 1,948 million euros, or 16.6% of sales versus 17.0% in 2011. Gross margin was impacted by the depreciation of the Brazilian real and the Indian rupee, and startup costs at new plants.

The Group's operating margin(1) amounted to 725 million euros, or 6.2% of sales versus 6.5% in 2011. This reflects, in particular, sound management of net Research and Development (R&D) expenditure as well as administrative and selling expenses:

- Valeo is continuing its R&D efforts in response to the rise in the order intake. In 2012, gross R&D expenditure totaled 1 billion euros, representing a year-on-year increase of 14.4%. Net R&D expenditure rose 6.6% to 598 million euros, or 5.1% of sales, edging down slightly by 0.1 percentage points compared with 2011. Capitalized R&D expenditure rose to 244 million euros, in line with the increase in the number of projects under development following the growth in order intake and with the improving margins of these projects;
- administrative and selling expenses amounted to 625 million euros and remained steady at 5.3% of sales.

The Group's **operating income** came in at 672 million euros, or 5.7% of sales, after taking into account other income and expenses, including the provision for the disposal loss on the Access Mechanisms business and the legal costs incurred in respect of anti-trust proceedings.

The cost of net debt totaled 103 million euros, corresponding to a year-on-year increase of 32 million euros. This increase chiefly reflects new long-term financing (due in 2017 and 2018) in a context defined by the investment of surplus cash at very low short-term interest rates.

The Group's share in net earnings of associates was 14 million euros. Taking into account the 27% effective tax rate and non-controlling interests in net income for 25 million euros, net attributable income (Group share) stood at 380 million euros, or 3.2% of sales, down 11% year on year. **Basic earnings per share** declined 11% to 5.03 euros. Excluding non-recurring items, net attributable income (Group share)(2) and basic earnings per share (Group share) totaled 420 million euros and 5.56 euros, respectively.

The return on capital employed(1) (ROCE) and **return on assets**(1) (ROA) were impacted by the increase in investments aimed at supporting the growth in order intake and stood at 28% and 17%, respectively.

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(1) See Financial Glossary, section 5.8, page 296.

(2) Net attributable income (Group share) excluding non-recurring items corresponds to net attributable income (Group share) adjusted for "other income and expenses" net of tax and negative goodwill recognized in respect of Detroit Thermal Systems in "share in net earnings of associates".

5.1.3 Segment reporting

Sales growth across all Business Groups in 2012

Despite economic headwinds in Europe, all of Valeo's Business Groups reported growth in sales.

As is the case for the consolidated Group, the sales performance for each Business Group reflected the specific geographic and customer mix and the relative weighting of the aftermarket in their activity as a whole.

Sales *(in millions of euros)*	**2012***	**2011***	**Sales growth**	**Original equipment sales growth****
Powertrain Systems	3,266	3,126	+4%	-1%
Thermal Systems	3,340	3,140	+6%	+4%
Comfort and Driving Assistance Systems	2,510	2,157	+16%	+2%
Visibility Systems	2,734	2,549	+7%	+2%

* *Including intersegment sales.*
** *Like-for-like.*

Sales for the Powertrain Systems Business Group were up 4% at 3,266 million euros. The Business Group's original equipment sales (down 1% on a like-for-like basis) reflected the lesser weighting of Japanese customers in the Powertrain Systems portfolio.

Sales for the Comfort and Driving Assistance Systems Business Group came in at 2,510 million euros, up 16%. In the first half of 2012, the Business Group benefited from the positive impact of changes in Group structure attributable to the consolidation of Niles on July 1, 2011.

EBITDA(1) *(as a % of sales)*	**2012**	**2011**	**Change**
Powertrain Systems	10.1	8.6	+1.5 pts
Thermal Systems	11.5	11.4	+0.1 pts
Comfort and Driving Assistance Systems	11.9	12.2	-0.3 pts
Visibility Systems	8.0	10.9	-2.9 pts

The downturn in EBITDA(1) in the Visibility Systems Business Group reflected the lackluster aftermarket and startup costs for new projects.

The Powertrain Systems Business Group returned to profitability during the year.

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(1) See Financial Glossary, section 5.8, page 296.

5.1.4 Financial position

Stockholders' equity

At December 31, 2012, consolidated stockholders' equity amounted to 2,195 million euros versus 2,080 million euros at December 31, 2011. The 115 million euros increase chiefly reflects consolidated net income for the period (i.e., 405 million euros), the dividend paid to Group shareholders (for 106 million euros), and actuarial losses arising on pension obligations (138 million euros) taken directly to other comprehensive income net of deferred tax, in accordance with the option available under IAS 19.

Provisions

The statement of financial position at December 31, 2012 showed total provisions of 1,338 million euros (including a non-current portion of 1,085 million euros), compared with 1,256 million euros at end-2011 (including a non-current portion of 994 million euros).

Provisions for pensions and other employee benefits totaled 916 million euros (including a non-current portion of 862 million euros) at December 31, 2012, representing a net year-on-year increase of 140 million euros. Actuarial losses increased provisions for pensions by 165 million euros in 2012. Most of the increase results from the lower discount rates used to calculate the Group's benefit obligation in Europe. In addition, the classification of liabilities relating to the Access Mechanisms business within liabilities held for sale resulted in a decrease in total provisions of 21 million euros, including 12 million euros relating to pension obligations.

Total provisions for restructuring costs fell 16 million euros in 2012 to 44 million euros. This decrease results mainly from expenditures and reversals of outstanding provisions set aside for the restructuring plan launched in 2010 on setting up the new organization of the Group.

Other provisions fell from 420 million euros at December 31, 2011 to 378 million euros at December 31, 2012, and included 185 million euros relating to product warranties and 193 million euros relating to other risks and disputes. The amount of 193 million euros corresponds mainly to provisions of a tax and environmental nature totaling 66 million euros and 20 million euros, respectively, as well as 94 million euros for provisions for employee-related risks, including asbestos risks and various disputes arising in connection with Valeo's operating activities across the globe.

Cash flows and debt

Net cash from operating activities rose to 938 million euros in 2012 from 899 million euros in 2011, reflecting the 76 million euros increase in gross operating cash flows which was partially offset by the 49 million euros fall in working capital requirements in 2012 and higher tax payments than in 2011.

Outflows relating to acquisitions of property, plant and equipment and intangible assets in 2012 totaled 872 million euros, a 28% increase compared to investments in 2011 (683 million euros). Given the record order intake over the past three years, investments rose sharply in both 2011 and 2012.

Free cash flow, which corresponds to net cash from operating activities of 938 million euros less net outflows on property, plant and equipment and intangible assets (857 million euros), amounted to 81 million euros versus 232 million euros in 2011.

In 2011, changes in the scope of consolidation (acquisitions of investments with gain of control, net of cash acquired) 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 and Valeo Pyeong Hwa International, which had a positive impact of 20 million euros on consolidated cash flows. In 2012, cash outflows relating to acquisitions of investments totaled 19 million euros corresponding to the contingent consideration paid at the beginning of the year for the acquisition of Niles, 50% of the price paid for the acquisition of Wuhu Ruby Automotive Lighting Systems and the impact of the acquisition of a controlling interest in Foshan Ichikoh Valeo Lighting Systems Co. Ltd carried out within the framework of the Lighting Alliance with Ichikoh.

In 2012, financing activities mainly included dividends paid to Valeo shareholders for 106 million euros and net interest expense of 66 million euros, as well as the repayment of long-term loans and borrowings for 368 million euros (syndicated loans, partial redemption of the 2013 bond issue) and the acquisition of a 45% interest in the Chinese firm Valeo Automotive Air Conditioning Hubei Co. Ltd for 52 million euros. Cash outflows from financing activities were offset by long-term debt issuance in the period amounting to 530 million euros. These mainly included the 2012 bond issue for 500 million euros. In all, cash flows from financing activities represented a net outflow of 60 million euros in 2012 compared with 1 million euros in 2011.

Net cash flow amounts to a cash outflow of 180 million euros and corresponds to free cash flow (81 million euros) less (i) cash flows in respect of investing activities, relating to acquisitions and disposals of investments (with a change of control) (net outflows of 19 million euros and 10 million euros, respectively) and to changes in certain items shown in non-current financial assets (outflow of 5 million euros); and (ii) cash flows in respect of financing activities, relating to dividends paid (outflow of 124 million euros), treasury share purchases and sales (net inflow of 23 million euros), interest paid and received (net outflow of 66 million euros), and acquisitions of equity interests without a change of control (outflow of 60 million euros).

Consolidated cash and cash equivalents rose 19 million euros, compared with a decrease of the same amount in 2011.

At December 31, 2012, net debt(1) stood at 763 million euros (including 23 million euros corresponding to the Access Mechanisms business), up from 523 million euros at end-2011. The increase in net debt results from the large-scale investments undertaken by the Group in 2012, including capital expenditure in its plants, Research and Development financing and investments made to keep pace with the sharp rise in the order intake over the past three years. The leverage ratio (net debt/EBITDA) came out at 0.61 times EBITDA(1) and the gearing ratio (net debt/stockholders' equity excluding non-controlling interests) stood at 37% at December 31, 2012 compared with 27% at December 31, 2011.

Investments over the past three years

2012

To support the record order intake achieved in the past few years, investments recorded in 2012 were up 23% on 2011 at 879 million euros, or 7.5% of sales. Investments concerned property, plant and equipment(2) for 607 million euros and intangible assets(2) for 272 million euros (including 244 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 28%, 17% and 12%, respectively, of investments in property, plant and equipment. Investments remained significant in Western Europe (35%) as growth reported by Valeo outpaced market growth. Significant investments were also undertaken in 2012 to set up and extend capacity of plants in China, Mexico, South Korea and Poland. Capital expenditure was mainly earmarked for the Lighting, Torque converters, Electrical Systems and Heat exchangers product lines.

In line with its development strategy in Asia and emerging countries and in the area of technologies focusing on the reduction of CO_2 emissions, Valeo announced the following transactions:

- on October 29, 2012, the creation of the company Detroit Thermal Systems (DTS) with V. Johnson Enterprises to acquire the climate control business of Automotive Components Holdings (ACH) which is currently based at the Sheldon Road plant in Michigan;
- on September 7, 2012, an agreement to strengthen its Lighting Alliance with Ichikoh by creating an entity to which the two companies contribute their respective Chinese Lighting operations, 85%-owned by Valeo and 15%-owned by Ichikoh;
- on April 23, 2012, the acquisition of the non-controlling interests in its China-based subsidiary Valeo Automotive Air Conditioning Hubei, previously 55%-owned.

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(1) See Financial Glossary, section 5.8, page 296.

(2) Acquisitions (see Notes 5.2 and 5.3 to the 2012 consolidated financial statements on pages 229 to 231).

2011

Given the sharp order intake in 2010 and 2011 and a 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 plants in China, Mexico, Romania, Poland, India, Hungary, South Korea and Brazil. Capital expenditure was mainly earmarked for the 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 United States. This transaction enabled the Interior Controls Product Group within the Comfort and Driving Assistance Business Group to become the worldwide leader in its market.

On December 5, 2011, Valeo acquired the 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 was renamed Valeo Air Management UK and 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 subsidiary was renamed Wuhu Valeo Automotive Lighting Systems and was fully consolidated into the Group's financial statements with effect from January 1, 2012. The company designs, manufactures and sells Valeo Lighting Systems, mainly to Chery Automobile on the Chinese market, and was 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 Compresseurs, which sells compressors on the aftermarket as well as for trucks and special vehicles.

2010

In 2010, investments in property, plant and equipment stood at 318 million euros, 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, 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.

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(1) Acquisitions (see Notes 5.2 and 5.3 to the 2012 consolidated financial statements, pages 229 to 231).

Commitments

The table below shows the main commitments given:

(in millions of euros)	**2012**	**2011**	**2010**
Lease commitments	119	117	121
Guarantees given	3	3	4
Non-cancelable asset purchase commitments	222	133	144
Other commitments given	53	92	148
TOTAL	**397**	**345**	**417**

The significant increase in non-cancelable asset purchase commitments given during the year reflects a sustained investment program relating to the very high order intake.

The fall in other commitments given in 2012 reflects the expiration of a vendor warranty granted in 2002 in connection with a disposal.

Valeo was granted vendor warranties totaling 59 million euros on acquisitions carried out in 2012 and 2011.

Details of these commitments are provided in Note 6.3 to the 2012 consolidated financial statements in Chapter 5, section 5.2.6, pages 260 to 261.

5.2 Consolidated financial statements for the year ended December 31, 2012 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, 2011, set out on pages 188 to 254 and 255 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2012 under number D.12-0237;
- 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 AMF on March 29, 2011 under number D.11-0191.

5.2.1 Consolidated statement of income

(in millions of euros)	*Notes*	**2012**	**2011**
CONTINUING OPERATIONS			
SALES	*4.1*	**11,759**	**10,868**
Cost of sales	*4.2*	(9,811)	(9,025)
GROSS MARGIN		**1,948**	**1,843**
% of sales		16.6%	17.0%
Research and Development expenditure, net	*4.3*	(598)	(561)
Selling expenses		(196)	(181)
Administrative expenses		(429)	(397)
OPERATING MARGIN		**725**	**704**
% of sales		6.2%	6.5%
Other income and expenses	*4.5*	(53)	-
OPERATING INCOME		**672**	**704**
Interest expense	*4.6*	(117)	(90)
Interest income	*4.6*	14	19
Other financial income and expenses	*4.7*	(30)	(35)
Share in net earnings of associates	*4.8*	14	2
INCOME BEFORE INCOME TAXES		**553**	**600**
Income taxes	*4.9*	(146)	(148)
INCOME FROM CONTINUING OPERATIONS		**407**	**452**
DISCONTINUED OPERATIONS			
Income (loss) from discontinued operations, net of tax		(2)	(1)
NET INCOME FOR THE YEAR		**405**	**451**
Attributable to:			
■ Owners of the Company		380	427
■ Non-controlling interests		25	24
Earnings per share:			
■ Basic earnings per share *(in euros)*	*4.10.1*	5.03	5.68
■ Diluted earnings per share *(in euros)*	*4.10.2*	5.03	5.67
Earnings per share from continuing operations:			
■ Basic earnings per share *(in euros)*		5.05	5.70
■ Diluted earnings per share *(in euros)*		5.05	5.69

The Notes are an integral part of the consolidated financial statements.

5.2.2 Consolidated statement of comprehensive income

(in millions of euros)	**2012**	**2011**
NET INCOME FOR THE YEAR	**405**	**451**
Share of changes in comprehensive income from associates	(9)	7
o/w income taxes	-	-
Translation adjustment	(35)	-
o/w income taxes	-	-
Cash flow hedges:		
■ gains (losses) taken to equity	(3)	(25)
■ (gains) losses transferred to income (loss) for the year	6	4
o/w income taxes	*(1)*	-
Remeasurement of available-for-sale financial assets	-	-
o/w income taxes	-	-
Other comprehensive income (loss) recycled to income	**(41)**	**(14)**
Actuarial gains (losses) on defined benefit plans	(138)	(90)
o/w income taxes	*27*	-
Other comprehensive income (loss) not recycled to income	**(138)**	**(90)**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(179)**	**(104)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**226**	**347**
Attributable to:		
■ Owners of the Company	200	316
■ Non-controlling interests	26	31

The Notes are an integral part of the consolidated financial statements.

5.2.3 Consolidated statement of financial position

(in millions of euros)	*Notes*	**2012**	**2011**
ASSETS			
Goodwill[1]	*5.1*	1,322	1,438
Other intangible assets[1]	*5.2*	736	643
Property, plant and equipment	*5.3*	2,075	1,956
Investments in associates	*5.4*	112	104
Other non-current financial assets		27	91
Deferred tax assets	*5.5*	220	223
Non-current assets		**4,492**	**4,455**
Inventories[1]	*5.6*	789	765
Accounts and notes receivable	*5.7*	1,517	1,705
Other current assets		378	312
Taxes recoverable		48	20
Other current financial assets		20	10
Assets held for sale	*5.8*	342	2
Cash and cash equivalents	*5.12.4*	1,334	1,295
Current assets		**4,428**	**4,109**
TOTAL ASSETS		**8,920**	**8,564**
EQUITY AND LIABILITIES			
Share capital	*5.9.1*	238	238
Additional paid-in capital	*5.9.2*	1,434	1,429
Translation adjustment	*5.9.3*	183	230
Retained earnings	*5.9.4*	197	39
Stockholders' equity		**2,052**	**1,936**
Non-controlling interests	*5.9.7*	143	144
Stockholders' equity including non-controlling interests		**2,195**	**2,080**
Provisions for pensions and other employee benefits – long-term portion	*5.10*	862	712
Other provisions – long-term portion	*5.11*	223	282
Long-term debt – long-term portion	*5.12.2*	1,564	1,494
Other financial liabilities – long-term portion		17	51
Subsidies and grants – long-term portion		19	23
Deferred tax liabilities[1]	*5.5*	26	26
Non-current liabilities		**2,711**	**2,588**
Accounts and notes payable[1]		2,209	2,338
Provisions for pensions and other employee benefits – current portion	*5.10*	54	64
Other provisions – current portion	*5.11*	199	198
Subsidies and grants – current portion		14	9
Taxes payable		40	59
Other current liabilities[1]		783	826
Current portion of long-term debt	*5.12.2*	440	307
Other financial liabilities – current portion		10	20
Liabilities held for sale	*5.8*	192	-
Short-term debt	*5.12.3*	73	75
Current liabilities		**4,014**	**3,896**
TOTAL EQUITY AND LIABILITIES		**8,920**	**8,564**

(1) The presentation of the statement of financial position at December 31, 2011 has been modified compared to the version published in February 2012 to reflect the definitive adjustments made to the acquired assets and liabilities of Niles (see Note 2.2.1, page 218) and Controlled Power Technologies (see Note 2.2.3, page 218). These adjustments were not material taken as a whole.

The Notes are an integral part of the consolidated financial statements.

5.2.4 Consolidated statement of cash flows

(in millions of euros)	*Notes*	**2012**	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		405	451
Share in net earnings (losses) of associates		(14)	(2)
Net dividends received from associates		3	-
Expenses (income) with no cash effect	*5.13.1*	530	429
Cost of net debt		103	71
Income taxes (current and deferred)		146	148
Gross operating cash flows		**1,173**	**1,097**
Income taxes paid		(186)	(169)
Changes in working capital	*5.13.2*	(49)	(29)
Net cash from operating activities		**938**	**899**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(269)	(193)
Acquisitions of property, plant and equipment		(603)	(490)
Disposals of property, plant and equipment		15	17
Net change in non-current financial assets		49	17
Acquisitions of investments (gain of control), net of cash acquired	*5.13.3*	(19)	(270)
Disposals of investments (loss of control), net of cash transfered		(10)	1
Net cash used in investing activities		**(837)**	**(918)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(106)	(91)
Dividends paid to non-controlling interests in consolidated subsidiaries		(18)	(19)
Issuance of share capital		5	22
Sale (purchase) of treasury stock		23	(18)
Issuance of long-term debt	*5.13.4*	530	843
Interest paid		(83)	(74)
Interest received		17	17
Repayments of long-term debt	*5.13.4*	(368)	(681)
Acquisition of interests without gain of control	*5.13.5*	(60)	-
Net cash used in financing activities		**(60)**	**(1)**
Effect of exchange rate changes on cash		**(22)**	**1**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**19**	**(19)**
Net cash and cash equivalents at beginning of year		**1,220**	**1,239**
Net cash and cash equivalents at end of year		**1,239**	**1,220**
o/w:			
■ Cash and cash equivalents		1,334	1,295
■ Short-term debt		(73)	(75)
■ Portion of cash-related assets and liabilities held for sale (1)		(22)	-

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(1) The assets and liabilities relating to the Access Mechanisms businesses were reclassified within assets and liabilities held for sale at December 31, 2012 (see Note 2.1.1, page 216).

The Notes are an integral part of the consolidated financial statements.

5.2.5 Consolidated statement of changes in stockholders' equity

Number of shares	*(in millions of euros)*	Share capital	Additional paid-in capital	Translation adjustment	Retained earnings	Stockholders' equity including non-controlling interests: 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)**
(702,568)	Treasury stock	-	-	-	(23)	(23)	-	**(23)**
640,798	Capital increase	2	17	-	-	19	-	**19**
	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 period	-	-	-	427	427	24	451
	Other comprehensive income (loss), net of tax	-	-	-	(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**
	Dividends paid	-	-	-	(106)	(106)	(18)	**(124)**
882,333	Treasury stock	-	-	-	23	23	-	**23**
192,944	Capital increase	-	5	-	-	5	1	**6**
	Share-based payment	-	-	-	9	9	-	**9**
	Other movements	-	-	-	(15)	(15)	(10)	**(25)**
	Transactions with owners	**-**	**5**	**-**	**(89)**	**(84)**	**(27)**	**(111)**
	Net income for the period	-	-	-	380	380	25	**405**
	Other comprehensive income (loss), net of tax	-	-	(47)	(133)	(180)	1	**(179)**
	Total comprehensive income (loss)	**-**	**-**	**(47)**	**247**	**200**	**26**	**226**
76,103,667	**Stockholders' equity at December 31, 2012**	**238**	**1,434**	**183**	**197**	**2,052**	**143**	**2,195**

The Notes are an integral part of the consolidated financial statements.

5.2.6 Notes to the consolidated financial statements

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Note 1 Accounting policies

The consolidated financial statements of the Valeo Group for the year ended December 31, 2012 include:

- the accounts of Valeo;
- the accounts of its subsidiaries;
- the accounts of entities jointly controlled by Valeo which are proportionately consolidated;
- Valeo's share in the net assets and earnings of associates.

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, 2013.

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's website(1).

1.1.1 Standards, amendments and interpretations adopted by the European Union and obligatorily applicable for reporting periods beginning on or after January 1, 2012

The amendment to IFRS 7 – "Financial Instruments: Disclosures – Transfers of Financial Assets" led to additional disclosures in Note 5.7 on page 234 concerning the derecognition of some accounts and notes receivable.

1.1.2 Standards, amendments and interpretations adopted by the European Union and obligatorily applicable for reporting periods beginning on or after July 1, 2012

The IASB published an amendment to IAS 1 – "Presentation of Items of Other Comprehensive Income", which was adopted by the European Union on June 5, 2012. This amendment only has a limited impact on the Group's consolidated financial statements, since Valeo's statement of comprehensive income already presents items that can be recycled to income separately from those that cannot, as well as the related tax effect.

1.1.3 Standards, amendments and interpretations published by the IASB and adopted by the European Union but not obligatorily applicable for reporting periods beginning on or after January 1, 2012 and not early adopted by the Group

The IASB published an amendment to IAS 19 – "Employee Benefits", which was adopted by the European Union on June 6, 2012. This amendment is effective for reporting periods beginning on or after January 1, 2013 and is only expected to have a limited impact on the Group's consolidated financial statements, since Valeo already recognizes actuarial gains and losses in other comprehensive income (see Note 1.17, page 214).

One of only two expected impacts of the amended IAS 19 is the immediate recognition of obligations related to unrecognized past service costs. This would have represented an increase of 4 million euros of the provision for pensions at December 31, 2012 (5 million euros at December 31, 2011), and other comprehensive income would have been adjusted accordingly. The impact of this change on the 2011 and 2012 consolidated statement of income would not have been material.

The other expected impact concerns changes to the expected return on plan assets due to the use of a single return on plan assets equal to the discount rate, regardless of the strategic asset allocation. In 2012, the change in the expected return on plan assets would have given rise to a 9 million euros decrease in financial income (5 million euros decrease in 2011) within other financial income and expenses, offset by an actuarial gain in the same amount in other comprehensive income. In 2013, the anticipated impact would be an 11 million euros decrease in financial income within other financial income and expenses, offset by an actuarial gain of the same amount in other comprehensive income.

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(1) http://ec.europa.eu/internal_market/accounting/ias/standards_en.htm

The IASB also published the following standards dealing with consolidation:

- IFRS 10 – "Consolidated Financial Statements";
- IFRS 11 – "Joint Arrangements";
- IFRS 12 – "Disclosure of Interests in Other Entities";
- IAS 27 (revised), now entitled – "Separate Financial Statements";
- IAS 28 (revised), now entitled – "Investments in Associates and Joint Ventures".

These standards were adopted by the European Union on December 11, 2012 and are obligatorily applicable for reporting periods beginning on or after January 1, 2014. This is one year later than the effective date set by the IASB.

Based on our analyses, only IFRS 11 is expected to have a material impact on the Group's consolidated financial statements. This is because the Group proportionately consolidates its joint ventures. Following an analysis of joint arrangements, the Group classified all of these entities as joint ventures and not joint operations. Accordingly, these joint ventures would be accounted for using the equity method in accordance with IFRS 11. In the statement of income, as published this year, this change would have led to a 419 million euros decrease in 2012 consolidated sales (410 million euros decrease in 2011) and a fall of 15 million euros in 2012 consolidated operating margin (30 million euros fall in 2011). Conversely, the share in net earnings from associates would have increased by 11 million euros in 2012 (26 million euros in 2011). The amounts recorded for 2011 and 2012 in the Group's consolidated financial statements in respect of proportionately consolidated joint ventures are detailed in Note 6.7, on page 263.

The IASB also published IFRS 13 – "Fair Value Measurement" as well as amendments to IAS 12, IAS 32 and IFRS 7. Based on a preliminary analysis, the Group does not expect the adoption of IFRS 13 and of the amendments to have a material impact on its consolidated financial statements.

1.1.4 Standards, amendments and interpretations published by the IASB but not yet adopted by the European Union, not obligatorily applicable for reporting periods beginning on or after January 1, 2012

The Annual Improvements to IFRS, published in May 2012, are not expected to have a material impact on the Group's consolidated financial statements.

1.1.5 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.

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 Chapter 2, section 2.1 "Main risks" on pages 56 to 66).

In this persistently uncertain context, particularly in Europe, the Group mainly based the medium-term business plans and budgets 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 medium-term business plans for 2013-2017 are underpinned by the following assumptions:

- world automotive production of 101 million vehicles in 2017, representing average annual growth of 4.5% over the term of the business plan. This is consistent with several independent external forecasts available in October 2012, when the business plan was revised. At the end of the period covered by the business plan, Asia and the Middle East should represent 54% of global production, Europe and Africa 24%, North America 17% and South America 5%;

- exchange rate assumptions are based on projections of a panel of banks. The exchange rates used for the main currencies featured in the business plan are 1 euro for 1.34 US dollars throughout the term covered by the business plan; and at the end of the business plan period, 1 euro for: 7.90 Chinese yuans, 107 Japanese yen, 1,380 Korean won and 2.29 Brazilian real;
- Group sales were forecast based on the orders known at the time the business plan was drawn up and by reference to an estimate of the orders to be taken over the term of the business plan. These target order numbers represent less than 30% of cumulative original equipment sales over the five-year forecast period and around 50% of original equipment sales for the final year.

The Group exercises its judgment based on past experience and other factors considered to be decisive given the circumstances. The estimates and assumptions used are revised on an ongoing 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, 2012 chiefly concern:

- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Notes 1.12 on page 210, 1.13 on page 211 and 4.5.2 on page 224);
- estimates of provisions, particularly for pensions and other employee benefits and for the risks linked to warranties (see Notes 5.10 on page 238 and 5.11 on page 244);
- the measurement of deferred tax assets (see Note 5.5, page 233).

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 recording the initial cost of the acquisition, plus or minus the Group's equity in the associate's undistributed comprehensive income after the acquisition date, adjusted where appropriate in order to comply with Group accounting principles. Goodwill arising on the acquisition of associates is included in the carrying amount of investments in associates.

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

1.4.1 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 under "Translation adjustment" in other comprehensive income to be recycled to income.

1.4.2 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 disposal of the net investment, or when partial or full repayment of these loans or borrowings is highly probable.

When the net investment is derecognized, the residual translation adjustment is taken to financial income and expenses in the consolidated statement of income. Translation adjustments previously recognized in other comprehensive income are only recycled to income when the foreign operation is partially or fully disposed of. The Group examines if these partial or full repayments of loans or borrowings equate to a partial or full disposal of the subsidiary.

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 the future risks and rewards related to tooling, any contributions received from customers are recognized over the duration of the manufacturing phase of the project, within the limit of 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 expenditure and selling and administrative expenses.

Net Research and Development expenditure comprises 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, related to projects for which development costs are capitalized, 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 income, interest expense 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 transactions or non-ferrous metals purchases that do not meet the definition of hedges under IAS 39 – “Financial Instruments: Recognition and Measurement”;
- write-downs taken in respect of credit risk and losses on bad debts in the event of client default, 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 carryforwards.

The main temporary differences relate to tax loss carryforwards, 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. Current tax assets and liabilities are offset when the taxes are levied by the same taxation authority and if that authority allows the tax entity to settle on a net basis. 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 as a change of accounting estimate or correction of an error.

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 is recycled to the statement of income.

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 on page 211.

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 on page 211.

1.11.1 Development costs

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. Costs incurred before the formal decision to develop the product are included in expenses for the period. Costs incurred after the launch of volume production are considered as production costs.

They are subsequently amortized on a straight-line basis over a maximum period of four years as from the start of volume production.

1.11.2 Other intangible assets

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 or duration of protection
customer relationships acquired	up to 25 years
other intangible assets	3 to 5 years

1.12 Property, plant and equipment

Separately acquired property, plant and equipment are initially recognized at cost in accordance with IAS 16. 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. Property, plant and equipment acquired as part of a business combination are recognized at fair value, separately from goodwill.

Property, plant and equipment are subsequently carried at cost, less accumulated depreciation and impairment losses. 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.

Any subsequent costs incurred in respect of property, plant and equipment are expensed as incurred, unless they are designed to extend the asset's useful life.

Property, plant and equipment are tested for impairment using the methodology described in Note 1.13 on page 211.

1.12.1 Depreciation method and useful life

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 the following estimated useful lives:

Buildings	20 years
Fixtures and fittings	8 years
Machinery and industrial equipment	8 to 15 years
Other property, plant and equipment	3 to 8 years

In accordance with IAS 16, the residual value and useful life of property, plant and equipment should be revised at least annually at the end of each reporting period. Following a review of the useful lives of assets classified as machinery and industrial equipment, the useful life of some of them was increased from 8 years to 12 or 15 years as of July 1, 2012. This change chiefly concerns processing facilities (presses) along with heat and surface treatment equipment.

In accordance with IAS 8, the change has been accounted for as a change in accounting estimate and all residual useful lives of the assets concerned have been modified on a prospective basis. This applies to any non-current assets not fully depreciated at July 1, 2012 and to all new non-current assets brought into service in the second half of 2012.

This change gives rise to a 14 million euros decrease in the depreciation expense for second-half 2012. The estimated impact of this change in 2013 is 28 million euros.

1.12.2 Tooling

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 consolidated 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 income under "Sales" in proportion to the depreciation charged against the related assets.

Tooling is depreciated on a straight-line basis over its estimated useful life, not exceeding four years.

1.12.3 Finance leases

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 the fair value of the leased asset and the present value of future minimum lease payments. This amount is then reduced by depreciation and by any impairment losses recognized in accordance with Note 1.13 on page 211;
- 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 on pages 260 to 261.

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. 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.

The main impairment indicators used by the Group to test impairment are a negative operating margin for the period or an expected fall of more than 20% in year-on-year sales.

1.13.1 Cash-generating units and goodwill

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. A total of 27 CGUs had been identified at end-December 2012. CGUs represent the level at which all property, plant and equipment and intangible assets are tested for impairment if there is an indication that they may be impaired. However, specific impairment tests may be carried out on certain idle property, plant and equipment and intangible assets.

Goodwill is tested for impairment at the level of the Business Groups, as set out in Note 3 on page 219 on segment information. The Business Groups are groups of CGUs and correspond to the level at which management monitors goodwill.

At the end of the reporting period, goodwill was tested for impairment using the same methodology and assumptions as those described below for CGUs (see Note 1.13.2 below).

1.13.2 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 group of assets is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is determined using available information allowing Valeo to establish a best estimate of the selling price net of the costs necessary to make the sale, between knowledgeable, willing parties in an arm's length transaction. Value in use corresponds to the present value of the future cash flows expected to be derived from an asset or group of assets, taking into account its residual value.

Since there is seldom a reliable basis to measure the fair value less costs to sell of a group of assets belonging to Valeo, the Group uses value in use for CGUs and goodwill impairment tests to determine the recoverable amount of such assets or group of assets, unless otherwise specified.

The value in use of CGUs and goodwill is determined as follows:

- 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, are discounted;
- cash flows beyond the five-year period are extrapolated by applying a perpetuity growth rate to normative forecast cash flows, corresponding to the last year of the medium-term plan adjusted where applicable for non-recurring items;
- 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 tests are carried out using the following assumptions:

- the projections used are based on past experience, macroeconomic data for the automotive market, order books and products under development;
- a perpetuity growth rate of 1%, which is the same as that used in 2011 and remains below the average long-term growth rate for the Group's business sector;
- a post-tax discount rate (WACC) of 9.0% (as in 2011), calculated using the method established by an independent expert in 2007. This method is based on a sample of around 20 automotive suppliers. The discount rate includes a market risk premium of 5.0% (4.5% in 2011), a risk-free interest rate of 1.6% (2.5% in 2011), and an industry beta of 1.6 (as in 2011).

The key assumptions underpinning the perpetuity growth rate and the discount rate are the same for each group of CGUs to which goodwill has been allocated. Business Groups were created in the new organization set up in 2010 to adapt to the increasing globalization of automotive markets and customers. Business Groups are largely similar in terms of market and positioning, and enjoy a global geographic base as well as relations with the world's leading automakers.

Forecasts are made at the smallest level (for each CGU), based on detailed projections of the automotive market by automaker, country and model, taking into account expected product developments in the CGU's order book. The key common assumptions underlying macroeconomic data are described in Note 1.2 on page 205 on the basis of preparation of the financial statements.

Idle non-current assets are tested for impairment by comparing the asset's net carrying amount with the resale value less costs to sell. Impairment losses are recognized as appropriate.

1.13.3 Recognition and reversal of impairment

The impairment loss to be recognized against a CGU is allocated to the CGU's assets in proportion to their net carrying amount.

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 beyond 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 is recognized through income and offset (for the effective portion of the hedge) 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 any 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 income and expenses if it relates to a risk of insolvency of the debtor.

For recurring or one-off transactions, accounts and notes receivable may be discounted and sold to banks. In this case, an analysis is performed to measure the transfer of the risks and rewards inherent to ownership of the receivables. If the analysis shows that substantially all the risks and rewards are transferred, the accounts and notes receivable are removed from the consolidated statement of financial position and all of the rights created or retained on transfer are recognized. If substantially all the risks and rewards are not transferred, the accounts and notes receivable continue to be carried on the consolidated statement of financial position and a financial liability is recorded for the discounted amount.

■ 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 within one year. Changes in the fair value of these derivatives are accounted for in the same way as the impact described in the section on other non-current financial assets and liabilities.

■ Foreign currency derivatives

Although they may 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 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 other 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.

Hedging instruments are 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 other comprehensive income 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.

■ 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.

Inventories of raw materials and goods for resale are carried at purchase cost.

Inventories of semi-finished and finished products and work-in-progress are carried at production cost. Production cost includes the cost of raw materials, supplies and labor used in production, and other direct production and indirect plant costs, excluding overheads not related to production.

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 set aside when the probable realizable value of inventories is lower than their cost price.

As indicated in Note 1.12.2 on page 210, 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 equity-settled 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 the statement of income.

1.17 Pensions and other employee benefits

Pensions and other employee benefits are measured in accordance with IAS 19.

1.17.1 Short-term benefits

Group employees are entitled to short-term benefits such as paid annual leave, paid sick leave, bonuses and other benefits (other than termination benefits), payable within 12 months of the end of the period in which the corresponding services are rendered by employees.

These benefits are shown in current liabilities and expensed in the period when the related service is rendered by the employee.

1.17.2 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 costs. 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. These rates are disclosed in Note 5.10.2 on page 239.

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 other 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 amount of 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. 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 within liabilities in the statement of financial position. 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, a discontinued operation is a component of an entity that has either been disposed of or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively 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 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.

In connection with adjustments made to the opening acquired assets and liabilities of Niles (see Note 2.2.1, page 218), recorded in first-half 2012, and CPT (see Note 2.2.3, page 218), recorded in 2012, the consolidated statement of financial position presented is different to the version published in February 2012. These impacts are not material taken as a whole.

Note 2 Changes in the scope of consolidation

2.1 Transactions carried out in 2012

2.1.1 Planned sale of the Access Mechanisms business

On June 25, 2012, Valeo announced that it was in negotiations to sell its Access Mechanisms business (Comfort and Driving Assistance Systems Business Group) to Japan-based U-Shin. In accordance with IFRS 5, the assets and liabilities relating to the Access Mechanisms business were classified as assets and liabilities held for sale in the consolidated statement of financial position at June 30, 2012, since Valeo expected to recover their carrying amount through their sale rather than through their continuing use. Details of amounts reclassified as assets and liabilities held for sale at December 31, 2012 are provided in Note 5.8 on page 235. Depreciation and amortization of property, plant and equipment and the intangible assets dedicated to this activity, ceased as soon as they were reclassified as held for sale. This reduced the depreciation and amortization expense for the second half of 2012 by 12 million euros.

The Access Mechanisms business, which is primarily mechanical-based, comprises products such as locksets, steering column locks, handles and latches. The business contributed 569 million euros to Valeo Sales in 2012 (607 million euros in 2011) and 15 million euros to Valeo operating margin (14 million euros in 2011). The Company employs 4,500 people at 12 plants located primarily in Europe and South America. The planned divestment is aligned with Valeo's strategy of focusing on developing products that reduce CO_2 emissions and stepping up its expansion in Asia and emerging markets.

In a particularly uncertain economic environment across Europe, on November 30, 2012 Valeo announced the execution of a contract for the sale of its Access Mechanisms business to Japan-based U-Shin for an enterprise value of 223 million euros. The disposal was approved by the antitrust authorities on February 7, 2013 and is expected to occur no later than March 31, 2013.

Based on information available at the end of the reporting period, Valeo estimated the likely consequences of the sale and took an impairment loss of 44 million euros, which was recorded in other income and expenses. This amount includes 15 million euros relating to future information technologies, legal and operating costs directly related to the sale and spin-off of the business.

2.1.2 Alliance strengthened between Valeo and Ichikoh in the Chinese lighting sector

In September 2012, as part of its development strategy in Asia, Valeo announced that it had signed an agreement to strengthen its Lighting Alliance in China with Ichikoh. A new legal entity, Valeo Ichikoh Holding Ltd, was set up, to which the two companies contribute their respective Chinese Lighting operations. The venture is 85%-owned by Valeo and 15%-owned by Ichikoh.

As consideration for the transaction, the creation of this entity resulted in the following changes in direct and indirect shareholdings in the companies included within the scope of this Alliance:

- Valeo acquired control of Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd, previously jointly controlled with Ichikoh;
- Valeo sold shares (without a loss of control) in the legal entities Wuhu Valeo Automotive Lighting Systems, Hubei Valeo Autolighting Company Ltd, Shenyang Valeo Autolighting Co. Ltd and Valeo Lighting Hubei Technical Center Ltd.

As a result, Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd is fully consolidated in Valeo's financial statements with effect from December 31, 2012. Since control was acquired by Valeo, the Group's previously-held direct or indirect 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. Accordingly, Valeo booked income of 30 million euros, within other income and expenses for 2012. All of the assets and liabilities of this entity were measured at fair value, resulting in the recognition of a customer relationship for 12 million euros and the remeasurement of all property assets for 7 million euros. No contingent liabilities were recorded. Goodwill as calculated under the partial goodwill method amounted to 42 million euros at the acquisition date.

The value of goodwill reflects the synergies expected to derive from the transaction, which will help strengthen the Lighting business of the Visibility Systems Business Group and support the Group's position in China.

Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd, which continued to be proportionately consolidated by the Group, contributed 44 million euros to Valeo's sales in 2012 and reported an operating margin of 1 million euros.

Other movements in securities mainly result from sales (without a loss of control) of the Group's interest in the legal entities Wuhu Valeo Automotive Lighting Systems, Hubei Valeo Autolighting Company Ltd, Shenyang Valeo Autolighting Co. Ltd and Valeo Lighting Hubei Technical Center Ltd. In accordance with IAS 27 (revised), these transactions led to an increase of 27 million euros in consolidated equity at December 31, 2012.

Including cash and cash equivalents acquired, all of the above transactions led to a net outflow of 10 million euros in the consolidated statement of cash flows for 2012.

2.1.3 Creation of a partnership with V. Johnson Enterprises and acquisition by that entity of Ford's climate control business

Valeo and V. Johnson Enterprises have formed a new company called Detroit Thermal Systems to acquire the climate control business of Automotive Components Holdings, a company owned by Ford Motor Company. Valeo and V. Johnson Enterprises, which is owned by an entrepreneur in Detroit, have a respective 49% and 51% interest in the company. Since Valeo exercised significant influence at the date the company was created, this associate was accounted for by the equity method, in accordance with IAS 28.

This activity will produce climate control systems and components for the automotive industry from the new Romulus plant in Michigan and will meet current product supply commitments to Ford. The acquisition will strengthen Valeo's Thermal Systems operations and its position with Ford Motor Company in North America and the rest of the world.

The definitive acquisition agreements were signed between Ford Motor Company and Automotive Components Holding with Detroit Thermal Systems on October 25, 2012. No cash was disbursed by Detroit Thermal Systems. This acquisition was treated as a business combination at the level of Detroit Thermal Systems. All of the acquiree's assets and liabilities have therefore been measured at fair value.

This led to the recognition by Detroit Thermal Systems of 12 million euros in badwill, which in turn had a positive 6 million euros impact on the Group's consolidated financial statements, recorded in share in net earnings of associates.

2.1.4 Acquisition of non-controlling interests in Chinese firm Valeo Automotive Air Conditioning Hubei Co. Ltd

Since April 23, 2012, Valeo has owned all of the capital stock of a Chinese Climate Control Systems manufacturer based in Shashi. This company, which was already fully consolidated, was previously 55%-owned by Valeo, 40%-owned by SDIC High-Tech Investment Co. Ltd and 5%-owned by Jingzhou Jiesheng Assets Management Co. Ltd. In accordance with IAS 27 (revised), this acquisition of non-controlling interests led to a 52 million euros decrease in consolidated stockholders' equity and to a cash outflow of the same amount, recorded on the "Acquisition of interests without gain of control" line in the consolidated statement of cash flows for 2012.

2.2 Transactions carried out in 2011

2.2.1 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 Japanese 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 at June 30, 2011 but with effect from July 1, 2011.

The adjusted purchase price amounted to 168 million euros (19.6 billion yen) based on a 100% interest. Acquisition-related fees totaling 6 million euros were taken to income for 2011 in accordance with IFRS 3 (revised).

In accordance with IFRS 3 (revised), the purchase price was allocated on a provisional basis to Niles' assets and liabilities in second-half 2011, with the definitive allocation completed in first-half 2012. The main adjustments recognized in first-half 2012 concern customer relationship.

After the adjustments, the definitive amount of goodwill and other intangible assets acquired totaled 137 million euros and 47 million euros, respectively, at July 1, 2011 (compared to a provisional amount of 130 million euros and 53 million euros, respectively, at December 31, 2011).

The value of goodwill chiefly reflects expected synergies as the transaction will reinforce the Interior Controls activity within the Comfort and Driving Assistance Systems Business Group and strengthen the Group's foothold in Asia where Niles is a leading manufacturer of automotive switching systems.

2.2.2 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. These companies, which were previously jointly controlled, were fully consolidated in Valeo's consolidated financial statements as of said date.

Control of the two companies was therefore obtained with no outflow of cash.

As control was acquired by Valeo, the transaction was 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 standard. Valeo recognized a gain of 28 million euros within other income and expenses in 2011 in respect of this transaction. All of the assets and liabilities of Valeo Pyeong Hwa were measured at fair value, resulting in the recognition of a customer relationship for 12 million euros and the remeasurement of all property assets for 13 million euros. Goodwill was calculated using the partial goodwill method and totaled 22 million euros at the acquisition date.

2.2.3 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 a UK-based automotive technology development Company, Controlled Power Technologies (CPT), inventor 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 purchase price after adjustments amounted to 35 million euros (30 million pounds sterling). The allocation of the purchase price to CPT's assets and liabilities, finalized in the second half of 2012, led to the recognition at the acquisition date of an intangible asset corresponding to technology acquired for 8 million euros and deferred tax liabilities for just over 1 million euros. As a result, goodwill was also adjusted. The goodwill of 24 million euros recorded at the acquisition date reflects the commercial synergies available to Valeo as well as its capacity to industrialize and develop the technology acquired.

2.2.4 Acquisition of Chery group's lighting company in China

As part of its development strategy in high-growth countries and particularly in 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 retained a 20% stake in the company.

Located in Wuhu in the Anhui province, this legal entity, now known as Wuhu Valeo Automotive Lighting Systems, designs, manufactures and sells Valeo Lighting Systems products, mainly for Chery Automobile on the Chinese market. The business has been integrated within Valeo's Visibility Systems Business Group.

The adjusted purchase price was 8 million euros at the acquisition date. In view of the December 29, 2011 acquisition date and the relatively non-material amounts of assets acquired and liabilities assumed, the company was not included in the consolidated financial statements for the year ended December 31, 2011. The Group's interest was shown within "Non-current financial assets" in the statement of financial position at that date. Wuhu Valeo Automotive Lighting Systems was fully consolidated in the Group's consolidated financial statements with effect from January 1, 2012.

Fair value measurement of the assets acquired and liabilities assumed was finalized in second-half 2012 and gave rise to the recognition at the acquisition date of a customer relationship for 9 million euros, a provision for loss-making contracts for 3 million euros and an impairment loss in the amount of 2 million euros against specific tooling. Goodwill was calculated using the partial goodwill method and totaled 7 million euros at the acquisition date. It chiefly reflected the Group's strong position in fast-growing markets and the synergies expected to be unlocked with other Chinese sites within the same Product Group.

2.2.5 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 trucks and special vehicles. This acquisition did not have a material impact on the consolidated financial statements.

Note 3 Segment reporting

In accordance with IFRS 8 – "Operating Segments", the Group's segment information below 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:

- Powertrain Systems, comprising four Product Groups: Electrical Systems, Transmission Systems, Combustion Engine Systems and Electronics. This Business Group develops 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 comprehensive range of products, from the optimization of internal combustion engines, the varying levels of vehicle electrification, as well as Stop-start technology to the electric vehicles;
- Thermal Systems, comprising four Product Groups: Climate Control, Powertrain Thermal Systems, Climate Control Compressors and Front-End Modules. This Business Group develops and manufactures systems, modules and components to ensure thermal energy for the management of powertrain and comfort for each passenger at all stages in the use of a vehicle;
- Comfort and Driving Assistance Systems, comprising four Product Groups: Interior Controls, Driving Assistance, Interior Electronics and Access Mechanisms (this latter business is to be sold – see Note 2.1.1, page 216). This Business Group develops interfaces between the driver, the vehicle and the surrounding environment, and helps improve safety and comfort;
- Visibility Systems, comprising three Product Groups: Lighting Systems, Wiper Systems and Wiper Motors. This Business Group develops and manufactures 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.

Each of these Business Groups is also responsible for manufacturing and for the distribution of the products for the aftermarket. Accordingly, income and expenses for Valeo Service, which sells almost exclusively products manufactured by the Group, have been reallocated among the Business Groups identified.

Holding companies, disposed businesses and eliminations between the four operating segments defined above are shown in the "Other" segment.

The key performance indicators for each segment are 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 207);
- 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:

2012

(in millions of euros)	Powertrain Systems	Thermal Systems	Comfort and Driving Assistance Systems	Visibility Systems	Other	Total
Sales						
▪ segment (excluding Group)	3,237	3,313	2,487	2,698	24	**11,759**
▪ intersegment (Group)	29	27	23	36	(115)	**-**
EBITDA	**329**	**383**	**298**	**220**	**30**	**1,260**
Research and Development expenditure, net	(147)	(149)	(171)	(131)	-	**(598)**
Investments in property, plant and equipment and intangible assets	262	148	214	234	21	**879**
Segment assets (1)	1,467	1,074	1,113	1,229	39	**4,922**

(1) *The segment assets shown for the Comfort and Driving Assistance Systems Business Group at December 31, 2012 do not include the segment assets relating to the Access Mechanisms business reclassified in "Assets held for sale" (see Note 2.1.1, page 216) for 289 million euros.*

2011

(in millions of euros)	Powertrain Systems	Thermal Systems	Comfort and Driving Assistance Systems	Visibility Systems	Other	Total
Sales						
▪ segment (excluding Group)	3,099	3,110	2,124	2,511	24	**10,868**
▪ intersegment (Group)	27	30	33	38	(128)	**-**
EBITDA	**268**	**359**	**264**	**279**	**42**	**1,212**
Research and Development expenditure, net	(130)	(154)	(153)	(124)	-	**(561)**
Investments in property, plant and equipment and intangible assets	226	117	209	156	9	**717**
Segment assets (1)	1,407	1,068	1,323	979	25	**4,802**

(1) *The segment assets shown above for 2011 for Comfort and Driving Assistance Systems Business Group have been modified compared to those published in February 2012 in order to reflect the adjustments made to the acquired assets and liabilities of CPT (see Note 2.2.3, page 218) in 2012. The impact of these adjustments is 2 million euros.*

3.2 Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating income:

(in millions of euros)	**2012**	**2011**
EBITDA	**1,260**	**1,212**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses (1)	(535)	(508)
Other income and expenses	(53)	-
Operating income	**672**	**704**

(1) Impairment losses recorded in operating margin only.

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	**2012**	**2011 (1)**
Segment assets	**4,922**	**4,802**
Accounts and notes receivable	1,517	1,705
Other current assets	378	312
Taxes recoverable	48	20
Assets held for sale	342	2
Financial assets	1,493	1,500
Deferred tax assets	220	223
TOTAL GROUP ASSETS	**8,920**	**8,564**

(1) The reconciliation shown above for 2011 has been modified compared to the version published in February 2012 in order to reflect the adjustments made to the acquired assets and liabilities of Niles and CPT in 2012.

3.3 Reporting by geographic area

2012

(in millions of euros)	**External sales by market**	**Sales by production area**	**Non-current assets (1)**
France	1,290	2,793	774
Other European countries and Africa	4,943	3,771	846
North America	1,921	1,768	341
South America	686	625	97
Asia	2,919	3,183	865
Eliminations	-	(381)	-
TOTAL	**11,759**	**11,759**	**2,923**

(1) Non-current assets consist of property, plant and equipment, 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.

Non-current assets shown by geographic area at December 31, 2012 do not include non-current assets relating to the Access Mechanisms business, which were classified in "Assets held for sale" (see Note 2.1.1, page 216) in an amount of 126 million euros, including 86 million euros in Europe and 25 million euros in South America.

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	790
North America	1,509	1,396	289
South America	767	728	127
Asia	2,254	2,411	762
Eliminations	-	(341)	-
TOTAL	**10,868**	**10,868**	**2,703**

(1) Non-current assets consist of property, plant and equipment, 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.

The non-current segment assets for the "Other European countries and Africa" and "Asia" lines shown above for 2011 have been modified compared to those published in February 2012 in order to reflect the adjustments made to the acquired assets and liabilities of Niles and CPT (see Notes 2.2.1 and 2.2.3, page 218) in 2012. The resulting impact of 2 million euros is not material.

3.4 Breakdown of sales by major customer

In 2012, two major global automakers represent 33.4% of the Valeo Group's sales, and each of these individually accounts for more than 10% of the Group's sales.

In 2011, three major global automakers represented individually more than 10% and globally 43.3% of the Group's sales.

Note 4 Notes to the statement of income

4.1 Sales

Group sales rose 8.2% in 2012 to 11,759 million euros from 10,868 million euros in 2011. Changes in the scope of consolidation had a positive 3.2% impact on sales, while exchange rate fluctuations had a positive impact of 2.5%.

Like-for-like (comparable Group structure and exchange rate basis), consolidated sales for 2012 climbed 2.5% on the previous year.

4.2 Cost of sales

Cost of sales can be analyzed as follows:

(in millions of euros)	2012	2011
Raw materials consumed	(6,895)	(6,295)
Labor	(1,555)	(1,433)
Direct production costs and production overheads	(1,019)	(968)
Depreciation and amortization (1)	(342)	(329)
Cost of sales	**(9,811)**	**(9,025)**

(1) This amount does not include amortization charged against capitalized development costs, which is recognized in net Research and Development expenditure. The 2012 depreciation and amortization expense takes into account the positive 8 million euros impact of discontinuing depreciation and amortization on the Access Mechanisms business (see Note 2.1.1, page 216) and the positive 14 million euros impact of the revised useful life of certain items of property, plant and equipment (see Note 1.12.1, page 210).

4.3 Research and Development expenditure, net

(in millions of euros)	2012	2011
Research and Development expenditure	(1,006)	(879)
Contributions received and subsidies	301	262
Capitalized development expenditure	244	177
Amortization and impairment of capitalized development expenditure	(137)	(121)
Research and Development expenditure, net	**(598)**	**(561)**

The Group stepped up its Research and Development efforts in 2012 to meet the significant increase of its order book.

The amortization expense for 2012 includes a favorable impact of 4 million euros as a result of discontinuing depreciation and amortization on the Access Mechanisms business (see Note 2.1.1, page 216).

4.4 Personnel expenses

	2012	2011
Total employees at December 31(1)	72,600	67,930

(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)	2012	2011
Wages and salaries(1)	1,967	1,808
Social security charges	458	422
Share-based payment	9	8
Pension expenses under defined contribution schemes	70	64

(1) *Including temporary staff.*

Pension expenses under defined benefit plans are set out in Note 5.10 on pages 238 to 243.

4.5 Other income and expenses

(in millions of euros)	2012	2011
Claims and litigation	3	1
Restructuring costs	(11)	7
Impairment of fixed assets	(9)	(25)
Impairment of the Access Mechanisms business	(44)	-
Other	8	17
Other income and expenses	**(53)**	**-**

4.5.1 Restructuring costs

The amount recognized in this caption in 2012 chiefly includes expenses relating to restructuring operations at certain plants, including a restructuring plan in Spain that was announced in the last quarter of the year.

The gain recognized in 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

Impairment tests were carried out using the assumptions described in Note 1.13.2 on page 211.

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) are a projected negative operating margin for 2012 or a fall of more than 20% in 2012 sales compared to 2011.

The scope of the CGUs tested for impairment was defined at the end of October 2012 and remained unchanged at the end of the period, since no adverse events occurred.

Three CGUs were selected:

- the Engine Management Systems Product Line;
- the Air Management Systems Product Line;
- the Electronics Product Group.

As a result of these tests, the Group recorded an impairment loss of 9 million euros for 2012 on its Engine Management Systems Product Line (part of the Powertrain Systems Business Group). In 2011, the impairment tests carried out had no impact on the consolidated financial statements.

Impairment losses totaling 25 million euros recognized in 2011 result from specific impairment tests carried out on 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), for which there was evidence of impairment.

Sensitivity of CGU impairment tests

Changes in the following assumptions were used to check the sensitivity of CGU impairment tests:

- 0.5 pt increase in the discount rate;
- 0.5 pt decrease in the perpetuity growth rate;
- 0.5 pt decrease in the rate of operating margin over sales used to determine the terminal value.

The sensitivity analysis showed that for the Air Management Systems Product Line and Electronics Product Group, these changes in assumptions would not have impacted the results of impairment tests either individually or taken as a whole.

For the Engine Management Systems Product Line, the sensitivity analysis showed that impairment would need to be increased by:

- 6 million euros if the WACC rose by 0.5 pt;
- 5 million euros if the perpetuity growth rate fell by 0.5 pt;
- 9 million euros if the rate of operating margin over sales used to determine the terminal value fell by 0.5 pt.

Conversely, the sensitivity analysis showed that the impairment loss recognized against the Engine Management Systems Product Line would be reduced by:

- 8 million euros if the WACC fell by 0.5 pt;
- 6 million euros if the perpetuity growth rate increased by 0.5 pt;
- 9 million euros if the rate of operating margin over sales used to determine the terminal value increased by 0.5 pt.

Goodwill

No impairment losses were recognized against goodwill in 2012 as a result of the impairment tests carried out at the level of Business Groups in line with the methodology described in Note 1.13.2 on page 211. This was also the case in 2011.

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.

Changes in the three main assumptions were used to check the sensitivity of goodwill impairment tests:

- 0.5 pt increase in the discount rate;
- 0.5 pt decrease in the perpetuity growth rate;
- 0.5 pt decrease in the rate of operating margin over sales used to determine the terminal value.

No additional impairment losses would be recognized as a result of these changes in assumptions, either individually or taken as a whole.

The margin of the test, representing the difference between the value in use and the net carrying amount, as well as the impacts of changes in key assumptions on this margin, are presented by Business Group in the table below:

	Margin of the test	Impact on the margin of the test			
(in millions of euros)	Based on assumptions for 2012	WACC of 9.5% (+0.5 pt)	Perpetuity growth rate of 0.5% (-0.5 pt)	Decrease of the operating margin rate used to determine the terminal value by 0.5 pt	Combination of the three factors
Powertrain Systems Business Group	1,266	(169)	(132)	(163)	(427)
Thermal Systems Business Group	1,833	(160)	(124)	(134)	(385)
Comfort and Driving Assistance Systems Business Group	448	(104)	(82)	(84)	(249)
Visibility Systems Business Group	894	(127)	(101)	(129)	(327)

The Comfort and Driving Assistance Business Group proved more sensitive to changes in assumptions than the other Business Groups. Its recoverable amount would be equal to its net carrying amount if the operating margin used to determine the terminal value fell by 3 pts or if the WACC increased by 3 pts.

4.5.3 Impairment loss of the Access Mechanisms business

In the year ended December 31, 2012, the Group estimated the likely impacts of the sale of the Access Mechanisms business (see Note 2.1.1, page 216) and as a result, recognized an impairment loss totaling 44 million euros. This amount includes 15 million euros relating to future IT, legal and operating costs directly related to the sale and spin-off of the business.

4.5.4 Other

In 2012, this caption includes the 30 million euros gain on remeasuring at fair value the interest previously held in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.1.2, page 217). This was partially offset by 19 million euros in legal costs arising in relation to anti-trust proceedings and by the costs already incurred in connection with the sale of the Access Mechanisms business currently in progress amounting to 5 million euros.

In 2011, this caption mainly included capital gains on the acquisition of a controlling interest in Valeo Pyeong Hwa and Valeo Pyeong Hwa International (see Note 2.2.2, page 218), reduced in part by acquisition fees relating to the Niles transaction, as described in Note 2.2.1 on page 218.

4.6 Cost of net debt

(in millions of euros)	2012	2011
Interest expense (1)	(117)	(90)
Interest income	14	19
Cost of net debt	**(103)**	**(71)**

(1) Including 6 million euros of finance costs in 2012 on undrawn credit lines (7 million euros in 2011).

The rise in the cost of net debt in 2012 was mainly due to the two 500 million euros bond issues in May 2011 and January 2012, and the syndicated loan for 250 million euros set up in June 2011. This additional interest expense was offset in part by partial redemptions of bonds maturing in 2013 (200 million euros in May 2011 and 89 million euros in January 2012) and by the repayment of the two syndicated loans of 225 million euros in January 2012 (see Note 5.12.2, page 245).

4.7 Other financial income and expenses

(in millions of euros)	**2012**	**2011**
Interest expense on pension and other employee benefits (1)	(47)	(46)
Expected return on plan assets (1)	23	21
Currency gains (losses)	(7)	(5)
Gains (losses) on commodity derivatives (trading and ineffective portion)	-	(1)
Gains (losses) on interest rate derivatives (ineffective portion)	4	(1)
Other	(3)	(3)
Other financial income and expenses	**(30)**	**(35)**

(1) See Note 5.10, page 238.

4.8 Share in net earnings of associates

(in millions of euros)	**2012**	**2011**
Ichikoh	6	-
Faw Valeo Climate Control Systems (China)	4	2
Detroit Thermal Systems	5	-
Other	(1)	-
Share in net earnings of associates	**14**	**2**

The amount reported for Detroit Thermal Systems mainly includes 6 million euros relating to the acquisition of the Climate Control business from Automotive Components Holdings (see Note 2.1.3, page 217).

4.9 Income taxes

4.9.1 Income tax expense

(in millions of euros)	**2012**	**2011**
Current taxes	(132)	(156)
Deferred taxes	(14)	8
Income taxes	**(146)**	**(148)**

4.9.2 Effective tax rate

The Group recognized income tax expense of 146 million euros in 2012, corresponding to an effective tax rate of 27.2%.

(in millions of euros)	**2012**	**2011**
Net income before income taxes excluding share in net earnings of associates	**539**	**598**
Standard tax rate in France [1]	(34.4%)	(34.4%)
Theoretical income tax expense	**(185)**	**(206)**
Impact of:		
▪ unrecognized deferred tax assets and unused tax losses (current year) [2]	(42)	3
▪ other tax rates	49	32
▪ utilization of prior-year tax losses	-	-
▪ permanent differences between accounting income and taxable income	29	29
▪ tax credits	18	11
▪ CVAE [3]	(15)	(17)
Group income tax expense	**(146)**	**(148)**

(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 United-States).*
(3) *At the end of 2009, Valeo considered that the Cotisation sur la Valeur Ajoutée des Entreprises (CVAE) tax on Company value added met the definition of income tax set out in IAS 12. Income tax in 2012 therefore includes a net expense of 15 million euros in respect of CVAE (17 million euros in 2011).*

4.10 Earnings per share

4.10.1 Basic earnings per share

	2012	**2011**
Net income attributable to owners of the Company *(in millions of euros)*	380	427
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	75,540	75,112
Basic earnings per share *(in euros)*	**5.03**	**5.68**

4.10.2 Diluted earnings per share

	2012	**2011**
Net income attributable to owners of the Company *(in millions of euros)*	380	427
Weighted average number of shares outstanding *(in thousands of shares)*	75,540	75,112
Stock options *(in thousands of options)*	34	154
Weighted average number of shares used for the calculation of diluted earnings per share *(in thousands of shares)*	75,574	75,266
Diluted earnings per share *(in euros)*	**5.03**	**5.67**

Note 5 Notes to the statement of financial position

5.1 Goodwill

Changes in goodwill in 2012 and 2011 are analyzed below:

(in millions of euros)	2012	2011
Net goodwill at January 1	**1,438**	**1,210**
Acquisitions during the year	50	185
Translation adjustment	(38)	43
Reclassification	(128)	-
Net goodwill at December 31	**1,322**	**1,438**
Including accumulated impairment losses at December 31	-	-

The decrease in goodwill in 2012 mainly results from the reclassification of goodwill relating to the Access Mechanisms business within assets held for sale (see Note 2.1.1, page 216), and to a lesser extent, from the depreciation in the Japanese yen over the period. These impacts were partially offset by acquisitions in the period, including the controlling interest obtained in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd in the context of the strengthened alliance between Valeo and Ichikoh (see Note 2.1.2, page 217) and the acquisition of the Chery group's lighting company in China (see Note 2.2.4, page 219).

Movements in goodwill in 2011 chiefly resulted from the following three major changes in the scope of consolidation over that period: Niles (130 million euros – see Note 2.2.1, page 218), CPT (28 million euros – see Note 2.2.3, page 218), and Valeo Pyeong Hwa and Valeo Pyeong Hwa International (22 million euros – see Note 2.2.2, page 218).

The main goodwill balances are broken down by Business Group as follows:

(in millions of euros)	2012	2011
Powertrain Systems	326	319
Thermal Systems	341	359
Comfort and Driving Assistance Systems	318	469
Visibility Systems	336	290
Other	1	1
Goodwill	**1,322**	**1,438**

The 2011 amounts shown above for Comfort and Driving Assistance and Powertrain Systems have been modified compared to those published in February 2012 in order to reflect the adjustments made to the acquired assets and liabilities of Niles (see Note 2.2.1, page 218) and CPT (see Note 2.2.3, page 218) in 2012.

5.2 Other intangible assets

	2012			2011
(in millions of euros)	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
Software	190	(176)	**14**	15
Patents and licences	108	(77)	**31**	35
Capitalized development expenditure	1,290	(777)	**513**	427
Customer relationship and other intangible assets	262	(84)	**178**	166
Intangible assets	**1,850**	**(1,114)**	**736**	**643**

The net carrying amounts of intangible assets at December 31, 2011 were modified to reflect the adjustments made to the acquired assets and liabilities of Niles (see Note 2.2.1, page 218) and CPT (see Note 2.2.3, page 218), finalized in 2012.

Changes in intangible assets in 2012 and 2011 are analyzed below:

2012

(in millions of euros)	Software	Patents and licences	Capitalized development expenditure	Customer relationship and other intangible assets	Total
Gross carrying amount at January 1, 2012	**201**	**114**	**1,174**	**237**	**1,726**
Accumulated amortization and impairment	(186)	(79)	(747)	(71)	**(1,083)**
Net carrying amount at January 1, 2012	**15**	**35**	**427**	**166**	**643**
Acquisitions	6	1	244	21	**272**
Disposals	(1)	-	(3)	-	**(4)**
Changes in scope of consolidation	-	-	4	22	**26**
Impairment	-	-	(11)	(5)	**(16)**
Amortization	(8)	(5)	(126)	(12)	**(151)**
Translation adjustment	-	(2)	(2)	(7)	**(11)**
Reclassifications	2	2	(20)	(7)	**(23)**
Net carrying amount at December 31, 2012	**14**	**31**	**513**	**178**	**736**

At December 31, 2012, a total of 23 million euros in intangible assets, including 21 million euros in capitalized development costs, were reclassified in assets held for sale due to the disposal of the Access Mechanisms business currently in progress (see Note 2.1.1, page 216). Customer relationships recognized at December 31, 2012 include those valued in the year in connection with the controlling interest acquired in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.1.2, page 217) for 12 million euros and with the acquisition of Wuhu Ruby Automotive Lighting Systems (see Note 2.2.4, page 219) for 9 million euros.

2011

(in millions of euros)	Software	Patents and licences	Capitalized development expenditure	Customer relationship 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	24	1	44	**72**
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**	**35**	**427**	**166**	**643**

In 2011, new customer relationships were valued within the context of acquisitions, including those recognized on the acquisition of Niles and on the controlling interest acquired in Valeo Pyeong Hwa and Valeo Pyeong Hwa International. Patents and licenses in 2011 also included assets relating to technologies acquired, and in particular those in relation to Niles.

The amounts for 2011 shown above have been modified compared to those published in February 2012 in order to reflect the adjustments made to the acquired assets and liabilities of Niles (see Note 2.2.1, page 218) and CPT (see Note 2.2.3, page 218) in 2012. These included recognition of acquired technology for CPT (8 million euros) and a reduction in customer relationship for Niles (6 million euros).

5.3 Property, plant and equipment

(in millions of euros)	2012			2011
	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	227	(14)	213	208
Buildings	1,050	(700)	350	387
Machinery and industrial equipment	4,224	(3,332)	892	814
Specific tooling	1,469	(1,330)	139	126
Other property, plant and equipment	484	(417)	67	67
Property, plant and equipment in progress	417	(3)	414	354
TOTAL	**7,871**	**(5,796)**	**2,075**	**1,956**

No material amounts of property, plant and equipment had been pledged as security at December 31, 2012.

Finance leases included within property, plant and equipment can be analyzed as follows:

(in millions of euros)	2012	2011
Buildings	1	1
Machinery and industrial equipment	6	7
Specific tooling	1	1
Other property, plant and equipment	2	3
TOTAL	**10**	**12**

Changes in property, plant and equipment in 2012 and 2011 are analyzed below:

2012

(in millions of euros)	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Property, plant and equipment in progress	Total
Gross carrying amount at January 1, 2012	**223**	**1,077**	**4,179**	**1,529**	**497**	**356**	**7,861**
Accumulated depreciation and impairment	(15)	(690)	(3,365)	(1,403)	(430)	(2)	**(5,905)**
Net carrying amount at January 1, 2012	**208**	**387**	**814**	**126**	**67**	**354**	**1,956**
Acquisitions	7	20	187	48	24	321	**607**
Disposals	(1)	-	(3)	1	(3)	(1)	**(7)**
Changes in scope of consolidation	8	5	6	-	1	7	**27**
Impairment	-	-	4	1	-	2	**7**
Depreciation	-	(47)	(237)	(72)	(28)	-	**(384)**
Translation adjustment	(11)	(3)	(6)	(1)	(1)	(2)	**(24)**
Reclassifications	2	(12)	127	36	7	(267)	**(107)**
Net carrying amount at December 31, 2012	**213**	**350**	**892**	**139**	**67**	**414**	**2,075**

At December 31, 2012, a total of 103 million euros in property, plant and equipment were reclassified in “Assets held for sale” due to the disposal of the Access Mechanisms business currently in progress (see Note 2.1.1, page 216).

2011

(in millions of euros)	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	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**

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)	**2012**	**2011**
Investments in associates at January 1	**104**	**104**
Share in net earnings of associates	14	2
Dividend payments	-	(3)
Impact of changes in scope of consolidation	3	(6)
Translation adjustment (1)	(10)	7
Other	1	-
Investments in associates at December 31	**112**	**104**

(1) Reflecting mainly the impact of changes in the Japanese yen on the Group's interest in Ichikoh.

The Group's main investments in associates are detailed below:

	Ownership interest *(in %)*		**Carrying amount** *(in millions of euros)*	
	2012	**2011**	**2012**	**2011**
Ichikoh	31.6	31.6	67	74
FAW Valeo Climate Control	36.5	36.5	34	30
Detroit Thermal Systems	49.0	-	9	-
Other	-	-	2	-
Investments in associates	**-**	**-**	**112**	**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 both December 31, 2012 and 2011. The carrying amount of the investment in the consolidated financial statements of the Group is justified by its value in use for Valeo.

Summarized financial data in respect of associates are set out in the table below:

(in millions of euros)	**2012**	**2011**
Total assets	659	720
Total liabilities	467	561
Sales	973	861
Net income for the year	39	3

These data are presented based on a 100% holding and according to local GAAP.

5.5 Deferred taxes

Deferred taxes broken down by temporary differences are shown below:

(in millions of euros)	**2012**	**2011**
Loss carryforwards	1,052	956
Capitalized development expenditure	(122)	(107)
Pensions and other employee benefits	246	209
Other provisions	87	99
Inventories	23	26
Provisions for restructuring costs	13	15
Tooling	1	1
Non-current assets	3	10
Other	108	106
Deferred taxes, gross	**1,411**	**1,315**
Unrecognized deferred tax assets	(1,217)	(1,118)
Deferred taxes	**194**	**197**
o/w:		
■ Deferred tax assets	220	223
■ Deferred tax liabilities	(26)	(26)

2011 deferred taxes have been modified compared to the version published in February 2012 to reflect the definitive adjustments made to the acquired assets and liabilities of CPT (see Note 2.2.3, page 218).

At December 31, 2012, 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 2013 through 2016	34	9
Tax losses available for carryforward in 2017 and thereafter	1,386	509
Tax losses available for carryforward indefinitely	1,397	476
Current tax loss carryforwards	**2,817**	**994**
Unrecognized deferred tax assets on temporary differences	-	223
Total unrecognized deferred tax assets	**-**	**1,217**

No deferred tax assets were recognized on tax loss carryforwards or temporary differences in either of the Group's two main tax consolidation groups (France and United States).

5.6 Inventories

At December 31, 2012, inventories break down as follows:

(in millions of euros)	2012 Gross carrying amount	2012 Impairment	2012 Net carrying amount	2011 Net carrying amount
Raw materials	324	(53)	271	277
Work-in-progress	87	(10)	77	79
Finished goods, supplies and specific tooling	508	(67)	441	409
Inventories, net	**919**	**(130)**	**789**	**765**

Impairment losses taken against inventories amounted to 130 million euros at December 31, 2012 (135 million euros at December 31, 2011), including an allowance (net of reversals) of 1 million euros during the period.

Inventories relating to the Access Mechanisms business, reclassified as held for sale at December 31, 2012 (see Note 2.1.1, page 216), include gross inventories for 41 million euros and 6 million euros in impairment.

Allowances to provisions for impairment of inventories net of reversals in 2011 amounted to 5 million euros.

5.7 Accounts and notes receivable

(in millions of euros)	2012	2011
Accounts and notes receivable, gross	1,537	1,727
Impairment	(20)	(22)
Accounts and notes receivable, net	**1,517**	**1,705**

Accounts and notes receivable relating to the Access Mechanisms business, reclassified as held for sale at December 31, 2012 (see Note 2.1.1, page 216), include gross accounts and notes receivable amounting to 90 million euros and impairment losses totaling 2 million euros. Prior to reclassification as held for sale, gross accounts and notes receivable not yet due and less than one month past due totaled 1,519 million euros and 67 million euros, respectively, and represented 97% of total gross accounts and notes receivable (see Note 6.2.3, page 259).

Accounts and notes receivable falling due after December 31 for which substantially all risks and rewards have been transferred and which are no longer carried in assets on the statement of financial position, represent an amount of 72 million euros in 2012 versus 51 million euros in 2011.

A total of 61 million euros out of this amount of 72 million euros relates to transfer operations renewed on a systematic basis.

5.8 Assets and liabilities held for sale

As indicated in Note 2.1.1 on page 216, due to the projected sale of the Access Mechanisms business, all of the assets and liabilities relating to this activity have been reclassified as held for sale.

The main items in the statement of financial position for this business that were reclassified at December 31, 2012 are set out below, prior to recognition of the 44 million euros impairment loss and after elimination of intragroup balances:

(in millions of euros)	2012		2012
Assets		**Equity and liabilities**	
Goodwill	128	Translation adjustment	13
Other intangible assets	23	Retained earnings	181
Property, plant and equipment	103	**Stockholders' equity**	**194**
Non-current financial assets	-	Provisions – long-term portion	16
Deferred tax assets	3	**Non-current liabilities**	**16**
Non-current assets	**257**	Accounts and notes payable	107
Inventories	35	Provisions – current portion	5
Accounts and notes receivable	88	Taxes payable	1
Other current assets	5	Other current liabilities	40
Taxes recoverable	1	Current portion of long-term debt	1
Cash and cash equivalents	-	Short-term debt	22
Current assets	**129**	**Current liabilities**	**176**
TOTAL ASSETS	**386**	**TOTAL EQUITY AND LIABILITIES**	**386**

5.9 Stockholders' equity

5.9.1 Share capital

At December 31, 2012, Valeo's share capital totaled 238 million euros, divided into 79,462,540 shares of common stock (of which 3,358,873 treasury shares) 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 (3,531,886 shares at December 31, 2012).

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 shares 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.

This liquidity agreement was executed with an investment services provider on April 22, 2004 pursuant to the Code of Ethics published by the French Association of Investment Firms (*Association Française des Entreprises d'Investissement* – AFEI). At December 31, 2012, 60,000 shares and 15,312,092 euros had been allocated to this liquidity agreement compared with 352,000 shares and 3,707,328 euros at December 31, 2011. On the date the liquidity agreement was signed, 220,000 Valeo shares and 6,600,000 euros were allocated for its implementation.

■ Terms and conditions of stock option and free share plans

The terms and conditions of the shareholder-approved employee stock option and free share plans operated by Valeo at December 31, 2012 were as follows:

Terms and conditions of stock option plans

Year in which the plan was set up	Number of shares under option	*of which subject to conditions*[(1)]	Option exercise price[(2)] *(in euros)*	Number of shares not yet issued at December 31, 2012	Expiration date
2005	650,000	-	32.32	192,360	2013
2006	1,309,250	-	32.63	493,360	2014
2007	250,000	-	36.97	250,000	2015
2007	1,677,000	-	36.82	967,653	2015
2008	426,750	-	31.41	254,592	2016
2010	1,000,000	*611,365*	24.07	801,500	2018
2011	292,840	*210,370*	42.41	266,760	2019
2012	367,160	*265,230*	40.78	359,360	2020
TOTAL	**5,973,000**	***1,086,965***		**3,585,585**	

(1) These stock options are subject to the Group meeting performance conditions.

(2) 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 share held if this is higher than the Valeo quoted share price.

Terms and conditions of free share plans

Year in which the plan was set up	Number of free shares authorized	*of which subject to conditions*[(1)]	Number of shares not yet tendered at December 31, 2012	Year of vesting[(2)]
2010	400,000	*178,112*	126,474	2012/2014
2011	326,860	*126,480*	291,538	2014/2016
2012	213,140	*117,220*	208,684	2015/2017
TOTAL	**940,000**	***421,812***	**626,696**	

(1) These free shares are subject to the Group meeting performance conditions.

(2) The vesting year varies depending on the country in which the plan's beneficiaries are based.

■ Movements in stock option and free share plans

2012

	Number of options and free shares granted[(1)]	Weighted average exercise price
Options not exercised at January 1, 2012	**4,649,419**	**27.52**
Options granted/Free shares to be tendered	580,300	25.80
Options canceled	(171,859)	21.04
Options expired	(64,795)	29.48
Options exercised	(780,784)	21.74
Options not exercised/Free shares not issued at December 31	**4,212,281**	**28.59**
Options which can be exercised at December 31, 2012	**2,959,465**	**31.92**

(1) The number of shares does not include the impact of the public share buyback offer and simplified public tender offer in 2005.

2011

	Number of options and free shares granted[1]	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	**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.*

Main assumptions underlying the valuation of equity instruments

The main data and assumptions underlying the valuation of equity instruments at fair value were as follows:

2012

	2012			
	Free shares		Stock options	
	France	Other countries	France	Other countries
Share price at grant date *(in euros)*	40.2	40.2	40.2	40.2
Expected volatility *(%)*	-	-	42.8	53.7
Risk-free rate *(%)*	1.1	1.5	1.3	1.1
Dividend rate *(%)*	4.1	-	3.9	3.9
Duration of the option *(in years)*	-	-	8	8
Fair value of equity instruments *(in euros)*	**32.6**	**32.6**	**10.1**	**11.7**

Expected volatility is determined as being the historic volatility calculated over a period equal to the duration of the options. The maturity used 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. This was four years for options granted to employees in France and three years for options granted to employees in other countries.

An expense of 9 million euros was booked in 2012 in respect of stock option and free share plans (8 million euros in 2011).

2011

	2011				
	Free shares			Stock 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**	**10.8**

5.9.2 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.

5.9.3 Translation adjustment

Movements in the translation adjustment in the period resulted in an unrealized loss of 47 million euros, mainly reflecting the depreciation of the Brazilian and Japanese currencies in 2012.

5.9.4 Retained earnings

Retained earnings include income for the year of 380 million euros prior to appropriation.

5.9.5 Dividends per share

The balance of the parent company's distributable retained earnings (before appropriation of 2012 net income) is 1,714 million euros in 2012 (1,592 million euros in 2011).

A dividend of 1.40 euros per share was paid in 2012, representing a total payout of 106 million euros. The dividend paid in 2011 was 1.20 euros per share, representing a total payout of 91 million euros.

5.9.6 Treasury shares

At December 31, 2012, Valeo owns 3,358,873 of its own shares, representing 4.2% of share capital (December 31, 2011: 4,241,206 shares, representing 5.4% of share capital).

5.9.7 Non-controlling interests

Changes in non-controlling interests can be analyzed as follows:

(in millions of euros)	**2012**	**2011**
Non-controlling interests at January 1	**144**	**62**
Equity in net earnings	25	24
Dividends paid	(18)	(17)
Capital increase	1	-
Translation adjustment	2	7
Actuarial gains (losses) on defined benefit plans	(1)	-
Changes in scope of consolidation	(10)	68
Non-controlling interests at December 31	**143**	**144**

The impact of changes in the scope of consolidation in 2012 was mainly due to the acquisition of shares in Valeo Automotive Air Conditioning Hubei Co. Ltd (see Note 2.1.4, page 218) for 21 million euros, partially offset by the impact of the alliance with Ichikoh in the lighting business in China (see Note 2.1.2, page 217), representing an amount of 12 million euros.

The impact of changes in the scope of consolidation in 2011 was mainly due to the acquisition of controlling interests in Valeo Pyeong Hwa and Valeo Pyeong Hwa International.

5.10 Provisions for pensions and other employee benefits

5.10.1 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:

- supplementary pension benefits (France, Germany, Japan, United Kingdom, United States) which top up the statutory pension plans in force in those countries;
- termination benefits (France, Italy, South Korea);
- the payment of certain medical and life insurance costs for retired employees (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 on pages 214 to 215.

5.10.2 Actuarial assumptions

To calculate discount rates for the year ended December 31, 2012, 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:

(%)		December 31, 2012	December 31, 2011
iBoxx Euro-Corporate AA 10-year+	Eurozone	3.0	4.8
iBoxx £-Corporate AA 15-year+	United Kingdom	4.0	4.8
Citigroup Pension Discount Curve	United States	3.5	4.1
10-year government bonds	Japan	1.0	1.4
10-year government bonds	South Korea	3.0	4.0

The sensitivity of the Group's main obligations to a 0.5 pt rise or fall in discount rates is set out in Note 5.10.7 on page 243.

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 plan assets:

(%)	December 31, 2012	December 31, 2011
United States	7.3	7.3
United Kingdom	4.7	6.0
Japan	3.3	3.8

The weighted average long-term salary inflation rate was around 3.5% at December 31, 2012, largely unchanged from December 31, 2011.

The rate of increase for medical costs in the US used to value the Group's main obligations at December 31, 2012 was 9.4% in 2012 (9.7% in 2011), gradually reducing to 5% by 2032. This assumption is largely similar to that used in 2011.

5.10.3 Breakdown and movements in obligations

Pension obligations break down as follows by major geographic area:

2012

(in millions of euros)	France	Other European countries	North America	Asia	Total
Present value of unfunded obligations	180	350	111	65	**706**
Present value of funded obligations	25	76	407	90	**598**
Market value of plan assets	(8)	(53)	(275)	(48)	**(384)**
Deficit	**197**	**373**	**243**	**107**	**920**
Unrecognized past service cost	(4)	-	-	-	**(4)**
Provisions recognized at December 31, 2012	**193**	**373**	**243**	**107**	**916**
Permanent employees at December 31, 2012 (1)	12,803	17,865	7,629	17,104	**55,401**

(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 2011 or 2012. 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.*

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**

(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 2011 or 2012. 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 obligations in 2011 and 2012 are shown below by major geographic area:

2012

(in millions of euros)	France	Other European countries	North America	Asia	Total
Benefit obligations at January 1, 2012	**162**	**323**	**494**	**153**	**1,132**
Actuarial gains and losses recognized in other comprehensive income	38	99	36	7	**180**
Benefits paid	(10)	(14)	(23)	(9)	**(56)**
Translation adjustment	-	2	(10)	(11)	**(19)**
Reclassification	(7)	(6)	-	1	**(12)**
Impact of changes in scope of consolidation	-	-	-	-	**-**
Expenses (income) for the year:	**22**	**22**	**21**	**14**	**79**
■ *service cost*	*12*	*6*	*1*	*10*	***29***
■ *interest cost*	*8*	*15*	*20*	*4*	***47***
■ *other*	*2*	*1*	-	-	***3***
Benefit obligations at December 31, 2012	**205**	**426**	**518**	**155**	**1,304**

The actuarial gains and losses recognized in the year, leading to an increase of 180 million euros in the Group's obligation, arose chiefly due to the sharp fall in the discount rate in eurozone countries.

2011

(in millions of euros)	France	Other European countries	North America	Asia	Total
Benefit obligations at January 1, 2011	**152**	**313**	**425**	**98**	**988**
Actuarial gains and losses recognized in other comprehensive income	7	4	56	-	**67**
Benefits paid	(15)	(13)	(21)	(13)	**(62)**
Translation adjustment	-	3	16	14	**33**
Reclassification	-	-	-	(1)	**(1)**
Impact of changes in scope of consolidation	-	-	-	44	**44**
Expenses (income) for the year:	**18**	**16**	**18**	**11**	**63**
■ *service cost*	*10*	*4*	*1*	*8*	***23***
■ *interest cost*	*7*	*15*	*21*	*3*	***46***
■ *other*	*1*	*(3)*	*(4)*	-	***(6)***
Benefit obligations at December 31, 2011	**162**	**323**	**494**	**153**	**1,132**

The 67 million euros in actuarial gains and losses mainly reflects the fall in discount rates in countries where the Group's obligations are the most significant, in particular the United States.

Changes in the scope of consolidation during the period led to an increase of 44 million euros in the Group's obligation, mainly in Japan as a result of the acquisition of Niles.

5.10.4 Movements in provisions

Movements in provisions in 2012 and 2011 are shown in the table below:

(in millions of euros)	France	Other European countries	North America	Asia	Total
Provisions at January 1, 2011	**142**	**271**	**180**	**58**	**651**
Actuarial gains and losses recognized in other comprehensive income	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**
Actuarial gains and losses recognized in other comprehensive income	38	96	27	4	**165**
Amounts used during the year	(13)	(16)	(18)	(13)	**(60)**
Impact of changes in scope of consolidation	-	-	-	-	**-**
Reclassification	(7)	(6)	-	1	**(12)**
Translation adjustment	-	1	(5)	(6)	**(10)**
Expenses (income) for the year:	**23**	**20**	**2**	**12**	**57**
▪ *service cost*	*12*	*6*	*1*	*10*	***29***
▪ *interest cost*	*8*	*15*	*20*	*4*	***47***
▪ *past service cost*	*1*	-	-	-	***1***
▪ *expected return on plan assets*	-	*(2)*	*(19)*	*(2)*	***(23)***
▪ *other*	*2*	*1*	-	-	***3***
Provisions at December 31, 2012	**193**	**373**	**243**	**107**	**916**
Of which current portion (less than one year)	13	16	14	11	**54**

An expense of 57 million euros was recognized in 2012 in respect of pensions and other employee benefits (44 million euros in 2011), of which 33 million euros were included in operating margin and 24 million euros in other financial income and expenses.

5.10.5 Breakdown and movements in plan assets

The breakdown of plan assets at December 31, 2012 and 2011 is shown in the tables below:

2012

(in millions of euros)	France	Other European countries	North America	Asia	Total
Cash at bank	-	3	10	10	**23**
Shares	8	30	145	14	**197**
Government bonds	-	10	29	12	**51**
Corporate bonds	-	10	91	12	**113**
Breakdown of plan assets at December 31, 2012	**8**	**53**	**275**	**48**	**384**

The Group is not exposed to margin calls on its pension obligations due to the nature of its 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**

Movements in the value of plan assets in 2012 and 2011 can be analyzed as follows:

2012

(in millions of euros)	France	Other European countries	North America	Asia	Total
Plan assets at January 1, 2012	**5**	**45**	**257**	**44**	**351**
Expected return on plan assets	-	2	19	2	**23**
Contributions paid to external funds	4	5	11	10	**30**
Benefits paid	(1)	(3)	(16)	(6)	**(26)**
Actuarial gains and losses	-	3	9	3	**15**
Translation adjustment	-	1	(5)	(5)	**(9)**
Plan assets at December 31, 2012	**8**	**53**	**275**	**48**	**384**

The fair value of plan assets continued to rise in 2012, chiefly due to actual returns on these assets totaling 38 million euros. The difference between actual returns and the 23 million euros in expected returns, recognized in other financial income and expenses, accounts for the 15 million euros of actuarial gains resulting from experience adjustments. These actuarial gains were credited to other comprehensive income in 2012.

Contributions of 30 million euros were paid to external funds in 2012. Contributions in 2013 are estimated at 14 million euros.

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**

5.10.6 Data for previous years

Obligations, financial assets and actuarial gains and losses for previous years can be analyzed as follows:

(in millions of euros)	2012	2011	2010	2009	2008
Obligations	1,304	1,132	988	886	843
Financial assets	(384)	(351)	(330)	(269)	(225)
Net obligations	**920**	**781**	**658**	**617**	**618**
Actuarial (losses) and gains recognized in other comprehensive income (1)	(165)	(90)	(30)	(16)	(56)

(1) *Actuarial losses recognized in equity in 2012 for 165 million euros mainly include 177 million euros of actuarial losses arising on changes in assumptions regarding pension obligations, partially offset by 15 million euros in actuarial gains due to experience adjustments on financial assets.*

5.10.7 Sensitivity of obligations

The discount rates applied in each geographic area have a significant impact on the amount of the Group's benefit obligations.

A 0.5 pt increase or decrease in discount rates would have the following impact on the projected benefit obligation at December 31, 2012:

(in millions of euros)	Eurozone	United Kingdom	United States	Japan	South Korea	Other countries	Total
Benefit obligations at December 31, 2012	*549*	*74*	*503*	*103*	*47*	*28*	***1,304***
Impact of a 0.5 pt rise in discount rates	(42)	(7)	(32)	(4)	(2)	(2)	**(89)**
Impact of a 0.5 pt fall in discount rates	45	7	34	4	2	2	**94**

A 0.5 pt increase in the discount rate would reduce service cost for 2013 by around 3 million euros, while a 0.5 pt decrease in the discount rate would have the opposite effect.

A 1 pt rise or fall in the rate of increase for medical costs in the United States would not have a material impact on the pension obligation or expense for the period.

5.10.8 Sensitivity of plan assets

A decrease of 1 pt in the expected return on plan assets would reduce the financial income recognized on these assets in 2013 by around 4 million euros. An increase of 1 pt in the expected return on plan assets would have the opposite effect.

5.11 Other provisions

Changes in provisions can be analyzed as follows:

(in millions of euros)	Provisions for restructuring costs	Provisions for other risks	Total
Provisions at January 1, 2011	**107**	**425**	**532**
Amounts used during the year	(38)	(68)	**(106)**
Impact of changes in scope of consolidation	-	15	**15**
Translation adjustment	-	-	**-**
Reclassification	1	(1)	**-**
Additions	6	110	**116**
Unwinding of discount	1	-	**1**
Reversals	(17)	(61)	**(78)**
Provisions at December 31, 2011	**60**	**420**	**480**
Amounts used during the year	(15)	(89)	**(104)**
Impact of changes in scope of consolidation	-	4	**4**
Translation adjustment	(1)	(6)	**(7)**
Reclassification	(5)	1	**(4)**
Additions	11	101	**112**
Unwinding of discount	-	-	**-**
Reversals	(6)	(53)	**(59)**
Provisions at December 31, 2012	**44**	**378**	**422**
Of which current portion (less than one year)	14	185	**199**

5.11.1 Provisions for restructuring costs

Provisions for restructuring costs totaled 44 million euros at December 31, 2012 versus 60 million euros at December 31, 2011. The decrease in 2012 results mainly from expenditures and reversals of outstanding provisions set aside for the restructuring plan launched in 2010 on setting up the new organization of the Group.

5.11.2 Provisions for other contingencies

(in millions of euros)	2012	2011
Provisions for product warranties	185	192
Provisions for tax-related disputes	66	72
Environmental provisions	20	22
Provisions for loss making contracts	13	16
Provisions for employee-related and other disputes	94	118
Provisions for other contingencies	**378**	**420**

Provisions for product warranties include provisions set aside on a statistical basis to cover returns of goods and services under warranty and provisions for specific quality risks arising in situations not covered by usual warranties.

Provisions for tax disputes include a 27 million euros provision set aside for a tax dispute with the French tax authorities brought by Valeo before the administrative court in September 2003. This dispute is based on the allegedly unlawful nature of the dividend withholding tax paid on dividend payouts made in 2000. In a ruling at the end of December 2007, the administrative court found in favor of Valeo, which was reimbursed in an amount of 27 million euros in April 2008. Since the tax authorities lodged an appeal against this decision, Valeo set aside a provision for the full amount received, due to uncertainties surrounding existing case law on the matter.

Provisions for tax disputes also include a 10 million euros provision relating to an ongoing dispute before the Spanish courts regarding fiscal years 1992 to 1995. One of the companies belonging to the Spanish tax consolidation group was considered by the Spanish tax authorities to have left the tax group due to insufficient stockholders' equity. Its tax losses could not be utilized.

The 94 million euros recognized within "Provisions for employee-related and other disputes" chiefly includes provisions for employee-related risks, including asbestos risks for 40 million euros and various disputes arising in connection with Valeo's operating activities across the globe.

5.12 Net debt

5.12.1 Gross debt

At December 31, 2012, the Group's gross debt can be analyzed as follows:

(in millions of euros)	**2012**	**2011**
Long-term debt – Long-term portion (Note 5.12.2, page 245)	1,564	1,494
Current portion of long-term debt (Note 5.12.2, page 245)	440	307
Short-term debt (Note 5.12.3, page 247)	73	75
Portion of liabilities held for sale related to the gross debt (Note 5.8, page 235)	23	-
Gross debt	**2,100**	**1,876**

5.12.2 Long-term debt

■ Analysis of long-term debt

(in millions of euros)	**2012**	**2011**
Bonds	1,303	893
Syndicated loans	248	472
European Investment Bank loans	283	281
Lease obligations	11	14
Other borrowings	106	110
Accrued interest	54	31
Portion of liabilities held for sale related to long-term debt (Note 5.8, page 235)	(1)	-
Total long-term debt	**2,004**	**1,801**

The net rise in long-term debt in 2012 is essentially due to the three factors described below:

- on January 19, 2012, Valeo carried out a 500 million euro bond issue within the scope of its Euro Medium Term Note, medium-and long-term 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 was redeemed as a result of this offer. These transactions allow Valeo to extend the average maturity of its debt and smooth its repayment profile, reducing the amount due in 2013 by 89 million euros in exchange for 500 million euros with a revised maturity of 2017;
- on January 30, 2012, Valeo repaid the two syndicated loans ahead of maturity due to expire at the end of July 2012, using the proceeds from its January 19, 2012 bond issue.

At December 31, 2012, long-term debt chiefly includes:

- a 311 million euro bond issued by Valeo as part of its Euro Medium Term Note program. These eight-year bonds were initially issued for an amount of 600 million euros on June 24, 2005. In May 2011, Valeo redeemed one-third of these outstanding bonds, representing a nominal amount of 200 million euros, at 101.8% of par. In January 2012, Valeo redeemed an additional portion of these bonds, representing a nominal amount of 89 million euros, at 101.6% of par. These two transactions were 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 in 2011 and 2 million euros in 2012. The effective interest rate on the outstanding bonds remains unchanged at 3.89%;
- 500 million euros worth of seven-year bonds maturing in 2018 and issued by Valeo on May 12, 2011. These bonds were issued as part of the Euro Medium Term Note program and pay 4.875% interest. The effective interest rate is 5.09%;
- 500 million euros worth of five-year bonds maturing in 2017 and issued by Valeo on January 19, 2012. These bonds were issued as part of the Euro Medium Term Note program and pay 5.75% interest. The effective interest rate is 5.92%;
- a syndicated five-year loan contracted by the Group at June 30, 2011 for 250 million euros in connection with the financing of Niles. The loan was taken out with three banks within the scope of a club deal and bears variable interest at 3-month Euribor +1.3%. A euro/Japanese 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:
  - a first 225 million euros loan was taken out on August 5, 2009 for a seven-year term, repayable in four equal annual installments as from 2013. This loan 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%,
  - a second loan, drawn down in USD in an amount of 103 million dollars, was taken out for a seven-year term on November 3, 2011, repayable in four equal annual installments as from 2015. This loan bears variable interest at 6-month USD Libor +1.9%. A currency swap was taken out at the same time as the loan.

  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:
  - for the first 225 million euros loan, the subsidy was estimated at 28 million euros and was recognized within liabilities in the statement of financial position. It is subsequently 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 2012 is 4.7 million euros. The loan is carried at amortized cost for an amount of 210 million euros at December 31, 2012, and has an effective interest rate of 5.84%,
  - for the second 103 million US dollar loan, the subsidy was estimated at 6 million euros and is recognized within liabilities in the statement of financial position. The impact on income in 2012 is 1.5 million euros. The loan is carried at amortized cost for an amount of 73 million euros at December 31, 2012;
- other loans chiefly comprise debt contracted by Group subsidiaries at reduced rates in Spain.

Covenants relating to borrowings and debt are detailed in Note 6.2.2 on page 257.

■ Maturities of long-term debt-long term portion

(in millions of euros)	2014	2015	2016	2017	2018 and beyond	Total
Bonds	-	-	-	497	495	**992**
Syndicated loans	-	-	248	-	-	**248**
EIB loans	51	71	72	19	19	**232**
Lease obligations	4	2	1	-	-	**7**
Other borrowings	30	8	21	3	23	**85**
TOTAL	**85**	**81**	**342**	**519**	**537**	**1,564**

■ Current portion of long-term debt

(in millions of euros)	2012	2011
Bond issue	311	**-**
Syndicated loans	-	224
EIB loans	51	-
Lease obligations	4	6
Other borrowings	21	46
Accrued interest	54	31
Portion of liabilities held for sale related to the long-term debt (Note 5.8, page 235)	(1)	-
Current portion of long-term debt	**440**	**307**

At December 31, 2012, the current portion of long-term debt relates mainly to the 311 million euros bond issue maturing in June 2013.

At December 31, 2011, the current portion of long-term debt related mainly to the two syndicated loans for 224 million euros maturing at the end of July 2012.

5.12.3 Short-term debt

(in millions of euros)	2012	2011
Commercial paper	30	21
Short-term loans and overdrafts	65	54
Cash portion of assets and liabilities held for sale (Note 5.8, page 235)	(22)	-
Short-term debt	**73**	**75**

The 65 million euros recorded on the “Short-term loans and overdrafts” line relate mainly to overdraft facilities.

5.12.4 Cash and cash equivalents

(in millions of euros)	2012	2011
Marketable securities	793	735
Cash	541	560
Cash and cash equivalents	**1,334**	**1,295**

Marketable securities consist of money market funds (SICAV) for 766 million euros.

The fair value of these cash equivalents was measured using Level 1 inputs (see Note 6.1.1, page 251).

In China and Brazil, where exchange control restrictions may exist, cash and cash equivalents amounted to 157 million euros at December 31, 2012, compared to 114 million euros at December 31, 2011. In these countries, the Group has set up local cash pooling arrangements and regularly receives dividends from several companies.

Cash and cash equivalents due to the Group's partners in fully consolidated companies that are not wholly owned by Valeo totaled 48 million euros at December 31, 2012 and 48 million euros at December 31, 2011.

Cash and cash equivalents in proportionately consolidated companies totaled 50 million euros at December 31, 2012 and 29 million euros at December 31, 2011.

5.12.5 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.

(in millions of euros)	2012	2011
Debt – long-term portion (Note 5.12.2, page 245)	1,564	1,494
Current portion of long-term debt (Note 5.12.2, page 245)	440	307
Loans and other non-current financial assets	(3)	(58)
Portion of liabilities held for sale related to the long-term debt (Note 5.8, page 235)	1	-
Long-term debt	**2,002**	**1,743**
Short-term debt (Note 5.12.3, page 247)	73	75
Cash and cash equivalents (Note 5.12.4, page 247)	(1,334)	(1,295)
Cash portion of assets and liabilities held for sale (Note 5.8, page 235)	22	-
Short-term cash	**(1,239)**	**(1,220)**
Net debt	**763**	**523**

5.12.6 Analysis of net debt by currency

Net debt can be analyzed as follows by currency:

(in millions of euros)	2012	2011
Euro	1,082	909
US dollar	(66)	(62)
Japanese Yen	(6)	(84)
Brazilian real	(7)	(41)
Korean won	(96)	(67)
Chinese yuan	(95)	(58)
Other currencies	(49)	(74)
TOTAL	**763**	**523**

5.13 Breakdown of cash flows

5.13.1 Expenses (income) with no cash effect

(in millions of euros)	**2012**	**2011**
Expenses (income) with no cash effect		
Depreciation, amortization and impairment of non-current assets	544	534
Net additions to (reversals from) provisions	(47)	(91)
Losses (gains) on sales of non-current assets	8	2
Expenses related to share-based payment	9	8
Losses (gains) on remeasurement of previously-held interest	(30)	(24)
Impairment of assets and liabilities held for sale	46	-
TOTAL	**530**	**429**

Impairment losses taken against assets and liabilities held for sale mainly relate to the 44 million euro write-down recognized on the Access Mechanisms business.

5.13.2 Changes in working capital

(in millions of euros)	**2012**	**2011**
Changes in working capital		
Inventories	(66)	(73)
Accounts and notes receivable	101	(145)
Accounts and notes payable	(18)	238
Other receivables and payables	(66)	(49)
TOTAL	**(49)**	**(29)**

5.13.3 Acquisitions of equity interests conferring control

Changes in the scope of consolidation had a negative impact of 19 million euros in 2012, chiefly reflecting the stronger alliance between Valeo and Ichikoh in the Lighting business in China (see Note 2.1.2, page 217), resulting in a negative impact of 10 million euros over the period.

Changes in the scope of consolidation had a negative impact of 270 million euros in 2011, chiefly attributable to the two acquisitions during the year:

- the acquisition of Niles, which had a negative impact of 261 million euros, including 165 million euros in respect of the cost of the interest acquired (after contingent consideration), 90 million euros relating to the first-time consolidation of Niles, and 6 million euros in acquisition-related fees;
- the acquisition in late 2011 of UK-based 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. These entities were fully consolidated as opposed to proportionately consolidated previously.

5.13.4 Issuance and repayment of long-term debt

In 2012, issuance of long-term debt mainly relates to the new 500 million euros bond issue on January 19, 2012, redeemable in January 2017.

Repayments of long-term debt in the same period mainly include the early repayment of the two syndicated loans for 224 million euros and the redemption of 2013 bonds for 89 million euros in January 2012.

In 2011, issuance of long-term debt consisted mainly of the bonds issued on May 11, 2011 for 500 million euros and a 250 million euros loan taken out by the Group on June 30, 2011 in connection with the financing of Niles.

Repayments of long-term debt in the same period mainly included the redemption of OCEANE bonds for 463 million euros in January 2011 and the redemption of 2013 bonds for 200 million euros in May 2011 (see Note 5.12.2, page 245).

5.13.5 Acquisitions of equity interests without control

The Group's acquisition of non-controlling interests in the Chinese firm Valeo Automotive Air Conditioning Hubei Co. Ltd (see Note 2.1.4, page 218) resulted in a cash outflow of 52 million euros in 2012. The creation of Detroit Thermal Systems (see Note 2.1.3, page 217) reduced cash by 4 million euros in the same period.

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 on page 212.

	2012	2012 carrying amount under IAS 39			2011
(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	**4**	-	4	-	12
■ Loans	**3**	3	-	-	58
■ Deposits and guarantees	**16**	-	-	16	18
■ Other non-current financial assets	**4**	-	-	4	3
Accounts and notes receivable	**1,517**	1,517	-	-	1,705
Other current financial assets:					
■ Hedging derivatives	**2**	-	2	-	1
■ Trading derivatives	**18**	-	-	18	9
Assets held for sale (1)	**88**	88	-	-	-
Cash and cash equivalents	**1,334**	-	-	1,334	1,295
Liabilities					
Non-current financial liabilities:					
■ Hedging derivatives	**14**	-	14	-	13
■ Trading derivatives	**3**	-	-	3	38
Bonds	**1,303**	1,303	-	-	893
Syndicated loans	**248**	248	-	-	472
EIB loans	**283**	283	-	-	281
Other long-term debt	**170**	170	-	-	155
Accounts and notes payable	**2,209**	2,209	-	-	2,338
Other current financial liabilities					
■ Hedging derivatives	**2**	-	2	-	9
■ Trading derivatives	**8**	-	-	8	11
Liabilities held for sale (1)	**130**	130	-	-	-
Short-term debt	**73**	73	-	-	75

(1) *The assets and liabilities relating to the Access Mechanisms businesses were reclassified within "Assets and liabilities held for sale" at December 31, 2012 (see Note 5.8, page 235).*

The principal terms and conditions of borrowings (bonds, syndicated loan and EIB loans) are detailed in Note 5.12.2 on page 245, while the basis for recognition is described in Note 1.14 on page 212.

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 1,435 million euros at December 31, 2012 and 887 million euros at December 31, 2011.

The fair value of the syndicated loan 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 five-year credit default swaps. These issuer spreads were estimated (source: Markit Reuters) at:

- 1.37% for the 250 million euros syndicated loan;
- 1.37% for the 225 million euros EIB loan;
- 1.67% (five-year CDS including the US dollar/euro basis swap of 0.3%) for the EIB loan drawn in US dollars.

At December 31, 2012, the fair values of these instruments are estimated at 247 million euros for the syndicated loan and 303 million euros for the EIB loans (457 million euros and 289 million euros, respectively, at December 31, 2011).

The fair value of other components of Group debt is equal to their carrying amount.

6.1.2 Fair value of derivatives

At December 31

(in millions of euros)	2012	2011
Assets		
Hedging derivatives:		
■ Foreign currency derivatives	-	-
■ Commodity derivatives	2	1
Trading derivatives:		
■ Foreign currency derivatives	18	9
■ Commodity derivatives	-	-
Total other current financial assets	**20**	**10**
Liabilities		
Hedging derivatives:		
■ Foreign currency derivatives	(3)	(38)
■ Interest rate derivatives	(14)	(13)
Total other non-current financial liabilities	**(17)**	**(51)**
Hedging derivatives:		
■ Interest rate derivatives	-	(1)
■ Commodity derivatives	(1)	(8)
■ Foreign currency derivatives	(1)	-
Trading derivatives:		
■ Foreign currency derivatives	(8)	(11)
■ Commodity derivatives	-	-
Total other current financial liabilities	**(10)**	**(20)**

The impact of financial instruments on income for the years ended December 31, 2012 and December 31, 2011 is set out in Note 4.7 on page 226.

Fair value of foreign currency derivatives

At December 31

	2012		2011	
(in millions of euros)	**Nominal**	**Fair value**	**Nominal**	**Fair value**
Forward foreign currency purchases	4	-	59	2
Forward foreign currency sales	(38)	2	(2)	1
Currency swaps	(547)	16	131	6
Total assets	**(581)**	**18**	**188**	**9**
Forward foreign currency purchases	121	(4)	3	-
Forward foreign currency sales	(5)	-	(28)	(1)
Currency swaps	99	(5)	(527)	(10)
Cross currency swaps	(237)	(3)	(237)	(38)
Total liabilities	**(22)**	**(12)**	**(789)**	**(49)**
Net impact	**-**	**6**	**-**	**(40)**

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 (non-ferrous metals) derivatives

At December 31

	2012		2011	
(in millions of euros)	**Nominal**	**Fair value**	**Nominal**	**Fair value**
Swaps – Purchases	61	2	39	1
Swaps – Sales	-	-	-	-
Total assets	**61**	**2**	**39**	**1**
Swaps – Purchases	29	(1)	96	(8)
Swaps – Sales	(1)	-	(1)	-
Total liabilities	**28**	**(1)**	**95**	**(8)**
Net impact	**-**	**1**	**-**	**(7)**

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

	2012		2011	
(in millions of euros)	**Nominal value**	**Fair value**	**Nominal value**	**Fair value**
Interest rate swaps:				
EIB loans	225	(14)	225	(13)
Syndicated loans	-	-	225	(1)
Total liabilities	**225**	**(14)**	**450**	**(14)**

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 Chapter 2, section 2.1 "Main risks", on page 56.

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 Chapter 2, section 2.1.4 "Financial risks", on page 64.

■ 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 Japanese 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, 2012, a 1 million euro loss was recognized in other comprehensive income 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):

	2012				2011
(in millions of euros)	**USD**	**JPY**	**EUR**	**Total**	**Total**
Accounts and notes receivable	96	23	389	**508**	**469**
Other financial assets	600	242	91	**933**	**901**
Accounts and notes payable	(84)	(38)	(442)	**(564)**	**(512)**
Long-term debt	(85)	(94)	(183)	**(362)**	**(358)**
Gross exposure	**527**	**133**	**(145)**	**515**	**500**
Forward sales	(650)	(240)	(32)	**(922)**	**(788)**
Forward purchases	216	112	7	**335**	**191**
Net exposure	**93**	**5**	**(170)**	**(72)**	**(97)**

In the table above, the euro 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.

At December 31, 2011, the breakdown by currency of the net exposure in the statement of financial position for a negative amount of 97 million euros is as follows:

- a positive amount of 72 million euros relating to the US dollar;
- a positive amount of 9 million euros relating to the Japanese yen;
- a negative amount of 178 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 1.32 US dollars, 113.61 Japanese yen and 25.15 Czech koruna to 1 euro at December 31, 2012 (1.29 US dollars, 100.20 Japanese yen and 25.79 Czech koruna, respectively, at December 31, 2011).

An increase of 10% in the value of the euro against these currencies at December 31, 2012 and December 31, 2011 would have had the following impacts:

2012

(in millions of euros)	Income gain (loss)	Equity gain (loss)
Exposure US dollar	(9)	-
Exposure Yen	-	-
Exposure Euro	(14)	(6)
TOTAL	**(23)**	**(6)**

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)**

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, 2012 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 Chapter 2, section 2.1.4, on page 64.

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, 2012 and December 31, 2011 break down as follows:

(in tons)	2012	2011
Aluminum	22,664	30,549
Secondary aluminum	7,721	10,860
Copper	6,461	9,388
Zinc	2,681	5,376
TOTAL	**39,527**	**56,173**

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized gain of 1 million euros related to existing hedges was recognized directly in other comprehensive income for 2012 in accordance with IAS 39.

An unrealized loss of 7 million euros recognized in other comprehensive income at December 31, 2011 and arising on commodity hedges purchased in second-half 2011 was reclassified in full to operating income in the first half of 2012.

■ 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, 2012 and 2011.

	2012		2011	
(in millions of euros)	Income gain (loss)	Equity gain (loss)	Income gain (loss)	Equity gain (loss)
Impact of a 10% rise in metal futures prices	-	7	-	10
Impact of a 10% fall in metal futures prices	-	(7)	-	(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 Chapter 2, section 2.1.4 on page 65.

■ 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, 2012, the impact on 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:

2012

	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	390	151	554	493	500	42	1,444	686	**2,130**
Loans	-	-	-	(3)	-	-	-	(3)	**(3)**
Cash and cash equivalents	-	(1,334)	-	-	-	-	-	(1,334)	**(1,334)**
Net position before hedging	**390**	**(1,183)**	**554**	**490**	**500**	**42**	**1,444**	**(651)**	**793**
Derivative instruments	56	(56)	169	(169)	-	-	225	(225)	-
Net position after hedging	**446**	**(1,239)**	**723**	**321**	**500**	**42**	**1,669**	**(876)**	**793**

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**

Analysis of sensitivity to interest rate risk

At December 31, 2012, 77% of long-term debt is at fixed rates (64% at December 31, 2011).

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 other comprehensive income of a sudden 1% rise in the interest rates applied to variable-rate financial assets and liabilities, after hedging:

2012

(in millions of euros)	**Income gain (loss)**	**Equity gain (loss)**
Impact of a 1% rise in interest rates	9	9

2011

(in millions of euros)	**Income gain (loss)**	**Equity gain (loss)**
Impact of a 1% rise in interest rates	7	6

Similarly, at December 31, 2012, 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 Chapter 2, section 2.1.4, on page 65.

The assets comprising pension funds are detailed in Note 5.10.5 on page 242.

The Group's cash and cash equivalents are set out in Note 5.12.4 on page 247.

6.2.2 Liquidity risk

A detailed description of the Group's liquidity risk management policy is set out in Chapter 2, section 2.1.4, on page 62.

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 a 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 euros syndicated loans ahead of term on January 30, 2012.

In 2011, Valeo also took out a 250 million euros 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 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 1,334 million euros at December 31, 2012;
- confirmed bank credit lines totaling 1.2 billion euros with an average maturity of 3.3 years. None of these credit lines had been drawn down at December 31, 2012 or December 31, 2011;
- a Euro Medium Term Note financing program for a maximum of 2 billion euros, on which 1,311 million euros had been drawn down at December 31, 2012;
- a short-term commercial paper financing program for a maximum amount of 1.2 billion euros. However, given Valeo's P3/A-2 short-term debt rating, the regulations applicable to monetary funds restrict its access to this market.

Covenants: The credit lines, syndicated loan and EIB loans are subject to an early repayment clause related to the Group's net debt-to-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 excludes other income and expenses, except for restructuring costs in excess of 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 loan and EIB loans to be repaid. At December 31, 2012, the ratio calculated over 12 months was 0.61.

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 leading 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).

On September 14, 2012, the rating agency Standard & Poor's assigned Valeo's short-term debt an A-2 rating and rated its long-term debt BBB with a stable outlook.

On January 29, 2013, Moody's, another ratings agency, confirmed its ratings for the Group's short- and long-term debt at P3 and Baa3, respectively, with a stable outlook.

These two ratings confirm Valeo's investment-grade status.

■ 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, 2012 was used for variable-rate interest.

At December 31, 2012

	Carrying amount	Contractual cash flows	Contractual cash flows payment schedule					
(in millions of euros)		**Total**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018 and beyond**
Bonds	1,303	**1,612**	376	53	53	53	553	524
EIB loans	283	**330**	65	63	81	79	21	21
Syndicated loan	248	**265**	4	4	4	253	-	-
Other long-term debt	170	**170**	84	34	10	23	3	16
Accounts and notes payable	2,209	**2,209**	2,209	-	-	-	-	-
Short-term debt	73	**73**	73	-	-	-	-	-

■ 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, 2012 have been used to value foreign exchange derivatives. The London Metal Exchange (LME) forward rates at December 31, 2012 were used for commodity derivatives, while the forward interest rate curve at December 31, 2012 was used for interest rate swaps.

At December 31, 2012

(in millions of euros)	Carrying amount	Contractual cash flows Total	Contractual cash flows payment schedule 2013	2014	2015	2016	2017	2018 and beyond
Forward foreign currency contracts used as hedges:								
■ Assets	2	**2**	2	-	-	-	-	-
■ Liabilities	(4)	**(4)**	(4)	-	-	-	-	-
Currency swaps used as hedges:								
■ Assets	16	**16**	16	-	-	-	-	-
■ Liabilities	(8)	**(4)**	(4)	1	1	(2)	-	-
Commodity derivatives:								
■ Assets	2	**2**	2	-	-	-	-	-
■ Liabilities	(1)	**(1)**	(1)	-	-	-	-	-
Interest rate swaps:								
■ Assets	-	**-**	-	-	-	-	-	-
■ Liabilities	(14)	**(16)**	(7)	(5)	(3)	(1)	-	-

6.2.3 Credit risk

A detailed description of the Group's credit risk management policy is set out in Chapter 2, section 2.1.4, on page 66.

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 and, more specifically, the risk of default by its customers. Valeo operates exclusively in the automotive industry and works with all automakers. The economic climate was mixed in 2012, with European and South American markets declining and markets in Asia and North America on an uptrend. Valeo therefore continues to closely monitor credit risk, particularly due to the inherent uncertainties regarding 2013. The average days' sales outstanding stood at 49 days at December 31, 2012, compared to 51 days at December 31, 2011.

At December 31, 2012, Valeo's largest customer accounted for 16% of the Group's accounts and notes receivable (19% at December 31, 2011).

The table below presents an aged analysis of accounts and notes receivable at the end of the reporting period:

(in millions of euros)	Gross carrying amount Dec. 31, 2012	Gross carrying amount Dec. 31, 2011
Not yet due	1,519	1,644
Less than 1 month past due	67	43
More than 1 month but less than 1 year past due	34	33
More than 1 year past due	7	7
Portion of accounts and notes receivable reclassified in assets held for sale	(90)	-
TOTAL	**1,537**	**1,727**

At December 31, 2012, past-due receivables were written down in an amount of 22 million euros (unchanged compared to 2011), including a write-down of 2 million euros against the Access Mechanisms business reclassified within assets held for sale (see Note 5.8, page 235).

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

Put option granted in respect of Valeo Unisia Transmissions

At December 31, 2012, 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 subsidiary'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, 2012, the subsidiary had total equity of 38 million euros prior to appropriation of income.

Put option granted in respect of Detroit Thermal Systems

Valeo and V. Johnson Enterprises set up the company Detroit Thermal Systems in the year (see Note 2.1.3, page 217). This company was 51%-owned by V. Johnson Enterprises and 49%-owned by Valeo at December 31, 2012.

V. Johnson Enterprises has a put option that may be exercised under certain conditions unrelated to either changes in shareholdings or to the level of earnings. The option is exercisable in the event that Valeo is unable to contribute to the financing of the venture or if it sold all of part of its interest to a third party. If the put is exercised, all of the shares owned by V. Johnson Enterprises at that time will be sold to Valeo, with the price to be determined according to the provisions set out in the company's bylaws.

- **Other commitments given**

Other commitments given relate to guarantees granted by Valeo in connection with divestments.

These totaled 42 million euros at December 31, 2012 versus 86 million euros at December 31, 2011. The decrease in this caption in 2012 mainly reflects the expiry of the vendor's warranty granted by Valeo to Jabil Circuit in connection with the sale of the Meung-sur-Loire plant in 2002.

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 page 257 on liquidity risk.

6.3.3 Off-balance sheet commitments relating to operating activities

- **Lease commitments**

Future minimum lease commitments in force at December 31, 2012 (excluding capital leases) are as follows:

(in millions of euros)	**2012**	**2011**
Less than 1 year	39	40
1 to 5 years	75	63
More than 5 years	5	14
TOTAL	**119**	**117**

Lease rentals recognized in expenses totaled 58 million euros in 2012 and 50 million euros in 2011.

Lease commitments in respect of capital leases are as follows at December 31:

(in millions of euros)	2012	2011
Future minimum lease payments		
Less than 1 year	4	6
1 to 5 years	7	9
More than 5 years	-	-
Total future minimum lease payments	**11**	**15**
Of which interest charges	-	(1)
Present value of future lease payments		
Less than 1 year	4	6
1 to 5 years	7	8
More than 5 years	-	-
Total present value of future lease payments	**11**	**14**

■ Other commitments given

Valeo has also given the following commitments:

(in millions of euros)	2012	2011
Guarantees given	3	3
Non-cancelable asset purchase commitments	222	133
Other commitments given	11	6
TOTAL	**236**	**142**

The following items recognized in assets in the Group's statement of financial position have been pledged as security:

(in millions of euros)	2012	2011
Property, plant and equipment	1	1
Financial assets	7	7
TOTAL	**8**	**8**

■ Commitments received

Commitments received totaled 59 million euros at December 31, 2012. In 2011, Valeo was granted vendor warranties totaling 53 million euros on acquisitions carried out in the period (see Note 2.2, page 218). In 2012, Valeo received an amount of 6 million euros within the scope of the alliance with Ichikoh in the lighting business in China (see Note 2.1.2, page 217).

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 ongoing 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 area 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 presently unknown, 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, during the last 12 months, 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 lawsuits could have a significant adverse impact on the Group's earnings.

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 1,173,568 hours at December 31, 2012 (1,159,410 hours at December 31, 2011), representing a usage rate of around 3.7%.

6.6 Related party transactions

6.6.1 Executive compensation

At December 31, 2012, executives comprise the 13 members of the Group's Operations Committee, along with the Chief Executive Officer. Compensation paid to executives not holding corporate office (Operations Committee, excluding the CEO) amounted to 8 million euros in 2012 and 10 million euros in 2011. Compensation paid to the Chief Executive Officer along with any termination benefits that may be payable to the CEO are detailed in Chapter 3, section 3.2.1 on pages 88 to 97.

The Group recognized an expense of 2 million euros in 2012 (unchanged from 2011) in respect of stock subscription and purchase options and free share awards. An expense was also recorded in relation to pension obligations for executive personnel in an amount of 1 million euros in 2012 and 2011. At December 31, 2012, provisions included in the Group's statement of financial position in respect of these pension obligations amounted to 10 million euros (8 million euros at December 31, 2011).

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 arm's length.

(in millions of euros)	**2012**	**2011**
Sales of goods and services	19	17
Purchases of goods and services	(10)	(5)
Interest and dividends received	-	3

(in millions of euros)	**2012**	**2011**
Operating receivables	3	7
Operating payables	18	8

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 arm's length.

(in millions of euros)	**2012**	**2011**
Sales of goods and services	30	34
Purchases of goods and services	(29)	(35)
Interest and dividends received	17	18

(in millions of euros)	**2012**	**2011**
Operating receivables	27	19
Operating payables	6	5
Net debt (cash)	(17)	14

6.7 Joint ventures

The following amounts are recorded in the Group's consolidated financial statements in respect of proportionately consolidated joint ventures (prior to elimination of intragroup transactions):

(in millions of euros)	**2012**	**2011**
Non-current assets	116	99
Current assets	234	193
Non-current liabilities	50	31
Current liabilities	246	186
Sales	482	484
Operating expenses	467	454

6.8 Subsequent events

To Valeo's knowledge, no other events have occurred since December 31, 2012 that could have a material impact on the Group's business, financial position or assets and liabilities.

Note 7 List of consolidated companies

	2012		2011	
Company	**% voting rights**	**% interest**	**% voting rights**	**% interest**
EUROPE				
France				
Valeo (parent company)				
DAV	100	100	100	100
Équipement 1	100	100	100	100
Équipement 11	100	100	100	100
Équipement 2	100	100	100	100
Niles Europe	100	100	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 Équipements Électriques Moteur	100	100	100	100
Valeo Études Électroniques	100	100	100	100
Valeo Finance	100	100	100	100
Valeo Compresseurs (ex: Valeo Four Seasons)	100	100	100	100
Valeo Management Services	100	100	100	100
Valeo Matériaux de Friction	100	100	100	100
Valeo Plastic Omnium S.N.C.(2)	50	50	50	50
Valeo Sécurité Habitacle	100	100	100	100
Valeo Service	100	100	100	100
Valeo Systèmes de Contrôle Moteur	100	100	100	100
Valeo Systèmes d'Essuyage	100	100	100	100
Valeo Systèmes Thermiques	100	100	100	100
Valeo 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	100	100	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	100	100
CAM Italy SpA	100	100	-	-

(1) *Companies accounted for by the equity method.*
(2) *Companies consolidated on a proportionate basis.*
(3) *See Note 2.1, page 216.*
(4) *Companies consolidated on a proportionate basis in 2011 and fully consolidated in 2012.*
(5) *Companies accounted for by the equity method in 2011 and fully consolidated in 2012.*

	2012		2011	
Company	**% voting rights**	**% interest**	**% voting rights**	**% interest**
Germany				
Valeo Auto-Electric GmbH	100	100	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 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	100	100	100	100
Ireland				
Connaught Electronics Limited	100	100	100	100
HI-KEY Limited	100	100	100	100
Valeo Ichikoh Holding Ireland Limited(3)	85	89.7	-	-
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
CAM Holding Europe BV	100	100	-	-
Valeo Service Benelux BV	100	100	100	100
Czech Republic				
Valeo Autoklimatizace ks	100	100	100	100
Valeo Compressor Europe S.r.o.	100	100	100	100
Valeo Vymeniky Tepla ks	100	100	100	100
Slovakia				
Valeo Slovakia S.r.o.	100	100	100	100
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

(1) Companies accounted for by the equity method.
(2) Companies consolidated on a proportionate basis.
(3) See Note 2.1, page 216.
(4) Companies consolidated on a proportionate basis in 2011 and fully consolidated in 2012.
(5) Companies accounted for by the equity method in 2011 and fully consolidated in 2012.

	2012		2011	
Company	**% voting rights**	**% interest**	**% voting rights**	**% interest**
Romania				
Valeo Lighting Injection SA	100	100	100	100
Valeo Sisteme Termice S.R.L.	100	100	100	100
Russia				
Valeo Climate Control Tomilino LLC	100	100	95	95
Valeo Service Limited Liability Company	100	100	100	100
Turkey				
Valeo Otomotiv Dagitim AS	100	100	100	100
Valeo Otomotiv Sistemleri Endustrisi AS	100	100	100	100
AFRICA				
Tunisia				
DAV Tunisie	100	100	100	100
Valeo Embrayages Tunisie SA	100	100	100	100
Valeo Tunisie	100	100	100	100
Morocco				
Cablinal Maroc, SA	100	100	100	100
Valeo Vision Maroc SA	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
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
Detroit Thermal Systems LLC(1) (3)	49	49	-	-
Mexico				
Delmex de Juarez S de RL 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

(1) Companies accounted for by the equity method.
(2) Companies consolidated on a proportionate basis.
(3) See Note 2.1, page 216.
(4) Companies consolidated on a proportionate basis in 2011 and fully consolidated in 2012.
(5) Companies accounted for by the equity method in 2011 and fully consolidated in 2012.

Company	2012 % voting rights	2012 % interest	2011 % voting rights	2011 % interest
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 Électronicos, 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	100	99.4
Valeo Siam Thermal Systems Co. Ltd	74.9	74.9	74.9	74.9
Valeo Thermal Systems Sales (Thailand) Co. Ltd	74.9	74.9	74.9	74.9
Niles (Thailand) Co. Ltd	100	100	100	100
South Korea				
Valeo Automotive Korea (formerly 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 Ltd	50	50	50	50
Valeo Pyeong HWA International Co. Ltd	50	50	50	50
Valeo Samsung Thermal Systems Co. Ltd(2)	50	50	50	50
Valeo Pyeong HWA Co. Ltd(1)	49	49	-	-
Valeo Thermal Systems Korea Co. Ltd	-	-	100	100
Japan				
Ichikoh Industries Limited(1)	31.6	31.6	31.6	31.6
Valeo Japan Co. Ltd	100	100	100	100
Valeo Unisia Transmissions KK	66	66	66	66
Niles Co. Ltd	100	100	100	100
Jonan Industrial Co. Ltd	100	100	100	100
Akita Niles Co. Ltd	100	100	100	100
Nitto Manufacturing Co. Ltd	87.2	87.2	87.2	87.2
Niles Personnel Service Co. Ltd	100	100	100	100
AMI 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, page 216.
(4) Companies consolidated on a proportionate basis in 2011 and fully consolidated in 2012.
(5) Companies accounted for by the equity method in 2011 and fully consolidated in 2012.

	2012		2011	
Company	**% voting rights**	**% interest**	**% voting rights**	**% interest**
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(4) (3)	85	89.7	50	50
Guangzhou Valeo Engine Cooling Co. Ltd	100	100	100	100
Huada Automotive Air Conditioner Co. Ltd(2)	45	45	45	45
Hubei Valeo Autolighting Company Ltd(3)	85	89.7	100	100
Nanjing Valeo Clutch Co. Ltd(2)	75	55	75	55
Shanghai Valeo Automotive Electrical Systems Company Ltd(2)	50	50	50	50
Taizhou Valeo-Wenling Automotive Systems Ltd	100	100	100	100
Valeo Auto Parts Trading (Shanghai) Co. Ltd	100	100	100	100
Valeo Automotive Air Conditioning Hubei Co. Ltd	100	100	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(3)	85	89.7	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	100	100
Fuzhou Niles Électronic Co. Ltd	51	51	51	51
Guangzhou Niles Électronics Co. Ltd	100	100	100	100
Guangzhou Niles Trading Co. Ltd	100	100	100	100
Shenyang Valeo Auto Lighting Co. Ltd(3)	85	89.7	-	-
Wuhu Valeo Automotive Lighting Systems Co. Ltd(3)	80	71.8	-	-
Indonesia				
Valeo Automotive Indonesia (formerly PT Valeo AC Indonesia)(5)	100	100	49	49
India				
Amalgamations Valeo Clutch Private Limited(2)	50	50	50	50
Minda Valeo Security Systems Private Limited(2)	50	50	50	50
Valeo India Private Limited	100	100	100	100
Valeo Friction Materials India Limited	60	60	60	60
Valeo Lighting Systems (India) Private Ltd	100	100	100	100
Valeo Service India Auto Parts Private Limited	60	60	-	-
Taiwan				
Niles CTE Électronic Co. Ltd	51	51	51	51

(1) Companies accounted for by the equity method.
(2) Companies consolidated on a proportionate basis.
(3) See Note 2.1, page 216.
(4) Companies consolidated on a proportionate basis in 2011 and fully consolidated in 2012.
(5) Companies accounted for by the equity method in 2011 and fully consolidated in 2012.

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, 2012

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, 2012, 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, 2012 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:

- Note 1.12 to the consolidated financial statements describes the methods of valuing property, plant and equipment and the revision applied to the useful lives used for the depreciation related to some of those assets. Our work consisted in examining the available documentation supporting the valuation methods, the resulting figures of the changes in the useful lives of the year and in assessing the reasonableness of the information provided in the notes to the financial statements;
- Notes 1.13 and 4.5.2 to the consolidated financial statements set out the methods implemented by your 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 5.10 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 and 5.11 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, 2013

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

To Valeo's knowledge, no events have occurred since December 31, 2012 that could have a material impact on the Group's business, financial position, results or assets and liabilities.

5.3.2 Outlook

2013 outlook

Based on the following market assumptions:

- 4% decline in automotive production in Europe;
- 1% growth in global automotive production;
- raw material prices in line with 2012 levels.

Valeo has set the following objectives for 2013:

- sales growth higher than the market in the main production regions;
- assuming an upturn in the European market in the second half of 2013, operating margin in line with 2012 (in millions of euros) despite a decline in the first half of the year as a result of market conditions.

The objectives of the strategic plan are set out in Chapter 1, section 1.2.4 "Strategic Plan", on page 17.

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 reports a net operating loss of 1 million euros in 2012 compared with net operating income of 8 million euros in 2011. Operating income was stable in the year, while operating expenses increased due to the delivery of free shares to French beneficiaries under the June 24, 2010 free share plan. This gave rise to personnel expenses of 8 million euros in the period.

Net financial income came in at 172 million euros for 2012, up 39 million euros on 2011 (133 million euros). In 2012, this item included net reversals of impairment and provisions for investments in subsidiaries and affiliates in an amount of 108 million euros (52 million euros in 2011). Net interest income totaled 53 million euros in 2012 versus 76 million euros in 2011. The fall in this item in 2012 chiefly reflects the decrease in interest rates applicable to loans granted to subsidiaries.

The Company reported non-recurring income of 21 million euros in the period, compared to 3 million euros in 2011. Non-recurring items in 2012 reflect insurance indemnities collected and a fall in the number of disputes with former employees.

Income tax in 2012 represents a net benefit of 13 million euros (19 million euros in 2011). Valeo also reported net income in respect of tax consolidation amounting to 14 million euros in 2012 versus 21 million euros in 2011.

Net income came in at 205 million euros for 2012 compared to 163 million euros in 2011.

Valeo recognized no sumptuary expenses that were not deductible for tax purposes in 2012.

No overheads were added back to income for tax purposes in 2012.

At December 31, 2012, Valeo's stockholders' equity stood at 3,512 million euros up 104 million euros at December 31, 2011. The rise in equity reflects net income for 2012 less the 106 million euros dividend paid in 2012 by Valeo in respect of its 2011 earnings, as well as the capital increase carried out following the exercise of stock subscription options (5 million euros).

Since January 1, 2009, Valeo has applied 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, 2012, trade payables less accrued payables totaled 1 million euros, including 0.5 million euros payable by end-December 2012, 0.4 million payable in January 2013 and 0.1 million euros payable thereafter. At December 31, 2011, trade payables totaled 10.8 million euros, including 0.6 million euros payable in December 2011 and 10.2 million euros payable in January 2012.

5.5 Parent company financial statements for the year ended December 31, 2012 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, 2011, set out on pages 258 to 277 and 278 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2012 under number D.12-0237;
- 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 AMF on March 29, 2011 under number D.11-0191.

5.5.1 Income statement

(in millions of euros)	*Note*	**2012**	**2011**
Provision reversals and expense transfers	*2*	10	18
Other operating income	*3*	35	29
Total operating income		**45**	**47**
Other purchases and external charges		(26)	(27)
Taxes other than on income		(1)	(1)
Wages and salaries	*4*	(10)	(2)
Social charges		(1)	(1)
Depreciation, amortization and provisions		(8)	(8)
Total operating expenses		**(46)**	**(39)**
OPERATING INCOME (LOSS)		**(1)**	**8**
Net financial income	*5*	172	133
INCOME BEFORE TAX AND NON-RECURRING ITEMS		**171**	**141**
Non-recurring income	*6*	**21**	**3**
Income tax	*7*	13	19
NET INCOME FOR THE YEAR		**205**	**163**

The Notes are an integral part of these financial statements.

5.5.2 Balance sheet

		December 31, 2012			December 31, 2011
(in millions of euros)	*Note*	**Gross**	**Depr., amort. & impairment losses**	**Net**	**Net**
ASSETS					
Property, plant and equipment		5	(4)	1	1
Long-term financial assets	*8*	4,404	(748)	3,656	3,526
Total non-current assets		**4,409**	**(752)**	**3,657**	**3,527**
Operating receivables	*9*	166	-	166	140
Other receivables		1	-	1	4
Financial receivables	*12.4*	1,979	-	1,979	1,770
Cash and cash equivalents	*12.5*	883	-	883	896
Prepaid expenses		12	-	12	12
Total current assets		**3,041**	**-**	**3,041**	**2,822**
TOTAL ASSETS		**7,450**	**(752)**	**6,698**	**6,349**

(in millions of euros)	*Note*	**December 31, 2012**	**December 31, 2011**
EQUITY AND LIABILITIES			
Share capital		238	238
Additional paid-in capital		1,434	1,429
Legal reserve		25	25
Untaxed reserves		4	4
Other reserves		263	263
Retained earnings		1,343	1,286
Net income for the year		205	163
Stockholders' equity	*10*	**3,512**	**3,408**
Provisions for contingencies and charges	*11*	**68**	**85**
Long-term debt	*12.2*	1,497	1,454
Current portion of long-term debt	*12.2*	419	255
Short-term debt	*12.3*	1,053	975
Operating payables	*13*	7	41
Other payables	*13*	132	85
Deferred income	*13*	10	46
Total liabilities		**3,118**	**2,856**
TOTAL EQUITY AND LIABILITIES		**6,698**	**6,349**

The Notes are an integral part of these financial statements.

5.5.3 Statement of cash flows

(in millions of euros)	*Note*	**2012**	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		205	163
Expenses/(income) with no cash effect:			
■ (gains) losses on sales of non-current assets		-	-
■ depreciation and amortization/deferred charges		4	3
■ net additions to/(reversals from) provisions		(119)	(64)
Gross operating cash flows		**90**	**102**
Changes in working capital:			
■ operating receivables		(26)	(69)
■ operating payables		(34)	32
■ other receivables and payables		25	76
Net cash from operating activities		**55**	**141**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of long-term financial assets	*8.1*	(1)	(29)
Loans and advances to subsidiaries and affiliates	*8.1*	(21)	(58)
Disposals of long-term financial assets		-	-
Net cash used in investing activities		**(22)**	**(87)**
Net cash generated before financing activities		**33**	**54**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	*10.1*	(106)	(91)
Change in share capital:			
■ issuance of shares paid up in cash	*10.1*	5	19
■ capital reduction carried out in cash		-	-
Change in long-term debt:			
■ issuance of long-term debt	*12.2*	500	829
■ repayment of long-term debt	*12.2*	(314)	(663)
Net cash from financing activities		**85**	**94**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**118**	**148**
Cash and cash equivalents at beginning of year	*12.1*	1,691	1,543
CASH AND CASH EQUIVALENTS AT END OF YEAR	*12.1*	**1,809**	**1,691**

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

1.1 Basis of preparation

The financial statements of Valeo (the Company) have been prepared in accordance with French generally accepted accounting principles. 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, cut off and accrual principles).

Assets and liabilities are measured at historical cost, contribution value or revalued amount.

The accounting principles and policies applied in order to prepare the 2012 financial statements are consistent with those used to prepare the financial statements for the year ended December 31, 2011.

The financial statements are presented in euros and are rounded to the closest million.

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 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 around the globe. In this persistently uncertain context, particularly in Europe, the Group mainly based the medium-term business plans and budgets on projected data for the automotive market, as well as its own order book and its outlook for emerging markets. These business plans and budgets were used to measure investments in subsidiaries and affiliates (when these measurements are based on subsidiaries' projected data). The medium-term business plans for the period 2013-2017 are based on an estimate rise of 4.5% in global automotive production per annum. By the end of the period covered by the business plan, Asia and the Middle East should represent 54% of automotive production.

The amounts reported in Valeo's future financial statements may differ from the amounts resulting from these estimates.

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 (*Conseil national de la comptabilité* – 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 projected data from subsidiaries' medium-term business 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 related securities 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 plans.

For shares allocated to stock option and free share plans, the Company applies CNC Opinion No. 2008-17. This opinion sets out the methods applicable 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.

1.7 Free shares and stock options

When it is probable that there will be an outflow of resources to cover stock 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 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)	**2012**	**2011**
Provision reversals	6	9
Expense transfers	4	9
Provision reversals and expense transfers	**10**	**18**

The 6 million euros reversal from provisions in 2012 relates to the delivery of shares to French beneficiaries under the June 24, 2010 free share plan. The income from this reversal is offset by an expense on the line "Wages and salaries" (see Note 4, page 278).

Expense transfers relate to issuance costs for new borrowings in 2012, which are recognized over the maturity of the debt.

Note 3 Other operating income

(in millions of euros)	**2012**	**2011**
Trademark license fees	27	26
Other	8	3
Other operating income	**35**	**29**

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 in 2011. These agreements generated income of 27 million euros in license fees in 2012.

The amount recorded under "Other" corresponds to rebillings to subsidiaries.

Note 4 Wages and salaries

(in millions of euros)	2012	2011
Wages and salaries	(2)	(2)
Other personnel expenses	(8)	-
Other operating income	**(10)**	**(2)**

2012 marked the end of the vesting period for French beneficiaries under the 2010 free share plan. Valeo therefore delivered 225,026 shares and recognized an expense of 8 million euros corresponding to the net carrying amount of the treasury shares delivered. The corresponding provision was also reversed in an amount of 6 million euros (see Note 2, page 277).

Note 5 Net financial income

(in millions of euros)	2012	2011
Dividends	5	12
Interest income	158	178
Interest expense	(105)	(102)
Net additions to/reversals from provisions for impairment, including for investments in subsidiaries and affiliates	108	52
Net additions to/reversals of provisions for impairment of treasury shares	5	(5)
Other	1	(2)
Net financial income	**172**	**133**

The decrease in interest income in the period chiefly reflects the fall in interest rates applicable to loans granted to subsidiaries.

In 2012, the revaluation of the securities portfolio led to 108 million euros in net reversals from impairment provisions, mainly concerning Société de Participations Valeo, Valeo International Holding BV (holding companies), and Valeo Vision.

Note 6 Non-recurring items

Non-recurring income totaling 21 million euros in 2012 mainly reflects insurance indemnities collected in the year and a drop in the number of disputes with former employees. Valeo reported non-recurring income of 3 million euros in 2011.

Note 7 Income tax

7.1 Income tax

(in millions of euros)	**2012**	**2011**
Group relief, net	14	21
Net additions to/reversals from provisions for tax risks	4	(2)
Tax dispute	(5)	-
Income tax	**13**	**19**

The "Tax dispute" line representing an expense of 5 million euros corresponds to the amount paid by the Company in December 2012 in respect of a tax dispute in Morocco. The dispute was related to the Wiring harness business sold at the end of 2007. Under the terms of the sale agreement, the Company was liable for any tax payables that could result from tax audits covering fiscal years prior to the date of the sale. However, this expense is offset by the reversal of the 4 million euros provision which had been set aside for this purpose.

Group relief arising on tax consolidation for 14 million euros reflects the tax benefit received from subsidiaries in an amount of 7 million euros in 2012 (6 million euros in 2011), along with a net reversal of 7 million euros from the provision for repayment of tax losses to subsidiaries in the event of a return to profit (11 million euros in 2011).

7.2 Tax group and taxable income

Valeo has set up a tax group which includes the parent company and its principal French subsidiaries.

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, 2012, the amount of tax savings arising from tax losses transferred to Valeo by its subsidiaries and which are likely to be repaid came to 863 million euros (775 million euros at December 31, 2011). 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, 2012, this provision amounted to 7 million euros, compared with 14 million euros one year earlier (see Note 11.3, page 283).

7.3 Deferred tax position

At December 31

	2012		**2011**	
(in millions of euros)	**Tax basis**	**Corresponding tax**	**Tax basis**	**Corresponding tax**
Timing differences between the recognition of income and expenses for accounting and tax purposes	71	24	78	27
Contribution premium	(50)	(17)	(50)	(17)
Provision for repayment of tax losses to subsidiaries in the event of a return to profit	(2,506)	(863)	(2,250)	(775)
Tax loss carryforwards	1,350	465	1,227	422
TOTAL	**(1,135)**	**(391)**	**(995)**	**(343)**

Note 8 Long-term financial assets

8.1 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, 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**
Acquisitions and increase in the share capital of subsidiaries	-	-	1	1
Disposals	-	-	-	-
Changes in impairment losses and other movements	108	21	-	129
Net carrying amount at December 31, 2012	**1,755**	**1,899**	**2**	**3,656**

There were no acquisitions or disposals of investments in subsidiaries and affiliates in 2012. In 2011, Valeo acquired a 5% interest in Valeo Auto-Electric GmbH for 28 million euros.

Movements in other investment securities reflect Valeo's investment in the Automotive Suppliers' Modernization Fund (*Fonds de Modernisation des Equipementiers Automobiles* – FMEA) in 2012. Valeo has invested a total of 2 million euros in this fund.

8.2 Analysis by type

At December 31

	2012			2011
(in millions of euros)	Gross	Impairment losses	Net	Net
Investments in subsidiaries and affiliates	2,503	(748)	1,755	1,647
Loans and advances to subsidiaries and affiliates	1,899	-	1,899	1,878
Other investment securities	2	-	2	1
Long-term financial assets	**4,404**	**(748)**	**3,656**	**3,526**

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 9 Operating receivables

At December 31

(in millions of euros)	**2012**	**2011**
Prepaid and recoverable taxes	156	102
Other operating receivables	10	38
Operating receivables	**166**	**140**
Of which due beyond one year	*148*	*94*

Prepaid and recoverable taxes mainly include the research tax credit for 2010 (50 million euros), 2011 (49 million euros) and 2012 (49 million euros). These tax credits will be collected by the Company in 2014, 2015 and 2016, respectively.

Note 10 Stockholders' equity

10.1 Movements

(in millions of euros)	**Share capital**	**Additional paid-in capital**	**Reserves and other**	**Stockholders' equity**
At December 31, 2010	**236**	**1,412**	**1,669**	**3,317**
Dividends paid	-	-	(91)	(91)
Capital increase	2	17	-	19
Net income for the year	-	-	163	163
At December 31, 2011	**238**	**1,429**	**1,741**	**3,408**
Dividends paid	-	-	(106)	(106)
Capital increase	-	5	-	5
Net income for the year	-	-	205	205
At December 31, 2012	**238**	**1,434**	**1,840**	**3,512**

The 5 million euro capital increase in 2012 relates to the exercise of stock subscription options.

10.2 Share capital

At December 31, 2012, Valeo's share capital totaled 238 million euros, divided into 79,462,540 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 (3,531,886 shares at December 31, 2012).

At December 31, 2012, there were no stock subscription options outstanding.

The terms and conditions of the shareholder-approved employee stock option and free share plans operated by Valeo at December 31, 2012 were as follows:

10.2.1 Terms and conditions of stock option plans

Year in which the plan was set up	Number of shares under option	*of which subject to conditions*[1]	Option exercise price[2] *(in euros)*	Number of shares not yet issued at December 31, 2012	Expiration date
2005	650,000	-	32.32	192,360	2013
2006	1,309,250	-	32.63	493,360	2014
2007	250,000	-	36.97	250,000	2015
2007	1,677,000	-	36.82	967,653	2015
2008	426,750	-	31.41	254,592	2016
2010	1,000,000	*611,365*	24.07	801,500	2018
2011	292,840	*210,370*	42.41	266,760	2019
2012	367,160	*265,230*	40.78	359,360	2020
TOTAL	**5,973,000**	***1,086,965***		**3,585,585**	

(1) These stock options are subject to the Group meeting performance conditions.
(2) 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 share held if this is higher than the Valeo quoted share price.

10.2.2 Terms and conditions of free share plans

Year in which the plan was set up	Number of free shares authorized	*of which subject to conditions*[1]	Number of shares not yet tendered at December 31, 2012	Year of vesting[2]
2010	400,000	*178,112*	126,474	2012/2014
2011	326,860	*126,480*	291,538	2014/2016
2012	213,140	*117,220*	208,684	2015/2017
TOTAL	**940,000**	***421,812***	**626,696**	

(1) These free shares are subject to the Group meeting performance conditions.
(2) The vesting year varies depending on the country in which the plan's beneficiaries are based.

10.3 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.

10.4 Reserves

Reserves available for distribution amounted to 1,714 million euros at December 31, 2012 (1,592 million euros in 2011), before appropriation of income for the year, after deduction of the net value of treasury shares held at December 31, 2012 (97 million euros versus 120 million euros at end-2011).

Note 11 Provisions for contingencies and charges

11.1 Movements

(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, 2010	**2**	**95**	**97**	**33**
Utilizations	-	(3)	(3)	-
Reversals	-	(22)	(22)	-
Additions	-	13	13	-
Provisions at December 31, 2011	**2**	**83**	**85**	**36**
Utilizations	-	(11)	(11)	-
Reversals	-	(20)	(20)	-
Additions	-	14	14	-
Provisions at December 31, 2012	**2**	**66**	**68**	**32**

11.2 Provisions for pensions and other employee benefits

At December 31, 2012, the Company's obligation for pensions and other employee benefits solely corresponds 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 3% at December 31, 2012.

The projected benefit obligation includes supplementary pension benefits that have definitively vested for retired employees.

11.3 Other provisions for contingencies and charges

At December 31

(in millions of euros)	2012	2011
Unrealized foreign exchange losses	1	1
Repayment of tax losses to subsidiaries in the event of a return to profit (see Note 7, page 279)	7	14
Other contingencies relating to subsidiaries	1	1
Risks arising on stock purchase option and free share plans (see Note 1.7, page 277)	9	9
Miscellaneous contingencies and disputes	48	58
Other provisions for contingencies and charges	**66**	**83**

The 48 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.

Provisions for employee disputes corresponding mainly to asbestos-related risks and provisions for soil decontamination are also recorded in this caption.

Note 12 Net debt

12.1 Analysis of net debt

The Company's net debt at December 31 can be analyzed as follows:

(in millions of euros)	2012	2011
Non-current portion of long-term debt (Note 12.2, page 284)	1,497	1,454
Current portion of long-term debt (Note 12.2, page 284)	419	255
Total long-term debt	**1,916**	**1,709**
Short-term debt (Note 12.3, page 285)	1,053	975
Financial receivables (Note 12.4, page 285)	(1,979)	(1,770)
Cash and cash equivalents (Note 12.5, page 285)	(883)	(896)
Short-term cash position	**(1,809)**	**(1,691)**
Net debt	**107**	**18**

12.2 Analysis of long-term debt

At December 31

	2012				2011
(in millions of euros)	Less than 1 year	1 to 5 years	More than 5 years	Total	Total
Bonds	311	500	500	**1,311**	**900**
Syndicated loans	-	250	-	**250**	**475**
European Investment Bank loans	56	227	20	**303**	**304**
Accrued interest	52	-	-	**52**	**30**
Total long-term debt	**419**	**977**	**520**	**1,916**	**1,709**

At December 31, 2012, long-term debt included:

- a 311 million euro bond issued by Valeo as part of its Euro Medium Term Note program. The eight-year bonds were initially issued for an amount of 600 million euros on June 24, 2005. In May 2011, Valeo redeemed one-third of these outstanding bonds, representing a nominal amount of 200 million euros. In January 2012, Valeo redeemed an additional portion of these bonds, representing a nominal amount of 89 million euros, at 101.6% of par. This 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 2 million euros in 2012. The effective interest rate on these bonds remains unchanged at 3.75%;
- 500 million euros worth of five-year bonds issued by Valeo on January 19, 2012 as part of its Euro Medium Term Note program. These bonds pay a fixed coupon of 5.75% and are redeemable at maturity;
- 500 million euros worth of seven-year bonds issued by Valeo on May 12, 2011 as part of its Euro Medium Term Note program. These bonds pay a fixed coupon of 4.875% and are redeemable at maturity;
- a syndicated five-year loan contracted by the Group at June 30, 2011 for 250 million euros. This loan was taken out with three banks in connection with the financing of Niles and bears variable interest at 3-month Euribor +1.3%. A euro/Japanese yen cross currency swap for 237 million euros was set up on inception of the loan for the same maturity;
- a 225 million euros loan taken out with the European Investment Bank (EIB) on August 5, 2009 for a seven-year term, repayable in four equal annual 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 for a seven-year term on November 3, 2011, repayable in four equal annual 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 USD Libor +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 78 million euros.

On January 30, 2012, Valeo repaid ahead of maturity the two syndicated loans due to expire at the end of July 2012, using the proceeds from its January 19, 2012 bond issue.

12.3 Analysis of short-term debt

At December 31

(in millions of euros)	2012	2011
Borrowings from subsidiaries	1,019	945
Commercial paper	30	21
Bank overdrafts	4	9
Short-term debt	**1,053**	**975**

12.4 Analysis of financial receivables

At December 31

(in millions of euros)	2012	2011
Loans to subsidiaries	1,968	1,770
Other financial receivables	11	-
Financial receivables	**1,979**	**1,770**

Financial receivables consist primarily of loans granted to subsidiaries.

12.5 Cash and cash equivalents

At December 31

(in millions of euros)	2012	2011
Marketable securities	864	842
Cash	19	54
Cash and cash equivalents	**883**	**896**

At December 31, 2012, the Company's marketable securities portfolio was made up of money market funds invested in negotiable certificates of deposit with good credit profiles, issued by the highest-rated banks, corporations and governments in the eurozone, which have very short maturities and therefore represent a very low capital risk. The portfolio also included 3,358,873 treasury shares with a net carrying amount of 97 million euros. During the year, the Company acquired 1,660,097 treasury shares and sold 2,542,430. At December 31, 2011, Valeo SA held 4,241,206 treasury shares with a net carrying amount of 120 million euros.

12.6 Credit lines

At December 31, 2012, the Company had several confirmed bank credit lines with an average maturity of 3.3 years, representing an aggregate amount of 1.2 billion euros. None of these credit lines had been drawn down at December 31, 2012.

12.7 Financing programs

Valeo also has a short-term commercial paper financing program capped at 1.2 billion euros, and a Euro Medium Term Note medium- and long-term financing program representing a maximum of 2 billion euros, under which 1,311 million euros had been drawn down at December 31, 2012.

On September 14, 2012, Standard & Poor's Rating Services assigned its "BBB/A-2" long-term and short-term corporate credit ratings to Valeo with a stable outlook. On January 29, 2013, Moody's Rating Services confirmed its "Baa3/P3" long-term and short-term corporate credit ratings to Valeo with a stable outlook. These two ratings confirm Valeo's investment-grade status.

12.8 Covenants

In accordance with the debt covenants negotiated with the Company's banks, if the Valeo Group's net debt to 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 excludes other income and expenses, except for restructuring costs in excess of 50 million euros. At December 31, 2012, the ratio calculated over 12 months was 0.61. The syndicated loan and the EIB loans are also subject to this net debt to EBITDA covenant.

Credit lines with banks and the Company's long-term debt are 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 payable. However, some of the covenants allow a grace period before the cross-default clause becomes enforceable, which would give Valeo between 20 and 30 days to remedy the situation.

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 leading to a downgrade in the bond's rating to below investment grade. 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).

Note 13 Operating and other payables

At December 31

(in millions of euros)	2012	2011
Trade payables	5	40
Accrued taxes and payroll costs	2	1
Operating payables	**7**	**41**
Other payables	132	85
Deferred income	10	46
Of which due beyond one year	*128*	*80*

At December 31, 2011, trade payables mainly included 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 128 million euros in research tax credits for 2010 (30 million euros), 2011 (49 million euros) and 2012 (49 million euros) due to subsidiaries that are members of the tax consolidation group.

Note 14 Related party transactions

14.1 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 2012 and 2011:

(in millions of euros)	**2012**	**2011**
Income statement		
Net financial income	145	148
Balance sheet		
Loans and advances to subsidiaries and affiliates	1,899	1,878
Financial receivables	1,968	1,770
Operating and other receivables	15	42
Debt	1,019	945
Operating and other payables	128	117
Off-balance sheet commitments		
Guarantees granted	-	-

14.2 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 15 Currency, interest rate and commodity hedges

15.1 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, 2012, Valeo's net position in the main foreign currencies was as follows:

	2012					2011
(in millions of euros)	**USD**	**GBP**	**JPY**	**Other**	**Total**	**Total**
Forward sales with subsidiaries	(128)	(1)	(42)	(14)	(185)	**(75)**
Forward purchases with subsidiaries	87	2	6	2	97	**44**
Net position with subsidiaries	**(41)**	**1**	**(36)**	**(12)**	**(88)**	**(31)**
Forward sales with external counterparties	(650)	(33)	(240)	(2)	(925)	**(803)**
Forward purchases with external counterparties	211	10	112	13	346	**204**
Net position with external counterparties	**(439)**	**(23)**	**(128)**	**11**	**(579)**	**(599)**
Total net position	**(480)**	**(22)**	**(164)**	**(1)**	**(667)**	**(630)**

The net position in US dollars 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 euros loan contracted in 2011 in connection with the Niles acquisition. The net position in pounds sterling reflects hedges of loans granted to Group subsidiaries.

The market value of currency instruments included in the net position with external counterparties was 7 million euros at December 31, 2012.

15.2 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, 2012 were as follows:

	2012			2011
(in millions of euros)	**With subsidiaries**	**With external counterparties**	**Total**	**Total**
Forward sales	-	(62)	**(62)**	**(98)**
Forward purchases	62	-	**62**	**98**
Total net position	**62**	**(62)**	**-**	**-**

The market value of instruments hedging metals prices included in the net position with external counterparties represented an unrealized gain of 1 million euros at December 31, 2012.

15.3 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, 2012, 80% of the Group's long-term debt was at fixed rates, versus 68% at December 31, 2011, after hedging.

At December 31, 2012

	Due within 1 year		Due in 1 to 5 years		Due beyond 5 years		Total		
(in millions of euros)	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	311	1,161	500	477	500	20	1,311	1,658	**2,969**
Financial receivables	-	(1,979)	-	-	-	-	-	(1,979)	**(1,979)**
Cash and cash equivalents	-	(883)	-	-	-	-	-	(883)	**(883)**
Net position before hedging	**311**	**(1,701)**	**500**	**477**	**500**	**20**	**1,311**	**(1,204)**	**107**
Derivative instruments	56	(56)	169	(169)	-	-	225	(225)	-
Net position after hedging	**367**	**(1,757)**	**669**	**308**	**500**	**20**	**1,536**	**(1,429)**	**107**

At December 31, 2012, the Group had net short-term cash of 1,809 million euros invested on a variable-rate basis. An interest rate swap was set up for the loan taken out with the EIB in 2009, under which the variable rate has been swapped for a fixed rate.

Note 16 Off-balance sheet commitments

At December 31

	2012			2011		
(in millions of euros)	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Other commitments given	3	202	**205**	8	249	**257**
TOTAL	**3**	**202**	**205**	**8**	**249**	**257**

"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, 2012, the related commitment amounted to 170 million euros (179 million euros at end-2011). It 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 17 Additional information

	2012	2011
Headcount at December 31	2	2
Compensation paid to corporate officers *(in thousands of euros)*	1,964	2,195
Directors' fees *(in thousands of euros)*	476	484

Note 18 List of subsidiaries and affiliates

At December 31

Company	Share capital	Other equity (1)	% interest	Carrying amount of shares		Outstanding 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	(141)	100	838	770	516	-	-	62	-
Valeo International Holding BV Amsterdam - Netherlands	129	592	100	435	259	-	-	-	109	-
Valeo Systèmes Thermiques Le Mesnil Saint-Denis - France	37	124	47	216	216	331	-	424	50	-
Valeo Systèmes de Contrôle Moteur Cergy Saint-Christophe - France	150	(107)	100	317	159	160	-	335	(56)	-
Valeo Embrayages Amiens - France	140	(33)	100	140	117	-	-	182	(13)	-
Valeo Matériaux de Friction Limoges - France	60	16	100	60	60	-	-	64	2	-
Valeo Vision Bobigny - France	10	61	90	377	55	-	-	453	9	-
Valeo Service Saint-Denis - France	13	14	100	38	38	-	-	300	-	-
Valeo AutoElectric GmbH Bietigheim - Germany	-	189	5	28	28	-	-	-	(2)	-
Valeo Otomotiv Sistemleri Endustrisi AS Bursa - Turkey	3	68	100	22	22	17	-	187	21	-
Valeo Pyeong Hwa Co. Ltd Daegu - South Korea Valeo Pyeong Hwa International Ltd Seoul - South Korea	14	134	50	15	15	-	-	308	21	3
Valeo Service Benelux BV Helmond – Netherlands	-	9	100	8	8	-	-	32	2	2
Amalgamations Valeo Clutch Private Ltd Chennai - India	4	5	50	4	4	-	-	43	-	-
B – Other subsidiaries and affiliates										
Subsidiaries not listed in A:										
■ French subsidiaries (aggregate)	-	-	-	1	-	-	-	-	-	-
■ Foreign subsidiaries (aggregate)	-	-	-	4	4	-	-	-	-	-
Affiliates not listed in A:										
■ French affiliates (aggregate)	-	-	-	-	-	-	-	-	-	-
TOTAL				**2,503**	**1,755**					**5**

(1) Including net income for 2012 before appropriation.

All dividends included in this table were received in 2012.

5.5.5 Statutory Auditors' report on the financial statements

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.

Year ended December 31, 2012

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, 2012, 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, 2012 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 paragraph 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 your company 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

We have also performed, in accordance with professional standards applicable in France, 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 Paris-La Défense, March 27, 2013

The Statutory Auditors

MAZARS		**ERNST & YOUNG et Autres**	
David Chaudat	Lionel Gotlib	Jean-François Ginies	Gilles Puissochet

5.6 Statutory Auditors' special report on related party agreements and commitments AFR

This is a free translation into English of a report issued in French and it is provided solely for the convenience of English-speaking users. This report should be read in conjunction with and construed in accordance with French law and professional standards applicable in France.

Year ended December 31, 2012

To the Shareholders,

In our capacity as Statutory Auditors of your company, we hereby report on certain related party agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the terms and conditions of those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement. We are not required to comment as to whether they are beneficial or appropriate or to ascertain the existence of any such agreements and commitments. It is your responsibility, in accordance with Article R.225-31 of the French Commercial Code (*Code de commerce*), to evaluate the benefits resulting from these agreements and commitments prior to their approval.

In addition, we are required, where applicable, to inform you in accordance with Article R.225-31 of the French Commercial Code (*Code de commerce*) concerning the implementation, during the year, of the agreements and commitments already approved by the Shareholders' Meeting.

We performed those procedures which we considered necessary to comply with professional guidance issued by the national auditing body (*Compagnie nationale des Commissaires aux Comptes*) relating to this type of engagement. These procedures consisted in verifying that the information provided to us is consistent with the documentation from which it has been extracted.

Agreements and commitments submitted for approval by the General Meeting of Shareholders

Agreements and commitments authorized during the year

In accordance with Article L.225-40 of the French Commercial Code (*Code de commerce*), we have been advised of certain related party agreements and commitments which received prior authorization from your Board of Directors.

Brand licensing agreement with Valeo Service

At its meeting of November 17, 2011, your Board of Directors had 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 was approved by the Annual Shareholders' Meeting, on June 4, 2012 and then renewed by the Board of Directors on October 18, 2012 and amended by the Board of Directors on January 22, 2013.

This agreement, which was entered into on November 21, 2011, is designed to grant Valeo Service and the Valeo Service operating subsidiaries to use the Group Valeo's brands and logos. At its meeting of January 22, 2013, your Board of Directors decided to extend the term of the contract over a period of five years which can be terminated with three months' notice while it was previously renewable by tacit agreement every twelve-month period.

Consideration for the service is based on the combined sales of Valeo Service and its operating subsidiaries. The amount invoiced by Valeo to Valeo Service amounted to 9,701,000 euros in 2012.

Agreements and commitments already approved by the Shareholders' Meeting

Agreements and commitments approved in previous years which were not implemented during the year

In addition, we have been advised that the following agreements and commitments which were approved by the General Meeting of Shareholders in prior years were not implemented during the year.

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 any consequences of any accidents during business travel continued in 2012. Valeo paid a premium of 2,300 euros inclusive of VAT for the period from April 30, 2012 to April 30, 2013.

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 2012. The main characteristics of this 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, 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 benefits

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 2012 management report.

Non-competition payments

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 Shareholders' Meeting on June 3, 2010, continued in 2012.

The non-competition payment to which Jacques Aschenbroich would be entitled if he left his position is described in the Company's 2012 management report.

Courbevoie and Paris-La Défense, March 27, 2013

The Statutory Auditors

MAZARS		**ERNST & YOUNG et Autres**	
David Chaudat	Lionel Gotlib	Jean-François Ginies	Gilles Puissochet

5.7 Other financial and accounting information

5.7.1 Five-year financial summary

	2008	2009	2010	2011	2012
1 – SHARE CAPITAL AT DECEMBER 31					
Share capital *(in millions of euros)*	235	235	236	238	238
Number of ordinary shares outstanding	78,209,617	78,209,617	78,628,798	79,269,596	79,462,540
Maximum number of new shares to be issued:					
▪ on exercise of equity warranty	-	-	-	-	-
▪ on exercise of stock subscription options	2,350,328	1,598,323	952,792	242,830	-
▪ on conversion of bonds into new shares	10,105,439	10,105,439	-	-	-
2 – RESULTS OF OPERATIONS FOR 2012 *(in millions of euros)*					
Sales	-	-	-	-	-
Income before tax, depreciation, amortization and impairment losses	328	191	130	90	76
Income tax	1	19	9	19	13
Employee profit-sharing	-	-	-	-	-
Net income for the year	40	(30)	126	163	205
Net dividend	-	-	91	106	114
3 – PER SHARE DATA *(in euros)*					
Net income after tax, but before depreciation, amortization and impairment losses	4.37	2.55	1.85	1.26	0.99
Net income for the year	0.51	(0.39)	1.60	2.05	2.58
Net dividend	-	-	1.20	1.40	1.50
4 – HEADCOUNT					
Headcount at December 31	1	2	2	2	2
Wages and salaries	2	6	3	2	10(1)
Social charges	(1)	2	1	1	1

(1) *This amount includes an expense of 8 million euros relating to the delivery of free shares to French beneficiaries under the June 24, 2010 free share plan (see Note 4, page 278).*

5.7.2 List of subsidiaries, affiliates and marketable securities

	Number of shares	Net carrying amount *(in millions of euros)*
Société de Participations Valeo	6,136,601	770
Valeo International Holding BV	2,845,120	259
Valeo Systèmes Thermiques	1,151,133	216
Valeo Systèmes de Contrôle Moteur	15,000,000	159
Valeo Embrayages	9,335,883	117
Valeo Matériaux de Friction	4,002,550	60
Valeo Vision	620,572	55
Valeo Service	860,000	38
Valeo AutoElectric GmbH	1,305	28
Valeo Otomotiv Sistemleri Endustrisi AS	6,608,900	22
Valeo Pyeong Hwa Co. Ltd/Valeo Pyeong Hwa International 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		**1,755**
FMEA	2,148	2
Other investment securities		**2**
CAAM Treso Corporate	1,457	339
BNP Paribas Cash Invest	4,894	279
SGAM Invest Cash Euro	5,695	66
CIC Union Cash	83	42
BNP Paribas Deposit	398	41
Money market funds		**767**
Treasury stock	3,358,873	**97**
TOTAL		**2,621**

5.8 Financial Glossary

Capital employed	"Capital employed" used to determine return on capital employed (ROCE) and capital turnover comprises the following items: ■ net property, plant and equipment and intangible assets; ■ working capital requirement, including inventories, accounts and notes receivable and other receivables, accounts and notes payable and other payables; ■ other capital employed includes deferred tax assets and liabilities, current tax assets and liabilities, other current financial assets, other financial liabilities (portions due beyond one year and within one year), as well as subsidies (portions due beyond one year and within one year). These items are restated on a proforma basis based on Group structure at the year-end. In 2012, the impact on capital employed of restatements for the acquisition of Foshan Ichikoh Valeo Lighting Systems Co. Ltd was a negative 36 million euros. "Capital employed" used to determine the return on assets (ROA) comprises the following items: ■ "capital employed" used to determine the ROCE as described above; and ■ goodwill.
Free cash flow	Net cash from operating activities after taking into account acquisitions and disposals of property, plant and equipment and intangible assets.
Net cash flow	Free cash flow after taking into account (i) cash outflows from investing activities relating to acquisitions and disposals of investments (with a change of control) and the changes in certain items shown in non-current financial assets, and (ii) cash flows from financing activities relating to the payment of dividends, sales (purchases) of treasury shares, interest paid and received and acquisitions of equity interests without a change of control.
EBITDA	Operating income before depreciation and amortization of property, plant and equipment and intangible assets, impairment losses (included in operating margin) and other income and expenses.
Net debt	All long-term debt, short-term debt and bank overdrafts, less loans and other non-current financial assets, and cash and cash equivalents.
Operating margin	Operating income before other income and expenses.
Order intake	Business awarded by automakers (less any cancelations) during the period, based on Valeo's best reasonable estimates in terms of volumes, selling prices and project lifespans. *Unaudited indicator.*
Return on assets (ROA)	Operating margin/capital employed including goodwill.
Return on capital employed (ROCE)	Operating margin/capital employed excluding goodwill.
Capital turnover	Sales/capital employed excluding goodwill.

Air intake module

REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

6

THE INFORMATION FROM THE ANNUAL FINANCIAL REPORT IS CLEARLY IDENTIFIED IN THE TABLE OF CONTENTS BY THE AFR SYMBOL

6.1 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 and Risks Committee (as regards information relating to internal control and risk management procedures). It was approved by the Board of Directors on February 21, 2013, in accordance with Article L.225-37 of the French Commercial Code.

Part one: Corporate governance

6.1.1 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.

In 2012, the Board of Directors was made up of 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.

At its meeting on January 19, 2012, the Board of Directors, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided to ask the Shareholders' Meeting called to approve the 2011 financial statements to renew the directorships of Thierry Moulonguet, Georges Pauget and Ulrike Steinhorst. The Shareholders' Meeting of June 4, 2012 renewed the directorships of these three directors for a period of four years.

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 Chapter 3, section 3.1.2, pages 72 to 84.

To ensure smooth turnover on 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 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 2012 financial statements	Gérard Blanc, Michael Jay and Helle Kristoffersen
Shareholders' Meeting called to approve the 2013 financial statements	Daniel Camus, Jérôme Contamine and Noëlle Lenoir
Shareholders' Meeting called to approve the 2014 financial statements	Jacques Aschenbroich, Pascal Colombani and Michel de Fabiani
Shareholders' Meeting called to approve the 2015 financial statements	Thierry Moulonguet, Georges Pauget and Ulrike Steinhorst

None of the directors were elected by the employees.

Classification as an independent director is reviewed by the Appointment, Compensation and Governance Committee and the Board of Directors before the annual report is prepared. Thus, on January 22, 2013, the Board of Directors reviewed whether 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 in which 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 or she was appointed to his or 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 account of the Company's share ownership structure and any 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, who therefore cannot be considered independent;
- one director holds the position of Chief Executive Officer: Jacques Aschenbroich, who 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

- Since the beginning of 2011, the Board of Directors has included three women: Helle Kristoffersen, Noëlle Lenoir and Ulrike Steinhorst. The Shareholders' Meeting of June 4, 2012 renewed the directorship of Ulrike Steinhorst in its fifth resolution.
- Women currently hold 25% of the seats on the Board of 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.

6.1.2 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.

Acting on a recommendation of the Appointment, Compensation and Governance Committee, the Board of Directors' Meeting of March 27, 2012 amended Article 1.1 of its internal procedures by adding point (n) which states that directors *"cannot accept any responsibilities that may represent a conflict of interest with those he/she has accepted within the Company"* and point (o) that requires in particular *"Directors to inform the Chairman of the Board and the Chairman of the Appointment, Compensation and Governance Committee if he/she is solicited to hold a corporate office outside the Company so as to consider the decision to be taken, in consultation with the Board of Directors where appropriate".*

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 2012 fiscal year, four directors were represented by proxy at Board meetings.

Chairmanship 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 2012 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 meeting notice 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 2012, it met on nine occasions.

The average attendance rate of the members of the Board of Directors (in person or by proxy) during 2012 was 94.4%. The average attendance rate of the members of the Board of Directors in person during 2012 was 88.9%.

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 and consideration, 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.

Guests of the Board

During the 2012 fiscal year, the Group's General Counsel, as Secretary to the Board, and the Group's Chief Financial Officer attended all Board meetings. The Group's Statutory Auditors 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 2012, 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 2012 budget,
- preparing the parent company and the consolidated financial statements for the 2011 fiscal year,
- reviewing the results for the second half of 2011 and discussing the outlook for the 2012 fiscal year,
- preparing the management report and the related notes,
- handling the proposed payment of a dividend of 1.40 euros per share,
- reviewing the quarterly figures and results, and the forecasts and projections prepared for 2012,
- reviewing the 2012 first-half results;
- oversight relating to key strategies, and in particular:
- discussing acquisitions under review,
- discussing strategic issues that the Company must deal with;
- General Management and compensation, and in particular:
- the variable portion of the Chief Executive Officer's compensation,
- the plan to allocate stock options and performance shares to the Group's 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 Directors' operating procedures,
- renewing 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,
- amending the Board of Directors' internal procedures and the Audit and Risks Committee's internal procedures;
- financial operations, and in particular:
- authorizing the issuance of bonds,
- the share buyback program;
- other issues, and in particular:
- convening the Ordinary and Extraordinary Shareholders' Meeting,
- changing supplementary pension plans in the event of the death of a beneficiary who is employed,
- reviewing anti-trust proceedings, and
- reviewing the share ownership structure.

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 and Risks Committee, the Appointment, Compensation and Governance Committee, and the Strategy Committee.

The work of the Audit and Risks Committee, the Appointment, Compensation and Governance Committee, and the Strategy Committee in 2012 was presented on a regular basis to the Board of Directors throughout the year in the form of reports.

Audit and Risks Committee

In 2012, the Audit and Risks Committee had four members, three-fourths of whom were independent directors as defined by the criteria set out in the Board of Directors' internal procedures: Daniel Camus (Chairman of the Audit and Risks 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 and Risks Committee but may be invited to attend its meetings.

Through their training or business experience, all members of the Audit and Risks 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 and Risks Committee, see Chapter 3, section 3.1.2, page 73.

At its meeting of March 27, 2012, acting on the recommendation of the Appointment, Compensation and Governance Committee, the Board of Directors decided to expand the duties of the Audit Committee. At its meeting of October 18, 2012, acting on the recommendation of the Audit Committee, the Board of Directors approved the amendments to the internal procedures of the Audit Committee, which became the Audit and Risks Committee on that date.

In accordance with Article L.823-19 of the French Commercial Code, the role and responsibility of the Audit and Risks Committee are as follows:

a) as regards the financial statements, the role of the Committee is to:

- 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 at operational entity and at Group level,
- 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 and Risks Committee before the Board reviews the financial statements. In examining the financial statements, the Audit and Risks 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 and Risks 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 audit, internal control and risk management, the Audit and Risks Committee's role is to:

- ensure that risk management and internal control systems are effective within the Group. To do so, the Committee ensures that there are risk management and internal control systems in place in order to identify, analyze, manage, and continuously improve the prevention and management of all types of risks, particularly those likely to have an impact on financial and accounting information, that the Group may face in the course of its business,
- receive information on a regular basis from General Management on the organization and operation of risk management and internal control systems,
- regularly review the risk mapping of the main risks identified by General Management, the results of the operation of the risk management and internal control systems and the relevance of the risk monitoring procedure and ensure that appropriate action plans were implemented to mitigate the problems and weaknesses identified,
- remain informed about the main problem areas and weaknesses observed and the action plan approved by General Management,
- receive regular summaries of Internal Audit reports,
- monitor any issues linked to control and the process for preparing financial and accounting 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,
- review the Statutory Auditors' work plan,
- regularly meet with managers of the Group's Internal Audit Department, give its opinion on how their Department is 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 General Management's comments on a regular basis,
- review and make observations about the draft report of the Chairman of the Board of Directors to the Shareholders' Meeting on the internal control and risk management procedures implemented by the Company, and
- review any issue related to internal control, risk management, and internal audit submitted to the Committee by the Board of Directors; ask General Management for any information.

The Committee will meet once a year to examine issues relating to internal audit, internal control and risk management;

c) as regards the Statutory Auditors, the Audit and Risks Committee's role is to:

- 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;

d) as regards financial policies, the Audit and Risks Committee's role 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 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.

Any risk-related subject may be handled by the Committee as part of its yearly duties.

The Audit and Risks Committee liaises mainly with General Management, the Finance Department, the Legal Department, the Ethics and Compliance Department, and with the Company's Statutory Auditors. The Committee may interview members of the Finance Department, the Legal Department, the Ethics and Compliance Department, and 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 Committee may not seek to address issues that fall outside the scope of its role and responsibility. It has no decision-making power.

The Audit and Risks Committee met five times in 2012 with an attendance rate of 100%. During these meetings, the Committee:

- examined the draft financial statements for 2011 and the first half of 2012;
- reviewed the reports and analyzed the findings presented by the Statutory Auditors;
- reviewed the management report;
- reviewed the draft press releases presenting financial information;
- reviewed risk mapping, the method selected to prepare mapping, the analysis of the main risks and the organization of risk management;
- reviewed the Group's pension obligations;
- analyzed the report presented on the Internal Audit Department's activities for the first half of 2012;
- reviewed the budget for the second half of 2012;
- reviewed the compliance program;
- examined the summary of the Internal Audit Departement's work in 2012;
- examined the assessment of Internal Audit in 2012;
- reviewed and proposed amendments to the Audit and Risks Committee's internal procedures; and
- approved the audit plan for 2013.

The Audit and Risks Committee's work was in line with the objectives defined for it during the year. The Audit and Risks 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 and Risks 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 and Risks 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, 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.

In 2012, the Appointment, Compensation and Governance Committee had five members, all of whom were independent: Jérôme Contamine (Chairman of the Appointment, Compensation and Governance Committee), 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 by making suggestions to ensure 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 three times in 2012 with an attendance rate of 93.3%.

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;
- reviewed the variable portion of the Chief Executive Officer's compensation;
- reviewed the attendance fees payable to directors for 2011;
- issued proposals to change supplementary pension plans in the event of the death of a beneficiary who is employed;
- examined the policy for allocating stock options and performance shares to the employees and corporate officers of the Group and proposed allocations;
- issued proposals to amend the Board of Directors' internal procedures and the Audit and Risks Committee's internal procedures.

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 were 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.

The Strategy Committee comprises several directors and a Chairman appointed by the Board.

In 2012, the Strategy Committee was made up of four members: Pascal Colombani (Chairman of the Strategy Committee), Gérard Blanc, Helle Kristoffersen and Thierry Moulonguet. They are all considered independent according to the criteria set out in the Board's internal procedures except for Pascal Colombani.

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 three times in 2012 with an attendance rate of 91.7%. During these meetings, the Committee:

- reviewed strategic targets set for the Company;
- studied the Company's strategy in certain business sectors and specific regions worldwide;
- studied the Group's acquisition strategy;
- analyzed and discussed possible acquisition projects;
- analyzed the Company's competitive landscape;
- reviewed technological developments in the automotive sector over the coming years;
- analyzed the results of a study on automotive production between now and 2030; and
- studied the Company's medium-term plan.

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 Board of Directors' meeting of October 18, 2012 decided to engage the services of an outside advisor for the assessment of its operations. The Board's assessment report issued on January 16, 2013 is based on interviews conducted with all the Company's directors. They provided assessments of how the Board functions and suggestions for improvement were provided. The topics covered included the operation, structure and duties 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 assessment report was reviewed by the Appointment, Compensation and Governance Committee at its meeting of January 22, 2013, and presented and discussed at the Board of Directors' meeting held 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 diversifying directors' skills, continuing strategic planning to take into account changes in the automotive market internationally and technological breakthroughs, and establishing the rotation of Committee members.

Shareholdings and corporate transactions

The Company's articles of association require each director to 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 must agree 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 2012:

- 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 Chapter 3, section 3.2, "Fixed compensation and benefits in kind", page 90,
  - a commitment in the form of a defined benefit pension plan (Board of Directors' decision of October 20, 2009). This policy is described in Chapter 3, section 3.2.1, "Pension plan", page 93 and section 3.2.3, page 100,

- commitments in the form of termination benefits and non-competition payment. Acting on a recommendation of the Appointment, Compensation and Governance Committee, and based on the opinion of the *Comité des Sages*[1], the Board of Directors' meeting of February 24, 2010 decided that Jacques Aschenbroich could be bound by a non-competition clause in the event of his departure from the Company. The Board also 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 termination benefits, except in the event of gross professional misconduct. The Board of Directors' meeting of February 24, 2011 authorized, when it renewed Jacques Aschenbroich's directorship and term of office as Chief Executive Officer, the renewal of the agreement granting Jacques Aschenbroich termination benefits, authorized by the Board of Directors' meeting of February 24, 2010, by extending these benefits to 24 months' compensation (fixed and variable) as from 2013.

  The termination benefits and non-competition payment to which Jacques Aschenbroich is entitled if he leaves the Company are described in Chapter 3, section 3.2.1, "Termination benefits and non-competition payment", page 94;
- the brand licensing agreement between the Company and the Group's operating subsidiary, Valeo Service (Board of Directors' decision of November 17, 2011).

A special report on related party agreements and commitments will be drawn up by the Statutory Auditors in respect of the agreements (see Chapter 5, section 5.6, page 292).

Agreements subject to the approval of the Shareholders' Meeting

The following will be submitted for approval to the Shareholders' Meeting convened to approve the financial statements for the year ending December 31, 2012:

- the renewal of the brand licensing agreement between the Company and Valeo Service, authorized by the Board of Directors' meeting of October 18, 2012; and
- the change in the term of the brand licensing agreement between the Company and Valeo Service, which was extended to five years and can be terminated with three months' notice, authorized by the Board of Directors' meeting of January 22, 2013.

Authorizations granted regarding sureties, endorsements and guarantees governed by Article R.225-35 of the French Commercial Code

Further to a decision dated February 21, 2012, 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 2012, 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

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, decided by the Board of Directors' meeting of March 20, 2009, 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 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 that the Company's governance functions effectively and in particular 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 and/or the Board of Directors' internal procedures. The Chief Executive Officer also represents the Company in its relations with third parties or in any legal proceedings.

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 limitation on the powers of the Chief Executive Officer, decided by the Board of Directors' meeting of March 20, 2009 and reflected in the Board's internal procedures. In compliance with these procedures, the Chief Executive Officer must obtain the prior approval of the Board of Directors for the acquisition or sale of any subsidiary, interest or any other asset or investment, for a sum of more than 50 million euros per transaction.

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(1) Body set up by the French employers' federation MEDEF to contribute to the proper allocation of the principles of restraint, fairness and consistency in executive corporate officers' pay.

6.1.3 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 21 to 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 fully paid-up shares that have been registered in the name of the same holder for at least four years.

6.1.4 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 under IFRS, must not represent a disproportionate percentage of the total compensation, stock options and shares allotted to each executive 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 executive corporate officers, the Group's employees also receive performance shares;
- the Board of Directors ensures that the allotment of stock options and performance shares has a limited impact in terms of dilution; 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 allotted; 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. 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 must keep at least 50% of the shares resulting from exercising options in registered form until the end of his 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 2012 and the information on performance shares is presented in Chapter 7, section 7.6.3, pages 333 to 337.

6.1.5 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 2012

Apart from Pascal Colombani and Jacques Aschenbroich, no Board member was paid any compensation or benefits other than attendance fees by the Company during 2012. For more information on this subject, see Chapter 3, sections 3.2.1 and 3.2.2, pages 88 to 98.

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 and Risks Committee also receives:

- fixed portion: 15,000 euros/year;
- variable portion: 2,000 euros/meeting attended;

(iv) each director who is also Chairman of a Board Committee (other than the Audit and Risks Committee) also receives:

- fixed portion: 12,000 euros/year;
- variable portion: 2,000 euros/meeting attended.

These payments are not capped; however if the budget of 600,000 euros is exceeded in any one year, the following formula is applied:

(fees paid to an individual director divided by total fees paid to all directors) multiplied by 600,000 euros.

It should be noted that, up until February 21, 2013, the rule was 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 was at least 50%. Failing this, the full amount of the fixed portion was not paid.

The Board of Directors' meeting of February 21, 2013, acting on the recommendation of the Appointment, Compensation and Governance Committee, decided to increase the variable portion received by directors by 10% and not to apply the attendance rule to the fixed portion.

The amount of attendance fees paid to each director in 2012 is presented in Chapter 3, section 3.2.2, page 98.

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. 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 and the Chief Executive Officer 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 the 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 Chapter 3, section 3.2.1, "Variable compensation", page 91, for a description of these principles.

There is no specific pension plan for 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 Chapter 3, section 3.2.1, page 93). 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.

6.1.6 Corporate Governance Code

The Company applies the AFEP-MEDEF Corporate Governance Code for Listed Companies published in December 2008 and revised in April 2010, and the provisions set out in the AMF's report on Audit Committees of July 22, 2010.

The Company's practices comply with the recommendations set out in the AFEP-MEDEF Corporate Governance Code, which requires specific disclosure regarding the application of its recommendations and explaining, where appropriate, the reasons for which a company has not implemented certain recommendations. In this case, this involves the following recommendations:

- Article 14.2.2, paragraph 4, which provides: "For listed corporations, the statutory auditing assignment should be exclusive of any other assignment not related to statutory audit. The selected firm should give up, for itself and the network to which it belongs, any consulting activity (legal, tax, IT, etc.) performed directly or indirectly for the corporation having selected it or for its group". However, it should be noted that in order to ensure that this rule is followed, the Company takes into account 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;
- Article 20.2.3, which requires issuers to ensure that "in accordance with terms determined by the Board and announced upon the award, the performance shares awarded to executive directors are conditional upon the acquisition of a defined quantity of shares upon the availability of the awarded shares". While the allotment of performance shares to the Chief Executive Officer is subject to the achievement of specific performance criteria, presence conditions and minimum holding obligations, it is not conditional upon the purchase of a specific quantity of shares when such shares become available. Given that the Chief Executive Officer has a significant holding requirement (50%) for the exercise of stock options and the vesting of performance shares, the Board of Directors decided not to require the Chief Executive Officer to purchase a specific quantity of shares when such shares become available; and
- Article 20.2.5, pursuant to which, as regards additional pension plans, "the beneficiaries must meet reasonable requirements of seniority within the Company, as determined

by the Board of Directors or the Management Board". The Board of Directors' meeting of October 20, 2009, on a recommendation of the Appointment, Compensation and Governance Committee, indeed 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 so that he could benefit from the supplementary pension plan as from January 1, 2010. This supplementary pension plan requires nevertheless that the Chief Executive Officer end his/her professional career within the Group.

The AFEP-MEDEF Corporate Governance Code published in December 2008 and revised in April 2010 is available in French and in English on the MEDEF website, www.medef.com.

6.1.7 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 7, section 7.6.6, page 339.

Part two: Internal control and risk management procedures

This report, like the reports from previous years, provides a general overview of the internal control and risk management procedures in place in accordance with the "reference framework" and the Application Manual set out in 2010 by the AMF. The Chairman tasked the Head of Internal Audit and Internal Control with compiling the information presented in this report, which was drawn up by combining the contributions of several departments (in particular, the departments responsible for financial, management control, legal, risk, insurance and environmental matters).

6.1.8 Scope 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;
- implementation of instructions and strategies set by General Management;
- adequate 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 incidents 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.

6.1.9 Definition and aims 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.

6.1.10 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 employees to the need for controls.

Valeo's internal control system is organized around a multi-tier operational structure comprising several levels: General Management, Group functional departments, Business Groups/Product Groups, National Directorates and operational entities. General Management 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/Product 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 and control 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.

As part of its drive for ongoing improvement in internal control, in July 2012 the Group updated the Charter of the Risk Committee, which is now made up of nine permanent members as opposed to six previously. The members of the Risk Committee are the Directors of the Operations, Finance, Risk Insurance Environment, Accounting, Internal Audit and Internal Control, Corporate Strategy and Planning, Ethics and Compliance, Human Resources and Legal Departments. The Risk Committee, which is tasked with managing all risks to which the Group is exposed, met four times in 2012 and will meet at least six times a year starting in 2013. It put in place a dynamic system for risk management by identifying for each major risk a "risk owner", reporting to a member of the Risk Committee, whose role is to monitor the changes in the risk based on key indicators reviewed by the Risk Committee. Based on the changes in the risk and the related control system, each risk owner presents an analysis of the level of risk giving rise to the implementation of action plans when necessary.

The Business Groups and National Directorates also monitor risks in order to contribute to the dynamic risk management implemented by the Risk Committee. Along with the functional networks, the Business Groups and National Directorates 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 their operational entities.

Risk mapping gives rise to an annual update validated by the Risk Committee, based on a detailed analysis of the major risks and monitoring carried out by the risk owners. The findings of the latest update were presented to the Audit and Risks Committee at its meeting of November 30, 2012. A two-year audit plan was drawn up on the basis of these findings, with a focus on the most acute risk areas.

The main risks identified and the procedures for managing these risks are presented in Chapter 2, section 2.1, pages 56 to 66. They are:

- operational risks, which include in particular risks relating to the automotive supply business, risks relating to the development of new products, supplier risks, geopolitical risks and IT failure risks;
- risks relating to the environment, industrial risks and natural disaster risks;
- legal risks, comprising notably risks relating to intellectual property, risks relating to products and services provided, and risks relating to ongoing claims, litigation, and governmental, legal and arbitration proceedings;
- financial risks, which include liquidity risk, commodity price risk, foreign currency risk, interest rate risk and equity market risk (as regards assets relating to pension funds in particular). Financial risks also include bank counterparty risk and commercial credit risk.

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 with the aim of mitigating the risks described below.

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 2012, the National Directors and National Financial Directors, the Financial Directors of 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 precise definition of the management principles applicable to development projects;
- marketing procedures and sales practices;
- human resources procedures;
- ethics and compliance rules that set down the principles that all the Group's employees must comply with while conducting business and completing work related to their position and level of responsibility;
- purchasing procedures that set down the Group's strategy and objectives for purchasing and its supply base, as well as the rules that buyers and all stakeholders must follow throughout the purchasing process;
- the Risk Management Manual on security, safety, health and the environment, as well as the Insurance Manual;
- legal procedures that set down the principles with which the Group must comply, mainly compliance with 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.

As regards quality, Valeo has set its own standard – 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. These changes were incorporated into product standards and processes through the RAISE (Robustness Accountability Innovation Standardization Expertise) process.

Since September 2000, the Group has organized Valeo Finance Academy seminars with the aim of developing internal control and financial management skills. By combining modules (on accounting, cash flow, management control and internal control) with case studies and simulations, these yearly training sessions help the Group's younger financial managers to get better acquainted with the methods and tools used in financial control.

Information and communication

Pertinent information must be identified 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 12 other Functional or Operational Directors.

Organizing and managing the internal control system

The internal control system is jointly monitored and steered by General Management, the Risk Committee, the Internal Audit and Internal Control Department with support from the functional departments, Management of the Business Groups/Product Groups and the National Directorates.

The internal control system is audited by the Internal Audit Department, whose task is to carry out assignments within the Group to ensure that the procedures set up are implemented and function properly, and that performance indicators are calculated in accordance with the rules of the business lines. The roles and responsibilities set out in the annual audit plan are set down based on the risk mapping process. Recommendations for critical issues identified are put forward to the audited operational entities, which are subsequently required to implement appropriate action plans. The Internal Audit Department's work and findings, as well as the progress made with the action plans in the audited entities, are presented to the Audit and Risks Committee every year in accordance with the Committee's internal procedures.

For 2012, the Internal Audit Department also conducted specific assignments examining the development process for R&D projects and assessing the internal control system in Niles' two largest entities.

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, 2012, these two standards had been awarded to 116 and 107 sites respectively, out of a total of 121 sites. The percentage of ISO 14001 and OHSAS 18001 certified sites is therefore 96% and 88%, respectively.

6.1.11 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. In 2012, the new entities joining the Group as a result of the acquisition of the Niles Group did not take part in the internal control self-assessment campaign.

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.

Since 2011, the self-assessment questionnaire has been 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 110 key controls was used to assess internal control in the operational entities that are not linked to a shared services center. In 2012, a total of 202 operational entities, of which 148 linked to a shared services center took part in the internal control self-assessment campaign. Rules relating to documentation and testing – particularly regarding the size of the sample used – have been defined to ensure uniformity between the operational entities. In 2012, the Group also rolled out an internal control self-assessment covering 67 points of internal control for all the financial shared services centers. A special database of internal control best practices has been posted on the Group's intranet.

A report was presented to the Audit and Risks Committee at its meeting of November 30, 2012 on the results of the self-assessment campaign of the operational entities linked to a shared services center and the action plans for the ongoing improvement of the internal control system. The results of the self-assessment campaign were also provided to the Business Groups and National Directorates, which are responsible for implementing the action plans.

The areas for improvement for the Group's internal control and risk management procedures are presented in section 6.1.13, "Outlook", page 315;

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.

6.1.12 Procedures for preparing and processing financial and accounting information for the financial statements of the Company and the Group

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. 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 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[1] per Business Group/Product Group and per geographic area;
- 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 within certain countries.

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(1) See Financial Glossary, section 5.8, page 296.

6.1.13 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 2013, the Group's goal is to expand its network of internal controllers to keep pace with the Group's growth in certain geographic areas.

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

6.2 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, 2012

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, 2012.

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, 2013

The Statutory Auditors

MAZARS		ERNST & YOUNG et Autres	
David Chaudat	Lionel Gotlib	Jean-François Ginies	Gilles Puissochet

BeamAtic™ PremiumLED headlamp

SHARE CAPITAL AND OWNERSHIP STRUCTURE

7

THE INFORMATION FROM THE ANNUAL FINANCIAL REPORT IS CLEARLY IDENTIFIED IN THE TABLE OF CONTENTS BY THE **AFR** SYMBOL

7.1 Stock market data

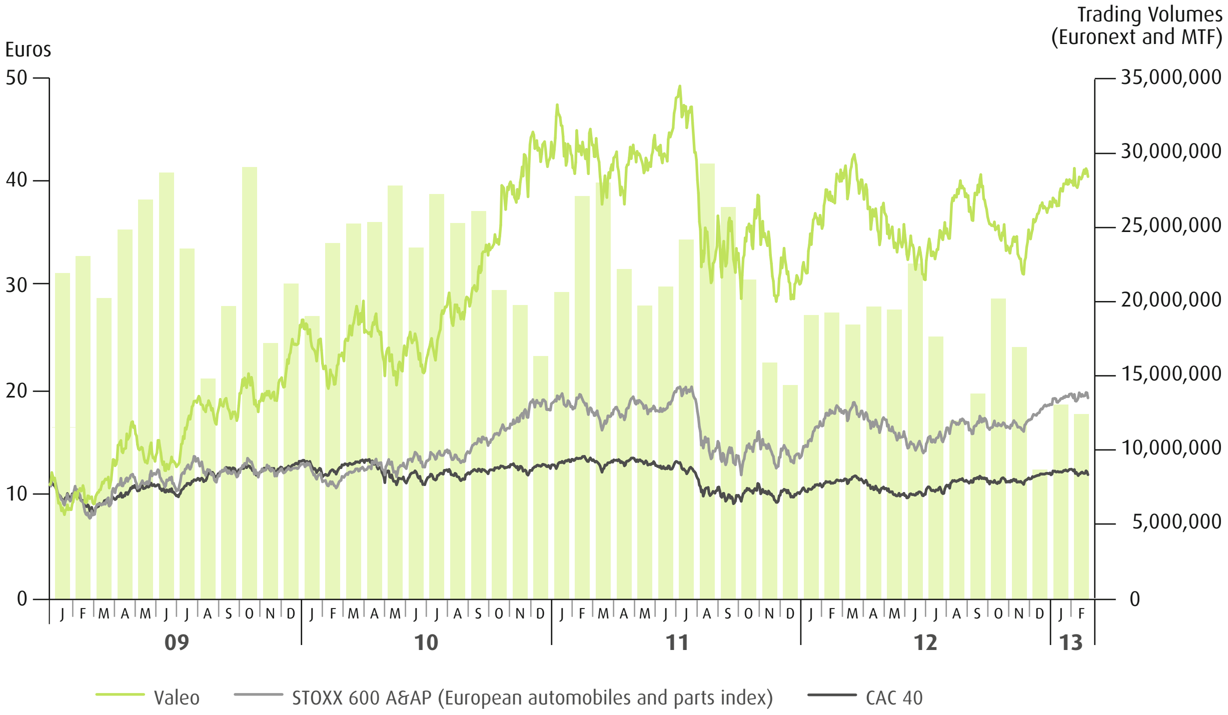
	2012	2011	2010	2009	2008
Market capitalization at year-end *(in billions of euros)*	2.99	2.43	3.34	1.92	0.83
Number of shares	79,462,540	79,269,596	78,628,798	78,209,617	78,209,617
Highest share price *(in euros)*	43.31	49.88	45.70	25.46	28.60
Lowest share price *(in euros)*	29.80	27.46	20.07	8.00	9.22
Average share price *(in euros)*	36.301	39.00	29.04	15.55	20.93
Share price at year-end *(in euros)*	37.635	30.71	42.47	24.53	10.62

7.1.1 Share performance over 18 months

	Price *(in euros)*			**Trading volume** *(no. of shares)*		**Trading volume (2)** *(in millions of euros)*
Date	**High**	**Low**	**Closing (average)**	**Volume on Euronext**	**Volume on MTF (1)**	
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	6,138,493	415.84
March 2012	43.310	38.150	40.471	10,529,615	5,443,681	425.01
April 2012	40.100	33.500	36.848	11,037,015	5,983,148	407.61
May 2012	37.825	32.810	34.843	9,895,819	6,959,810	344.56
June 2012	35.700	29.800	32.724	14,136,335	5,369,925	456.59
July 2012	36.230	32.310	34.201	9,799,050	5,473,347	336.53
August 2012	40.300	33.820	38.316	6,776,246	3,617,134	257.15
September 2012	41.200	36.000	38.212	8,140,712	3,810,113	312.06
October 2012	36.915	32.700	34.878	10,949,793	6,543,146	383.51
November 2012	36.540	31.140	33.803	9,302,990	5,345,778	314.07
December 2012	38.275	36.100	37.358	4,783,114	2,768,029	178.69
January 2013	40.525	37.250	39.230	6,877,361	4,446,790	270.19
February 2013	43.500	38.915	40.966	6,856,157	3,919,119	282.37

(1) MTF: includes the ChiX, Turquoise, Bats and Equiduct platforms
(2) Source: Euronext monthly statistics

7.1.2 Share price and monthly trading volumes



7.2 Investor relations

Valeo aims to provide clear, precise and transparent information in real time to its diverse financial community, comprising current and prospective, private and institutional shareholders, as well as financial analysts.

7.2.1 Individual shareholder relations

Based on the Company's estimates, individual shareholders control approximately 6% of Valeo's share capital.

These shareholders, who are mostly domiciled in France, have access to the following communication tools:

- the toll-free line (0800 814 045) (available in France only) available to individual shareholders in France since 1998. In 2012, this service dealt with roughly 140 calls, mainly relating to Valeo's share price, the Shareholders' Meeting, and the dividend amount and payment date;
- the "Investors and shareholders" section of Valeo's website (www.valeo.com) provides information to all of the Group's investors and shareholders. It contains the Company's regulated information, in particular the Registration Document and the interim financial report, all of the financial publications (including presentations for the financial community), as well as all of the press releases and information relating to the ownership structure and the Shareholders' Meeting. In this section of the site, an "Individual shareholders" section has also been created in which Valeo provides real-time information related to the stock market (including the latest share prices) and dividends (such as amounts and payment dates), as well as a shareholders' guide that contains a presentation on the Valeo Group and provides information on topics such as types of share ownership and tax treatment (for French taxpayers only);
- two e-newsletters aimed at individual shareholders were distributed in 2012;
- two issues of the shareholders' newsletter were published in 2012, in May and December;
- a shareholders' guide was published and made available to shareholders on the Group's website in 2012;
- 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 order placing.

Contact

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France

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(Toll-free from landlines in France)

Fax: +33 (0)1 40 55 20 40

E-mail: valeo@relations-actionnaires.com

7.2.2 Institutional investor 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 1,000 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

Investor Relations Director

Valeo

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E-mail: thierry.lacorre@valeo.com

Provisional financial communication calendar

- First-quarter 2013 sales: April 24, 2013
- First-half 2013 results: July 30, 2013
- Third-quarter 2013 sales: October 17, 2013
- 2013 results: second half of February 2014

7.3 Dividends

Dividends per share over the past three years were as follows:

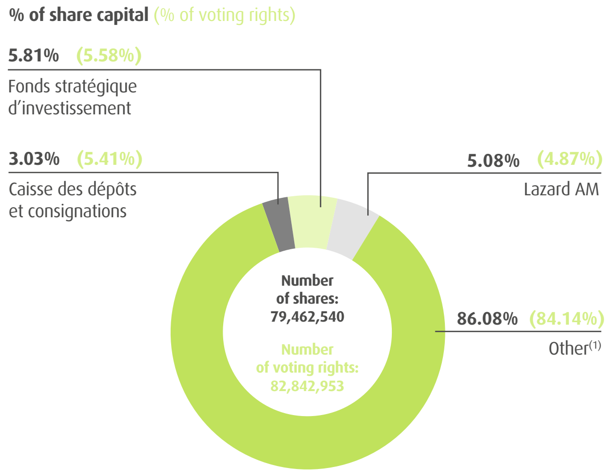
Year	**Dividend per share** *(in euros)*	**Tax allowance** *(in euros)*	**Total** *(in millions of euros)*
2009	0		0
2010	1.20	Eligible for either the 40% tax allowance provided for in Article 158-3-2° of the French Tax Code or the 19% flat rate withholding tax provided for in Article 117 *quater* of said code	91
2011	1.40	Eligible for either the 40% tax allowance provided for in Article 158-3-2° of the French Tax Code or the 21% flat rate withholding tax provided for in Article 117 *quater* of said code	106

At the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2012, Valeo's Board of Directors will recommend the payment of a dividend amounting to 1.50 euros for each share eligible for dividends.

7.4 Share ownership

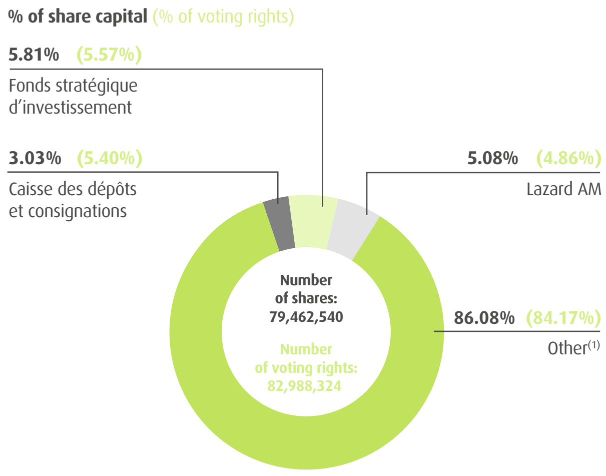
7.4.1 Ownership structure

Ownership structure at December 31, 2012



(1) Including 3,358,873 treasury shares (4.23% of the share capital).

Ownership structure at February 21, 2013



(1) Including 3,151,393 treasury shares (3.97% of the share capital).

7.4.2 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 at February 21, 2013. The Company's share capital at December 31, 2012 was divided into 79,462,540 shares, representing 82,842,953 voting rights, including 3,358,873 shares held as treasury shares.

	December 31, 2010				**December 31, 2011**			
	Number of shares	**%**	**Number of voting rights[1]**	**%**	**Number of shares**	**%**	**Number of voting rights[1]**	**%**
Pardus	4,021,044	5.11	4,021,044	4.97				
Fonds stratégique d'investissement	4,620,567	5.88	4,620,567	5.71	4,620,567	5.83	4,620,567	5.69
Caisse des dépôts et consignations	2,410,992	3.07	4,478,293	5.53	2,410,992	3.04	4,478,293	5.52
BlackRock Inc.					3,939,621	4.97	3,939,621	4.85
Employee share ownership[2]	94,900	0.12	189,800	0.23	85,900	0.11	171,800	0.21
Treasury shares[3]	3,538,638	4.50			4,241,206	5.35		
Other	63,942,657	81.32	67,618,351	83.56	63,971,310	80.70	67,985,463	83.73
TOTAL	**78,628,798**	**100**	**80,928,055**	**100**	**79,269,596**	**100**	**81,195,744**	**100**

(1) Registered shares held by the same shareholder for four or more years carry double voting rights (see Chapter 8, section 8.1.11, page 344).
(2) For more information on employee share ownership see section 7.4.5 page 326.
(3) For more information on treasury shares see section 7.5.2, page 328.

	December 31, 2012				**February 21, 2013**			
	Number of shares	**%**	**Number of voting rights[1]**	**%**	**Number of shares**	**%**	**Number of voting rights[1]**	**%**
Fonds stratégique d'investissement	4,620,567	5.81	4,620,567	5.58	4,620,567	5.81	4,620,567	5.57
Caisse des dépôts et consignations	2,410,992	3.03	4,478,293	5.41	2,410,992	3.03	4,478,293	5.40
Lazard Asset Management[2]	4,035,616	5.08	4,035,616	4.87	4,035,616	5.08	4,035,616	4.86
Employee share ownership[3]	124,122	0.16	209,972	0.25	124,122	0.16	209,972	0.25
Treasury shares[4]	3,358,873	4.23			3,151,393	3.97		
Other	64,912,370	81.69	69,498,505	83.89	65,119,850	81.95	69,643,876	83.92
TOTAL	**79,462,540**	**100**	**82,842,953**	**100**	**79,462,540**	**100**	**82,988,324**	**100**

(1) Registered shares held by the same shareholder for four or more years carry double voting rights (see Chapter 8, section 8.1.11, page 344).
(2) On November 26, 2012, Lazard Asset Management declared that it had exceeded the 5% threshold for mandatory reporting.
(3) For more information on employee share ownership see section 7.4.5, page 326.
(4) For more information on treasury shares see section 7.5.2, page 328.

To the best of the Company's knowledge, there were no shareholders other than the Fonds stratégique d'investissement, Caisse des dépôts et consignations, and Lazard Asset Management with direct or indirect holdings of 5% or more of the Company's share capital and voting rights at **December 31, 2012**.

To the best of the Company's knowledge, there were no shareholders other than the Fonds stratégique d'investissement, Caisse des dépôts et consignations and Lazard Asset Management, acting on behalf of funds and clients it manages, with direct or indirect holdings of 5% or more of the Company's share capital and voting rights at **February 21, 2013**.

To the best of the Company's knowledge, at February 21, 2013, **Caisse des dépôts et consignations** directly held 2,410,992 shares in the Company, i.e., 3.03% of the share capital, and 4,478,293 voting rights, i.e., 5.40% of the total voting rights, and it held indirectly via the Fonds stratégique d'investissement 4,620,567 shares, i.e., 5.81% of the capital and 5.57% of the voting rights. Caisse des dépôts et consignations' direct and indirect holdings through the Fonds stratégique d'investissement now represent 8.84% of the share capital and 10.97% of the Company's voting rights.

In a letter received on August 23, 2012, **Lazard Asset Management LLC**, acting on behalf of funds and clients it manages, reported that it had raised its interest in the Company's share capital and voting rights above the 5% disclosure threshold on August 20, 2012, and held, on behalf of said funds and clients, 4,110,506 shares in the Company, and a corresponding share of voting rights, i.e., 5.19% of the capital and 5.03% of the voting rights. In a letter received on October 11, 2012, followed by a letter received on October 12, 2012, Lazard Asset Management LLC, acting on behalf of funds and clients it manages, reported that it had reduced its interest in the Company's capital and voting rights below the 5% disclosure threshold on October 9, 2012, and held, on behalf of said funds and clients, 3,768,627 shares in the Company, and a corresponding share of the voting rights, i.e., 4.75% of the share capital and 4.61% of the voting rights. In a letter received on November 23, 2012, followed by a letter received on November 26, 2012, Lazard Asset Management LLC, acting on behalf of funds and clients it manages, reported that it had increased its interest in the Company's capital above the 5% disclosure threshold on November 20, 2012, and held, on behalf of said funds and clients, 4,035,616 shares in the Company, and a corresponding share of the voting rights, i.e., 5.09% of the capital and 4.93% of the voting rights. These increases and this reduction were the result of sales and acquisitions of the Company's shares on the market.

In a letter received on May 4, 2012, **BlackRock Inc.**, acting on behalf of funds and clients it manages, reported that it had reduced its interest in the Company's capital below the 5% disclosure threshold on April 30, 2012, and held, on behalf of said funds and clients, 3,890,989 shares in the Company, and a corresponding share of the voting rights, i.e., 4.91% of the capital and 4.76% of the voting rights. This reduction was the result of a sale of the Company's shares on the market. Pursuant to Articles 223-14 III 3° and IV of the General Regulations of the French financial markets authority (*Autorité des marchés financiers* – AMF), BlackRock Inc. reported holding 266,438 "contracts for differences" with no fixed maturity date, relating to the same number of shares, to be settled exclusively in cash.

In the last quarter of 2012, **Norges Bank** issued several statements reporting that the 5% disclosure threshold had been crossed following an increase or reduction in the Company's share capital or voting rights. The details are as follows:

- on October 16, 2012, Norges Bank reported that it had increased its interest in the Company's share capital above the 5% disclosure threshold on October 12, 2012, and that it held 4,049,771 shares, and a corresponding share of the voting rights, i.e., 5.11% of the share capital and 4.96% of the Company's voting rights. This increase was the result of a rise in the number of Valeo shares held by Norges Bank as collateral, i.e., 1,577,568 shares;
- on October 17, 2012, Norges Bank reported that it had increased its interest in the Company's voting rights above the 5% disclosure threshold on October 15, 2012, and that it held 4,181,608 shares, and a corresponding share of the voting rights, i.e., 5.27% of the share capital and 5.12% of the voting rights. This increase was the result of an acquisition of Valeo shares on the market, as well as an increase in the number of shares held by Norges Bank as collateral, i.e., 1,686,108 shares;
- on October 26, 2012, Norges Bank reported that it had reduced its interest in the Company's voting rights below the 5% disclosure threshold on October 25, 2012, and that it held 4,021,396 shares, and a corresponding share of the voting rights, i.e., 5.07% of the share capital and 4.92% of the Company's voting rights. This reduction was the result of a decrease in the number of Valeo shares held by Norges Bank as collateral, i.e., 1,458,956 shares;
- on November 2, 2012, Norges Bank reported that it had increased its interest in the Company's voting rights above the 5% disclosure threshold on October 29, 2012, and that it held 4,114,369 Valeo shares, and a corresponding share of the voting rights, i.e., 5.19% of the share capital and 5.03% of the voting rights. This increase was the result of a rise in the number of Valeo shares held by Norges Bank as collateral, i.e., 1,537,307 shares;
- on November 7, 2012, Norges Bank reported that it had reduced its interest in the Company's voting rights below the 5% disclosure threshold on November 2, 2012, and that it held 4,066,149 shares, and a corresponding share of the voting rights, i.e., 5.13% of the share capital and 4.98% of the voting rights. This reduction was the result of a decrease in the number of Valeo shares held by Norges Bank as collateral, i.e., 1,474,051 shares;
- on November 9, 2012, Norges Bank reported that it had increased its interest in the Company's voting rights above the 5% disclosure threshold on November 6, 2012, and that it held 4,101,256 shares, and a corresponding share of the voting rights, i.e., 5.17% of the share capital and 5.02% of the voting rights. This increase was the result of an acquisition of Valeo shares on the market;

- on November 13, 2012, Norges Bank reported that it had reduced its interest in the Company's voting rights below the 5% disclosure threshold on November 7, 2012, and that it held 4,069,569 shares, and a corresponding share of the voting rights, i.e., 5.13% of the share capital and 4.97% of the voting rights. This reduction was the result of a decrease in the number of Valeo shares held by Norges Bank as collateral, i.e., 1,444,783 shares;
- on November 15, 2012, Norges Bank reported that it had increased its interest in the Company's voting rights above the 5% disclosure threshold on November 9, 2012, and that it held 4,290,432 shares, and a corresponding share of the voting rights, i.e., 5.41% of the capital and 5.24% of the voting rights. This increase was the result of a rise in the number of Valeo shares held by Norges Bank as collateral, i.e., 1,641,929 shares;
- on November 29, 2012, Norges Bank reported that it had reduced its interest in the Company's voting rights below the 5% disclosure threshold on November 26, 2012, and that it held 4,002,402 shares, and a corresponding share of the voting rights, i.e., 5.05% of the share capital and 4.88% of the voting rights. This reduction was the result of a decrease in the number of Valeo shares held by Norges Bank as collateral, i.e., 1,336,446 shares;
- on December 3, 2012, Norges Bank reported that it had reduced its interest in the Company's capital below the 5% disclosure threshold on November 29, 2012, and that it held 3,949,965 shares, and a corresponding share of the voting rights, i.e., 4.98% of the capital and 4.82% of the voting rights. This reduction was the result of a decrease in the number of Valeo shares held by Norges Bank as collateral, i.e., 1,284,029 shares.

7.4.3 Directors' interests

At December 31, 2012, Pascal Colombani, Jacques Aschenbroich and other members of the Board of Directors held less than 1% of Valeo's capital and voting rights in a personal capacity. The number of shares held by each member of the Board of Directors is given in Chapter 3, section 3.1.2, pages 73 to 84.

7.4.4 Transactions carried out by executive managers and corporate officers in the Company's shares

During 2012, none of the directors reported acquiring Company shares.

7.4.5 Employee share ownership

At December 31, 2012, Valeo employees held a total of 124,122 shares under Group employee share ownership plans, directly or through two mutual funds, representing 0.16% of the Company's share capital. At December 31, 2011, they held 85,900 shares, or 0.11% of the share capital.

In addition, during its meeting on March 27, 2012 the Board of Directors decided to award 367,160 stock options and 213,140 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 some fast-tracked employees.

7.5 Share buyback program AFR

7.5.1 Current share buyback program

In the eighth resolution of the Ordinary and Extraordinary Shareholders' Meeting held on June 4, 2012, 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 option plans or similar plans pursuant to the provisions of Articles L.225-177 *et seq.* of the French Commercial Code; or
- to grant free shares in accordance with the provisions of Articles L.225-197-1 *et seq.* of the French Commercial Code; or
- to award or sell shares to employees by way of profit-sharing bonuses and in connection with 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*); or
- generally, to meet the Company's obligations in connection with stock options or other share allocation programs for employees or corporate officers of the issuer or a related company; or
- to allocate shares on the exercise of rights attached to securities giving access to the capital by redemption, conversion, exchange, presentation of a warrant or any other method; or
- to cancel some or all shares bought back; or
- to allocate shares (as exchange, payment or otherwise) in connection with external growth transactions, a merger, demerger or contribution; or
- to ensure liquidity in the secondary market for the Company's shares in accordance with a liquidity agreement entered into with an investment services provider that complies with the Code of Ethics 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 and the maximum amount that can be spent under the new share buyback program will be fixed at 546 million euros, fees and commissions included.

This authorization was given for an 18-month period as of the Shareholders' Meeting of June 4, 2012 and superseded the unused portion of previous authorizations given to the Board of Directors to carry out share buyback programs.

A description of the 2012 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 2012, 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 (see section 7.5.2, page 328).

7.5.2 Treasury shares

At December 31, 2012 the Company held, directly or indirectly, 3,358,873 treasury shares (4.23% of the share capital) with a unit value based on the purchase price of 28.996 euros and a par value of 3 euros. At December 31, 2011, Valeo held 4,241,206 treasury shares (5.35% of the share capital).

The shares purchased in 2012 were used exclusively to implement a liquidity agreement.

The share purchases were made in accordance with authorizations granted by the Shareholders' Meetings of June 8, 2011 and June 4, 2012 to the Board of Directors to buy back Company shares. 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 so as to:

- allocate shares on the exercise of stock option plans or similar plans pursuant to the provisions of Articles L.225-177 *et seq.* of the French Commercial Code;
- grant free shares in accordance with the provisions of Articles L.225-197-1 *et seq.* of the French Commercial Code; or
- 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*); or
- generally, meet the Company's obligations in connection with stock options or other share allocation programs for employees or corporate officers of the issuer or a related company; or
- allocate shares on the exercise of rights attached to securities giving access to the capital by redemption, conversion, exchange, presentation of a warrant or any other method; or
- cancel some or all shares bought back; or
- allocate shares (as exchange, payment or otherwise) in connection with external growth transactions, a merger, demerger or contribution; or
- ensure liquidity in the secondary market for the Company's 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.

This program is also designed 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 eighth resolution of the Shareholders' Meeting of June 4, 2012 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.

Shares to be allocated upon exercise of stock options and performance shares

At December 31, 2012 the number of treasury shares to be allocated upon exercise of stock options and performance shares stood at 3,298,873 compared with 3,889,206 at December 31, 2011.

Shares for use under a liquidity agreement

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, 2012, 60,000 shares and 15,312,092.23 euros in cash had been allocated to this liquidity agreement compared with 352,000 shares and 3,707,327.81 euros in cash at December 31, 2011. On the date the liquidity agreement was signed, 220,000 Valeo shares and 6,600,000 euros in cash were allocated for its implementation.

Under the liquidity agreement and via an investment services provider, Valeo acquired 1,660,097 shares at an average price of 35.29 euros and sold 1,952,097 shares at an average First-In-First-Out price of 34.71 euros. Trading and transaction fees incurred under the liquidity agreement totaled 175,000 euros, with no change from 2011 and 2010. These shares were not reallocated to other purposes provided for under the share buyback program.

7.5.3 Share buyback program submitted to the next Annual Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2012

The Ordinary and Extraordinary Shareholders' Meeting that will be called on June 6, 2013 will be asked to repeal the eighth resolution approved by the Annual Shareholders' Meeting of June 4, 2012 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 share capital held by the issuer

At January 31, 2013, Valeo directly or indirectly held 3,363,873 shares, representing 4.23% of the Company's share capital.

Breakdown of shares owned by Valeo by purpose

At January 31, 2013:

- 3,298,873 shares are to be allocated on the exercise of stock options;
- 65,000 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 6, 2013, Valeo plans to buy back, directly or indirectly, its own shares, for the following purposes:

- to allocate shares on the exercise of stock 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 under 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 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.

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., 79,462,540 shares at January 31, 2013).

Pursuant to Article L.225-210 of the French Commercial Code, the number of shares that Valeo may hold at any time may not represent over 10% of the Company's capital.

Given the number of shares the Company currently owns, i.e., 3,363,873 shares at January 31, 2013 (4.23% of the Company's share capital) and subject to adjustments affecting the number of shares held by the Company and the amount of share capital after the Ordinary and Extraordinary Shareholders' Meeting on June 4, 2012, a total of 4,582,381 shares (5.77% of the Company's registered capital at January 31, 2013) 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 556 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 6, 2013, the new share buyback program would be authorized for an 18-month period as of the meeting, i.e., until December 5, 2014.

7.5.4 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.

7.6 Additional disclosures

7.6.1 Changes in share capital

At December 31, 2012, Valeo's share capital comprised 79,462,540 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, 2012 by 124,413 euros through the issuance of 41,471 shares (approved by the Board of Directors' meeting of July 26, 2012) and on December 31, 2012 by 454,419 euros through the issuance of 151,473 shares (approved by the Board of Directors' meeting of January 22, 2013), as a result of the exercise of stock options during 2012.

At December 31, 2012, there were no longer any plans in place pursuant to which shares could be issued upon exercise of stock options awarded to the Group's employees and corporate officers.

To the best of the Company's knowledge, none of these shares have been pledged.

Changes in the Company's capital since December 31, 2010 are as follows:

		Changes *(in millions of euros)*				
Year	**Type of operation**	**Par value**	**Premium**	**Total**	**Number of shares**	**Total number of shares**
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
2012	Issuance of shares on exercise of stock subscription options	0.6	4.8	5.4	192,944	79,462,540

7.6.2 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 Expiring on August 8, 2013 (26 months)	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 Expiring on August 8, 2013 (26 months)	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 Expiring on August 8, 2013 (26 months)	46 million euros Included in combined ceiling	None
Issuance of shares to members of the employee share ownership plan (D) Shareholders' Meeting of June 4, 2012 – 9th resolution Expiring on August 4, 2014 (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 Expiring on August 8, 2013 (26 months)	The ceiling for each issuance is specified in the applicable regulation (currently 15% of the initial issuance) and is offset against the ceiling applicable to the initial issuance. ■ Ceiling with pre-emptive rights: 40 million euros ■ Ceiling without pre-emptive rights: 46 million euros Included in combined ceiling	None
4. Authorization to allot stock options and free shares		
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 June 4, 2012	Maximum number of shares (existing or to be issued) allocated: 540,000 Included in combined ceiling	Board of Directors' meeting of March 27, 2012 Allotment of 213,140 free shares
Shareholders' Meeting of June 4, 2012 – 11th resolution Expiring on August 4, 2014 (26 months)	Maximum number of shares (existing or to be issued) allocated: 920,000 Included in combined ceiling	None

7.6.3 Other securities giving access to the capital

Stock option plans and allotment of free shares

Stock subscription option plans in force at December 31, 2012

Shareholders' Meetings			Plan characteristics				Options granted				
Date of Shareholders' Meeting	**No. of options**	**Term**	**Date[1]**	**Exercise price**	**No. of grantees**	**No. of options**	**O/w granted to corporate officers**	**O/w granted to exec. corporate officers**	**O/w granted to exec. managers excl. corporate officers**	**O/w granted to the top 10 grantees[2]**	**Conditional options**
04/05/2004	1,500,000	8 years	11/08/2004	€28.46	1,094	1,123,200	160,000	160,000	169,600	134,400	0
TOTAL STOCK SUBSCRIPTION OPTION PLANS						**1,123,200**	**160,000**	**160,000**	**169,600**	**134,400**	**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 at Dec. 31, 2011**	**Exercised in 2012 (year)**	**Exercised at Dec. 31, 2012 (cumulative)**	**Canceled in 2012 (year)**	**Canceled at Dec. 31, 2012 (cumulative)**	**Options outstanding at Dec. 31, 2012**
10,682	50% – 2 years; 100% – 3 years;	11/07/2012	240,424 2,406	191,031 1,913	708,127 7,086	49,393 493	415,073 3,596	0 0
10,682			**240,424** 2,406	**191,031** 1,913	**708,127** 7,086	**49,393** 493	**415,073** 3,596	**0** 0

Stock option plans in force at December 31, 2012

Shareholders' Meetings			Plan characteristics				Options granted				
Date of Shareholders' Meeting	**No. of options**	**Term**	**Date[1]**	**Exercise price**	**No. of grantees**	**No. of options**	**O/w granted to corporate officers**	**O/w granted to exec. corporate officers**	**O/w granted to exec. managers excl. corporate officers**	**O/w granted to the top 10 grantees[2]**	**Conditional options**
04/05/2004	1,500,000	8 years	11/08/2004	€32.74	1,094	280,800	40,000	40,000	42,400	33,600	0
05/03/2005	4,500,000	8 years	11/17/2005	€32.32	1,082	650,000	0	0	94,300	48,900	0
			03/03/2006	€33.75	2	187,000	150,000	150,000	37,000	0	0
			11/20/2006	€32.63	1,298	1,309,250	0	0	251,000	175,000	0
			03/07/2007	€36.97	2	250,000	200,000 (i)	200,000 (i)	50,000	0	0
			11/15/2007	€36.82	1,330	1,677,000	150,000 (i) (ii)	150,000 (i) (ii)	350,000 (ii)	230,000 (ii)	174,250 (ii)
			03/20/2008	€31.41	596	426,750	0	0	0	78,000	0
06/03/2010	1,000,000	8 years	06/24/2010	€24.07	728	1,000,000	0	100,000 (i) (iii)	177,500 (iii)	150,000 (iii)	611,365 (iii)
06/08/2011	660,000	8 years	06/08/2011	€42.41	276	292,840	0	30,300 (i) (iv)	65,200 (iv)	59,200 (iv)	210,370 (iv)
		8 years	03/27/2012	€40.78	283	367,160	0	35,300 (i) (v)	84,700 (v)	77,900 (v)	265,230 (v)
TOTAL STOCK OPTION PLANS						**6,440,800**	540,000	**705,600**	1,152,100	852,600	**1,261,215**

(1) Date of Board of Directors'/Supervisory Board/Management Board meeting.

(2) Including directors who are not corporate officers.

(i) Stock 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 Operations Committee) 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.
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.

(v) O/w 100% conditional (CEO and Operations Committee) with three criteria: 1 – an average operating margin equal to or greater than 6.7%; 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.
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 at Dec. 31, 2011**	**Exercised in 2012 (year)**	**Exercised at Dec. 31, 2012 (cumulative)**	**Canceled in 2012 (year)**	**Canceled at Dec. 31, 2012 (cumulative)**	**Options outstanding at Dec. 31, 2012**	**Number of shares to be subscribed (options + buyback)**	**Residual grantees**
2,787	50% – 2 years; 100% – 3 years	11/7/2012	72,362 718	56,760 580	172,053 1,799	15,602 138	108,747 988	0 0	0	0
	50% – 2 years; 100% – 3 years	11/16/2013	233,992	39,612	218,705	2,020	238,935	192,360	192,360	354
	50% – 2 years; 100% – 3 years	03/02/2014	0	0	187,000	0	0	0	0	0
	50% – 2 years; 100% – 3 years	11/19/2014	582,820	85,460	394,890	4,000	421,000	493,360	493,360	497
	50% – 2 years; 100% – 3 years	03/06/2015	250,000	0	0	0	0	250,000	250,000	2
	100% – 3 years	11/14/2015	1,066,900	77,747	197,597	21,500	511,750	967,653	967,653	811
	100% – 3 years	03/19/2016	294,602	36,010	73,908	4,000	98,250	254,592	254,592	354
	100% – 2 years	06/23/2018	925,400	67,138	67,138	56,762	131,362	801,500	801,500	552
	100% – 3 years	06/07/2019	287,120	0	0	20,360	26,080	266,760	266,760	241
	100% – 3 years	03/26/2020	0	0	0	7,800	7,800	359,360	359,360	274
2,787			**3,713,196** 718	**362,727** 580	**1,311,291** 1,799	**132,044** 138	**1,543,924** 988	**3,585,585** 0	**3,585,585**	

Free share plans in force at December 31, 2012

Shareholders' Meetings			Plan characteristics				Shares granted				
Date of Shareholders' 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. managers excl. corporate officers**	**O/w granted to the top 10 grantees[2]**	**Conditional shares**
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	540,000	-	06/08/2011	-	276	186,860	0	15,600 (v)	34,000 (v)	31,000 (v)	126,480 (v)
				-	46,666	140,000	0	0	39 (v)	30 (v)	87 (v)
			03/27/2012	-	283	173,140	0	11,400 (vi)	32,800 (vi)	29,800 (vi)	117,220 (vi)
				-	13,333	40,000	0	0	39 (vi)	30 (vi)	60 (vi)
TOTAL FREE SHARE GRANTS						**940,000**	**0**	**77,003**	**122,417**	**108,390**	**421,959**

(1) Date of Board of Directors'/Supervisory Board/Management Board meeting.

(2) Including directors who are not corporate officers.

(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 Operations Committee) 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.
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.

(vi) O/w 100% conditional (CEO and Operations Committee) with three criteria: 1 – an average operating margin equal to or greater than 6.7%; 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.
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.

Date and conditions		Number of shares							
Start	**Expiration date**	**Remaining to be transferred at Dec. 31, 2011**	**Ownership transferred in 2012 (year)**	**Transferred at Dec. 31, 2012 (cumulative)**	**Canceled in 2012 (year)**	**Canceled at Dec. 31, 2012 (cumulative)**	**O/w ownership remains to be transferred at Dec. 31, 2012**	**No. of shares that could be transferred**	**Residual grantees**
Vesting period: - France: 2 years - Other countries: 4 years	-	249,735	179,150	179,150	11,935	29,200	58,650	58,650	284
Vesting period: - France – Spain – Italy: 2 years - Other countries: 4 years	-	113,700	45,876	45,876	0	19,300	67,824	67,824	22,608
Vesting period: - France: 3 years - Other countries: 5 years	-	182,660	2,000	2,000	14,060	18,260	166,600	166,600	240
Vesting period: - France – Spain – Italy: 3 years - Other countries: 5 years	-	124,938	0	0	0	15,062	124,938	124,938	41,646
Vesting period: - France: 3 years - Other countries: 5 years	-	0	0	0	4,456	4,456	168,684	168,684	274
Vesting period: - France: 3 years - Other countries: 5 years	-	0	0	0	0	0	40,000	40,000	13,333
		671,033	**227,026**	**227,026**	**30,451**	**86,278**	**626,696**	**626,696**	

7.6.4 Other securities

The Company has participated in a Euro Medium Term Note program since October 2002, last renewed on April 13, 2012, 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%.

7.6.5 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.

7.6.6 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 in Chapter 2 "Risk Factors", section 2.1.4, "Liquidity risks" on page 62, the balance of 311 million euros of Euro Medium Term Notes (EMTN) 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.

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 3, section 3.2.1, page 94, Jacques Aschenbroich, the Chief Executive Officer, is eligible for a maximum severance payment equal to 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 his termination benefit). The Company reserves 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 his termination benefit. For more information see Chapter 3, section 3.2.1, page 94.

Agreements that could restrict the transfer of shares and the exercise of voting rights

Relations with the Fonds stratégique d'investissement

The Board of Directors' meeting of October 20, 2009 decided to co-opt Michel de Fabiani, whose name was put forward by the Fonds stratégique d'investissement, as a Director, replacing Erich Spitz. On this occasion, and after considering the specific current ownership structure of Valeo, the Fonds stratégique d'investissement, which is a 51%-owned subsidiary of Caisse des dépôts et consignations and included in Caisse des dépôts et consignations' consolidated financial statements, sent a letter dated October 19, 2009 confirming that all of the shares that the Caisse des dépôts et consignations 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 Fonds stratégique d'investissement would not increase its holding beyond 15% of the share capital without the consent of Valeo's Board. The Fonds stratégique d'investissement 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 Fonds stratégique d'investissement's equity holding in Valeo and preserving the Group's interest.

Electric supercharger

ADDITIONAL INFORMATION

8

THE INFORMATION FROM THE ANNUAL FINANCIAL REPORT IS CLEARLY IDENTIFIED IN THE TABLE OF CONTENTS BY THE AFR SYMBOL

8.1 Principal provisions of the law and the articles of association

8.1.1 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.

8.1.2 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.

8.1.3 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 (Chapter 6, section 6.1, pages 298 to 315).

8.1.4 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.

8.1.5 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.

8.1.6 Registration details

The Company is registered at the Paris Trade and Companies Registry under the number 552 030 967 RCS Paris.

8.1.7 Fiscal year

The Company's fiscal year covers a twelve-month period from January 1 to December 31.

8.1.8 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, and may set the amount and date of payment.

At the Annual Shareholders' Meeting called to approve the financial statements, shareholders may decide to offer a stock dividend alternative to cash dividends representing all or part of the dividend, or interim dividend, 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.

8.1.9 Liquidation surpluses

Liquidation surpluses are allocated between the shareholders in proportion to their interests in the Company's capital.

8.1.10 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 00:00 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 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 proxy form 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.

8.1.11 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 free shares allotted 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.

8.1.12 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.

8.2 Information on subsidiaries and affiliates

The overall legal and operational structure of the Group is described in Chapter 1, section 1.3.2, page 22.

Following the creation of subsidiaries for its industrial activities in 2002, Valeo is now solely a holding and cash management company for the Group. The Company is the head of the tax consolidation group in France.

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.

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 operate. Sales to automakers are handled directly by the Business Groups/Product Lines involved in the production process. The commercial activities of the Business Groups/ Product Lines with a given customer are coordinated by the networks of the Sales and International Development Department, described in Chapter 1, section 1.3.5, page 29.

A list of consolidated companies (including their location) is given in the notes to the consolidated financial statements, Chapter 5, section 5.2.6, Note 7, pages 264 to 268. The position of Valeo's direct subsidiaries and interests is presented in the table included in the notes to the parent company financial statements, Chapter 5, section 5.5.4, Note 18, page 290.

Industrial ⬜

Commercial 🟩

MAIN INDUSTRIAL

Direct and indirect interests by country

European Union				Europe outside the European Union	Africa	North America
France	Germany, Belgium, United Kingdom, 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. 100	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) 100	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) 100	VALEO AUTOSYSTEMY Sp.zo.o. (Poland) 100	🟩 VALEO SERVICE LLC (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 S.A. 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 COMPRESSEURS 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. 100			
VALEO SYSTÈMES THERMIQUES 100	CONNAUGHT ELECTRONICS LIMITED (Ireland) 100					
VALEO SYSTÈMES DE CONTRÔLE MOTEUR 100	🟩 VALEO SERVICE BENELUX B.V. (Netherlands) 100					
VALEO ÉTUDES ÉLECTRONIQUES 100						

AND COMMERCIAL ENTITIES

where the Group is established (% interest at December 31, 2012)

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 Ltd	100
HUBEI VALEO AUTO LIGHTING COMPANY Ltd	89.7
VALEO AUTOMOTIVE AIR CONDITIONING HUBEI Co. Ltd	100
FAW-VALEO CLIMATE CONTROL SYSTEMS Co. Ltd	36.5
NANJING VALEO CLUTCH Co. Ltd	55
VALEO SHANGHAI AUTOMOTIVE ELECTRIC MOTORS & WIPER SYSTEMS Co. Ltd	55
SHANGHAI VALEO AUTOMOTIVE ELECTRICAL SYSTEMS COMPANY Ltd	50
HUADA AUTOMOTIVE AIR CONDITIONER (Hunan) Co. Ltd	45
VALEO LIGHTING HUBEI TECHNICAL CENTER Co. Ltd	89.7
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	89.7
VALEO AUTO PARTS TRADING (Shanghai) Co. Ltd	100
VALEO AUTOMOTIVE TRANSMISSIONS SYSTEMS (Nanjing) Co. Ltd	100
GUANGZHOU NILES TRADING Co Ltd	100
GUANGZHOU VALEO ENGINE COOLING Co. Ltd	100
FUZHOU NILES ELECTRONIC Co Ltd	51
WUHU VALEO AUTOMOTIVE LIGHTING SYSTEMS Co Ltd	71.8
SHENYANG VALEO AUTOLIGHTING Co Ltd	89.7

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 AUTOMOTIVE 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	100
NILES CTE ELECTRONIC Co. Ltd (Taiwan)	51

India

VALEO FRICTION MATERIALS INDIA LIMITED	60
AMALGAMATIONS VALEO CLUTCH PRIVATE LIMITED	50
MINDA VALEO SECURITY SYSTEMS PRIVATE LIMITED	50
VALEO INDIA PRIVATE Ltd.	100
VALEO LIGHTING SYSTEMS INDIA PRIVATE LIMITED	100
VALEO SERVICE INDIA AUTO PARTS PRIVATE LIMITED	60

8.3 Material contracts

In 2011

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 Japanese automotive supplier Niles, a leading manufacturer of automotive switching systems. This acquisition strengthens the Comfort and Driving Assistance Systems Business Group's Interior Controls business and reinforces the Group's positioning in Asia.

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.

As part of its development strategy to reduce CO_2 emissions, on December 5, 2011 Valeo acquired the subsidiary of 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 stake in the French company Valeo Compresseurs, which sells compressors on the aftermarket as well as for 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. The company manufactures and sells Valeo lighting systems, mainly to Chery Automobile, which has become one of China's main automakers. This acquisition, following that of Niles, is in line with Valeo's strategy of stepping up its expansion in Asia.

In 2012

On January 17, 2012, Valeo issued 500 million euros' worth of bonds maturing in 2017 and launched an offer to redeem 88,862 million euros' worth of bonds maturing in 2013 out of the total 600 million euro issuance of June 2005, of which 400 million euros' worth of bonds were still in circulation.

On April 23, 2012, Valeo bought back the non-controlling interests in its China-based subsidiary Valeo Automotive Air Conditioning Hubei, previously 55%-owned.

On September 7, 2012, Valeo signed an agreement with its partner Ichikoh to create a joint venture that will be 85%-owned by Valeo and 15%-owned by Ichikoh, to which the two companies will contribute their respective Chinese lighting operations. This joint venture is in line with Valeo's growth strategy in China and in Asia as a whole.

On October 25, 2012, Valeo and V. Johnson Enterprises formed the joint venture Detroit Thermal Systems (DTS), in which Valeo holds 49%, to acquire the air-conditioning systems business of Automotive Components Holdings (ACH) which is currently based at the Sheldon Road plant in Plymouth Township, Michigan. The acquisition will strengthen Valeo's Thermal Systems operations and its position with Ford Motor Company in North America and the rest of the world. It will also grant the Group a leading position on the North American market.

On November 30, 2012, Valeo signed a contract for the sale of its Access Mechanisms business to Japanese group U-Shin. This divestment is aligned with Valeo's strategy of focusing on developing products that reduce CO_2 emissions and stepping up its expansion in Asia and emerging markets.

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.

8.4 Documents on display

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 (43, rue Bayen, 75017 Paris).

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 online for at least five years after the related documents are issued.

In accordance with the AMF's General Regulations, the Board of Directors' Internal Procedures and the Company's articles of association are available on the Company's website. Like the minutes of Shareholders' Meetings, Statutory Auditors' reports and all other corporate documents, these documents are also available at Valeo's headquarters in accordance with the law and the Company's articles of association.

8.5 Information related to the Statutory Auditors

8.5.1 Statutory Auditors and alternate Statutory Auditors

Statutory Auditors

- **Ernst & Young et Autres**, represented by Jean-François Ginies and Gilles Puissochet – 1/2, Place des Saisons, Paris-La Défense 1, 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.

Alternate Statutory Auditors

- **Auditex**,1/2, Place des Saisons, Paris-La Défense 1, 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.
- **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.

8.5.2 Fees paid to the Statutory Auditors AFR

	Ernst & Young				Mazars			
	Amount (excl. taxes)		%		Amount (excl. taxes)		%	
(in millions of euros)	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
AUDIT								
Issuer	0.0	0.0			0.0	0.0		
Consolidated subsidiaries	4.2	3.8			2.4	2.5		
Statutory audit and contractual audits	**4.2**	**3.8**	**91%**	**95%**	**2.4**	**2.5**	**86%**	**96%**
Issuer	0.0	0.0			0.0	0.0		
Consolidated subsidiaries	0.4	0.2			0.4	0.1		
Audit-related services	**0.4**	**0.2**	**9%**	**5%**	**0.4**	**0.1**	**14%**	**4%**
SUB-TOTAL – AUDIT	**4.6**	**4.0**	**100%**	**100%**	**2.8**	**2.6**	**100%**	**100%**
OTHER SERVICES PROVIDED BY MEMBERS OF THE AUDITORS' NETWORKS TO CONSOLIDATED SUBSIDIARIES								
Legal and tax advisory services	0.0	0.0			0.0	0.0		
Other	0.0	0.0			0.0	0.0		
SUB-TOTAL – OTHER SERVICES	**0.0**	**0.0**	**0%**	**0%**	**0.0**	**0.0**	**0%**	**0%**
TOTAL	**4.6**	**4.0**	**100%**	**100%**	**2.8**	**2.6**	**100%**	**100%**

8.6 Person responsible for the Registration Document AFR

8.6.1 Name of the person responsible for the Registration Document containing the Annual Financial Report

Jacques Aschenbroich, Chief Executive Officer of Valeo.

8.6.2 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 9, section 9.3 fairly presents 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 entire 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 AMF on March 29, 2011 under reference number D.11-0191, in which the matters they report are purely of a technical nature."

Paris, March 28, 2013

Jacques Aschenbroich

Chief Executive Officer

AquaBlade® wiper system

CROSS-REFERENCE TABLES

9

9.1 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, 2011, registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 29, 2012, under number D.12-237 ("RD 2011") and, where necessary, to the Registration Document sections and chapters for the fiscal year ended December 31, 2010, registered with the AMF on March 29, 2011 under number D.11-191 ("RD 2010").

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/sections	Pages
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5.1.3	Date of incorporation and length of life of the issuer	8.1.4	342
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