

2013 REGISTRATION DOCUMENT

containing the Annual Financial Report



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Electric supercharger

INTERVIEW WITH JACQUES ASCHENBROICH, CHIEF EXECUTIVE OFFICER OF VALEO

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SAFE HARBOR STATEMENT

AFR The information from the Annual Financial Report is clearly identified in the table of contents by the AFR symbol

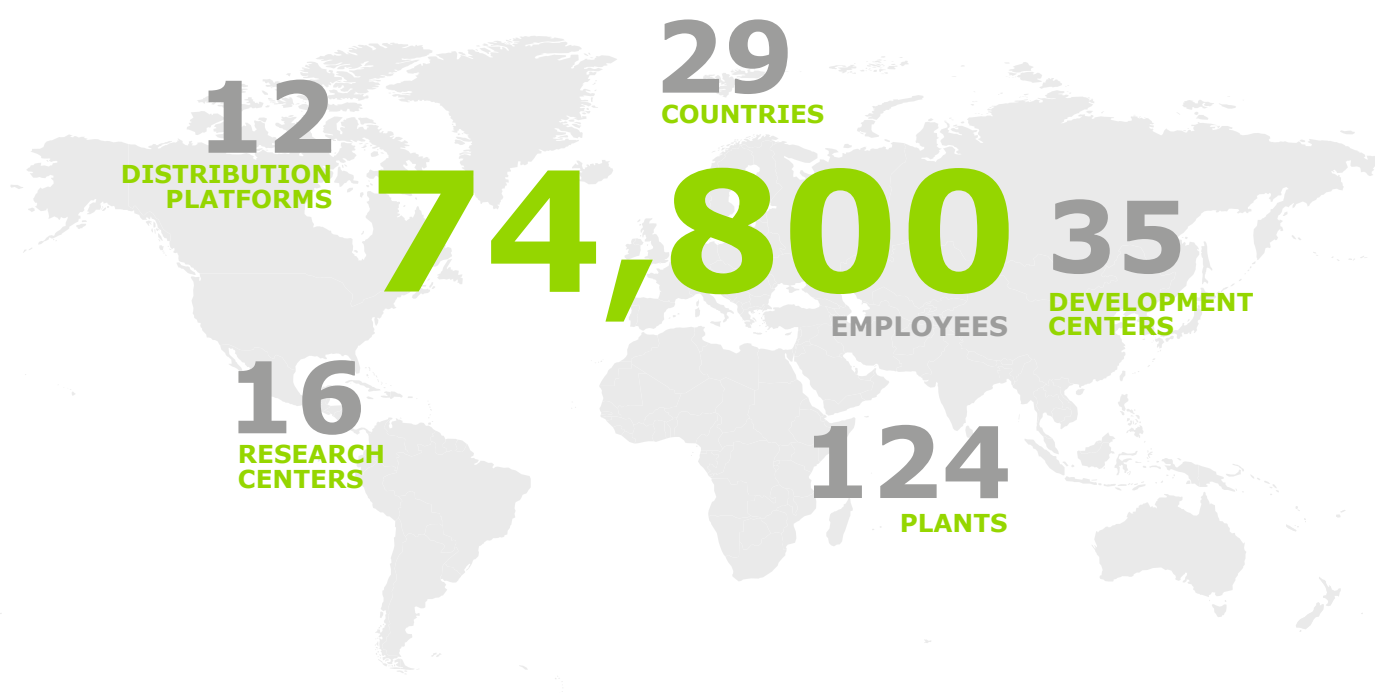
Corporate governance and sustainability report

2013 REGISTRATION DOCUMENT

CONTAINING THE ANNUAL FINANCIAL REPORT

Group Profile

Valeo is an automotive supplier, partner to all automakers worldwide. As a technology company, Valeo proposes innovative products and systems that contribute to the reduction of CO₂ emissions and to the development of intuitive driving.



» ***In 2013, the Group generated sales of 12.1 billion euros and invested over 10% of its original equipment sales in research and development.***



The French version of this Registration Document was filed with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 28, 2014, 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.

The English language version of this report is a free translation from the original, which was prepared in French. In all matters of interpretation, views or opinions expressed in the original language version of the document in French take precedence over the translation.

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, 2012, and the Statutory Auditors' special report on related-party agreements in respect to 2012 included in the Registration Document filed with the AMF on March 28, 2013, under number D.13-0246.
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, 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.



“With our strong financial position and a strategy focused on innovation and on developing our businesses in fast-growing production regions, we are confident in our capacity to deliver margin growth in line with our medium-term financial objectives.”

INTERVIEW

Jacques Aschenbroich

Chief Executive Officer of Valeo

— In your opinion, what were the highlights for Valeo in 2013?

J. A. First of all I would like to thank the Valeo teams for their commitment and professionalism. Without their hard work, we would not have achieved such excellent results in 2013.

Our sales and margins continued to improve as the year progressed. Thanks to our continued innovation push and the trust of our customers, we again demonstrated our capacity to grow faster than the market in all world regions, outperforming global automotive production by 6 percentage points, and to improve our operating margin, which came out at 6.9% of sales in the second half and 6.6% for the year as a whole.

Net income was up 18% to 439 million euros.

The Group generated 315 million euros in free cash flow for the year.

In light of these excellent results, at the next Shareholders' Meeting, shareholders will be asked to vote on the payment of a dividend of 1.70 euros per share, an increase of 13% compared with the dividend paid in 2012.

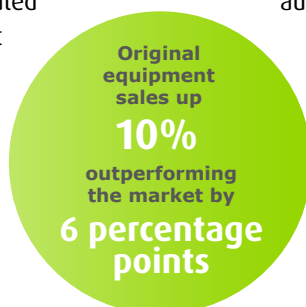
— What are your expectations for 2014 and, beyond that, what is your medium-term outlook for the Group?

J. A. In 2014, global automotive production is expected to grow by 2% to 3%, with growth in Europe of between 1% and 2%.

Based on this scenario, our objectives for 2014 include growth at a higher rate than the market in the main automotive production regions and a slight increase in operating margin, as a percentage of sales, compared with 2013.

Our order intake came out at 14 billion euros, 15.1 billion euros and 14.8 billion euros in 2011, 2012 and 2013 respectively, demonstrating the strong potential for sales growth over the next three years, and in 2015 and 2016 in particular.

With our strong financial position and a strategy focused on innovation and on developing our businesses in fast-growing production regions, we are confident in our capacity to deliver margin growth in line with our medium-term financial objectives.



Jacques Aschenbroich
Chief Executive Officer

1

PRESENTATION OF VALEO AND ITS BUSINESSES

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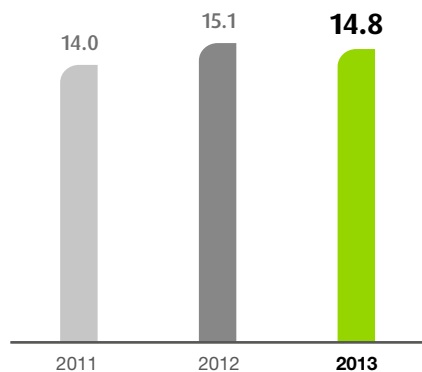
RANGE EXTENDER

In the BMW i3's range extender, Valeo's generator is linked to a small combustion engine and an inverter. When the battery level drops to a certain point, the engine engages, powering the generator that then recharges the battery using the inverter. This system provides the vehicle with greater range and represents a major step forward on this market.

1.1 Key figures for 2013

Order intake⁽¹⁾

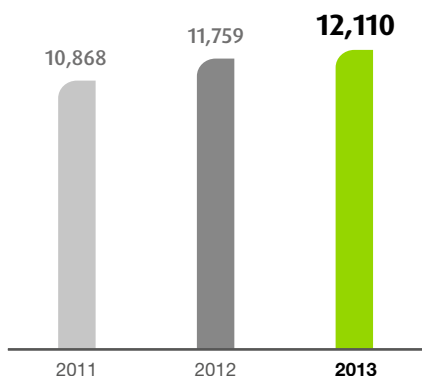
In billions of euros



- » Order intake⁽¹⁾ driven by:
- innovative products and systems (30% of order intake); and
 - accelerated expansion in Asia (37% of order intake).

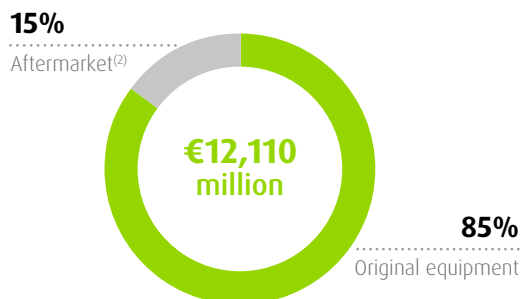
Sales

In millions of euros



Sales by market

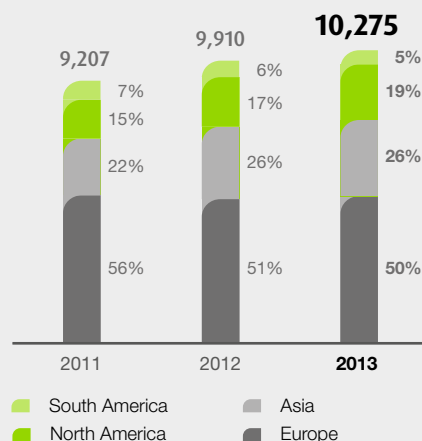
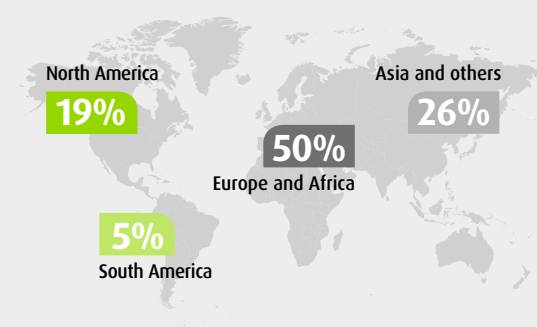
As a % of sales



Geographic and client positioning

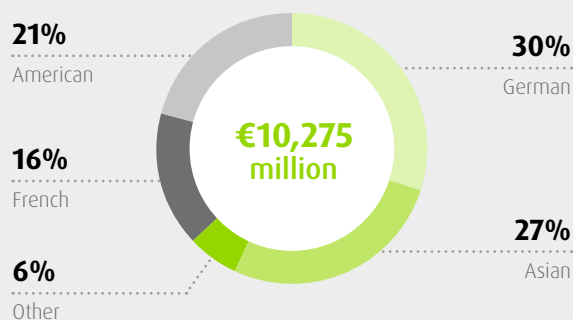
Breakdown of original equipment sales by destination

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



Breakdown of original equipment sales by customer

As a % of original equipment sales

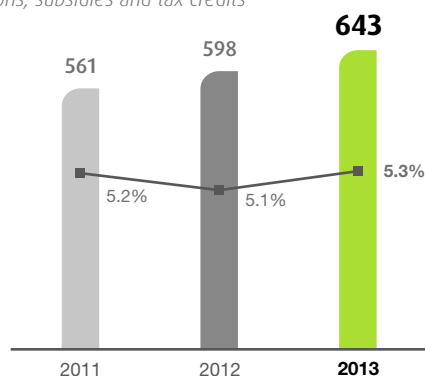


(1) Business awarded by automakers (less any cancelations) during the period, based on Valeo's best reasonable estimates in terms of volumes, selling prices and project lifespans. Orders taken by the Access Mechanisms activity have been excluded from orders for 2011, 2012 and 2013. Unaudited indicator.

(2) Including various sales and tooling.

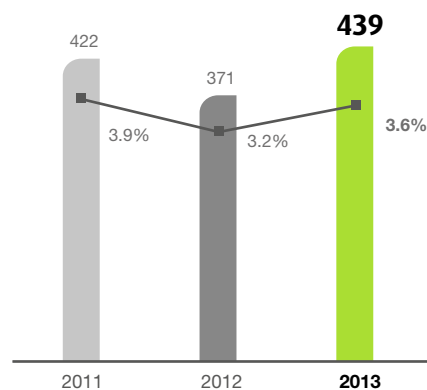
Net research and development expenditure

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



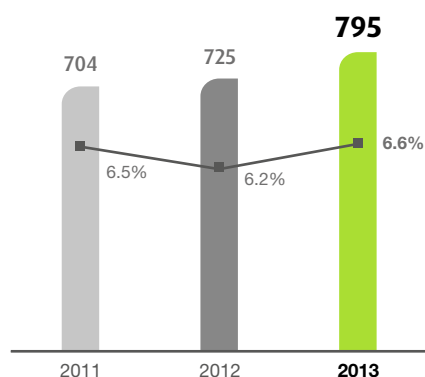
Net attributable income⁽²⁾

In millions of euros and as a % of sales



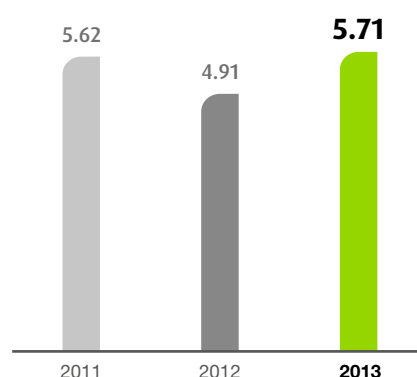
Operating margin⁽¹⁾

In millions of euros and as a % of sales



Basic earnings per share⁽²⁾

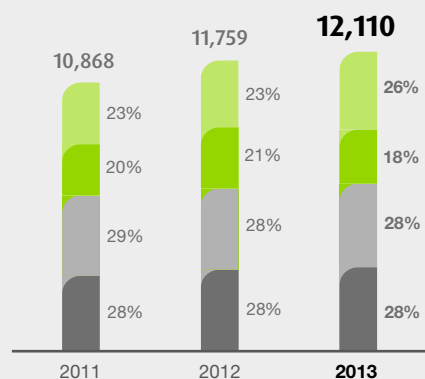
In euros



Industry data

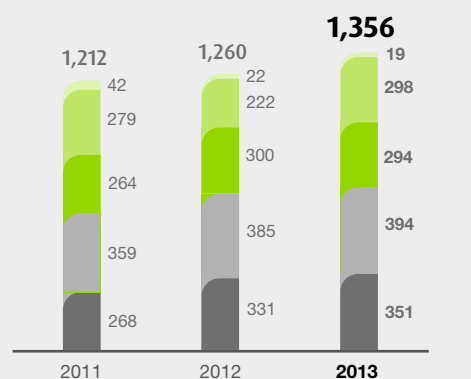
Breakdown of sales by Business Group

In millions of euros and as a % of sales



EBITDA⁽³⁾ by Business Group

In millions of euros



■ Powertrain Systems

■ Thermal Systems

■ Comfort and Driving Assistance Systems

■ Visibility Systems

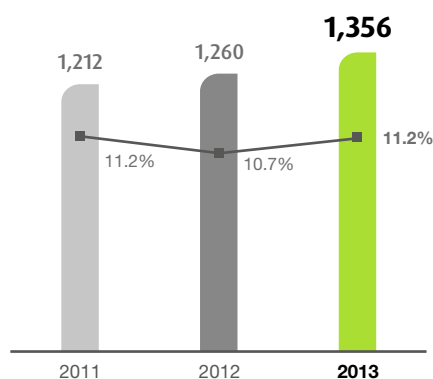
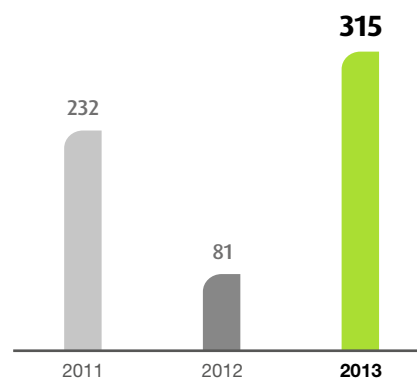
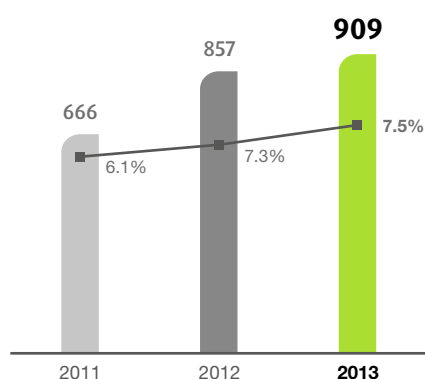
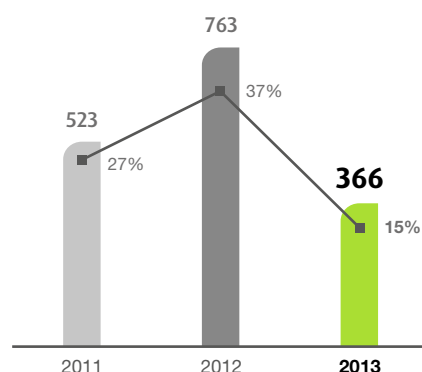
■ Others

(1) Operating income before other income and expenses.

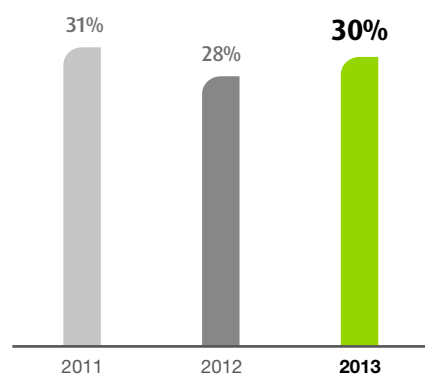
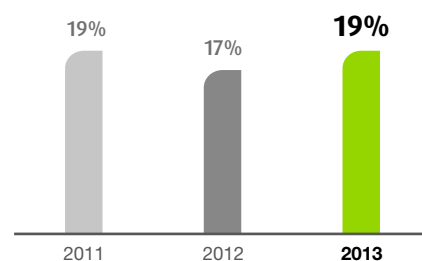
(2) The amount of earnings shown for 2012 and 2011 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes in the expected return on assets resulting from the retrospective application of the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1, page 224).

(3) EBITDA corresponds to operating income before depreciation, amortization, impairment losses (included in operating margin) and other income and expenses.

Cash flow and financial structure

EBITDA⁽¹⁾*In millions of euros and as a % of sales***Free cash flow⁽²⁾***In millions of euros***Investment flows***In millions of euros and as a % of sales***Net debt⁽³⁾***In millions of euros and as a % of consolidated stockholders' equity, excluding non-controlling interests*

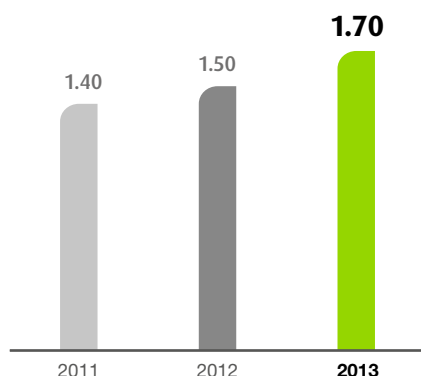
Other profitability indicators

ROCE (Return on Capital Employed)⁽⁴⁾**ROA (Return on Assets)⁽⁵⁾**

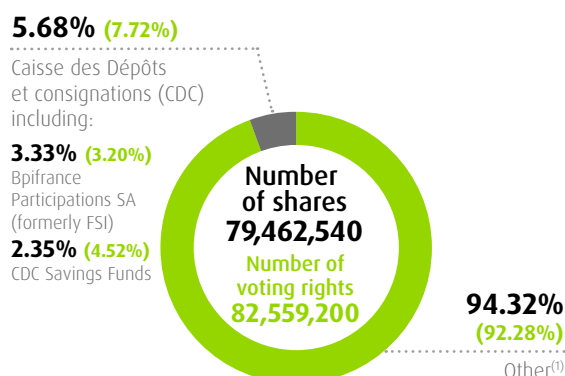
(1) EBITDA corresponds to operating income before depreciation, amortization, impairment losses (included in operating margin) and other income and expenses.
 (2) Free cash flow corresponds to net cash from operating activities (excluding changes in the sale of trade receivables) after taking into account acquisitions and disposals of property, plant and equipment and intangible assets.
 (3) Net debt comprises all long-term debt, short-term debt and bank overdrafts, less loans and other non-current financial assets, cash and cash equivalents.
 (4) ROCE, or return on capital employed, corresponds to operating margin as a proportion of capital employed excluding goodwill.
 (5) ROA, or return on assets, corresponds to operating income as a proportion of capital employed including goodwill.

Stock market indicators

Dividend per share
In euros



Ownership structure at March 20, 2014
% of share capital (% of voting rights)



» The Shareholders' Meeting of May 21, 2014 will be asked to approve the 2013 dividend.

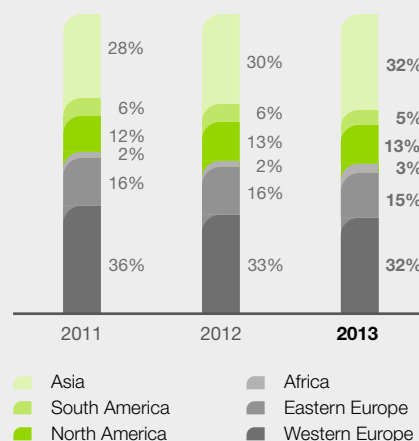
» Bpifrance Participations SA sold 2.5% of its stake on March 12, 2014.

Non-financial indicators

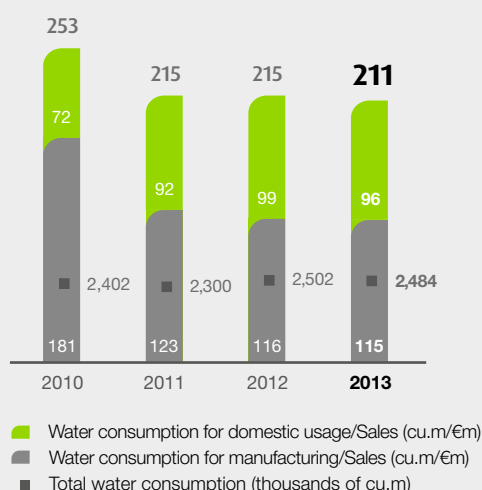
Corporate governance

- In 2013, the Board of Directors met six times, with a **95.8%** average attendance rate (in person or by proxy). The directors held their annual **strategic seminar** in the US, where they met key executives from the main automakers in this high-growth region;
- **75%** of directors are independent;
- **25%** of members of the Board of Directors are women.

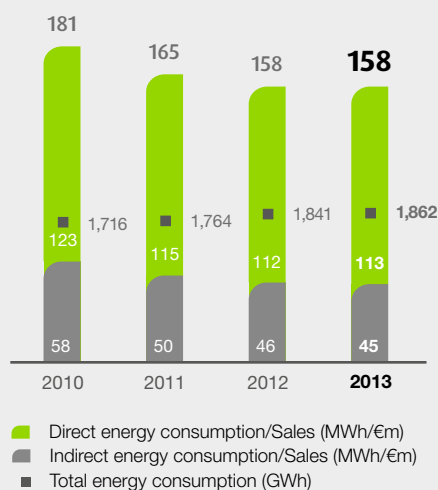
Breakdown of headcount by geographic area



Water consumption⁽²⁾



Energy consumption⁽²⁾



(1) Including 1,638,732 treasury shares (2.06% of share capital).

(2) See methodology, Chapter 4, section 4.6.1, page 192.

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 CO₂ emissions and intuitive driving

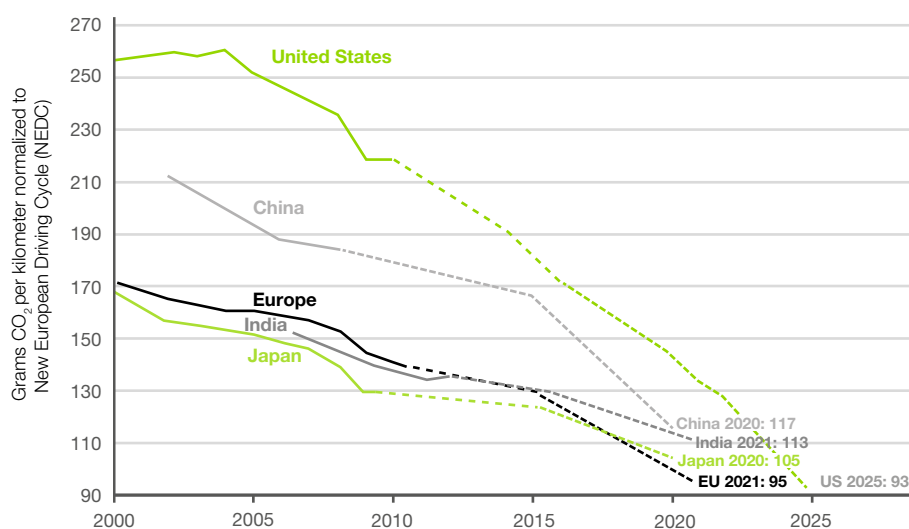
Technological progress in CO₂ emissions reduction is one of the main drivers of growth on the automotive market, and meets the needs clearly expressed by both the market and by society.

Politically speaking, the issues differ significantly depending on the region (awareness of global warming, the necessity to

reduce fuel consumption and, in China, energy independence), yet the impact on public policies remains the same, namely that the transportation industry, which represents a quarter of all CO₂ 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. Technical innovations are required in all sectors of the automobile industry in order to meet the necessary standards.

Market context – Regulatory impact analysis

Current CO₂ levels by region and targets



Source: The International Council for Clean Transportation.

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 autonomous and equipped with an easy to use control interface. Driving assistance systems aim to improve safety, reduce CO₂ emissions, and make driving more enjoyable – the very basis of Valeo's "intuitive driving" concept.

As part of a study conducted by consulting firm Sigma in 2013 with the participation of a dozen European and Chinese automakers and Valeo (the only automotive supplier), 16,000 European and 2,000 Chinese consumers were asked about their expectations in terms of automobile innovation. The study found that fuel savings and more automated driving are priorities for consumers across the world, particularly in Europe and the US, and Valeo responds to these demands through the development of innovative technologies and the continuous improvement of product performance.

Development in Asia and emerging countries

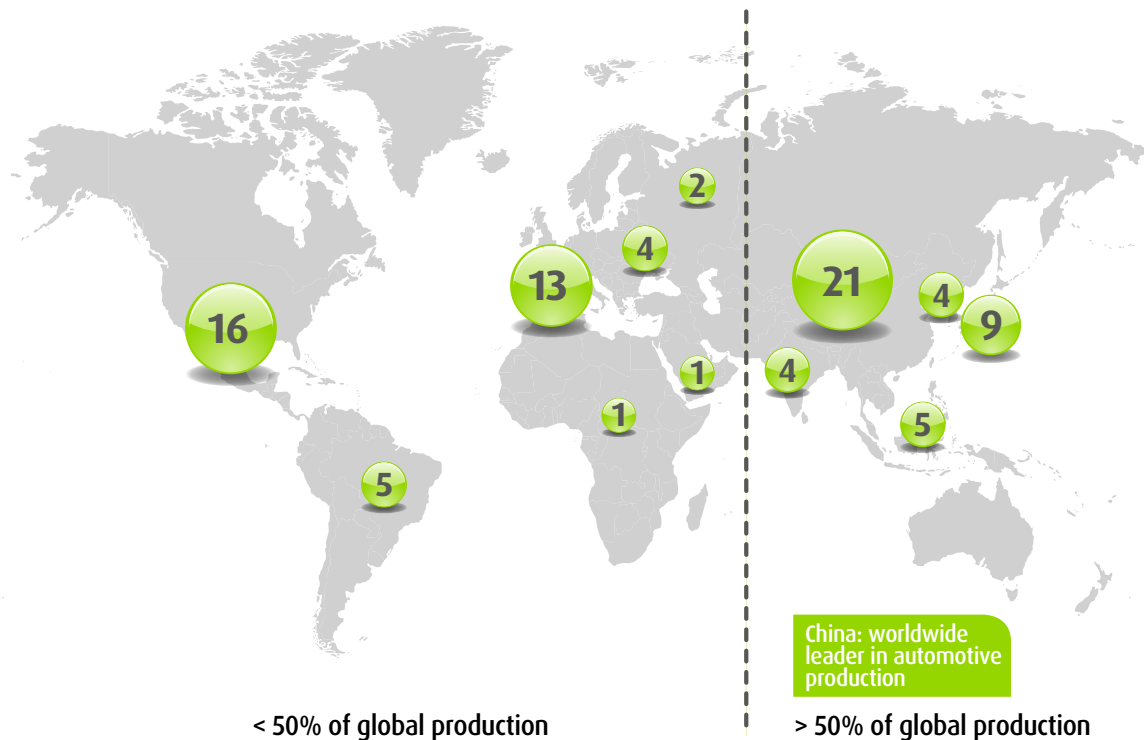
The second underlying market trend is the shift in global automotive production from the western world to Asia, which now represents over 50%⁽¹⁾ of vehicles. Automotive production has more than doubled in China since 2007, with 20.9⁽¹⁾ million vehicles produced in 2013, representing 25%⁽¹⁾ of global automotive production.

While 2013 has seen North American automotive production surpass pre-crisis levels, in Europe and Japan⁽¹⁾ 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 2013

World automotive production, in millions of vehicles⁽¹⁾



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 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, 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 have been responsible for the development of new technologies for many years now. 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 spent 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) Source: LMC & Valeo.

(2) Source: BIPE & Valeo.

1.2.2 Presentation of Valeo's strategy

In order to better anticipate these trends in the automotive market, Valeo has implemented 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 28).

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

- innovative technologies related to the reduction of CO₂ emissions and intuitive driving;
- expansion within high-growth regions, most notably in Asia and emerging countries.

Reduction of CO₂ emissions and intuitive driving

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 (see Chapter 4, section 4.2 "The R&D process at Valeo: from megatrends to innovation", pages 120 to 130). 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. Valeo has unveiled an evolution of this architecture, 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 systems, which are five times more efficient than halogen bulbs (based on the relationship between the lighting's efficiency and energy consumption) and also provide 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). The ever increasing complexity of vehicles has also spurred a need to provide end users with innovative systems such as gaze and motion detection.

The Group's innovative products⁽¹⁾ accounted for 30% of order intake in 2013. The Group estimates that CO₂ emission reduction technologies will account for 75% of Valeo's sales growth between 2012 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, as well as South-East Asia, India, South America, Turkey and Russia.

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

Consequently, the number of plants in Asia has increased from 31 to 48 between 2009 and 2013. There were 26 plants in China by the end of 2013 and four more are being built in 2014. In 2014, China will be on a par with France in terms of Group headcount.

Valeo's sales growth in Asia, due mainly to China, will account for half of the Group's overall growth between 2012 and 2015. The Group should generate over 30% of its original equipment sales on this continent by 2015.

⁽¹⁾ Products and technologies on the market for less than three years

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. The 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 four Axes. It helps company performance by placing value on human resources and optimizing efficiency.

Human Resources is tasked with preparing and accompanying 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, in all of its markets. Additionally, given the growth in order intake (CAGR⁽¹⁾ 11% between 2009 and 2013), recruiting engineers and technicians poses a challenge due to stretched job markets in some countries and regions. The Group plans to recruit over 15,000 people globally over the next three years and will continue to recruit around 400 people in France every year, of which two-thirds will be engineers and managers.

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 3.6% in 2013).

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 and inventories and optimize capital expenditure.

Installing production capacities in emerging countries reduces inventories and logistics costs (since deliveries are local), cuts costs and optimizes capital expenditure. On an annual basis, Valeo dedicates almost two thirds 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 1.1 billion euros, which represents 10.4% of original equipment sales.**

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).

(1) Compound Annual Growth Rate

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 and their application was implemented in 2010 and is reducing 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⁽¹⁾ accounted for 30% of all order intake in 2013.

In 2013, Valeo was named on Thomson Reuters' list of the *Top 100 Global Innovators*, which features only four automotive suppliers, for the second year running. 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 financial model with a strong capital turnover⁽²⁾ (approximately five times) 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.

The Group has therefore set up an organization based on commodities/segments on the one hand, and projects and production on the other. See description in section 1.3.5, page 24.

The Group requires that all of its suppliers strictly comply with its Code of Ethics (see Chapter 4, section 4.5.1 "Application of corporate social responsibility principles in purchasing processes", page 183).

In 2013, manufacturing 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.

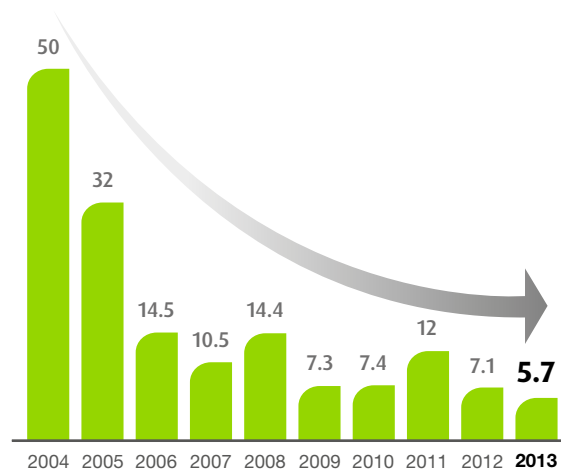
For example, it was at the request of its customers that the Group set up production facilities all around the world. Initially, the aim was to better serve its long-standing customers in Europe, the US and Japan. Today however, Valeo's goal is also to meet the needs of new players, in particular those 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 2013, the Group's quality level was 5,675 ppb (defective parts produced per billion), which represented an improvement of 20% compared with 2012, a new record for Valeo.

Number of defective parts per million produced

3-month average



(1) Products and technologies on the market for less than three years

(2) See Financial glossary, section 5.9, page 319.

1.2.4 Strategic plan

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, Valeo remains confident in its ability to achieve the objectives confirmed in its 2012 results presentation:

- 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 four years (6.4% in 2010, 6.5% in 2011, 6.2% in 2012 and 6.6% in 2013);

- return on capital employed⁽¹⁾ in the region of 30%. Valeo achieved its objective of a return on capital employed of at least 30% in 2010, 2011 and 2013 (32% in 2010, 31% in 2011, 28% in 2012 and 30% in 2013).

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

1.2.5 Confident in achieving targets

In spite of the European financial crisis, over the 2010-2013 period Valeo demonstrated that it is capable of growing faster than the market, and posted a level of profitability in line with the objectives described in the 2012 results presentation.

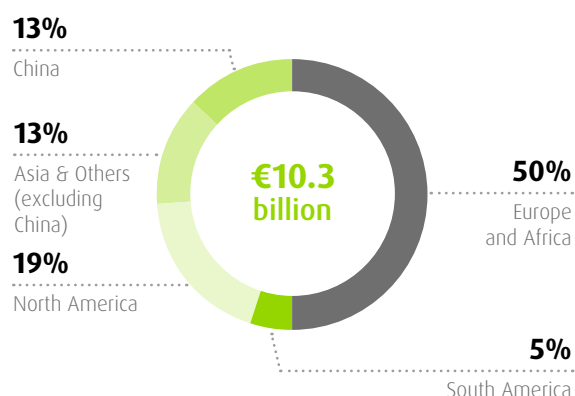
Growth

Valeo's original equipment sales grew at an average of more than three percentage points above the market on a like-for-like basis over the 2010-2013 period⁽²⁾.

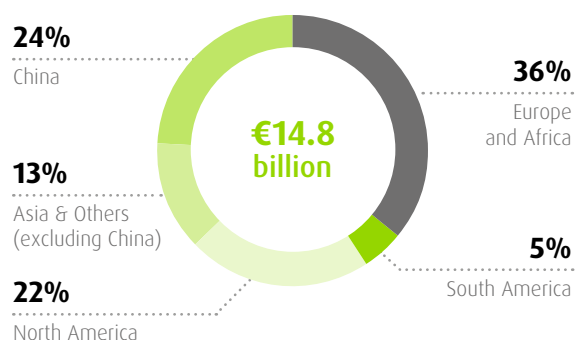
In 2013, the order intake⁽¹⁾ once again reached a high level, at 14.8 billion euros after the record 15.1 billion euros in 2012 (on a comparable Group structure basis). This performance confirms Valeo's organic growth potential which is driven by:

- the Group's innovative products and systems⁽³⁾, which accounted for 30% of order intake in 2013;
- accelerated expansion in Asia and emerging countries. China contributed 24% to order intake, almost twice its current contribution to original equipment sales by destination in 2013 (13%). By contrast, Europe contributed 36% to order intake, that is, a cumulated ratio of order intake over sales of 1.25 for the years 2012 and 2013.

Regional breakdown of original equipment sales by destination in 2013



Regional breakdown of order intake by destination in 2013



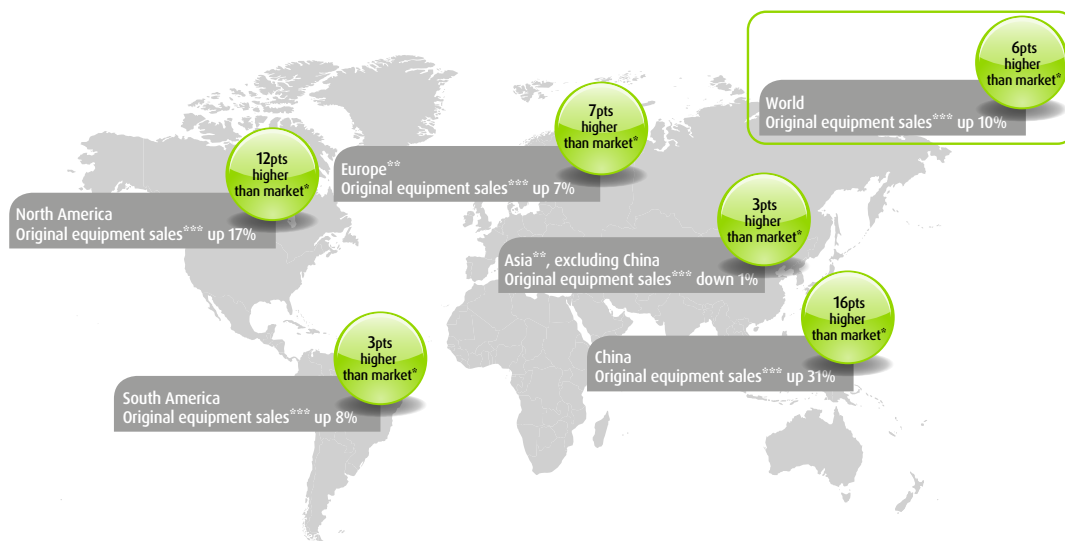
(1) See Financial glossary, section 5.9, page 319.

(2) Based on LMC and Valeo estimates

(3) Products and technologies on the market for less than three years.

2013 growth in original equipment sales 6 points higher than the market

All production regions outpaced the market



* This figure corresponds to additional like-for-like growth in original equipment sales compared to volume growth in automotive production (Valeo and LMC estimates)

** Europe and Africa, Asia, Middle East and Oceania

*** Valeo's original equipment sales by destination region

Profitability

In line with its objectives, Valeo achieved an operating margin of between 6% and 7% from 2010 to 2013 (6.4% in 2010, 6.5% in 2011, 6.2% in 2012 and 6.6% in 2013).

The operating structure set up by Valeo in 2010 has helped to improve profitability, through the acceleration of growth, the control of investments and the reduction in administrative overheads. The expected growth in sales relating to the increase in order intake should help the Group continue to improve its results.

Return on capital employed

In line with its objectives, Valeo achieved a return on capital employed⁽¹⁾ above 30% in 2010, 2011 and 2013: 32% in 2010, 31% in 2011, 28% in 2012 and 30% in 2013.

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 operates with a negative working capital requirement and, as a result, achieves a return on capital employed of 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, Valeo is confident in its ability to generate significant free cash flow⁽¹⁾ to support a long-term dividend policy.

(1) See Financial glossary, section 5.9, page 319.

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 were a time of development for SAFF through diversification into new business sectors (thermal systems in 1962; lighting, wiper and electrical system in the 1970s) 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 South 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 SpA 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 (clutches in Japan).
- Acquisition of a stake in Zexel (thermal systems).
- Strategic alliance with Ichikoh (lighting systems in Japan), with the acquisition of a 20% stake.
- 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 increases its stake in two Chinese joint ventures, to 50% in Shanghai Valeo Automotive Electrical Systems Company Ltd (electrical systems) and 55% in Valeo Shanghai Automotive Electric Motors & Wiper Systems Co., Ltd (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 and export markets. Its plant is located in Changchun in the northeast of China.
- Creation of a joint venture today known as Valeo Interior Controls (Shenzhen) Co. Ltd, with Hangsheng Electronics, a Chinese tier-one automotive supplier, for the production of ultrasonic parking assistance systems.
- Increase in its stake in Ichikoh 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 entity, of which the other 50% is held by Samsung Climate Control Group, is renamed 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 & 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 Asian market, 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 its 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 & 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 both on the aftermarket and 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 another milestone in Valeo's development strategy in China.
- Inauguration of the extension to the plant in Veszprém (Comfort & Driving Assistance Systems) in Hungary, laying the foundations for the new research and development 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 both companies will contribute their respective Chinese Lighting operations, as well as other Valeo assets including its stake in Hubei Valeo Autolighting Company Ltd. Valeo has also acquired a controlling interest in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd.
- Creation of a joint venture, Detroit Thermal Systems, with V. Johnson Enterprises, to acquire the air-conditioning systems business of Automotive Components Holdings (ACH) from Ford. 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).

2013

- Valeo celebrates its 90th anniversary: from producing brake linings and clutch facings in a small workshop in Saint-Ouen near Paris it has become a partner to the world's leading automakers. It operates in 29 countries and is one of the world's foremost automotive suppliers.
- Completion of the sale of the Access Mechanisms businesses (excluding the Indian business) to the Japanese group U-Shin.
- Put and call option contract between Valeo and Osram GmbH concerning their North American joint venture, and signature of a strategic supply agreement that strengthens cooperation between the two entities in automotive lighting systems.
- Inauguration of the extension to the Nanjing plant in China (Powertrain Systems) where the Group's first dual clutch transmission systems will be produced.

- Signing of a research partnership agreement in driving assistance and autonomous vehicles between Valeo and the French group Safran (aerospace, defense, security) to boost the development of innovative products and grow new markets.
- Inauguration of the extension to the plant in Rio Bravo in Mexico (part of the Comfort & Driving Assistance Systems Business Group). Once the extension is fully operational, the plant will be the main electronics production center for the region.
- Launch of “Valeo Innovation Challenge”, an innovation competition open to engineering students throughout the world.
- Acquisition of Eltek Electric Vehicles (Powertrain Systems Business Group), a Norwegian company specializing in high efficiency on-board chargers, to accelerate and expand Valeo’s offering for hybrid and electric vehicles.
- 25th anniversary of the joint-venture with Valeo Pyeong Hwa (clutch production) in South Korea and inauguration of a dry dual clutch production unit and research and development center in Sechoen.
- Inauguration of a new Chinese engine component plant in Wuxi to produce actuators, sensors and controllers (Powertrain Systems).
- Signing of a technology partnership agreement between Valeo and the Japanese automotive electronics manufacturer, Fujitsu Ten, to develop active safety systems for detecting obstacles on the road (other cars, pedestrians, etc.) by combining Fujitsu Ten’s millimeter-wave radar with a Valeo camera.

1.3.2 Description and structure

Group profile and structure

Valeo is an automotive supplier, partner to all automakers worldwide. As a technology company, Valeo proposes innovative products and systems that contribute to the reduction of CO₂ emissions and to the development of intuitive driving.

At December 31, 2013, the Group had 124 plants, 16 research centers, 35 development centers and 12 distribution platforms and employed 74,800 people in 29 countries worldwide.

Legal structure

The Group’s legal structure is based on three main 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.

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 several jointly owned companies with industrial or technological partners 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 internal 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** operate under the responsibility of the Group Operations Department and are responsible for the 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 concerning the pooling of resources, the allocation of R&D efforts and the optimization of production resources at 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 the 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, pages 34 to 48, 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 29 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

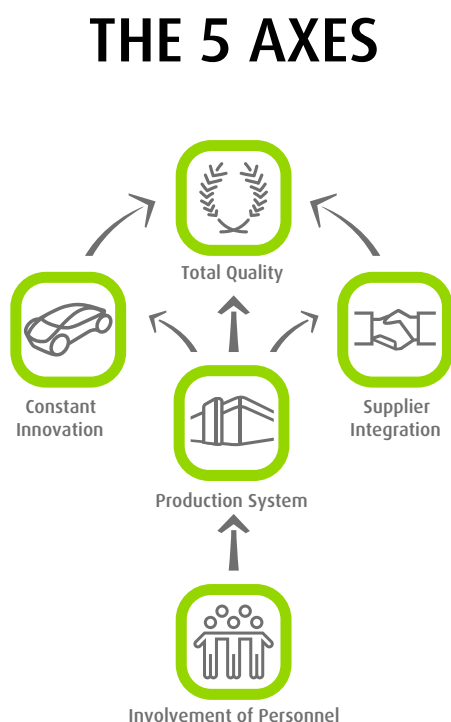
The 5 Axes methodology is applied around the world, by all Group employees, in order to deliver "zero-defects" to the customer. The 5 Axes are:

- **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.

For customer satisfaction



Awards

In 2013, the Group enjoyed widespread recognition from its customers and partners for the quality of its products and services, attesting to its operational excellence.

Innovation rewarded

- Valeo received the Premier Automotive Suppliers' Contribution to Excellence (PACE) Award for its water cooled charge air cooler (WCAC) featured on four-cylinder Volkswagen 1.6 and 2.0 TDI engines. Valeo and Volkswagen also came away with a PACE Innovation Partnership Award for their work together in developing this module.
- For the second year in a row, Valeo was named one of the 100 most innovative companies in the world in Thomson Reuters' list of the Top 100 Global Innovators in 2013.

- Valeo received the EU Commission's eco innovation label for 2013 for its EG (Efficient Generator) high-efficiency alternator, the first time that the Commission awarded the label to an automotive product.
- Valeo Service came away with the Innovative Development of the Year award from the Moscow International Motor Show for its "ClimFilter® Supreme" polyphenol-based cabin air filter designed to neutralize allergens.

Outstanding excellence

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

- Certificate of Achievement from Toyota Motors Europe received by the Angers plant (France), Visibility Systems Business Group, in the quality category; certificates of recognition awarded to the Rakovnic plant (Czech Republic), Comfort & Driving Assistance Systems, in the supply category; and to Valeo Group in the cost management and value analysis category;
- Ford's Go further award, handed out to Valeo at the 2013 Ford World Excellence Awards in recognition of its continuous pursuit of excellence in the face of unforeseen business challenges;
- Volvo Cars' Quality Excellence Award awarded to the Angers plant (France), Visibility Systems Business Group;
- Volkswagen Group Award presented to Valeo for its outstanding entrepreneurial performance. Valeo was distinguished as a global partner having notably supplied the air intake module for Volkswagen's MDB modular diesel engine platform (this technology also won a PACE Award and a PACE Innovation Partnership Award for the two companies' work together);
- Group Certificate of Achievement given by Chrysler to the Highland Park front end module production site (US), Thermal Systems Business Group, for outstanding quality performance;
- Quality Operational Excellence Award from Mercedes-Benz do Brasil for the Itatiba site (Brazil), Thermal Systems Business Group.

The Group also received further awards in recognition of its functional excellence:

- Grand Prix for Financial Transparency Valeo received a third prize in the Consumer goods/Health sector. Every year this award recognizes best practices in providing regulatory financial information among French listed companies;
- Valeo certified as a 2013 Top Employer in 10 European countries (France, Germany, Hungary, Ireland, Italy, Poland, Romania, Slovakia, Spain and Turkey) as well as in China and Brazil. This award recognizes the excellence of a company's Human Resources management.

1.3.4 Ethics and compliance

Created in 2012, the Ethics and Compliance Department has set up a comprehensive program to fight against corruption and anti-competitive practices based on the Code of Ethics and containing rules and general guidelines that apply to all Group employees and entities.

These general guidelines are then broken down into specific procedures for each country in which Valeo operates, translated and adapted to local regulations and culture. Consequently, 27 different country annexes were published in addition to the general guidelines on gifts and invitations.

The program also comprises tools adapted to the requirements of the different functions. A specific project management methodology has been devised as part of anti-trust compliance and there are recommendations for fighting corruption and extortion for those regularly confronted with such practices.

The program was deployed throughout the Group in 2013: presentations were made in most countries to all Business Groups and functional management. 1,883 employees received in-person training and another 15,129 were able to learn about the program through an e-learning module. To ensure the implementation and effective and continuous use of these rules and resources, Valeo believes it is crucial to deploy comprehensive training on the key issues, legal risks, and the solutions it provides. These training sessions can be delivered either through in-person training (available in 15 different languages) or via an e-learning module (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. Handbooks dealing with the specific issues that arise in each business have also been circulated. The program is designed to provide Valeo employees with the knowledge and the tools they need when dealing with targeted, specific situations so that they can identify the risks involved and contact the right people to make the right decisions.

In 2013, an external service provider was selected to set up a Valeo hotline, available in 13 different languages. It was successfully presented to local and national employee representative bodies and went live in January 2014 after getting the green light from the French National Commission for Data Protection and Liberties (*Commission nationale de l'informatique et des libertés* - CNIL).

All related information is easily accessible on the Group's Ethics & Compliance intranet portal along with guidelines, procedures and decision-making tools. All documents are available in English and the basic guidelines have been translated into the major languages used in Valeo (French, German, Chinese, Spanish and Portuguese). They are also available in Japanese, Thai and Korean.

Valeo also calls on a large number of partners for their quality, professionalism and integrity. These partners also need to be made aware of the risks involved in corruption and anti-competitive practices and understand the compliance framework in which they must operate. Valeo has selected a service provider to carry out in-depth due diligence to assess its partners and ensure that it only enters into partnerships with honest businesses and individuals. The focus in 2013 was on emerging countries where very strict regulations have recently been applied and local regulators have been given new powers.

Ethics and compliance also comes under the remit of the Audit & Risks Committee which tracks the deployment of the program and any difficulties encountered. The Ethics and Compliance Officer contributes to in-house investigations.

Valeo's top management, which has supported the compliance program since its inception, continues to give its unstinting commitment to the deployment of the program as well as to those responsible for it. Valeo's compliance strategy combines a localized approach with zero tolerance for the infringement of regulations and constant vigilance that enables it to adapt regulations to local culture by incorporating these as naturally as possible into the working practices of Valeo employees. Now more than ever, 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 management to lead by example, these rules apply to everyone. Every employee whatever their job in every country must comply with these rules, which are based on strict ethical principles. Naturally, they also extend to Valeo's stakeholders, suppliers and service providers.

Valeo has made compliance a top priority and expects everyone's unfailing commitment to compliance, a guarantee of growth and profitability. The ethics and compliance program is described in more detail in Chapter 4, section 4.5.2, page 187.

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. It also seeks to promote work/life balance.

Special attention is given to the quality of local management, which is considered the most effective means of 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 CO₂ 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 implemented 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 employees.

Labor relations

By striving to reconcile economic, social and environmental development in each of the Group's legal entities, Valeo aims to achieve optimal labor relations. 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 "Labor-related indicators", pages 152 to 182.

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 effective suppliers.

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

- a commodity/segment 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 supplier selection process, in particular with business selection and allocation committees.

The six commodities, divided into segments, are:

- steel and transformation,
- plastics and transformation,

- non-ferrous metals and transformation,
- electromechanic components,
- electronic components and systems,
- lighting and other components;
- projects and product life, 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 life cycle.

Furthermore, the Purchasing network is in place across all of the Group's 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 2013, Valeo continued to deploy a range of compliance-related awareness-raising activities for its suppliers, focusing on corruption and anti-competitive practices. The Group has published a manual for buyers and suppliers and organized special training sessions (see Chapter 4, section 4.5.1, Application of corporate social responsibility principles in purchasing processes, page 183).

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 and Product Quality Assurance 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. Supplier development processes have been organized and documented in a new ad hoc manual circulated to Valeo senior management as well as to Purchasing, Supplier Quality and Project management networks.

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. The team set up in 2012 to partner the Group's suppliers in emerging countries, especially India, continued to deploy concrete initiatives during the year in favor of about 15 suppliers. This reflects Valeo's commitment to supporting its suppliers in their own quality initiatives, and to involving 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 a sourcing crisis, 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. There were no significant production stoppages at Valeo plants or at those of its customers in 2013.

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. Expansion and investment projects, the optimization of industrial plant and the deployment of Valeo standards and tools concerning logistics and production are a crucial part of the Group's industrial focus.

To keep growth under control Valeo has set up a support program to partner new activities or existing activities facing growth-related challenges known as "Daughter Plants". The support is provided by plants that already use the technology in question - i.e., Mother Plants - and whose production and quality performances are in line with industry standards. Mother and Daughter plants work together to organize the training of production staff, the coaching of management and new process implementation to ensure that the Daughter plant masters the new technology and is able to give customers first-class service from the outset.

Approximately 1,500 people in different regions received training and coaching in industrial performance optimization techniques from specialist teams, focusing on enhancing equipment performance, plant organization, scheduling and transportation, and the use of production management information systems. Ongoing optimization initiatives and centralized transport and storage costs generated over 20 million euros in savings in 2013.

There has been a marked improvement in key performance indicators – i.e., customer service rate, inventory levels, plant efficiency, labor productivity and logistics costs – thanks to the continued deployment of Valeo Production System Programs whose key principles are now applied in all of the countries in which the Group operates and these include:

- ERIM (Equipment Reliability Improvement Management) for optimal use of equipment;
- VRO (Visual ReOrder) for supplying components;
- Kanban for managing parts in production;
- Truck Image for managing inventories of finished goods.

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 mindset. 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 customer incidents.

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 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 2013, the Group had 88 resident engineers, including 12 warranty and project resident engineers.

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 reduce warranty returns. There is a dedicated team of product and process experts within each Product Group. The standards are 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 10 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:** the 5S methodology (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 SPCC (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 and Reinforced Product Audits.

At the end of 2013, the Group's quality level was 5,675 ppb (defective parts per billion) – or 5.7 ppm (parts per million) – which represented an improvement of 20% compared with 2012. A total of 80% of the Group's sites were at less than 10,000 ppb (10 ppm) and 50% were at less than 1,000 ppb (1 ppm), which represents an improvement of almost 14% compared with the previous year. At the same time, total non-quality costs (direct costs, special transport and warranty costs) improved by 6% versus 2012.

Sales and Business Development Department

Valeo partners practically all automakers and most of the world's truck manufacturers in the development, production and marketing of innovative products, systems and modules for both the original equipment market and the aftermarket.

Valeo helps its customers to grow their markets on all continents. Its contribution in the pre-project phase was highlighted by the PACE Award in the Innovation Partnership category given to both Valeo and Volkswagen for their work in developing the air intake module used in certain Volkswagen engines.

Automaker customers

In 2013, German automakers remained the Group's leading customers, representing 30% of original equipment sales. Asian customers (including Nissan) represented 27%, reflecting Valeo's growth strategy in Asia, particularly in China and South Korea where business continues to progress with local automakers.

The share of original equipment sales generated by American customers (including Chrysler) rose to 21%. French customers (excluding Nissan) have declined to 16% of the Group's original equipment sales.

Valeo has a diversified customer base and the biggest customer represents less than 20% of total original equipment sales.

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

- BMW
- BYD Auto
- Chery
- DAF
- Daimler
- FAW
- Fiat/Chrysler
- 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 organization

Total order intake for 2013 was 14.8 billion euros or 1.4 times original equipment sales for the period.

This high level of business reflects Valeo's continued dual focus on selling innovative products that reduce CO₂ emissions and on intuitive driving, as well as on growth in Asia and emerging markets.

- **Valeo continues to focus its efforts on high-growth countries:**

For the first time, orders booked by the Group in Asia – which were up 40% versus 2012 – were higher than those booked in Europe. The order intake in China and Korea was very high, thanks mainly to agreements signed with local partners, proof of the high regard in which Valeo is held by Asian customers.

- **sales of products aimed at reducing CO₂ emissions** continue to enjoy major successes across all of the Group's markets;
- **sales of innovative systems related to driving assistance, comfort and safety** have posted strong growth.

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

The Sales and Business Development function is organized around:

- a **sales network**, consisting of four Sales Directors attached to each of the four Business Groups' General Management teams who head up a network comprising the Sales Directors for each Product Group. This network is responsible for defining Group sales strategy and handling day-to-day customer relations. It has a global customer-centric focus both for the Business Groups and for each Product Group;

- the **Group Customer Directors**, who are the 20 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-related issues at 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;
- 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.

On January 1, 2014, Axel Joachim Maschka took over as Senior Vice President, Sales & Business Development. He succeeded Hans-Peter Kunze who is retiring.

Mr. Maschka will draw on his experience of the automotive industry to continue the work started by Hans-Peter Kunze and his teams, continually enhancing Valeo's sales structure with a view to offering customers effective solutions and forging local and global partnerships with automakers in line with the Group's objective of profitable, global growth.

Research and development

Designing the automobile of tomorrow, responding effectively to the demands of today's market while anticipating and driving future client expectations through innovation and technological expertise: these are Valeo's research and development (R&D) missions.

Innovation is at the heart of the Group's development strategy. Valeo engineers develop solutions that offer real added value for automakers, enabling high-performance mobility solutions that are both environmentally friendly, in particular in terms of fuel consumption and intuitive, safe and comfortable to drive. 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 achieved both through the continuous improvement of all existing products (weight 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, sub-systems and complete systems, up to the vehicle in its entirety, connected to and communicating with its environment.

Valeo's Business Groups are thus working together 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 2013, the Group had 16 research centers and 35 development centers, with a total headcount of 9,400.

In 2013, gross R&D expenditure came to 1.1 billion euros and 786 new patents were filed. Less than 4% of the Group's sales in 2013 relied on external patents or licenses.

For details of the Group's R&D policy, see Chapter 4, section 4.2, page 120.

Research and development policy

In line with market expectations, Valeo's R&D policy is focused on four main topics:

- reduction of CO₂ 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 CO₂/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 for three-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. The strides the Group has made in alternators were recognized by the EU Commission when it awarded Valeo its Eco Innovation label in August 2013 for its Efficient Generator alternator. This is only the second time the label has been awarded and the first time it has been given to an automotive supplier;
 - Valeo also designs air intake superchargers that significantly enhance internal combustion engine performance. This technology is particularly suited to downsized engines as it enhances the dynamics and the comfort of driving;

- Valeo is now a key player in the hybridization of internal combustion engines, with its micro-hybrid solutions (i-StARS integrated starter-alternator and ReStart 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);
- 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. To bolster its hybrid and electric vehicle offering, in September 2013 Valeo acquired Eltek Electric Vehicles, a company specialized in on-board chargers for passenger cars and commercial vehicles;
- 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:
 - Valeo is 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;
 - reducing the weight of parts has recently become an important priority for electric vehicles (lower weight means greater travel range), but it has long been a key R&D objective for Valeo's engineers with a view to reducing a car's energy footprint. In this context, Valeo aims to use new materials (underhood technical plastics, light alloys, composite materials, 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® system) or LED lighting systems;
- expertise in lighting systems:
 - Valeo develops innovative LED lighting systems that enhance intuitive driving (thanks to the BeamAtic® PremiumLED intelligent lighting system) and cut CO₂ emissions and consumption to one-fifth of their halogen technology equivalents (using PeopLED technology). The style and compact size of LED lighting systems also allow designers more freedom to emphasize the brand identity of vehicles;
- 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 and a new type of sensor, the lidar (that uses laser technology), aimed at improving the modeling and integration of the vehicle's surrounding environment, in particular in an urban environment;
 - Valeo expands its parking assistance offering each year (Park4U®, 360Vue®) adding increasingly sophisticated driving assistance features in order to increase comfort and safety in an urban environment. Valet Park4U®, a new version of Park4U® Remote (parking a car using a smartphone) was unveiled at the IAA autoshow in Frankfurt in September 2013. It allows drivers, with the aid of their smartphone, to leave their car at the entrance to a parking lot and let the car find a suitable space to park. The vehicle thus literally drives itself. Similarly, drivers can use their smartphone to instruct the car to come and pick them up at the parking lot exit. This innovation is an important step towards the automation of certain driving tasks carried out at low speed. In the near future, these driving modes will also take into account minimum energy consumption targets in synergy with the powertrain system, thereby helping to reduce CO₂ emissions;
 - Valeo is also working with various partners to develop innovative human-machine interfaces (HMI) that will accompany the imminent emergence of the connected vehicle, i.e., smartphones connected and controlled by an on-board touch screen, the Smart key-Smart phone concept, 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 remotely control the car's heating and air conditioning system.

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:

- the Megatrends Analysis which helps to understand the long-term forces that will shape all aspects of our future lifestyles (i.e., economic, social, cultural and personal life, etc.). This survey helps to anticipate future transitions in the automotive industry and define the most probable scenarios;
- societal surveys segmenting the automotive market and positioning Valeo's innovations within it. In 2013, Valeo along with ten automakers participated in a survey conducted by Sigma of the expectations of 16,000 European and 2,000 Chinese consumers in terms of automobile innovation;
- focus groups and consumer clinics through which qualitative surveys can be performed by means of group meetings that enable end-users' attitudes towards a new product to be analyzed with a view to validating new features currently being developed by Valeo;
- online surveys sent directly to end customers and intended to assess consumer acceptance of the Group's innovations;
- 2030 scenarios⁽¹⁾ in order to understand and anticipate changes to powertrain systems.

Actions taken and highlights in 2013

For the second year in a row, Valeo made it into Thomson Reuters' list of the Top 100 Global Innovators, reflecting the Group's efforts in the field of innovation:

- 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;
- being innovative in today's auto market means coming up with new approaches and forging new partnerships with other industries. Valeo has therefore set up Open innovation, headed up by the Vice-President of Innovation and Scientific Development, a new position created in May 2013. For example, Valeo signed a research partnership agreement in driving assistance and autonomous vehicles with Safran, the aerospace company, and with Fujitsu Ten a partnership contract to jointly develop obstacle sensing

systems. The Valeo and Safran partnership agreement signed in September 2013 is based on four collaborative projects: driver attention monitoring, 360° visibility, visibility in extreme weather, and vehicle robotization/dronization;

- in April 2013, Valeo received the PACE Award for its new air intake module developed jointly with Volkswagen, which cuts petrol consumption and enables engine downsizing without affecting the dynamics or the comfort of driving. It also enables vehicles with gasoline or diesel engines to comply with future international regulations on exhaust gas;
- 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;
- at the end of 2013, 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. In order to unlock as many synergies as possible, the Group has continued to expand these sites and the number of employees increased by 20% in 2013;
- the Group used the International Motor Show in Frankfurt in September 2013 to launch the Valeo Innovation Challenge, an international competition to find and reward the auto innovators of tomorrow, open to science and technology students from all over the world. The challenge is to come up with the features that will make cars more intelligent and intuitive by 2030 and the winners will be announced at the 2014 Paris Motor Show;
- Valeo pursued 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 Valencia in Spain, the University of Sheffield in the UK, the Karlsruhe Institute of Technology in Germany and Hokkaido University in Japan. New partnerships have been set up with Ecole des Ponts-ParisTech and Stanford University in Silicon Valley in the US and the Group also sponsors the Valeo Matinnov Chair in industrial studies at Université de Versailles Saint-Quentin which focuses on research into magnets free of rare earths and new mechatronic technologies;

(1) Source: BIPE.

- Valeo submitted projects for the French Government's proposed "competitive clusters" on themes relating to energy, powertrains, mechatronics and 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 sub-systems. Valeo has also become involved in the governance of some of these groups (MOVEO, System@tic Paris-Région), which enables it to contribute to the development of closer ties between universities, industry and research structures;
- Valeo participates in more than 50 collaborative research programs having received a public subsidy, of which more than half was related directly to CO₂ reduction and low-CO₂ vehicles. More than 60 partners – research laboratories or innovative small- and medium-sized companies – participate in these programs alongside Valeo;
- in July 2013, the EU Commission approved the state aid granted for the "Essencyele" project headed up by Valeo. This project had already been selected by France's Environment and Energy Management Agency (*Agence de l'Environnement et de la Maîtrise de l'Energie* – ADEME) as part of the Investment in the Future Program (*Programme d'investissement d'avenir* – PIA) and it will mainly focus on developing an innovative low-voltage (48 V) hybrid powertrain. Essencyele brings together a number of industrial and academic partners and its total budget is 79 million euros, including 35 million euros put up by PIA for all partners, 24 million euros of which is for Valeo;
- the "MeGaN" project also secured funding from the BPI (French public investment bank) in 2013 as part of the PIA key competitive clusters project (*Projets structurants des pôles de compétitivité* – PSPC). MeGaN will focus on developing high-efficiency power electronics based on gallium nitride (GaN) semi-conductors. Valeo has received 4 million euros in funding for this project;
- Valeo presented its innovations at several events and conferences in 2013, including AutoChina in Shanghai, China, IAA in Frankfurt, Germany, Bus World at Kortrijk, Belgium, and Automechanika in Shanghai, China. The Group also took part in a number of conventions such as CLEPA Safety in Brussels (Belgium) and ITS World in Tokyo (Japan).

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.

To carry out its mission, the Risk Insurance Environment Department has set up a dedicated network of Health, Safety, Security and Environment managers in the Business Groups, sites and in all countries in which Valeo operates. The Risk Management Committee, whose members are the Business Group and Valeo Service HSE managers, the Director, and the country HSE managers (if required), 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 improvement 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. It was last updated in 2013. The Group also publishes an Insurance Manual, updated yearly, providing comprehensive information on coverage and management of Group insurance programs.

To achieve these objectives and bring risk levels as near as possible 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 best 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 managers 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 in meeting 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 "Environmental and industrial risks", page 52.

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 sustainable development policy, designed to reduce consumption of energy and natural resources (water and raw materials), lower greenhouse gas emissions, particularly CO₂, decrease or even eliminate 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.

- Valeo's sites report environmental indicators in line with the requirements of France's Grenelle 2 environmental protection act and the Global Reporting Initiative (GRI).
- Valeo always incorporates an environmental approach into all the phases of its products and processes: design, production, use and end of life management. A group of experts in environmental matters and R&D from different Valeo Business Groups works to reduce the environmental impact of processes and products over their entire lifecycle. This research group meets regularly to discuss specific topics, such as the elimination of banned and regulated substances, the use of recycled plastics, or compliance with the REACH regulations (Registration, Evaluation, Authorization and Restriction of Chemicals). Their work involves listing the chemicals purchased or produced by the Company, assessing the toxicological risk associated with their use and, where relevant, requesting authorization 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.
- Valeo applies an environmental rating system whereby sites are rated and their environmental management assessed on the basis of an external audit.
- 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 has adopted ISO 14001 certification, the international standard in terms of environmental management systems. **94% of sites were ISO 14001 certified by end-2013.** The principle is that every Valeo plant must be certified.
- In 2013, Valeo set out performance objectives for a new three-year period up to 2015, setting targets for water and energy savings, and the reduction of waste and greenhouse gas emissions. Also in 2013, Valeo committed to promoting local pro-biodiversity initiatives and increasing the weighting assigned to environmental compliance criteria in the performance assessments of subcontractors, suppliers and service providers. The Group is also setting up a process to obtain ISO 50001 energy management certification and has set an objective of certifying 10% of sites by 2015.
- An update of the Group's Occupational Health and Safety handbook was published in 2013, with new guidelines on electrical risk, noise and risk analysis.

For a complete list of the Group's environmental indicators, see Chapter 4, section 4.3 "Environmental performance", pages 131 to 151.

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 at end-2013. 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, 2013

	Plants	Research centers	Development centers	Distribution platforms	Number of employees
WESTERN EUROPE					
Belgium/Netherlands, France, Germany, Ireland, Italy, Norway, Spain, Sweden, United Kingdom	39	12	10	5	23,653
EASTERN EUROPE					
Czech Republic, Hungary, Poland, Romania, Russia, Turkey	13	-	5	3	11,425
NORTH AMERICA					
United States, Mexico	13	1	4	1	9,965
SOUTH AMERICA					
Argentina, Brazil	7	-	3	2	3,500
ASIA					
China, India, Indonesia, Japan, Malaysia, South Korea, Thailand	48	3	12	1	24,192
AFRICA					
Egypt, Morocco, South Africa, Tunisia	4	-	1	-	2,065
TOTAL	124	16	35	12	74,800

At December 31, 2013, the net carrying amount of the Group's real estate portfolio (land and buildings) was 578 million euros (see Chapter 5, section 5.4.6, Note 6.3 to the consolidated financial statements, page 253). 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 1,144 million euros at December 31, 2013, excluding

fixed assets under construction and other property, plant and equipment (see Chapter 5, section 5.4.6, Note 6.3 to the consolidated financial statements, page 253).

Environmental constraints result from the regulations applicable in this area to all Group establishments (see Chapter 1, section 1.3.5 "Risk, insurance, environment, health and safety", page 31; Chapter 2, section 2.1.2 "Environmental and industrial risks", page 52 and Chapter 4, section 4.3 "Environmental performance", page 131).

1.4 Core businesses

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

- Powertrain Systems;
- Thermal Systems;
- Comfort & 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 of this chapter on page 7 presents sales data by Business Group.

1.4.1 Powertrain Systems

- Sales: **3.4 billion euros**, or **28%** of Group sales
Original equipment sales up by **6%** like for like
- EBITDA⁽¹⁾: **351 million euros**



Description of the Business Group

The objective of the Powertrain Systems Business Group is to develop innovative powertrain solutions aimed at reducing fuel consumption and CO₂ 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 and 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 based on Valeo's new first-to-market synchronous rectification power electronics;
- 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, which is characterized by the integration of power and control electronics in the electrical machine;

(1) See Financial glossary, section 5.9, page 319.

- mild hybrid systems, which add regenerative braking functions in order to reuse the energy generated in acceleration phases and make it possible to optimize the efficiency of the internal combustion engine. 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;
- full hybrid and rechargeable hybrid vehicles that help extend battery charge and travel range (the exact distance depends on the model). Valeo sells electric motors and transmission modules up to 100 kW, with voltage between 300 V and 800 V.

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 dynamic 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. These products are designed for light vehicles and trucks and for both the original equipment and the aftermarket.

Combustion Engine Systems

This Product Group specializes in combustion engine management systems, particularly air circuit management, from air intake to exhaust. These solutions are designed to reduce CO₂ emissions and pollutant gases while enhancing both driving pleasure and engine performance. They comprise:

- mechanical actuators, such as throttles and exhaust gas recirculation (EGR) valves, which control the recirculation of air and exhaust gases back to the engine. 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 (Euro5, Euro6b and Euro6c) and the American Tier2, Bin5 and the forthcoming Tier3 standards;
- electric superchargers, which are driven by an electric motor, unlike exhaust gas driven turbo-compressors. This innovation, 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;
- all sensors used in air circuit systems for gasoline and diesel engines (pressure/temperature sensors, temperature sensors for EGR modules) and position sensors;
- engine control units for indirect or direct injection gasoline engines;
- ignition coils.

Electronics

This Product Group designs all the electronics for the Powertrain Systems Business Group:

- control electronics (engine and transmission control units);
- energy conversion systems (low- and high-voltage DC-to-DC converters, on-board chargers for hybrid and electric vehicles, with voltage of 12 V, 48 V, 100 V, 300 V and higher);
- energy management electronics (sensors and battery voltage stabilizers).

This Product Group leverages the expertise of the Center for Excellence in Electronics to develop innovative technologies that enhance performance by making engines lighter and more compact, which is absolutely essential, especially for hybrid and electric vehicles. Consequently, Valeo develops innovative power electronics solutions.

Expertise and Services

This entity is tasked with developing Valeo's expertise in electronics and making it available to all Product Groups within the four Business Groups. It identifies and defines cross-disciplinary requirements and drafts the standards that serve as a framework for electronic component design reviews. 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 within the four Business Groups.

2013 highlights

- Another all-time record order intake in 2013, most notably within the Transmission Systems Product Group.
- Development of a hybrid module for rechargeable hybrid vehicles capitalizing on three of the Business Groups' areas of expertise and consisting of an electric motor, power electronics and a transmission system that uncouples the electric motor from the combustion engine.

Electrical Systems

- Confirmation of the success of the i-StARS micro-hybrid system based on a belt-driven alternator-starter, on the back of new orders from Asian and European automakers. Confirmation of market interest in the mild-hybrid 48 V iBSG (integrated Electronics Belt driven Starter Generator).
- Major orders from US and European automakers for the new ranges of high efficiency alternators with synchronous rectification. These have been awarded the EU Commission's eco innovation label in recognition of the reduction in CO₂ emissions under real conditions, which are markedly higher than the results obtained in approval cycles.

Transmission Systems

- Major increase in torque converter business for automatic transmissions for pick-ups and light vehicles.
- Addition of a wet clutch option to the dual clutch offering.
- First orders for the Long Travel Damper with pendulum.
- Extension of the plant in Nanjing, specialized in making clutches and torque converters, which is poised to become Valeo's first dual clutch production site.

- Consolidation of the Product Group's presence in China with the opening of a second plant in the region of Shenyang.
- Consolidation of all Indian clutch production facilities at a new plant near Chennai.

Combustion Engine Systems

- Working with all automakers, demonstration vehicles were fitted with electric superchargers:
 - first production order for electric superchargers for a premium range vehicle,
 - German, Japanese, American and Asian automakers are all increasingly interested in this product.
- Valeo strengthened its range of air circuit systems (actuators and sensors) which, combined with electric superchargers, significantly reduce pollution.
- Inauguration of a new site in Wuxi, China, to produce engine components – actuators, sensors, controllers.

Electronics

- Acquisition of Eltek Electric Vehicles, a Norwegian company fully dedicated to designing, developing, manufacturing, assembling and worldwide marketing of high efficiency on-board chargers for passenger cars and commercial vehicles.

Market trends

The market trends observed in previous years were confirmed in 2013 with the dual objective of reducing CO₂ emissions and fossil fuel consumption. These goals are based on three priorities:

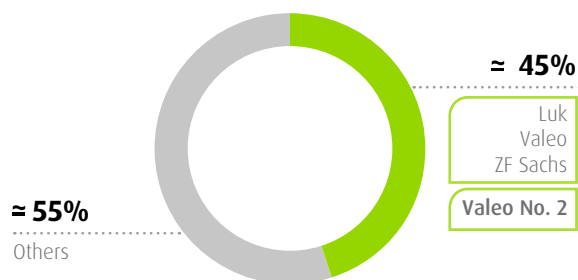
- engine downsizing with the development of small direct injection turbo-compressor engines with variable valve actuation;
- the automation of transmissions with the development of dual clutch and automatic transmissions with eight or more gears;
- the electrification of engines and the development of more comprehensive 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 of the world's auto markets.

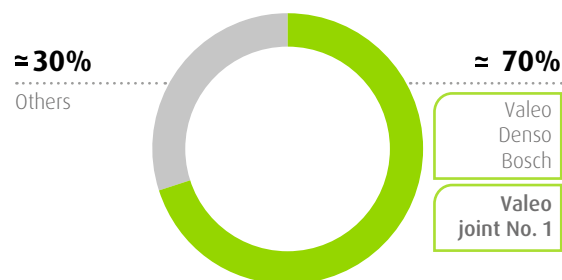
Main competitors on the transmission systems and electrical systems markets⁽¹⁾

Transmission systems



Market share of the three leaders slightly down from 2012.

Electrical Systems



Market share of the three leaders up from 2012.

Outlook

In line with customer expectations and market trends, the Powertrain Systems Business Group will pursue a strategy focused on two key goals:

- developing powertrain systems that help to reduce CO₂ emissions in three ways, by downsizing engines, automating transmissions and electrifying systems;
- stepping up expansion in China and the US.

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 16% in China and 11% in India during 2014)⁽²⁾. The Business Group's share of the aftermarket continues to grow on the back of its expanded product range and strong distribution network. The aftermarket contributes significantly to generating profitable growth for the Business Group.

1.4.2 Thermal Systems

- Sales: **3.4 billion euros**, or **28%** of Group sales
Original equipment sales up by **7%** like for like
- EBITDA⁽³⁾: **394 million euros**



Description of the Business Group

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

These systems help to significantly reduce fuel consumption, CO₂ emissions and other pollutants and harmful particles emitted by vehicles equipped with internal combustion engines. They also help optimize travel range and battery life for hybrid and electric vehicles.

(1) In market share, based on Valeo estimates.

(2) Source: Polk.

(3) See Financial glossary, section 5.9, page 319.

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.

The systems and their components are designed for optimal comfort as well as optimal energy consumption, weight and size, all of which significantly reduces CO₂ emissions.

The key component of the systems is the HVAC (Heating, Ventilation, Air Conditioning system) which controls windshield de-misting and de-icing, distributes (usually filtered) air throughout the vehicle and constantly regulates the air flow, temperature and humidity.

The HVAC system is tailored to each type of vehicle, ranging from simple heaters with mechanical manual controls to complex automatic electronic controls. The most complex systems come with a multizone function and additional electric heating module and can be adjusted for individual passenger comfort or to offer improved comfort in extreme conditions.

The main components of an HVAC system are:

- heat exchangers (a radiator for heating the air and an evaporator for cooling it down);
- a fan unit which blows the air through the exchangers;
- the control electronics;
- distribution shutter systems;
- usually, a cabin filter;
- additional heating.

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.

The emergence of hybrid and electric drivetrains now requires temperature regulation of components such as batteries, the electric motor itself and its power electronics. Providing technological solutions to meet such needs represents a major growth vector for the Product Group.

In electric vehicles, systems based around heat pumps minimize the need for power drawn from the batteries which provides passenger thermal comfort without affecting vehicle travel range.

Valeo now offers a complete range of technologies for regulating battery temperature, from simple air blowers to electronic systems with preheating and cooling 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 reducing fuel consumption, CO₂ emissions, gas pollutants and toxic particles.

The systems and their components are designed for optimal performance and minimum weight and size.

They consist of exchangers, a fan/motor unit placed in the front end of the vehicle distribution valves and pumps.

The various systems are:

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

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 perfectly adapted to changing powertrains;
- air intake systems fixed directly onto the engine for optimal exchanger/valve integration. Valeo equips many diesel and gasoline models in German, American and Asian markets with this technology;
- the THEMIS™ system, a key component in engine temperature management systems helps to reduce fuel consumption. From 2014, it will be fitted onto engines designed for European, Asian and American markets.

This continuous search for efficiency creates a need for innovative components which underpins the Business Group's growth. Advanced systems for recovering heat losses from the powertrain and transforming them into usable energy represents even more potential for growth.

Climate Control Compressors

This Product Group designs and produces compressors for air-conditioning systems. Refrigerant compressors are a key component in these systems.

Valeo 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.

These compressors are compatible with all refrigerants used in the auto industry.

Front End Modules

The Front End Module Product Group designs modules that are an integral part of the vehicle structure.

They usually house the engine thermal management fan/motor unit and some of the heat exchangers. More advanced modules have lighting systems and safety features (passenger and pedestrian crash protection, etc.) as well as electrical (horn, cables, etc.) and electronic components (radar, cameras, etc.).

The development of electronically controlled shutters which regulate air flow through exchangers in the front end of the vehicle improves the aerodynamics of the vehicle as well as helping to reduce fuel consumption and CO₂ emissions.

2013 Highlights

The sales of the Thermal Systems Business Group grew 7% year on year (on a like-for-like basis) in a sluggish global auto market.

Order intake grew strongly on the back of brisk business in Russia, Brazil, Asia and North America. The customer base now includes a major Japanese automaker and a number of local Chinese automakers.

The product portfolio has also expanded in front end modules, HVAC systems and the new range of condensers produced for major North American and Japanese automakers. Innovative

products such as water cooled charge air coolers (WCAC), water condensers, EGR cooling systems and battery thermal management systems broke into new markets in North America and Germany.

There was also a key contract win with the selection of air-conditioning systems for use in Japanese Kei-cars and substantial business in global low-cost car markets.

To keep pace with growth and consolidate global presence, production of HVAC systems and Front End Modules began in Indonesia and the US, respectively, new plants were opened in China and a new office opened in Toyota City.

The market continued to recognize the Business Group's innovations in 2013 and it was awarded two PACE Awards by Automotive News for its air intake module and the quality of the innovation partnership with Volkswagen in the development of the module.

Market trends

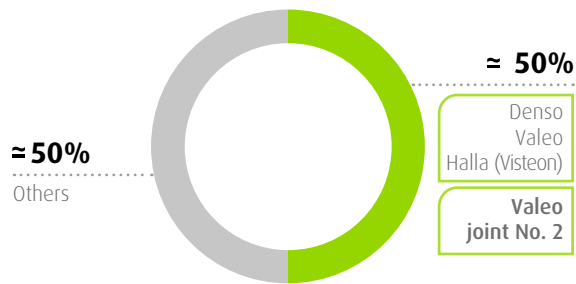
Thermal systems are gaining in importance within the auto market. Protecting the environment, reducing consumption, controlling running costs, passenger comfort and pedestrian safety are all key components in car design for which the Thermal Systems Business Group offers innovative solutions.

In the short term, the global market for air conditioning systems will probably become more complex and the introduction of new refrigerants will bring new technological solutions from within the Business Group.

In the medium term, new regulations on gas pollutants and fuel consumption will drive innovative systems for recovering heat losses from the powertrain and more finely tuned heat flow management. Regulations relating to emissions and demand for cheaper-to-run cars are pushing automakers towards advanced powertrain architecture/systems, and the Thermal Systems Business Group is one of the global automotive suppliers that has the technology needed to meet this challenge.

The emergence of a complementary 48 V electrical system will bring hybridization to entry-level models and Valeo will be ready with new solutions currently under development.

In the longer term, in anticipation of more stringent regulations on emissions and fuel consumption, the major automakers are beginning to think in terms of fuel cell vehicles as the logical progression from the electric vehicles currently on the market. Thermal systems are crucial for the development of these vehicles and offer growth opportunities for the Business Group.

Main competitors on the thermal systems market⁽¹⁾

Market share of the three leaders stable compared to 2012.

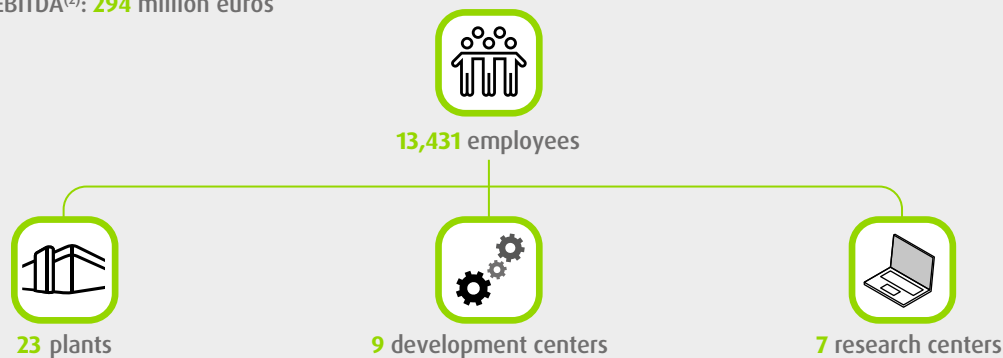
Outlook

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, Russia and Indonesia and new leading Asian automaker customers will boost growth, particularly in Asia and America.

1.4.3 Comfort & Driving Assistance Systems

- Sales: **2.2 billion euros**, or **18%** of Group sales
Original equipment sales up by **10%** like for like
- EBITDA⁽²⁾: **294 million euros**



Description of the Business Group

Tomorrow's cars will be more automated and more connected: innovative, intuitive interfaces will be needed to make this functional leap. The Comfort & Driving Assistance Systems Business Group focuses on the driver experience and develops a range of unique solutions to make driving more intuitive and mobility safer, more connected and greener.

Comfort and Driving Assistance has three Product Groups:

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

Driving Assistance

Valeo mass produces four technologies for detection around the vehicle which can be used in applications to help with maneuvering and parking: ultrasonic sensors, cameras, radars and laser scanners, making 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 sensors used in parking assistance systems (from obstacle detection to the semi-automatic Park4U® system) – Valeo sells nearly 10 million of these systems every year – and infrared sensors that activate the rain/light/humidity detection;
- radars are used in the blind spot detection systems and the systems that detect vehicles when reversing out of a parking space with limited visibility, alerting the driver to any danger;

(1) In market share, based on Valeo estimates.

(2) See Financial glossary, section 5.9, page 319.

- cameras offer total vision around the vehicle with the 360Vue® multi-camera system, at the front and rear of the vehicle, at a blind crossing or when 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 these assistance systems make driving safer and more comfortable and help reduce CO₂ emissions by easing the flow of traffic.

Interior Controls

The Interior Controls Product Group has been world leader in human-machine interfaces since 2011. Relying on longstanding experience and in-depth knowledge of vehicle architectures, this Product Group develops high perceived quality, innovative and 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. Since the acquisition of Niles in 2011, the focus has been on providing standardized solutions at optimal cost;
- 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).

Interior Electronics

The Interior Electronics Product Group covers the full range of connectivity solutions:

- short-range connectivity, e.g., hands-free access and start systems (remote controls, sensors, receivers and immobilizers) which are experiencing strong growth on all markets;
- long-range connectivity that uses telematics terminals to connect to mobile phone networks.

It also develops innovative systems that enable the integration of new smartphone usages and smart technology such as car sharing services and remote parking systems.

Interior Electronics includes body controllers, which equip vehicles of the PSA Peugeot Citroën and Renault-Nissan groups.

2013 highlights

Commercial successes

Comfort & Driving Assistance Systems continues to do very brisk business and over 30% of its order intake now relates to major innovations.

The Business Group saw a jump in the order intake for China in 2013, which was also the first year in which the bulk of the order intake came from Asia, North and South America.

Valeo continues to consolidate its presence in hands-free access and start systems with a new order placed by a Chinese automaker.

Again, there were significant new orders for steering system torque sensors in 2013 with increased orders from non-European markets, and especially from South Korea, China and North America.

The Group also extended its range of ultrasonic parking assistance systems and took in major orders for entry level modules for low-cost models in Europe and South America.

Sales for the NAFTA region are set to leap by over 50% in 2014, confirming the Business Group's capacity to tap into the upbeat American market and supporting the decision to double the size of the Rio Bravo plant in Mexico.

Product launches

- **Park4U® with comfort braking**, already available on the Mercedes E Class, was added to the new S Class. It is the first parking assistance system on the market where the driver no longer has to activate the brake or steering wheel when maneuvering into a parking space.
- In 2013, the Mercedes GLK became the first vehicle to feature **360Vue® with Valeo's megapixel technology** which offers higher-quality images for more precise maneuvering.

- Launch of a **touch screen** on the new Peugeot 308. The flush mounting and “black mask” buttons have been designed to look like a tablet computer and extend the active area beyond the graphic interface. Staying with central console technology, the Business Group kicked off production of touch screens for the Mitsubishi eKwagon and Nissan Dayz, developed by teams at Kohnan in Japan. This is the first time that tactile technology has been applied over such a large surface by Japanese automakers.
- A **two-way remote control with screen** was launched on a premium German model that makes it possible to program a vehicle’s temperature remotely.
- **Passive Entry Passive Start (PEPS – keyless entry and start system)** for the Chinese automaker Chery: this is Valeo’s first low-intrusive PEPS solution made in China for the domestic market.

Divestment

On May 24, 2013, Valeo confirmed the **sale of the Access Mechanisms business** (excluding the Indian business) to Japan-based U-Shin, one of Asia’s leading manufacturers of automotive access mechanisms. This divestment is aligned with Valeo’s strategy of focusing on developing products that reduce CO₂ emissions, and stepping up its expansion in Asia and emerging markets.

Events and technological focus

- At the **Auto Shanghai motor show** in April 2013, Valeo unveiled the innovations that will spearhead its targeted international development, particularly in Asia and China. These include:
 - **the smart key**, that locks and unlocks a car’s doors automatically, allowing the driver to keep the key in their pocket or bag. Similarly, when the key is detected inside the car, the engine starts as soon as the driver presses the start button. The smart key will be a feature on models from two new Chinese automakers scheduled to launch in 2014;
 - **Park4U® Remote**, a fully automatic park assist system. that guides the vehicle into its parking space without any driver input. It can be triggered from inside or outside the car using a smartphone under the driver’s control and the maneuver may be canceled at any time.
- At the **International Motor Show in Frankfurt** in September 2013, Valeo unveiled two new technologies that will make tomorrow’s cars more intelligent and intuitive:
 - **Valet Park4U®**: which premiered at the IAA, and turns the car into an automatic parking valet, allowing drivers to leave their car at the entrance to a parking lot and let the car find a suitable space to park. Drivers activate the fully automatic parking feature remotely using their smartphone. Similarly, they can use their smartphone to instruct the car to come and pick them up at the exit;

- **the smartphone-compatible smart key**: this passive entry passive start technology can be operated from a smartphone. Drivers can leave their car key in their pocket or even at home, and instead use their smartphone to unlock, lock and start their vehicle.

Partnerships

- On **September 4, 2013**, Valeo and Safran signed a **research partnership** agreement in driving aid and autonomous vehicles. This research and development alliance brings together two companies that are leaders in their respective technologies in different industries and distinct markets in the automotive, aerospace and defense sectors.
- On **November 11, 2013**, Valeo and the Japanese automotive electronics manufacturer Fujitsu Ten signed a **technology partnership agreement** to develop active safety systems for detecting obstacles on the road by combining Fujitsu Ten’s millimeter-wave radar with a Valeo camera.

Collaborative projects

- Valeo was one of **14 partners** (multinationals, SMEs and research institutes) involved in the publicly funded French project “Co-Drive /Co-Pilot for intelligent roads and vehicular communication systems”. The idea behind Co-Drive was to validate a pre-industrial approach for a system of cooperative driving between the user, vehicle and infrastructure using Vehicle-to-Infrastructure communication technology. The project ran from October 2010 to January 2014.

Industrial news

- The Comfort & Driving Assistance Systems Business Group has based its industrial strategy on rapid growth in North American and Asian markets (doubling the floorspace of the Rio Bravo plant in Mexico, expanding the Shenzhen plant in China at a later date, developing Valeo Niles plants and business), and increasing production capacity in certain sites in Europe (setting up sensor production lines in Nogent-le-Rotrou, France).
- The extension of the plant in Veszprém in Hungary was inaugurated in 2013 and will be used to double the number of people working in R&D at this site.
- Work on the extension to the Guangzhou plant in China kicked off on December 17, 2013. The additional 12,000 sq.m will be used to house injection molding, paint, stamping and final assembly production lines for switches. Half of all output from Guangzhou will be for the Chinese market and the other half mainly for the American and Japanese markets.

Market trends

The increasing importance of emerging countries is creating new product expectations and automakers in these countries want innovations provided that 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 automakers need to make sure these devices and their applications can be used safely. The real 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.

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 omnipresent, ever-larger screen interfaces, especially in central consoles. Head-up display (HUD) units that help drivers keep their eyes on the road have been well received by users and are being incorporated into mid-range segments.

Other solutions that facilitate human-machine interaction such as proximity sensors and gesture detectors are beginning to appear in cars. Valeo has anticipated this trend, which applies to all ranges of vehicles.

Two key trends in driving assistance systems were confirmed in 2013:

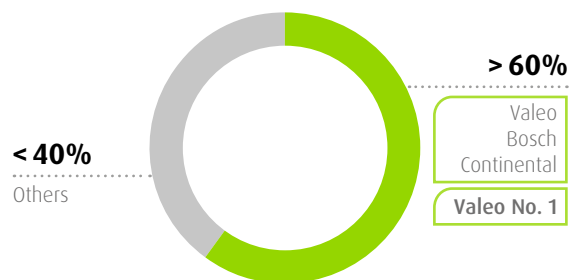
- governments and certification agencies (EuroNCAP in Europe and NHTSA in the US) have tightened standards and ratings with a view to achieving drastic reductions in the number of road deaths. This process is accelerating the standardization of active safety systems. Vehicles hoping to score five stars on the Euro NCAP safety rating must be equipped with Autonomous Emergency Braking, lane departure warning systems and speeding alerts as from 2014. Most of these systems use one or more front cameras and may be combined with other types of infrared sensor or radar;

- 2013 also marked the beginning of the race to design the first autonomous vehicle. In response to a market demand for avoiding unpleasant driving situations (traffic jams, endless searches for parking spaces, etc.), automakers are beginning to set out their objectives and present the first prototype autonomous vehicles (Daimler, Audi, Volkswagen, Nissan, etc.). Valeo was the first automotive supplier to present a product like the Valet Park4U® driving assistance system at the International Motor Show in Frankfurt in September 2013, highlighting its technological leadership in this field.

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

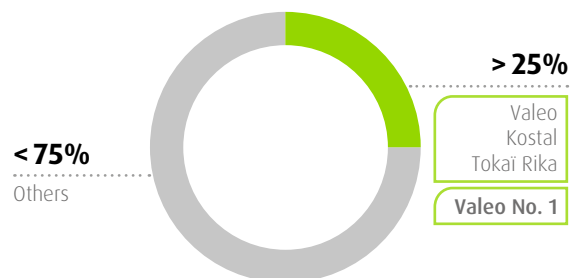
Main competitors on the driving assistance systems and interior controls market⁽¹⁾

Driving Assistance Systems



Market share of the three leaders up from 2012.

Interior Control Systems



Market share of the three leaders stable compared to 2012.

⁽¹⁾ In market share, based on Valeo estimates.

Outlook

Comfort & Driving Assistance Systems will continue to deploy its intuitive driving vision in 2014 based on the fact that cars are set to become increasingly automated and increasingly connected and interface solutions will need to reflect these trends. Valeo is forging a unique portfolio of solutions and products that place the driving experience firmly center stage.

Valeo's technological roadmap incorporates the main innovations underpinning this overview and user acceptance of increasingly automated and connected systems.

In order to keep pace with strong growth, particularly in Asia and North America, the Business Group will continue to develop its teams to prepare for recently acquired contracts and to expand its portfolio of market-specific innovations that will be launched from 2015. 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

Description of the Business Group

- Sales: **3.1** billion euros, or **26%** of Group sales
Original equipment sales up by **20%** like for like
- EBITDA⁽¹⁾: **298** million euros



The Visibility Systems Business Group designs and produces 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. The systems are optimized in terms of weight, size and energy consumption and thus contribute to the reduction of the vehicle's CO₂ emissions.

Visibility Systems has two Product Groups:

- Lighting Systems;
- Wiper Systems.

Lighting Systems

Valeo, in partnership with the alliance formed with Ichikoh, designs internal and external lighting solutions tailored to specific automaker model requirements, i.e., high-tech, standout and stylish, or economic and cheap to run:

- **dynamic lighting solutions:** following the commercial success of its BeamAtic® Premium selective xenon headlamps, in 2014 Valeo will begin mass producing BeamAtic® PremiumLED lighting systems, which offer the latest adaptive lighting innovations and guarantee

(1) See Financial glossary, section 5.9, page 319.

driver safety and comfort. Valeo is also developing rear signaling systems with inter-vehicle communication links and systems that automatically adapt to driving conditions such as glare-free stop lamps and constant visibility fog lamps. The Group is working on cabin lighting that provides ergonomic, ambient solutions that are gesture controlled;

- **stylish lighting:** external lighting plays a dominant role in vehicle design. LED daytime running lights provide cars with their daytime identity; Valeo's new LED low- and high-beam lighting allows designers to create a "night-time" identity as well. The LED lighting system on the new Cadillac Escalade, using OmniBlade technology, is a perfect illustration of this concept at work. Valeo has deployed its enhanced LED offering at the rear of the vehicle (MicroOptic, SeeThrough, GraphicLight) and is already preparing the ground for the forthcoming OLED lighting system revolution. Inside the car, Valeo provides designers with ambient lighting solutions that complement the external lighting;
- **economic lighting solutions:** Valeo always strives to make its innovations as widely available as possible. PeopLED™, the range of affordable LED lighting systems, is a perfect example: with performances superior to those of entry-level halogen lighting systems, enhanced comfort and robustness, and only one-fifth of energy consumption, PeopLED™ solutions will soon be offered on entry level models. Valeo has also developed MonoLED rear lighting, a family of affordable, modular LED solutions that incorporate the lighting source, electronic drive circuit and heat sink.

Wiper Systems

An unobstructed view of the road is essential for road safety. The Wiper Systems Product Group develops technologies which clean the windshield and the rear window, combining enhanced visibility and reduced weight in order to reduce CO₂ emissions. The smart input from the use of electronic solutions helps improve safety and reduce weight and pave the way for new features. This Product Group includes:

- electronic wiper systems using direct drive blades or with mechanisms. These systems are based on a line of wiper motors marketed worldwide, offering a range of solutions adapted to the latest vehicle architectures;
- latest generation flat, hybrid or traditional arm and blade sets tailored to all local variations. for automakers' original equipment and the aftermarket;

- windshield washing and de-icing systems;
- rear wiper modules with built-in washing based on a new line of rear wiper motors designed to simplify integration into the vehicle;
- the AquaBlade® system, which ensures perfect road visibility in all driving conditions and a significant reduction in the weight of the windshield washer system.

2013 highlights

Visibility Systems saw sales rise 16% year on year.

To support this growth the following measures were taken: (i) production began at the Shenyang lighting plant to cater to the northern China market; (ii) production began at the Batam plant in Indonesia, making low-cost wiper blades for the global market; and (iii) the Skawina plant in Poland was extended to boost production capacity for wiper motors in Europe. Moreover, the North American Lighting systems joint venture (Valeo Sylvania, LLC) which grew 48% year on year and whose EBITDA margin was up 7.6 points, will be 100% consolidated in 2014 as, under the agreement signed on June 18, 2013, Osram GmbH exercised its put option to sell to Valeo in early January 2014.

In 2013, Wiper Systems began producing electronic wiper systems using direct drive blades for the Ford Kuga, the first global platform to feature this innovative technology.

In Lighting Systems, the FullLED range continued to build on its success. Valeo BiLED® was selected as the lighting system for such emblematic models as the BMWi3 – BMW's very first electric car – and the new Mini. Volkswagen is also equipping its brand new e-Golf with FullLED Valeo lighting systems. OmniBlade technology – with its vertically stacked high beams – has also been chosen for the front of the new Cadillac Escalade in the US. Finally, Volvo has opted for BeamAtic® Premium smart lighting for its entire XX60 range.

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 continue to replace other lighting technologies: LED is now preferred to xenon in virtually all new features introduced by automakers and halogen lighting systems are set to follow the same pattern.

PRESENTATION OF VALEO AND ITS BUSINESSES

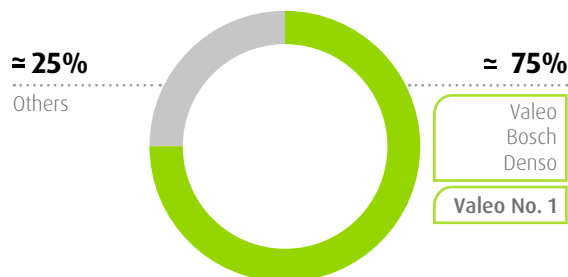
Core businesses

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.

Wiper Systems is poised to benefit from the general move towards electronic solutions to reduce both weight and noise, and from the move to incorporate the washing system into the wiper system to cut cost and reduce weight.

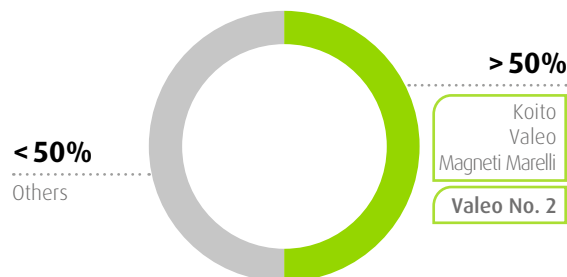
Main competitors on the lighting systems and wiper systems market⁽¹⁾

Wiper Systems



Market share of the three leaders up from 2012.

Lighting Systems



Market share of the three leaders stable compared to 2012.

Outlook

A significant increase in orders has buoyed the steady growth in this Business Group's sales over the past three years. Higher levels of business for Wiper Systems are being driven by sustained growth in China and stable sales in

Europe. Lighting Systems will continue to experience good growth on a like-for-like basis – chiefly in China and North America – and will get a boost from the full consolidation of North American sales following Valeo's acquisition of Osram's stake in the Valeo Sylvania joint-venture.

1.4.5 Aftermarket products and services

Presentation of Valeo Service

Valeo Service supplies original equipment spares (OES) to automakers and replacement parts to the independent aftermarket (IAM).

Valeo Service offers 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, such as diagnostics, training, sales and marketing tools 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 constantly expanding footprint in over 120 countries, with the creation of six local structures specialized in the aftermarket in China, Russia, India, Argentina, the US and, more recently, Mexico over the past five years;
- **multi-channel:** expertise across all distribution channels specialized in BtoB (traditional auto networks) and BtoC (hypermarkets, auto centers) together with a rapidly growing presence on Internet-based channels 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 11 product lines for commercial vehicles, trucks and agricultural vehicles, 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.

⁽¹⁾ Market share, Valeo estimates.

2013 highlights

Sales rose by 8% at Valeo Service in 2013.

In 2013, Valeo Service developed the following initiatives to consolidate its position as a premium multi-specialist on the aftermarket. All are focused on total customer satisfaction, Valeo's number one priority:

Multi-product specialist

- In August 2013, Valeo's filtration expertise was rewarded as the Innovative Development of the Year at the Moscow International Motor Show in Russia for its ClimFilter® Supreme polyphenol cabin air filter. Valeo was the first company on the European market to patent and market this technology which provides optimal protection against inhalant allergies, odors, gases and particles;
- in 2013, Valeo rounded out its engine filter offering with over 1,200 new references covering the four types of filters and all of Europe's best selling cars. 191 engine filter references were also launched on the Indian market;
- in brake systems, Valeo revamped its entire range of DOT® brake fluids to keep pace with the requirements of all types of vehicles and markets (ABS®, ESP®, ASR® and hydraulic circuits, including solutions for vehicles that have to contend with very low temperatures). This range is now marketed using similar packaging to that used for other Valeo maintenance products, enhancing brand visibility with more dynamic user-friendly visual segmentation;
- as a transmission specialist, Valeo offers over 3,300 new references in its aftermarket offering for every kind of car. 2013 was also the tenth anniversary of Kit4P, an effective and affordable alternative to dual mass flywheels, thanks to its High Angular Displacement (H.A.D.) friction disc;
- the Valeo CLASSIC range for vehicles over ten years old, launched in 2010, was rounded out in 2013 and now includes 96 alternators, 65 starters, 187 radiators and 41 clutch kits;
- Valeo Service added 217 new references to its lighting systems original equipment offering in 2013 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. New references were also added in a number of key markets during the year: 218 in China, 99 in South America and 37 in North America. Valeo Service also added 41 new lamp references marketed as either in blister packaging or as emergency kits;
- as a multi-specialist in wiper systems, Valeo launched its new Pyramid™ technology in 2013 for the new Valeo First® range of flat blades, with a unique aerodynamic profile that provides better wiping quality than standard Valeo First® blades.

Multi-region specialist

Valeo Service continues to expand its product range in China, the United States and India and has enhanced its coverage of the Russian market in line with the Group's development strategy in high-growth countries. In October 2013, Valeo Service stepped up its presence in Latin America with a local structure in Mexico. A new Valeo Service sales structure based in Thailand was created in January 2014 to be closer to distribution customers in the ASEAN region⁽¹⁾.

Multi-channel specialist

- To meet the needs of modern distribution channels (hypermarkets, auto centers and sales of spare parts online), Valeo is deploying upgraded packaging materials that offer an interactive service allowing users to identify and 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. Installation videos are now also available for wiper blades, oil, air and gasoline filters and step-by-step guides to 4P clutch kits are available for repair professionals. These value-added services will also be provided for other products in 2014 as a means of setting Valeo Service apart from the competition.
- In recognition of its expertise in original equipment and its innovations aimed at the aftermarket, Valeo Service received the Best supplier of the year award for 2013 from Groupauto International in the Quality category – attributed to Premium brands committed to total customer satisfaction.
- Valeo Service provides a specially tailored service to truck distribution networks:
 - Valeo Service has one of the broadest, most comprehensive offerings of aftermarket products and services for industrial vehicles spanning eleven categories and catering to trucks, coaches, buses, agricultural vehicles and light commercial vehicles;
 - in 2013, Valeo Service continued to expand its range of remanufactured clutches and new references were added for cars with semi-automatic transmissions. This offering is also being sold in new market such as Poland and Italy where it is available for the first time in a new clutch catalog;
 - Valeo Service 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. New references have been added for new truck models common on Europe's roads;
 - in 2013, Valeo Service also launched a range of brake segments for vehicles with drum brakes, including construction machinery;

(1) Association of Southeast Asian Nations.

- Valeo is the world's leading supplier of wiper systems in the original equipment market and sales of wiper motors continued to enjoy robust growth in 2013 thanks to the enhanced visibility provided by the TecDoc® e-catalog;
- 2013 also marked Valeo Service's return to the agricultural vehicle market and it exhibited its five specific product lines covering transmission, wipers, security, lighting and electrical systems at Agritechnica (Hanover, Germany), the biggest international agricultural machinery show.

Market trends

Although Southern European markets posted negative growth in 2013 – sales of passenger vehicles and trucks dropped by 5% and 10% respectively in Italy and Spain – the rest of Europe grew slightly thanks to growth of about 7% in Eastern Europe and Russia.

North America, with its mature distribution networks, emerged from the automotive crisis with stable growth.

Globally, the Aftermarket saw 6% growth in Brazil, 3% in Turkey and 11% in India. Business in China was dampened by solvency issues for certain market players, and growth was down to 15% from 19% in 2012⁽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 declining markets. New local aftermarket structures 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 market enabled Valeo Service to outperform 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 270 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 rising significantly. 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.

⁽¹⁾ Source: Valeo.

⁽²⁾ Several different sources may be used to estimate the various national car populations. We use Polk as 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.

2

RISK FACTORS

2.1 MAIN RISKS AFR

- 2.1.1 Operational risks
- 2.1.2 Environmental and industrial risks
- 2.1.3 Legal risks
- 2.1.4 Financial risks

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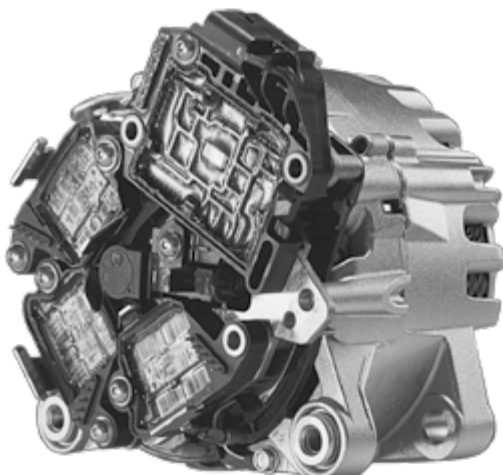
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2.2 INSURANCE AND RISK COVERAGE

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AFR The information from the Annual Financial Report is clearly identified in the table of contents by the AFR symbol



I-STARS STARTER-ALTERNATOR

This system replaces the alternator and enables the Stop-Start function by automatically cutting the engine when the vehicle is stopped. Engine restart is immediate, quiet and vibration-free. The i-STARS system generates fuel savings of up to 15% in congested city driving conditions.

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, environmental and industrial 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 section 3.4, "Internal control and risk management" on pages 108 *et seq.*, and are taken from 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.

However, these procedures do not provide 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 identify and classify risks and to reduce the probability of risks materializing along with their potential impact on the Group. Other risks which the Group is not aware of at the reporting date, or which are not considered material at the date of this Registration Document, 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 is also influenced by trade agreements, new regulations and government initiatives, especially vehicle purchase incentives. A deterioration in the automotive market could lead to a decline in the Group's earnings and/or to the default of some of its customers or suppliers, 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 and the Group may not be chosen to supply future generations of a model it currently supplies, which could impact its earnings.

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 vehicle 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 Western Europe-based production is decreasing (37% in 2013), while sales generated by production based in Asia and other emerging countries (including Eastern Europe) are on the rise (54% in 2013);
- secondly, Valeo derives 12% of its sales from the aftermarket, which is less vulnerable to fluctuations in the economic climate;
- lastly, around 57% of Valeo's original equipment sales are made with German and Asian automakers whose businesses are robust at present.

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 any additional costs this entails) and product malfunction. It may also face difficulties in attracting and retaining staff with the necessary qualifications and skill sets to develop these products.

Management of risk

The Group employs every means necessary to remain at the cutting edge of technology, notably maintaining an in-depth, ongoing technology watch and conducting a systematic review of the 10-year technological development plan jointly prepared by the Research and Development and Product Marketing departments.

Valeo always incorporates an environmental approach into all the stages in the life of its products and processes, from design and production to utilization and end-of-life management. Experts in environmental matters and in R&D work together to reduce the environmental impact of processes and products over their entire lifecycle and to ensure that they comply with applicable regulations. Valeo helps to determine and apply best practices and was actively involved in the preparation of the implementation guidance for the REACH regulations (Registration, Evaluation, Authorization and Restriction of Chemicals).

Research and development (R&D) is of key importance for the Group's future growth. Valeo operates 16 research centers and 35 development centers worldwide, employing some 9,400 people. The 7% increase in staff numbers at these centers compared to 2012 was primarily in emerging countries, and was aimed at specifically addressing the needs of these markets. Gross expenditure on R&D represented 10.4% of Group original equipment sales in 2013.

Valeo has put in place an active recruitment strategy, particularly in regions with high growth potential. Its HR policy places a premium on internal mobility and training in a bid to attract and retain the talent necessary for the development of new products.

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

For more on our R&D policy, see Chapter 1, section 1.3.5 "Presentation of the functional networks", page 28.

Supplier failure risks

Risk

In purchasing primarily specific products, Valeo is exposed to the risk that one of its suppliers fails to deliver the quantities required and/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

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 (in particular ISO TS 16949). Each supplier is audited on a regular basis by Valeo. In this way, the Group maintains a watch list of suppliers at risk, who are constantly monitored. Emergency stockpiles are built up where necessary and/or a policy put in place of sourcing supplies from several suppliers.

In October 2013, Valeo published its Supplier Development Handbook. This document, put at the disposal of all of the Group's suppliers, identifies the main tools used by the different stakeholders in the automotive industry to achieve excellence and customer satisfaction.

It should be noted that 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.

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 1,134 suppliers. The Group's biggest supplier represents 3% of its purchases, the five biggest suppliers account for 9% and the ten biggest, 14%.

Geopolitical risks

Risk

The Group's operations in certain countries can be affected by various risks relating to instability such as war, terrorism, armed conflict and labor unrest. The Group's operating results and profitability may be affected in these cases.

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 is also working 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 IT 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.). These malfunctions could impact the Group's operations and its financial performance.

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 "General principles for protecting sites and managing environmental and industrial risks", in section 2.1.2 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 Environmental and industrial 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 additional costs and/or capital expenditure for the Group in order to remedy the situation or bring its sites into compliance.

Inspections by independent external consultants to ensure that the risk management policy is properly applied are carried out on a regular basis, 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 crisis situations 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 recovery plans.

In order to make the system even more effective, Valeo began to upgrade VERM in 2013 based on crisis management and business recovery plan feedback.

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 and occupational health and safety standards, and is exposed to the risk of failing to comply with such regulations.

Management of risk

As described in Chapter 4, section 4.3 “Environmental performance”, page 131, 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 framework involving all Group departments. The Group Risk Insurance Environment Department is staffed with a Health, Safety, Environment (HSE) manager for each of the Business Groups and 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 and occupational, health and 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.
- New Valeo sites are located as far as possible from sites representing a significant potential risk (Seveso sites, etc.) which could, through a domino effect, endanger Valeo’s sites.

Environment-related provisions (primarily for site restoration) amounted to 17 million euros at December 31, 2013 (see Note 7.1 to the 2013 consolidated financial statements, Chapter 5, section 5.4.6, page 259).

Industrial risks

Risk

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

Management of risk

The vast majority of Valeo’s sites are classified HPR (highly protected risk). 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 help prevent fire risk (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 sites may be exposed to the risks of extreme weather conditions or natural disasters.

Management of risk

All sites in seismic risk zones have been built or upgraded to comply with the most recent seismic regulations.

Valeo sites are not located in flood zones or, if they are, are equipped with systems that help to protect them against flood risks.

Sites which Valeo may occupy in the future are reviewed upstream in order to determine the natural disaster risks to which they may be exposed. They are selected based on existing information, for example 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 site 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, cyclones 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 patented 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 R&D 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. These patents, covering the major automotive markets, provide the Group with an effective weapon against counterfeiting as well as helping to guarantee its technological independence.

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 of its intellectual property rights.

Intellectual property risks are managed by the Research and Development Department's Industrial Property Department. 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 ethical rules 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 defective products sold or services rendered by the Group cause damage to users and/or third parties.

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 that aims for faultless production, as described in Chapter 1, section 1.3.5 "Presentation of the functional networks", page 24.

When faulty products exchanged under warranty come to light, an in-depth expert assessment is carried out aimed at determining the root cause, avoiding any further occurrences and assessing the liability of the Group and third parties (automakers, users, integrated suppliers, etc.).

Sales of products and services are covered by statistical warranty 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 (beyond the deductible) of claims resulting from damage caused.

However, it is uncertain whether these insurance policies would be adequate to cover all costs of recall campaigns and the financial consequences of such claims.

Provisions for customer warranties amounted to 160 million euros at December 31, 2013 (see Note 7.1 to the 2013 consolidated financial statements, Chapter 5, section 5.4.6, page 259).

Risks of failure to comply with the Code of Ethics or the law

Risk

Ethics and integrity are core values for Valeo. As any international group, Valeo – which employs 74,800 people in almost 30 countries – may be exposed to legal risks resulting from breaches of its Code of Ethics or from a failure of its employees or stakeholders to comply with applicable laws and regulations.

Any shortcomings may expose the Group or its employees to criminal or civil sanctions and could adversely impact its reputation and results.

Management of risk

Valeo introduced a compliance approach across the Group in 2012, building on its Code of Ethics and culture of integrity. An Ethics and Compliance Department was set up in 2012 and has rolled out a detailed, specific program designed to combat corruption and anti-competitive practices. This program sets down general rules and procedures that must be respected by all Group employees and entities. Based on these general procedures, a series of specific, local procedures are then defined and translated for each country in which Valeo operates in line with the local regulatory environment and culture.

Ethics and compliance also comes under the remit of the Audit & Risks Committee, which is regularly briefed on the progress of this program. Valeo management is deeply committed to implementing and enforcing this program among all employees and stakeholders (suppliers, service providers, etc.) and providing the necessary support.

For more information on the work of the Ethics and Compliance Department, please refer to Chapter 1, section 1.3.4, page 23 and Chapter 4, section 4.5.2, page 187.

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 inexcusable misconduct (*faute inexcusable*). If the inexcusable misconduct 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 decree 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 seeking damages for moral harm (anxiety).

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 126 million euros at December 31, 2013 (see Note 7.1 to the 2013 consolidated financial statements, Chapter 5, section 5.4.6, page 259).

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 and related procedures

At the end of July 2011, anti-trust investigations were initiated against several automotive suppliers (including Valeo) in particular by the US, European and Japanese anti-trust authorities in the areas of equipment and systems supplied to the automotive industry.

In the US, an out-of-court settlement was reached on September 20, 2013 between the Department of Justice and the Japanese subsidiary Valeo Japan Co. Ltd, which agreed to pay a fine of 13.6 million US dollars. In return, this agreement, which was ratified by the United States District Court for the Eastern District of Michigan on November 5, 2013, terminated any proceedings instituted or likely to be instituted by the US federal authorities against the Valeo Group for practices that came to light during their investigations.

Three class actions were recently filed against Valeo Group companies with the United States District Court for the Eastern District of Michigan, and three other class actions before the Supreme Court of British Columbia in Canada. At this stage of the proceedings, the Group is unable to assess their likely outcome. However, Valeo cannot rule out that they could have a material adverse impact on the Group's future earnings.

Outside the US, investigations by the European anti-trust authorities are still in progress.

At this stage, the Group is unable to predict the outcome of these investigations or of any compensation claims. However, it cannot rule out that they may have a material adverse impact on its future earnings.

Other proceedings

To the best of Valeo's knowledge, and excluding these anti-trust proceedings and any resulting claims for damages, there are no governmental, legal or arbitration proceedings, including proceedings in progress, pending or expected, that may have, or have had in the past 12 months, 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 net earnings or image (see Note 7.2 to the 2013 consolidated financial statements, Chapter 5, section 5.4.6, page 261).

2.1.4 Financial risks

Standard policy

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

Liquidity risk

Risk

The Group looks to maintain very broad access to liquidity in order to meet its commitments and investment requirements. To do this, it borrows 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.

At December 31, 2013, Valeo had 1.5 billion euros in cash and cash equivalents (1.3 billion euros at December 31, 2012). Cash comprises bank deposits for 695 million euros and cash equivalents (mainly money-market funds) for 815 million euros.

Additional sources of liquidity were as follows:

- confirmed bank credit lines totaling 1.1 billion euros with an average maturity of 2.7 years, under which no amounts had been drawn at December 31, 2013. These bilateral credit lines were taken out with nine leading banks with

an average rating of A from Standard & Poor's and A2 from Moody's. The lines are subject to a covenant whereby the net debt⁽¹⁾ to EBITDA ratio must not exceed 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. At December 31, 2013, the ratio calculated over 12 months was 0.27;

- 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 (EMTN) medium- and long-term financing program for a maximum of 2 billion euros, on which 1 billion euros had been drawn at December 31, 2013.

The Group's gross debt fell to 1.9 billion euros at December 31, 2013 from 2.1 billion euros at end-2012. Gross debt included short-term debt totaling 246 million euros, long-term debt totaling 1,630 million euros (including 110 million euros due within one year), and certain liabilities held for sale related to gross debt for 1 million euros. The average maturity of debt was 3.5 years at the end of 2013.

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 (excluding accrued interest):

Maturity	Type	Nominal amount at Dec. 31, 2013 (in millions)	Nominal amount at Jan. 22, 2014 (in millions)	Currency	Nominal interest rate
June 2016	Syndicated loan	250	250	EUR	3-month Euribor +1.3%
August 2016	European Investment Bank loan	169	169	EUR	6-month Euribor +2.46%
January 2017	Bond (EMTN program)	500	146	EUR	5.75%
May 2018	Bond (EMTN program)	500	273	EUR	4.875%
November 2018	European Investment Bank loan	103	103	USD	6-month USD Libor +1.9%
January 2024	Bond (EMTN program)		700	EUR	3.25%

- Valeo made several bond issues under its EMTN financing program:

- 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%,
- in order to extend the average maturity of its debt and take advantage of record low market interest rates, on January 22, 2014, Valeo issued a 700 million euro bond under this Euro Medium Term Note program. This bond is redeemable in January 2024 and pays a coupon of 3.25%. The new bond issue allowed the Group, by means of an exchange transaction, to buy back and cancel 354 million euros worth of outstanding 2017 bonds and 227 million euros worth of outstanding 2018 bonds, increasing the Group's average debt maturity from 3.5 years at end-2013 to six years;

These three bonds include an option allowing bondholders to 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 of control at Valeo resulting in a one category downgrade in the rating (e.g., from Ba1 to Ba2).

- a syndicated loan for 250 million euros maturing on June 30, 2016. 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 at 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 and of which 169 million euros was outstanding at end-2013. This loan is also subject to the same net-debt-to-EBITDA covenant as the lines of credit. 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 CO₂ emissions and improve active safety;
- a seven-year EIB loan for 103 million US dollars (75 million euros based on the closing exchange rate at December 31, 2013), 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.

(1) See Financial glossary in section 5.9, page 319.

The Group's bank credit lines and long-term debt include "cross default" clauses. This means that if a given amount of debt is likely to be called for early repayment, then the other debt amounts may also be called for early repayment. At the end of the reporting period, the Group expects to comply with all debt covenants over the next 12 months.

Details of the Group's borrowings and debt are included in Notes 8.1.2 and 8.1.3 to the 2013 consolidated financial statements, Chapter 5, section 5.4.6, pages 263 to 267.

The ratings of Standard & Poor's and Moody's confirm Valeo's investment grade status:

- On April 26, 2013, Standard & Poor's Rating Services confirmed its "BBB/A-2" long-term and short-term corporate credit ratings for Valeo with a stable outlook.
- On January 2, 2014, Moody's Rating Services confirmed its "Baa3/P3" long-term and short-term corporate credit ratings for Valeo with a stable outlook.

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, representing purchases of 1.7 billion euros in 2013 (of which 39% non-ferrous metals, 36% steel, 24% plastics and 1% rare-earth metals). The Group is exposed to increases in the price of these commodities. In such an event, the Group may not always be in a position to pass on the full extent of the rise to its customers, which may have a negative impact on its earnings.

Management of risk

The Group manages its exposure to raw materials by using price indexation clauses as far as possible. This is the case particularly for non-ferrous metals and steel, for which such 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. The Group favors hedging instruments which do not involve physical delivery of the underlying commodity. These hedges are eligible for hedge accounting within the meaning of IAS 39. At December 31, 2013, an unrealized loss of 3 million euros (December 31, 2012: unrealized gain of 1 million euros) related to these hedges was recognized directly in other comprehensive income.

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 8.3.1.2 to the 2013 consolidated financial statements, Chapter 5, section 5.4.6, page 272.

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 standard on financial instruments. However, on an exceptional basis, the Group may set up specific hedges for major individual transactions and applies cash flow hedge accounting rules. At December 31, 2013, an unrealized loss of 7 million euros (December 31, 2012: unrealized loss of 1 million euros) was recognized directly in other comprehensive income in relation to these hedges.

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", page 56). 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).

This transaction in Japanese yen is hedged by an internal loan in yen granted to Valeo Japan as part of the funding for the Niles acquisition. The Group unwound 35 million euros of this initial 237 million euro cross currency swap on December 5, 2013, following the payment of an identical amount by Valeo Japan to Valeo.

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 8.3.1.1 to the 2013 consolidated financial statements, Chapter 5, section 5.4.6, page 271).

The Group's gross and net exposure is shown in Note 8.3.1.1 to the 2013 consolidated financial statements, Chapter 5, section 5.4.6, page 271.

Interest rate risk

Risk

Interest rate risk depends on the Group's debt and financial investments and on financial conditions (i.e., 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.

At December 31, 2013, an unrealized loss of 7 million euros related to these hedges was recognized directly in other comprehensive income.

Taking into account hedging transactions, 71% of long-term debt was at fixed rates at December 31, 2013 (77% at December 31, 2012).

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 8.3.1.3 to the 2013 consolidated financial statements, Chapter 5, section 5.4.6, page 273.

Banking counterparty risk

Risk

Banking counterparty risk arises on hedges taken out with banks (commodity, interest rate and currency 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 rating agencies (an average rating of A by Standard & Poor's and A2 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.

In accordance with IFRS 13, applicable to financial periods beginning on or after January 1, 2013, the Group has determined the credit risk impact for uncollateralized derivatives (Credit Value Adjustment [CVA] and Debit Value Adjustment [DVA]), and the net impact on the Group is deemed to be minimal (see Note 8.1.1 to the 2013 consolidated financial statements, Chapter 5, section 5.4.6, page 263).

Equity risk

Treasury shares

Under IAS 32, treasury shares are recognized within consolidated equity and changes in value are not recognized. When treasury shares are purchased or sold, consolidated equity is adjusted to reflect the fair value of the shares purchased or sold. In 2013, 1,074,235 shares were acquired and 2,613,386 shares were sold (including 1,130,735 in respect of the liquidity agreement and 1,482,651 in relation to stock option and free share plans), leading to a 54 million euro increase in consolidated equity at end-2013.

A detailed presentation of movements in treasury shares held in respect of the liquidity agreement or to cover stock option and free share plans, is provided in Chapter 6, section 6.5.2, page 329.

Equity investments for pension funds

Pension fund assets comprised 212 million euros in equities at December 31, 2013, or 53% of the assets invested. After a higher-than-expected return on plan assets in 2012, especially in the US, plan assets also yielded good returns in 2013, leading to an increase of 42 million euros in the value of the assets in 2013 versus a 38 million euro increase in 2012 (see Note 5.3.5 to the 2013 consolidated financial statements, Chapter 5, section 5.4.6, page 246).

Decisions to allocate the funds among the different asset classes (equities, bonds, cash equivalents) are taken 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

The Group holds a 31.6% interest in Ichikoh Industries Ltd, a company listed on the Tokyo stock exchange. This investment is accounted for by the equity method and carried at an amount of 61 million euros at December 31, 2013 (62 million euros at December 31, 2012 following an adjustment related to the takeover of Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd).

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 35 million euros at December 31, 2013 and 38 million euros at December 31, 2012. Changes in the period chiefly reflect the negative foreign exchange rate impact. The carrying amount of the investment in the Group's consolidated financial statements is justified by its value in use for Valeo.

Customer 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, to the risk of default by its manufacturing or distribution customers.

Management of risk

Valeo works with all automakers in the automotive sector and endeavors to diversify its customer portfolio as far as possible to include new, especially Asian, players. Asian customers represent 27% of the Group's original equipment sales.

At December 31, 2013, Valeo's largest customer accounted for around 15% of the Group's accounts and notes receivable. The Group's five largest customers accounted for 62% of its original equipment sales, and its ten largest customers, 86% of original equipment sales. Valeo also generates 12% of its sales in the aftermarket, with automakers representing 42% and independent dealer networks 58%. The customer base of independent dealer networks (4% of the Group's accounts and notes receivable at end-2013) 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 45 days at December 31, 2013, compared to 49 days at December 31, 2012, following the assignment of trade receivables.

For more information on the aging of trade receivables and impairment of doubtful receivables, see Notes 4.2 and 8.3.3 to the 2013 consolidated financial statements, Chapter 5, section 5.4.6, pages 236 and 276.

2.2 Insurance and risk coverage

The Group's insurance strategy is combined with a strong risk prevention and protection approach and coverage includes major claims. 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.

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 wind, floods and earthquakes). Property is insured on the basis of the replacement cost of buildings, equipment and inventories;
- business interruption: this 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 products delivered, the Group takes out insurance for the financial consequences of any liability it incurs due to damage of any nature caused by its 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	150 million
Employment practice liability	50 million

The Group paid a total of 14.4 million euros in premiums for its insurance coverage in 2013.

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AFR The information from the Annual Financial Report is clearly identified in the table of contents by the AFR symbol

Valeo applies the AFEP-MEDEF Corporate Governance Code for Listed Companies published in December 2008 and revised in April 2010 and June 2013. Similarly, the Company also complies with the provisions set out in the July 22, 2010 report of the French financial markets authority (*Autorité des marchés financiers* – AMF) on audit committees.

The application of the recommendations of the AFEP-MEDEF Corporate Governance Code for Listed Companies is described in this chapter, in section 3.2.4, page 90.

The AFEP-MEDEF Corporate Governance Code for Listed Companies published in December 2008 and revised in April 2010 and June 2013 is available on the MEDEF's website, www.medef.com.

The report of the Chairman of the Board of Directors was presented to the Appointment, Compensation & 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 & Risks Committee (as regards information relating to internal control and risk management procedures). It was approved by the Board of Directors on February 20, 2014, in accordance with Article L.225-37 of the French Commercial Code (*Code de commerce*) and is included in this chapter of the Registration Document, in section 3.2 "Composition of the Board of Directors, and preparation and organization of its work" and section 3.4 "Internal control and risk management".

3.1 Corporate governance bodies

The Group's Executive Management team includes the Chairman of the Board of Directors, the Chief Executive Officer, and the Functional and Operational Directors, who are members of 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 & Governance Committee, maintained the separation of the roles of Chairman of the Board 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 called 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 called 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 of any kind, 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

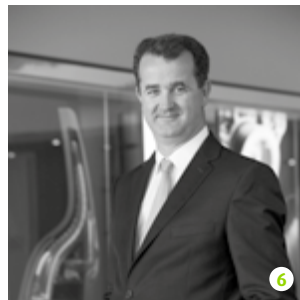


5 Jean-François Tarabbia

Senior Vice-President,
Research & Development
and Product Marketing

6 Antoine Doutriaux

President, Visibility Systems
Business Group



7 Axel Maschka

Senior Vice President, Sales
& Business Development,
since January 1, 2014

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

3.2 Composition of the Board of Directors, and preparation and organization of its work

AFR

3.2.1 Composition of the Board of Directors

The Company's articles of association provide that the Board of Directors must comprise at least three and no more than 18 members appointed for a period of four years (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 employee-shareholders or by employees, and there are no non-voting directors (*censeurs*).

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 & Governance Committee.

At the beginning of 2013, the Board of Directors comprised 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 February 21, 2013, the Board of Directors noted that Helle Kristoffersen did not wish to seek reappointment as director at the Shareholders' Meeting of June 6, 2013.

At its meeting on March 27, 2013, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to ask the Shareholders' Meeting called to approve the 2012 financial statements to appoint Sophie Dutordoir as director.

The resulting changes in the composition of the Board of Directors decided at the Shareholders' Meeting of June 6, 2013 are summarized below:

Director	Change in composition of the Board of Directors
Gérard Blanc	Reappointed for a period of four years
Sophie Dutordoir	Appointed for a period of four years
Michael Jay	Reappointed for a period of four years
Helle Kristoffersen	Departure

At June 6, 2013, the Board of Directors therefore comprised the following 12 members:

- Jacques Aschenbroich
- Gérard Blanc
- Daniel Camus
- Pascal Colombani
- Jérôme Contamine
- Michel de Fabiani
- Sophie Dutordoir
- Michael Jay
- Noëlle Lenoir
- Thierry Moulonguet
- Georges Pauget
- Ulrike Steinhorst

The directors have different backgrounds and were selected because they have experience and skills in various areas of business. For details of the directorships and other positions held by members of the Board of Directors over the last five years, see pages 69 to 81 of the Registration Document.

Members of the Board are appointed for four-year terms which expire at the close of the Ordinary Shareholders' Meeting called in the year in which their terms expire to approve the financial statements for the previous year. 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 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 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 Moulouguet, Georges Pauget and Ulrike Steinhorst
Shareholders' Meeting called to approve the 2016 financial statements	Gérard Blanc, Sophie Dutordoir and Michael Jay

No individual who is more than 70 years old may be appointed as member of the Board of Directors if his/her appointment results in more than one-third of the members of the Board of Directors being over 70 years old. 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 called 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 called 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.

Independence of directors

Classification as an independent director is reviewed by the Appointment, Compensation & Governance Committee and the Board of Directors before the annual report is prepared. Thus, on January 23, 2014, the Board of Directors reviewed the status of its members in light of the independence criteria in the internal procedures.

In compliance with the AFEP-MEDEF Corporate Governance Code for Listed Companies (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 an executive 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 an executive 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 an executive 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 its business;
- 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. Although Pascal Colombani could be considered independent under the terms of the AFEP-MEDEF Corporate Governance Code for Listed Companies, the Board of Directors, acting on a recommendation of the Appointment, Compensation & Governance Committee, decided that it would not be appropriate to change the status of the Chairman that it considers not to be 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 independent; and
- nine directors are considered independent in light of the independence criteria set out in the internal procedures: Gérard Blanc, Daniel Camus, Jérôme Contamine, Sophie Dutordoir, Michael Jay, Noëlle Lenoir, Thierry Moulouguet, Georges Pauget and Ulrike Steinhorst.

Application of the principle of equal representation of women and men on the Board of Directors

At the beginning of 2013, the Board of Directors included three women: Helle Kristoffersen, Noëlle Lenoir and Ulrike Steinhorst. At its meeting on March 27, 2013, the Board of Directors, acting on a recommendation of the Appointment, Compensation & Governance Committee, decided to propose the appointment as director of Sophie Dutordoir, to replace

Helle Kristoffersen who had indicated that she did not wish to seek reappointment at the end of her term of office. The Shareholders' Meeting of June 6, 2013 appointed Sophie Dutordoir as a director 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.

**Pascal Colombani**

Chairman of the Board of Directors

French
Age: 68**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 ♦ (member of the Ethics, Compliance and Sustainability Committee and member of the Audit Committee), Technip SA ♦ (Chairman of the Strategy Committee and Audit Committee)
- Member, French Academy of Technology (*Académie des technologies*)
- Vice-President, *Conseil Stratégique de la Recherche* (a research advisory board set up by the French government – CSR)

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

- Director, British Energy Group Plc, Rhodia SA, Energy Solutions Inc.
- Senior Advisor, Detroyat et Associés, Arjil Banque

Experience

Pascal Colombani is Chairman of the Board of Directors and director of Valeo and Senior Advisor for innovation, high technology and energy at A.T. Kearney, a strategy consultancy firm.

He is a member of the French Academy of Technology and Vice-President of *Conseil Stratégique de la Recherche* (CSR). He is also a director of Alstom SA and Technip SA. In January 2000, he was appointed Managing Director of the French Alternative Energies and Atomic Energy Commission (*Commissariat à l'Énergie Atomique – CEA*), a post that he held until December 2002. The instigator of the restructuring of CEA's industrial holdings resulting in 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 management positions, in Europe and in the US, before becoming Chairman of its Japanese subsidiary in Tokyo.

He has also served as director at British Energy Group Plc, Rhodia SA and Energy Solutions Inc. (until June 2013), and was Senior Advisor at both Detroyat et Associés and Arjil Banque.

Pascal Colombani is a graduate of *École normale supérieure de Saint-Cloud*, and holds a doctorate in physics.

♦ Listed company (for directorships and positions currently held).

**Jacques Aschenbroich**

Chief Executive Officer

French
Age: 59**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 position held outside the Company**

- Chairman, Valeo Finance, Valeo SpA (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 ♦ (member of the Audit Committee and Chairman of the Innovation and Sustainable Development Research Committee)

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, Saint-Gobain Abrasives Inc. (US)
- Chairman and CEO, Saint-Gobain Advanced Ceramics Corp. (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), 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 director of Valeo.

He is Chairman of the Board of Directors of *École nationale supérieure des mines ParisTech*. He is also the Chairman of Valeo Finance, Valeo SpA (Italy) and Valeo (UK) Limited, and a director of Valeo Service España, SA (Spain).

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. 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 of Esso SAF until June 2009.

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

(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 and will therefore 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.

♦ Listed company (for directorships and positions currently held).

**Gérard Blanc**

Independent director

Member of the Strategy Committee

French

Age: 70

Marignac Gestion SAS

17, rue Joseph Marignac

31300 Toulouse, France

Number of Valeo shares held: 500

First appointed: 05/21/2007

Start of current term of office: 06/06/2013

End of current term of office:

Shareholders' Meeting called to approve the 2016 financial statements

Main position held outside the Company

- Chairman and CEO, Marignac Gestion SAS

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

- Director, Sogclair ♦

Experience

Gérard Blanc is Chairman and CEO of Marignac Gestion SAS and a director of Sogclair. Earlier in his career he served as 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 (for directorships and positions currently held).

**Daniel Camus**

Independent director

Chairman of the Audit & Risks Committee

French

Age: 61

The Global FundChemin 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) ♦ (Chairman of the Audit Committee), SGL Group SE (Germany) ♦ (Chairman of the Strategy Committee), Vivendi SA ♦ (Chairman of the Audit Committee), Cameco Corp. (Canada) ♦ (member of the Audit and Compensation Committee)

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

- Member of the Supervisory Board, EnBW (Germany), 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)
- Senior Advisor, Roland Berger Strategy Consultants

Experience

Daniel Camus is Chief Financial Officer of The Global Fund. He is also 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 (for directorships and positions currently held).

**Jérôme Contamine**

Independent director
Chairman of the Strategy Committee

French
Age: 56
Sanofi
54, rue La Boétie
75414 Paris Cedex 8,
France

Number of Valeo shares held: 3,000

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
- Chairman and director, SETC (Belgium)
- Legal Manager, Sanofi-North America
- CEO, Sanofi-Aventis Europe and Sanofi-Aventis Participations

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

- Sanofi group:
 - Director, Zentiva NV (Netherlands), Sanofi Pasteur Holding and Merial Ltd. (UK)
- 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, Rhodia
 - Director and Managing Director, Veolia UK (UK)
 - Chairman, 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 is also President of SECIPE and Sanofi 1, Chairman and director of SETC (Belgium), Legal Manager of Sanofi-Amérique du Nord, and CEO of Sanofi-Aventis Europe and Sanofi-Aventis Participations. 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*).

◆ Listed company (for directorships and positions currently held).

**Michel de Fabiani**

Director

Member of the Audit & Risks Committee and member of the Appointment, Compensation & Governance Committee

French
Age: 68**CCI Franco-Britannique**
10, rue de la Bourse
75002 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 Appointment, Compensation & Governance Committee)
- Chairman of the Board of Directors, British Hertford Hospital Corporation (Levallois, France)
- Founding Chairman, Cercle économique Sully (a think tank) and Association for the Promotion of Ecological Vehicles (*Association pour la promotion des véhicules écologiques*)
- Vice-Chairman, 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 (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 of EB Trans SA (Luxembourg), and a member of the Supervisory Board of Vallourec.

He serves as 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 *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.

He has also served as director of the Rhodia group.

Michel de Fabiani graduated from HEC business school in Paris.

♦ Listed company (for directorships and positions currently held).

**Sophie Dutordoir**

Independent director
Member of the Strategy Committee

Belgian
Age: 51

Pelikaanhof 5
3090 Overijse
Belgium

Number of Valeo shares held: 500

First appointed: 06/06/2013

Start of current term of office: 06/06/2013

End of current term of office:
Shareholders' Meeting called to approve
the 2016 financial statements

Main position held outside the Company

- Director (various companies)

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

- Independent director, BNP Paribas Fortis (Belgium) (member of the Governance, Appointment and Compensation Committee)
- Independent director, BPost (Belgium) ♦ (member of the Audit Committee and of the Appointment and Compensation Committee)

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

- Director, GDF Suez Energie Deutschland (Germany) (until December 31, 2013)
- Chair of the Board of Directors and director, Electrabel Customer Solutions (Belgium) (until December 31, 2013)
- Member of the Executive Committee, Federation of Enterprises in Belgium (*Fédération des entreprises de Belgique*) (until December 31, 2013)
- CEO and director, Electrabel (Belgium) (until December 31, 2013)
- Chair of the Executive Committee and CEO, Fluxys (LNG)

Experience

Sophie Dutordoir is an independent director of BNP Paribas Fortis and BPost in Belgium.

She began her career in July 1984 as spokeswoman and advisor to the Belgian Prime Minister, before occupying the same position for the Ministers of Finance and Education. In 1990, she joined Electrabel and Tractebel where she last served as General Manager of Marketing and Sales, member of the General Management Committee and Chief Executive Officer of Electrabel Customer Solutions. In May 2007, she was appointed Chair of the Executive Committee and Chief Executive Officer of Fluxys, an independent operator of the LNG terminal and natural gas transmission system in Belgium. In 2009, she returned to the Electrabel group where she served until December 31, 2013 as Chief Executive Officer and director of Electrabel (Belgium) and Chair of the Board and director of Electrabel Customer Solutions (Belgium). Up to this time, she was also a director of GDF Suez Energie Deutschland (Germany) and member of the Executive Board of the Federation of Enterprises in Belgium.

Sophie Dutordoir holds a graduate degree and doctorate in Romance philology from the University of Ghent and a Certificate in Economic, Financial and Tax Sciences from the *Economische Hogeschool Sint-Aloysius* (EHSAL) school in Brussels.

♦ Listed company (for directorships and positions currently held).

**Michael Jay**

Independent director

Member of the Appointment,
Compensation & Governance CommitteeBritish
Age: 67**House of Lords**
Westminster
London SW1A 0PW
United Kingdom**Number of Valeo shares held:** 500**First appointed:** 05/21/2007**Start of current term of office:** 06/06/2013**End of current term of office:**
Shareholders' Meeting called to approve
the 2016 financial statements**Main position held outside the Company**

- Independent member of the House of Lords (UK)

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

- Director, EDF ♦ (member of the Strategy Committee and member of the Nominations and Remuneration Committee)
- Non-executive director, Associated British Foods (ABF) (UK) ♦ (member of the Audit Committee, Nominations Committee and Remuneration Committee), Candover Investments Plc (UK) ♦ (Chairman of the Nominations Committee, member of the Audit Committee and of the Remuneration Committee)
- Trustee, Thomson Reuters Founders Share Company (UK) (since November 2013)
- Vice-Chairman, Business for New Europe (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, House of Lords Appointments Commission (UK) (until October 15, 2013)
- Chairman, Merlin (an international medical charity) (UK) (until July 1, 2013)
- Chairman, Culham Languages and Sciences (an educational charity) (UK)

Experience

Michael Jay is an independent member of the House of Lords in the UK.

He is a non-executive director of Associated British Foods (ABF) and Candover Investments Plc, and Vice-Chairman of Business for New Europe. He is also a director of EDF, a member of the British Library Advisory Council and a trustee for Thomson Reuters Founders Share Company.

Michael Jay has also served as Chairman of Culham Languages and Sciences (educational charity), Chairman of Merlin (an international medical charity, until July 2013), and Chairman of the House of Lords Appointments Commission (until October 2013). Michael Jay was also a member of the European Sub-Committee on EU Law and Institutions and of 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 (for directorships and positions currently held).

**Helle Kristoffersen**

Independent director until June 6, 2013

Member of the Strategy Committee until June 6, 2013

French
Age: 49**Total**
2, place Jean Millier
La Défense 6
92078 Paris-La Défense Cedex,
France

Number of Valeo shares held: N/A

First appointed: 03/22/2007

Start of current term of office: 06/08/2011

End of current term of office: 06/06/2013

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.

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 (for directorships and positions currently held).

**Noëlle Lenoir**

Independent director

Member of the Audit & Risks Committee

French
Age: 65Kramer 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

- Member of the *Conseil d'État* (France's highest administrative court)
- President, HEC Europe Institute (*Institut de l'Europe des Hautes Études Commerciales*)
- Ethics Officer at the French National Assembly
- Member, American Law Institute, French Academy of Technology
- Director, Generali France (member of the Audit Committee), Compagnie des Alpes ♦ (member of the Appointment, Compensation & Governance Committee)
- Municipal Advisor, Valmondois (Val d'Oise, France)
- Founding Chair, *Cercle des Européens* (a think tank)
- Honorary Chair, *Association des amis d'Honoré Daumier*
- Adjunct Professor, HEC
- Member of the Board of Directors, French Association of Constitutionalists (*Association française des constitutionnalistes*) and French Association of Constitutionality (*Association française des constitutionnalités*)

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

- Member of the Comparative Law Society (*Société de Législation Comparée*), the Steering Committee of the Association of French Mayors (*Association des maires de France*), the French Association of Women Lawyers (*Association française des femmes juristes*), and the High Level Group of Company Law Experts at the European Commission
- Lecturer, *Université Paris I Panthéon-Sorbonne*

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 in 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 also serves as Municipal Advisor of Valmondois (Val d'Oise, France).

Noëlle Lenoir is also Chair of the Europe Institute at HEC, Adjunct Professor at HEC, Honorary Chair of *Association des amis d'Honoré Daumier*, and Founding Chair of the *Cercle des Européens*. She is a member of the American Law Institute, of the French Academy of Technology, of the Board of Directors of the French Association of Constitutionalists and of the French Association of Constitutionality.

She has also been a lecturer at *Université Paris I Panthéon Sorbonne*. Ms Lenoir previously served on the Steering Committee of the Association of French Mayors, the Comparative Law Association, the French Association of Women Lawyers and the High Level Group of Company Law Experts at the European Commission.

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

♦ Listed company (for directorships and positions currently held).

**Thierry Moulonguet**

Independent director

Member of the Audit & Risks Committee and the Strategy Committee

French

Age: 62

Fimalac97, 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

- Independent director, Fimalac SA ♦ (member of the Selection, Nominations and Remunerations Committee), Fitch Ratings Ltd. (UK), Lucien Barrière group (Chairman of the Audit Committee), HSBC France (Chairman of the Audit and Risk Committee), HSBC Europe (UK) (member of the Audit and Risk Committee)

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. (South 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 member of the Board of Ssangyong Motor Co. (South 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 (for directorships and positions currently held).

**Georges Pauget**

Independent director

Chairman of the Appointment, Compensation & Governance Committee and member of the Strategy Committee

French **Économie Finance et Stratégie SAS**
 Age: 66 122, rue du Faubourg
 Saint-Honoré
 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 ♦ (member of the Appointment and Compensation Committee)
- Chairman, Insead OEE Data Service and the *Institut pour l'éducation financière du public* (IEFP)
- Director, Danone Communities, Tikehau
- Vice-President, Club Med ♦ (Chairman of the Audit Committee)
- 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 SA at the Partners Club (*Club des Partenaires*) of the TSE (Toulouse School of Economics) Association
- 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 SA
- Chairman, Crédit Agricole Corporate and Investment Bank (formerly Calyon)
- 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 Danone Communities and Tikehau, as well as Vice-President of Club Med.

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 (*Institut pour l'Éducation Financière du Public*), Scientific Director, Chair of Asset Management and Adjunct Professor at *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 SA on the Supervisory Board of Fonds de Garantie des Dépôts and Chief Operating Officer, member of the Executive Committee, and Director of the Regional Banks division of Crédit Agricole SA. He also served as 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 (for directorships and positions currently held).

**Ulrike Steinhorst**

Independent director

Member of the Appointment, Compensation & Governance Committee

German

Age: 62

Airbus group

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 Mersen SA♦ (member of the Appointment and Compensation Committee), *Fondation Imagine* (a scientific research foundation), and F2I, the French union of metallurgical industries (*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

- Chair, Degussa France Groupe SAS and Rexim SAS
- Chief of Staff of the Executive Chairman 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 Mersen SA, the *Fondation Imagine* research foundation 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 its 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 Chief of Staff of the Executive Chairman of EADS.

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

♦ Listed company (for directorships and positions currently held)

3.2.2 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 & Governance Committee, the Board of Directors' meeting on March 27, 2012 amended Article 1.1 of its internal procedures by adding (i) point (n) which states that a director *"cannot accept any responsibilities that may represent a conflict of interest with those he/she has accepted within the Company,"* and (ii) point (o) that requires in particular a director *"to inform the Chairman of the Board and the Chairman of the Appointment, Compensation & 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 members of the Board."*

Acting on a recommendation of the Appointment, Compensation & Governance Committee, the Board of Directors' meeting of July 29, 2013 amended Article 1.1 (o) of its internal procedures by adding that each executive corporate officer must *"obtain the opinion of the Board before accepting a new corporate office in a listed company"* and Article 1.6 by adding point (c), which states that *"non-executive directors shall meet periodically in the absence of executive and internal directors. Such a meeting must be scheduled once a year during which the performance of the Chairman of the Board and the Chief Executive Officer shall be assessed and which shall present the opportunity to periodically discuss the future of the management."*

The Company's internal procedures are available on the Company's website (www.valeo.com).

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 of the Board and of the 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.

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.

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 2013 fiscal year, two 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 six Board meetings held during the 2013 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 reports (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 met on six occasions in 2013.

The directors held their annual strategic seminar in the US, where they met key executives from the main automakers in this high-growth region.

The average attendance rate of the members of the Board of Directors (in person or by proxy) during 2013 was 95.8%. The average attendance rate of the members of the Board of Directors in person during 2013 was 91.7%.

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 and at least 48 hours (except in an emergency) 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 2013 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 portions of 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 2013, 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 2013 budget,
 - the Statutory Auditors' presentation on the parent company and the consolidated financial statements for the 2012 fiscal year, and on the review of the interim consolidated financial statements for the six months ended June 30, 2013,
 - preparing the parent company and the consolidated financial statements for the 2012 fiscal year,
 - reviewing the results for the second half of 2012 and discussing the outlook for the 2013 fiscal year,
 - preparing the management report and the related notes for the 2012 fiscal year,
 - handling the proposed payment of a dividend of 1.50 euros per share,
 - reviewing the quarterly figures and results, and the forecasts and projections prepared for 2013,
 - reviewing the results of the first half of 2013 and presenting the budget for the second half of 2013;
- oversight relating to key strategies, and in particular:
 - discussing acquisitions under review,
 - reviewing strategic operations,
 - discussing strategic issues that the Company must deal with,
 - reviewing the strategic plan,
 - the findings of the strategy seminar;
- General Management and compensation, and in particular:
 - the variable portion of the Chief Executive Officer's compensation,
 - the plan to allocate performance shares to the Group's corporate officers and employees,
 - attendance fees;

- corporate governance and internal control, and in particular:
 - reviewing the status of directors in light of the independence criteria set out in the Board of Directors' internal procedures,
 - assessing the operating procedures of the Board of Directors and its Committees,
 - 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,
 - reviewing the new provisions of the AFEF-MEDEF Corporate Governance Code published on June 16, 2013,
 - amending the Board of Directors' internal procedures and those of the Audit & Risks Committee, and the Appointment, Compensation & Governance Committee,
 - the composition of the Committees and the operation of the Strategy Committee;
- financial operations, and in particular:
 - sureties, endorsements and guarantees,
 - issuance of bonds,
 - the share buyback program;
- other issues, and in particular:
 - convening the Ordinary and Extraordinary Shareholders' Meeting,
 - brand licensing agreement between Valeo and Valeo Service,
 - reminder of the rules for disclosure to the AMF when the total amount of trading in the Company's securities exceeds 5,000 euros per year,
 - reviewing anti-trust proceedings,
 - reviewing press releases, 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 & Risks Committee, the Appointment, Compensation & Governance Committee, and the Strategy Committee.

The work of the Audit & Risks Committee, the Appointment, Compensation & Governance Committee, and the Strategy Committee in 2013 was presented on a regular basis to the Board of Directors throughout the year in the form of reports.

Audit & Risks Committee

At the beginning of fiscal year 2013, the Audit & Risks Committee had four members: Daniel Camus (Chairman of the Audit & Risks Committee), Michel de Fabiani, Thierry Moulouguet and Georges Pauget. At its meeting on July 29, 2013, acting on the recommendation of the

Appointment, Compensation & Governance Committee, the Board of Directors decided to appoint Noëlle Lenoir as a member of the Audit & Risks Committee to replace Georges Pauget. The members of the Audit & Risks Committee are all considered independent according to the criteria set out in the Board's internal procedures except for Michel de Fabiani. The Chairman and the Chief Executive Officer are not members of the Audit & Risks Committee but may be invited to attend its meetings.

Through their training or business experience, all members of the Audit & 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 & Risks Committee, see section 3.2.1 "Composition of the Board of Directors", pages 66 to 81.

At its meeting on March 27, 2012, acting on the recommendation of the Appointment, Compensation & 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 internal procedures of the Audit Committee which became the Audit & Risks Committee on that date.

At its meeting on July 29, 2013, acting on the recommendation of the Appointment, Compensation & Governance Committee, the Board of Directors approved the clarification made to the internal procedures of the Audit & Risks Committee. When this Committee seeks the assistance of external auditing experts, it must, in accordance with the AFEF-MEDEF Corporate Governance Code, ensure that they are competent and independent.

In accordance with Article L.823-19 of the French Commercial Code, the role and responsibility of the Audit & 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 & Risks Committee before the Board reviews the financial statements. In examining the financial statements, the Audit & 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 & 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 financial and accounting 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 interest;
- b) in the area of internal audit, internal control and risk management, the Audit & 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 have been 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 unit, 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,
 - 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, and
 - examine issues relating to internal audit, internal control and risk management at an annual meeting;
- c) as regards the Statutory Auditors, the Audit & Risks Committee's role is to:
- assess compliance with rules, principles and recommendations guaranteeing the independence of the 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 & 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 & 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 the 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, while ensuring that they are competent and independent. The Committee may not address issues that fall outside the scope of its role and responsibility unless requested to do so. It has no decision-making power.

The Audit & Risks Committee met five times in 2013 with an attendance rate of 100%. During these meetings, the Committee:

- examined the draft financial statements for 2012 and the first half of 2013;
- reviewed the Group's draft results for the first quarter of 2013 and the forecasts for the first half of 2013;
- reviewed the budget for the second half of 2013;
- reviewed the management report of the 2012 fiscal year;
- reviewed the reports and analyzed the findings presented by the Statutory Auditors;
- reviewed the fees paid to the Statutory Auditors for the 2012 fiscal year;
- conducted a meeting with the Statutory Auditors without the Group's management being present;
- reviewed the draft report by the Chairman on internal control and risk management;
- reviewed the Group's fiscal policy;
- reviewed risk mapping, the method selected to prepare the mapping, the analysis of the main risks and the organization of risk management;
- analyzed the summary of the Internal Audit, Internal Control and Risk Management Department's activities for the first half of 2013;
- examined the summary of Internal Audit's work in 2013;
- reviewed the progress and rollout of the ethics and compliance program;
- reviewed the Company's draft Internal Audit Charter;
- reviewed the ethics and compliance program;
- analyzed information presented by the Group's Head of the Financing and Treasury Department on the Group's financing policy;

- analyzed information presented by the Group's Head of Logistics and Sourcing on the inventory management policy;
- analyzed information presented by the Group's Head of Information Systems and the Group's Functional Director of Information Systems on the Company's information systems;
- reviewed the results of the 2013 internal control self-assessment campaign;
- reviewed the plan to issue bonds;
- reviewed the draft press releases presenting financial information;
- approved the audit plan for 2014.

The Audit & Risks Committee's work was in line with the objectives defined for it during the year. Adequate time was given to review the financial statements (at least two days before they were reviewed by the Board). The Audit & 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 & Risks Committee's meetings. The Committee was also assisted by the work of Internal Audit. The presentations made by the Statutory Auditors mainly related to the findings of their audit of the annual parent company and consolidated financial statements (indicating in particular the accounting options applied) as well as their review of the interim financial statements. The Audit & 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 & 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.

At the beginning of fiscal year 2013, the Appointment, Compensation & Governance Committee had five members: Jérôme Contamine (Chairman of the Appointment, Compensation & Governance Committee), Michael Jay, Noëlle Lenoir, Georges Pauget and Ulrike Steinhorst.

At its meeting on July 29, 2013, acting on the recommendation of the Appointment, Compensation & Governance Committee, the Board of Directors amended the composition of this Committee. It is now made up of the following four members: Georges Pauget (Chairman of the Appointment, Compensation & Governance Committee), Michel de Fabiani, Michael Jay and Ulrike Steinhorst, who are all considered independent according to the criteria set out in the Board's internal procedures, except for Michel de Fabiani.

According to its internal procedures, the roles and responsibilities of the Appointment, Compensation & Governance Committee include the following:

- a) concerning compensation:
 - studying and making recommendations concerning the compensation paid to executive 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 executive 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 first informs the Chairman of the Board and the Chief Executive Officer, it may be assisted by independent consultants.

The Appointment, Compensation & Governance Committee met four times in 2013 with an attendance rate of 100%.

During these meetings, the Committee:

- examined the independence of directors;
- reviewed the self-assessment of the operating procedures of the Board of Directors and its Committees;
- reviewed the applications from potential directors for the next Shareholders' Meeting;
- reviewed the variable portion of the Chief Executive Officer's compensation;
- reviewed the attendance fees payable to directors for 2012 and the policy for setting the amount of attendance fees;
- reviewed the compliance of the Company's practices in light of the recommendations in the AFEP-MEDEF Corporate Governance Code;
- reviewed the new points in the AFEP-MEDEF Corporate Governance Code published on June 16, 2013;
- examined the policy for allocating performance shares to the employees and corporate officers of the Group and proposed allocations;

- reviewed the draft report of the Chairman of the Board of Directors;
- issued proposals to amend the Board of Directors' internal procedures and the Audit & Risks Committee's internal procedures;
- reviewed the succession and development plans of the Group's main executive managers;
- reviewed the salary policy for the Group's main executive managers and their employees; and
- reviewed the changes to the composition of the Board's Committees.

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 on December 16, 2008, on the recommendation of the Appointment, Compensation & Governance Committee. The internal procedures were approved by the decision of the Board of Directors' meeting on 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.

At the beginning of 2013, the Strategy Committee had four members: Pascal Colombani (Chairman of the Strategy Committee), Gérard Blanc, Helle Kristoffersen and Thierry Moulouguet.

At its meeting on July 29, 2013, acting on the recommendation of the Appointment, Compensation & Governance Committee, the Board of Directors amended the composition of the Strategy Committee which is now made up of the following five members: Jérôme Contamine (Chairman of the Strategy Committee), Gérard Blanc, Sophie Dutordoir, Thierry Moulouguet and Georges Pauget who are all considered independent according to the criteria set out in the Board's internal procedures.

Furthermore, acting on the April 9, 2009 decision of the Board of Directors, the Strategy Committee includes Jacques Aschenbroich as a permanent guest of the Strategy Committee.

In accordance with its internal procedures, the Strategy Committee is responsible for submitting to the Board its opinions and recommendations on:

- the review of the Group's key strategies, market trend information, analyses of research activities, competition benchmarking and the resulting medium- and long-term outlook for the business; and
- the analysis of the Group's development projects, particularly external growth transactions involving acquisitions and disposals of subsidiaries, equity investments and other assets, and any investments or borrowings in excess of 50 million euros per transaction.

In agreement with the Chairman of the Board, the Committee may invite other directors to participate in its debates or meet with any other competent person (senior management, independent consultants) to discuss matters dealt with by the Committee.

The Strategy Committee met four times in 2013 with an attendance rate of 89.5%. 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;
- studied the Company's medium-term plan;
- reviewed the Company's technological roadmaps; and
- reviewed its operating procedures, the topics that the Committee would like to address in the coming years and the program for the fiscal year 2014.

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 & 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 on October 17, 2013, noting that an outside advisor had assessed its operations last year, decided to assess its operations internally. The assessment carried out at the beginning of 2014 by the Secretary to the Board (General Counsel), using a questionnaire given to each director, provided assessments of how the Board functions and suggestions for improvement. 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 & Governance Committee at its meeting on January 21, 2014, and presented and discussed at the Board of Directors' meeting held on January 23, 2014. The review highlighted the directors' very positive assessment of Valeo's governance. The directors were very satisfied with how the Board and its Committees operate as regards the level of information, the organization of the discussions and directors' contributions to the Board's work. The review also gave rise to several suggestions and areas for improvement, such as diversifying directors' skills, increasing the time devoted to social and environmental matters and facilitating the presence of certain managers when presentations are made on specific topics.

During the analysis of this assessment, the Board continued to contemplate the appropriate balance of its composition and that of its Committees. According to the internal procedures of the Appointment, Compensation & Governance Committee, this Committee recommends candidates to become directors and members or Chairman of the Audit & Risks Committee or Chairman of the Strategy Committee. The Committee may, in particular, take into account the appropriate balance of the composition of the Board based on the composition of the Company's shareholding structure and changes to this structure, the integrity, competences, experience and independence of each candidate, and the appropriate number of independent directors. Furthermore, the Appointment, Compensation & Governance Committee must strive to reflect diverse experience and perspectives, while ensuring for the Board the objectivity and independence required in relation to General Management and in relation to a specific shareholder or group of shareholders.

The appointment of Sophie Dutordoir as a director by the Shareholders' Meeting on June 6, 2013 is in line with the analysis the Board has undertaken on changes in the composition of the Board, taking into account the legal requirement by 2017 for 40% of Board members to be women. At its meeting on July 29, 2013, the Board also decided, on the recommendation of the Appointment, Compensation & Governance Committee, to rotate certain Committee members in order to diversify the experience, in particular the international experience, of the Board's members.

Furthermore, at its meeting on July 29, 2013, the Board of Directors, on the recommendation of the Appointment, Compensation & Governance Committee, amended its internal procedures. They now specify, in accordance with the AFEF-MEDEF Corporate Governance Code, that *"non-executive directors shall meet periodically in the absence of executive or internal directors. Such a meeting must be scheduled once a year during which the performance of the Chairman of the Board and the Chief Executive Officer shall be assessed and which shall present the opportunity to periodically discuss the future of the management."*

3.2.3 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 enter into 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, as far as the Company is aware, between the duties of these corporate officers towards Valeo and their private interests and/or other duties.

According to the internal procedures, directors are required to inform the Board of any conflicts of interest and must refrain from taking part in voting on any matters discussed by the Board in which there could be a conflict of interest. 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 & Governance Committee, amended its internal procedures by adding a provision prohibiting a director from accepting 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 & 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 & 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. In addition, following the amendment to the internal procedures that was proposed by the Appointment, Compensation & Governance Committee and adopted by the Board of Directors on July 29, 2013, each executive corporate officer must seek the opinion of the Board of Directors before accepting a new corporate office in a listed company.

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. As indicated in section 3.2.5, page 91, the shares allotted to the Company's Chief Executive Officer are subject to minimum holding periods.

Other than the declarations of Bpifrance Participations SA (formerly Fonds stratégique d'investissement - FSI) (see Chapter 6, section 6.6.6 "Relations with Bpifrance Participations", 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.

3.2.4 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 June 2013, 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 21.1, which recommends that the variable portion of directors' attendance fees must be the most significant portion. This rule is not followed, particularly for the Committee Chairmen, given the special duties for which they are responsible. The Company intends, however, to comply with this recommendation in the future;
- Article 23.2.1, which recommends that the executive corporate officers hold as registered shares until the end of their term of office a significant number of shares periodically determined by the Board of Directors and specifies that the number of shares, which may be made up of exercised stock options or performance shares, must be significant and increasing, where necessary, to a level determined by the Board. As regards the Chief Executive Officer, given the significant holding (50%) required of him or her 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 hold a specific number of registered shares, which must increase to an established level. As regards the Chairman, who is already required to have 500 shares in the Company throughout his term of office (pursuant to Article 14.4 of the articles of association and Article 1.1.b of the Board of Directors' internal procedures), he does not receive any attendance fees and is not granted any purchase options, subscription options or performance shares. Therefore, it does not seem relevant to require the Chairman to hold a significant and increasing number of registered shares;
- Article 23.2.4, which requires issuers to ensure that *"in accordance with terms determined by the Board and announced upon the allotment, the performance shares allotted to executive corporate officers are conditional upon the acquisition of a defined quantity of shares once the allotted shares are available."* 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%) on 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 23.2.6, pursuant to which, as regards additional pension plans, *"the beneficiaries must meet reasonable requirements of seniority within the Company, of at least two years, as determined by the Board of Directors, to benefit from payments from a defined benefit pension plan."* The Board of Directors' meeting of October 20, 2009, on a recommendation of the Appointment, Compensation & 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 for Listed Companies published in December 2008 and revised in April 2010 and June 2013 is available in French and English on the MEDEF website, www.medef.com.

3.2.5 Stock purchase option, stock subscription option and performance share allotment policy for executive corporate officers

Valeo applies the AFEP-MEDEF Corporate Governance Code for Listed Companies. Since the changes in corporate governance that took place within the Company in 2009, Valeo's stock purchase option or stock subscription option and performance share allotment policy follows the recommendations of the AFEP-MEDEF Code. Accordingly:

Concerning the allotment of stock purchase options and performance shares:

- the Board of Directors decides on each allotment of stock purchase options and performance shares, based on recommendations made by the Appointment, Compensation & Governance Committee;
- all stock purchase 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 purchase 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 purchase 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 purchase 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 purchase 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 purchase options and performance shares has a limited impact in terms of dilution; and
- stock purchase options and performance shares are allotted at the same periods of the year, to limit a windfall effect.

Concerning the price of stock purchase options and performance shares

- no discount is applied when stock purchase options are allotted; and
- executive corporate officers who benefit from stock purchase options and performance shares must formally undertake not to engage in hedging transactions.

Concerning the exercise of stock purchase options

Stock purchase 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 purchase 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 purchase 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 vested performance shares as registered shares until the end of his term of office.

Information on stock purchase options or stock subscription options and on performance shares allotted to the Chief Executive Officer is presented in this chapter, section 3.3.1, pages 98 to 103.

Information on stock options or subscription options and free shares allotted to the other executive corporate officers is presented in this chapter, sections 3.3.3 and 3.3.4, pages 105 to 108.

3.2.6 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 2013

Apart from Pascal Colombani and Jacques Aschenbroich, no Board member was paid any compensation or benefits other than attendance fees by the Company during 2013. For more information on this subject, see section 3.3.1 "Compensation of executive corporate officers", pages 95 to 103, and section 3.3.2 "Compensation of non-executive corporate officers", page 104.

Basis for allocating attendance fees

In accordance with the internal procedures applicable to the Board of Directors and the Appointment, Compensation & 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 & Governance Committee for allocating these attendance 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 & 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 & 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 & 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 at Board meetings over the previous six-month period was at least 50%. Failing this, the full amount of the fixed portion was not paid.

At its meeting on February 21, 2013, the Board of Directors, acting on the recommendation of the Appointment, Compensation & 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 2013 is presented in section 3.3.2 "Compensation of non-executive corporate officers", pages 104 to 105.

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 & Governance Committee, the Board of Directors' meeting on 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 on April 9, 2009, acting on a recommendation of the Appointment, Compensation & 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.

Compensation of 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 & Governance Committee and in compliance with the AFEP-MEDEF Corporate Governance Code for Listed Companies.

The fixed compensation of each corporate officer was established at the Board of Directors' meeting on 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 & 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 executive corporate officers is determined on a case-by-case basis. No variable compensation is paid to the Chairman of the Board. The principles governing the variable compensation payable to the Chief Executive Officer are reviewed and analyzed on an annual basis. See section 3.3.1 "Variable compensation", page 97, 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 section 3.3.1 "Pension plan", page 100). However, in accordance with its decision on 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.

3.2.7 Authorizations granted regarding sureties, endorsements and guarantees governed by Article R.225-28 of the French Commercial Code

Further to a decision dated February 21, 2013, 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 2013, no further commitments of this type were made by the Company's Chief Executive Officer.

3.2.8 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 on June 8, 2011, the Board of Directors, acting on a recommendation of the Appointment, Compensation & Governance Committee, maintained the separation of the duties of Chairman of the Board and Chief Executive Officer, decided by the Board of Directors' meeting on 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 on June 8, 2011, acting on a recommendation of the Appointment, Compensation & 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 of any kind, for a sum of more than 50 million euros per transaction.

3.2.9 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 2013:

- the following agreements contain commitments to the Chief Executive Officer, Jacques Aschenbroich:
 - a commitment in the form of life insurance covering death, disability or the consequences of any accidents that may occur during business travel (Board of Directors' decision of April 9, 2009). This policy is described in section 3.3.1 "Fixed compensation and benefits in kind", page 97;
 - a commitment in the form of a defined benefit pension plan (Board of Directors' decision of October 20, 2009). This policy is described in section 3.3.1 "Pension plan", page 100;
 - commitments in the form of termination benefits and non-competition payment. Acting on a recommendation of the Appointment, Compensation & Governance Committee, and based on the opinion of the Comité des Sages (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), the Board of Directors' meeting on 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 on 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 on 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 section 3.3.1 "Termination benefits and non-competition payment", page 100.

At its meeting on November 17, 2011, the Board of Directors approved the signing of the brand licensing agreement between the Company and the Group's operating subsidiary, Valeo Service. At its meetings on October 18, 2012 and January 22, 2013, the Board of Directors respectively authorized the renewal and the change in the term of the brand licensing agreement between the Company and Valeo Service. As of April 15, 2013, the licensing agreement between the Company and Valeo Service stopped being, for the Company, an agreement that falls within the scope of Article L.225-38 of the French Commercial Code.

With the exception of the change in the term of the brand licensing agreement mentioned above that was approved by the Shareholders' Meeting on June 6, 2013, no agreements or commitments that fall within the scope of Article L.225-38 of the French Commercial Code were authorized by the Board of Directors in 2013.

A special report on related party agreements and commitments has been drawn up by the Statutory Auditors in respect of the agreements described above (see Chapter 5, section 5.7, page 315).

3.2.10 Arrangements for attendance at Shareholders' Meetings

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 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.

3.2.11 Information likely to have an impact in the event of a public tender offer

Details concerning the information likely to have an impact in the event of a public tender offer, pursuant to Article L.225-100-3 of the French Commercial Code, are provided in Chapter 6, section 6.6.6, page 339.

3.3 Compensation of corporate officers, directors and other Group executive managers

3.3.1 Compensation of 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 & 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 & 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 & 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 & 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 & 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. This benefit is an employment allowance in kind (and not a benefit in kind).

In 2013, Valeo paid Pascal Colombani fixed compensation of 300,000 euros (as in 2012).

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 & 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 stock purchase or subscription options or performance shares were allotted to Pascal Colombani in 2013 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 purchase options and shares allotted to Pascal Colombani

(in euros)	2012	2013
Compensation	300,000	300,000
Value of stock purchase options allotted during the year	-	-
Value of performance shares allotted during the year	-	-
TOTAL	300,000	300,000

Summary of compensation paid to Pascal Colombani

(in euros)	2012		2013	
	Amount owed	Amount paid	Amount owed	Amount paid
Fixed compensation	300,000	300,000	300,000	300,000
Variable compensation	-	-	-	-
Exceptional compensation	-	-	-	-
Attendance fees	-	-	-	-
• o/w attendance fees paid by Valeo	-	-	-	-
• o/w attendance fees paid by controlled companies	-	-	-	-
Benefits in kind	-	-	-	-
TOTAL	300,000	300,000	300,000	300,000

Stock purchase options and stock 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	-	Not applicable	Not applicable

Stock purchase options and stock subscription options exercised by Pascal Colombani during the year

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

Allotments of stock purchase options and stock subscription options – Information concerning stock purchase options and stock 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	Payment relating to a non-competition clause
Pascal Colombani Chairman of the Board of Directors First appointed as a director: 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	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 & 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", page 100).

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 & 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 has been maintained since.

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 & Governance Committee, decided to maintain the same insurance coverage, without any modification. This coverage has been maintained since.

Valeo has also provided Jacques Aschenbroich with a company car.

In 2013, fixed compensation due to Jacques Aschenbroich by Valeo came to 916,740 euros (compared with 916,940 euros in 2012). This consists of fixed compensation of 900,000 euros gross (as in 2012) and 16,740 euros (compared with 16,940 euros in 2012) 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 & 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 2012, 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, whose expected level of achievement has been determined precisely but is not publicly disclosed for reasons of confidentiality. The qualitative component of the Chief Executive Officer's variable compensation depended on the following three criteria: (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 was from 0% to 15% for each of the five quantitative criteria, representing a maximum of 75%, and for the qualitative criteria, from 0% to 10% for the quality of financial communications and risk management, and from 0% to 25% for strategic vision, representing a maximum of 45%.

Variable compensation for 2012 had been 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 & Governance Committee, noted that the achievement rates for quantitative and qualitative criteria for 2012 were 41.8% and 44.2%, respectively of the fixed compensation paid to Jacques Aschenbroich for 2012, bringing the amount of variable compensation 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 & Governance Committee, decided that the variable compensation to be paid to Jacques Aschenbroich for 2013 would depend on the same quantitative and qualitative criteria as for 2012, and the variable compensation for 2013 was capped at 135% of Jacques Aschenbroich's fixed compensation.

The amount of variable compensation as a percentage of the basic fixed compensation would range from 0% to 17% for each quantitative criterion, representing a maximum of 85% for the quantitative criteria, and for the qualitative criteria, from 0% to 10% for the quality of financial communications, and from 0% to 20% for strategic vision as well risk management, representing a maximum of 50% for the qualitative criteria.

At its meeting on February 20, 2014, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, noted that the achievement rates for quantitative and qualitative criteria were 85% and 50%, respectively, of the fixed compensation due to Jacques Aschenbroich for 2013, bringing the amount of variable compensation paid to Jacques Aschenbroich for 2013 to 135% of his fixed compensation to be paid for the same year, i.e., 1,215,000 euros (compared with 774,000 euros in 2012).

At the same meeting, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided that, for 2014, the quantitative component of the Chief Executive Officer's variable compensation will depend 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 the qualitative component of the Chief Executive Officer's variable compensation will depend on the following three criteria: (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 will range from 0% to 17% for each of the five quantitative criteria 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 2014 has been 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 & Governance Committee, decided that no attendance fees would be paid to the Chief Executive Officer in respect of offices held in the Group.

Compensation paid by companies controlled by Valeo

In 2013, 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 & Governance Committee, it was decided that attendance fees would not be payable to the Chief Executive Officer for offices held within the Group.

Stock purchase options and performance shares

Allotments in 2012

At its meeting on March 27, 2012, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to allot stock purchase 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 purchase options and 11,400 existing performance shares to the Chief Executive Officer.

All the stock purchase 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 purchase options allotted can be exercised and all the performance shares allotted will vest;
- if two of the three average ratios for fiscal years 2012, 2013 and 2014 are reached, only 60% of the stock purchase options allotted can be exercised and 60% of the performance shares allotted 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 purchase options can be exercised and 30% of the performance shares allotted will vest, the remainder will be forfeited;
- if none of the three average ratios for fiscal years 2012, 2013 and 2014 are reached, no allotted options can be exercised, no performance shares allotted will vest, and all the options and performance shares will be canceled.

Stock purchase 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.

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 purchase 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 purchase 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 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 purchase 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).

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

At its meeting on March 27, 2012, the Board of Directors noted that the performance shares and stock purchase 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 for 2012.

Allotments in 2013

At its meeting on March 27, 2013, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided not to allot any stock purchase options but to allot performance shares to Jacques Aschenbroich under the terms and conditions adopted by the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, at its meeting on March 27, 2012 and announced to shareholders in the Board of Directors' report on the resolutions presented at the Shareholders' Meeting on June 4, 2012. The Board of Directors decided to allot 25,634 existing performance shares to the Chief Executive Officer.

All the performance shares allotted to the Chief Executive Officer are conditional upon the achievement of performance criteria measured over the 2013, 2014 and 2015 fiscal years. These criteria are (i) an average pre-tax return on assets (ROA) ratio over the period equal to or greater than 12.5%, and (ii) an operating margin ratio and a return on capital employed (ROCE) ratio such that the average over the three years of the reference period, of the ratio between the actual return achieved and the target return that will be set by the Board at the beginning of each reference year, and that will be at least equal to the guidance for the year under review, is equal to or greater than one. The following scale then applies:

- if all three criteria for fiscal years 2013, 2014 and 2015 are met, all the performance shares allotted will vest;
- if two of the three criteria for fiscal years 2013, 2014 and 2015 are met, only 60% of the performance shares will vest, the remainder will be forfeited;
- if only one of the three criteria for fiscal years 2013, 2014 and 2015 is met, only 30% of the performance shares allotted will vest, the remainder will be forfeited;
- if none of the three criteria for fiscal years 2013, 2014 and 2015 are met, no performance shares allotted will vest, and all the performance shares will be canceled.

The performance shares shall vest after the expiration of a three-year vesting period, the Chief Executive Officer will then have to hold the shares for two years. At the end of the two aforementioned periods, he must also hold at least 50% of the vested performance shares in the form of registered shares until the end of his term of office.

All the performance shares allotted to the Chief Executive Officer shall vest only if his term of office has not expired on the vesting date, (however, this presence condition may be waived by the Board of Directors unless his departure is attributable to gross negligence or misconduct).

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

The performance shares allotted to Jacques Aschenbroich during 2013 had a limited dilutive impact and represented 0.03% of the Company's share capital at December 31, 2013. At its meeting on March 27, 2013, the Board of Directors noted that the performance shares allotted to the Chief Executive Officer in 2013 valued at 35.11 euros, under IFRS, represented 100% 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 3.3.3 "Overall compensation of other Group executive managers", pages 106 to 107. 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 five additional years of service at the start of his tenure. The benefit that being covered by a pension plan represents is taken into account when determining the Chief Executive Officer's overall compensation.

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 & 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 & 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.

At its meeting on January 23, 2014, acting on the recommendation of the Appointment, Compensation & Governance Committee, the Board of Directors decided to adjust the supplementary pension plan to bring it in line with market practices. This adjustment, which will not have retroactive effect, consists in taking into account in the reference salary (calculated using an average of the last three years) the basic fixed compensation and the portion of variable compensation actually paid for the periods after February 1, 2014. The supplementary pension remains capped at 20% of the reference salary, which complies with and is even lower than the maximum percentage recommended by the AFEP-MEDEF Corporate Governance Code as amended in June 2013, that establishes a maximum percentage of 45% of the fixed and variable compensation due in the reference period. All the Group's senior executives benefited from this adjustment.

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 & 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 & 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 have been made since.

At its meeting on February 24, 2011, the Board of Directors, acting on the recommendation of the Appointment, Compensation & 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 payment of these benefits is 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 taken into account to determine his termination benefit. 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 purchase options and performance shares allotted to Jacques Aschenbroich

(in euros)	2012	2013
Compensation	1,690,940	2,131,740
Value of stock purchase options allotted during the year ⁽¹⁾	355,824	-
Value of performance shares allotted during the year ⁽¹⁾	371,640	900,000
TOTAL	2,418,404	3,031,740

(1) All stock purchase options and performance shares allotted to the Chief Executive Officer are subject to the achievement of performance criteria (see section 3.2.5, page 91). The performance criteria linked to the stock purchase options and performance shares allotted to the Chief Executive Officer for the years ended December 31, 2012 and December 31, 2013 are described in this section on pages 98 to 100.

Summary of compensation paid to Jacques Aschenbroich

(in euros)	2012		2013	
	Amount owed	Amount paid	Amount owed	Amount paid
Fixed compensation	900,000	900,000	900,000	900,000
Variable compensation	774,000	747,292	1,215,000	774,000
Exceptional compensation	-	-	-	-
Attendance fees	-	-	-	-
• o/w attendance fees paid by Valeo	-	-	-	-
• o/w attendance fees paid by controlled companies	-	-	-	-
Benefits in kind ⁽¹⁾	16,940	16,940	16,740	16,740
TOTAL	1,690,940	1,664,232	2,131,740	1,690,740

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

Stock purchase options and stock 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
Not applicable	Not applicable	Not applicable	-	Not applicable	Not applicable	Not applicable

Stock purchase options and stock subscription options exercised by Jacques Aschenbroich during the year

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

Performance shares allotted to Jacques Aschenbroich during the year

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
	03/27/2013	25,634	€900,000	03/27/2016	03/27/2018 ⁽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) All performance shares allotted to the Chief Executive Officer are subject to the achievement of performance criteria (see section 3.2.5, page 91). The performance criteria linked to the performance shares allotted to the Chief Executive Officer during 2013 are described in this section on pages 99 to 100.

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	-	Not applicable

Allotments of free shares to Jacques Aschenbroich – Information concerning free shares allotted

Date of Shareholders' Meeting	06/03/2010	06/08/2011	06/08/2011	06/04/2012
Date of Board meeting	06/24/2010	06/08/2011	03/27/2012	03/27/2013
Total number of free shares allotted	400,000	326,860	213,140	473,814
o/w allotted to Jacques Aschenbroich ⁽¹⁾	50,000	15,600	11,400	25,634
Vesting date of shares	06/24/2012	06/08/2014	03/27/2015	03/27/2016
End of holding period	06/24/2014	06/08/2016	03/27/2017	03/27/2018
Total number of shares canceled or forfeited	55,305	41,062	12,171	13,426
Free shares allotted remaining at year-end	119,669	283,058	200,297	460,388

(1) All performance shares allotted to the Chief Executive Officer are subject to the achievement of performance criteria (see section 3.2.5, page 91). The performance criteria linked to the performance shares allotted to the Chief Executive Officer during 2012 and 2013 are described in this section on pages 98 to 100.

Allotments of stock purchase options and stock subscription options to Jacques Aschenbroich – Information concerning stock purchase options and stock subscription options

Date of Shareholders' Meeting	06/03/2010	06/08/2011	06/08/2011	06/04/2012
Date of Board meeting	06/24/2010	06/08/2011	03/27/2012	03/27/2013 ⁽³⁾
Total number of shares that can be purchased	1,000,000	292,840	367,160	-
o/w total number of shares that can be purchased by Jacques Aschenbroich ⁽¹⁾	100,000	30,300	35,300	-
Start of exercise period	06/24/2012	06/08/2014	03/27/2015	-
Expiration date	06/23/2018	06/07/2019	03/26/2020	-
Purchase price ⁽²⁾	€24.07	€42.41	€40.78	-
Number of shares purchased at February 20, 2014	0	0	0	-
Number of stock purchase options and stock subscription options canceled or forfeited (cumulative)	140,762	42,500	23,100	-
Stock purchase options and stock subscription options remaining at year-end	633,753	249,340	342,860	-

(1) All stock options allotted to the Chief Executive Officer are subject to the achievement of performance criteria (see section 3.2.5, page 91). The performance criteria linked to the stock options allotted to the Chief Executive Officer during 2012 are described in this section on pages 98 to 99.

(2) 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.

(3) At its meeting on March 27, 2013, the Board decided not to allot any stock options.

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 Start of current term of office: 06/08/2011 End of current term of office: Shareholders' Meeting called to approve the 2014 financial statements		The pension plan covering Jacques Aschenbroich is detailed in "Pension plan" on page 100. At December 31, 2013, the supplementary pension benefits of Jacques Aschenbroich represented 9% of his reference salary ⁽¹⁾ , i.e., a yearly pension allowance of 80,375 euros.	For a description of these benefits, see "Termination benefits and non-competition payment" on page 100.	For a description of this benefit, see "Termination benefits and non-competition payment" on page 100.

(1) Jacques Aschenbroich's reference salary, which is the average of the last 36 months of basic fixed compensation and excludes the variable component and exceptional compensation, amounted to 893,056 euros at December 31, 2013.

3.3.2 Compensation of non-executive corporate officers

Non-executive corporate officers are paid attendance fees. On July 27, 2010, the Board of Directors decided that attendance fees would be allocated by the Board of Directors, 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 & 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 & 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.

On February 21, 2013, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided to increase the variable portion received by directors by 10% and not to apply the attendance requirement to the fixed portion. Since that

date, the variable portion paid to directors attending Board and committee meetings increased from 2,000 euros to 2,200 euros per meeting attended.

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

- Before February 21, 2013:
 - the variable portion is paid based on the number of meetings that the director has actually attended; and
 - the fixed portion is paid in full 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.
- Since February 21, 2013:
 - the fixed portion is paid in full; and
 - the variable portion is paid based on the number of meetings that the director has actually attended.

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 purchase options, stock subscription options or performance shares. No director holds any stock purchase options or stock subscription options.

Summary of attendance fees and other compensation paid to corporate officers

Attendance fees paid to Board members amounted to 490,000 euros in 2013, compared with 476,000 euros in 2012. Attendance fees were distributed as follows:

(in euros)	Attendance fees		Other compensation (fixed, variable or exceptional compensation, benefits in kind)	
	2012	2013	2012	2013
Executive corporate officers				
Pascal Colombani	-	-	300,000	300,000
Jacques Aschenbroich	-	-	1,664,232	1,690,740
Non-executive corporate officers				
G�rard Blanc	46,000	43,600	-	-
Daniel Camus	65,000 ⁽¹⁾	56,600 ⁽¹⁾	-	-
J�r�me Contamine	54,000	55,400	-	-
Michel de Fabiani	50,000	45,800	-	-
Michael Jay	40,000 ⁽²⁾	43,400 ⁽²⁾	-	-
Helle Kristoffersen ⁽³⁾	23,000	21,600	-	-
No�lle Lenoir	46,000	45,600	-	-
Thierry Moulonguet	52,000	50,200	-	-
Georges Pauget	54,000	64,600	-	-
Ulrike Steinhorst	46,000	43,400	-	-
Sophie Dutordoir ⁽⁴⁾	-	19,800 ⁽⁵⁾	-	-
TOTAL	476,000	490,000	1,964,232	1,990,740

(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) 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) Helle Kristoffersen's term of office came to an end on June 6, 2013.

(4) Sophie Dutordoir was appointed as a director of the Company on June 6, 2013.

(5) The amount corresponds to the gross amount of attendance fees subject to a 30% withholding tax, as Sophie Dutordoir is not a French resident.

3.3.3 Overall compensation of other Group executive managers

The other executive managers are members of the Operations Committee, which at December 31, 2013 was made up of 14 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 joined the Committee at the beginning of October 2013, who will replace Hans-Peter Kunze as of January 1, 2014 as Senior Vice-President, Sales & Business Development) came to 7,785,629 euros in 2013 (compared with 8,427,024 euros in 2012), of which 5,772,203 euros in fixed compensation, 1,811,889 euros in variable compensation, 101,085 euros in benefits in kind, 10,369 euros in profit-sharing and incentive compensation bonuses, and 90,083 euros in long-service bonuses.

At its meeting on March 27, 2013, the Board of Directors, acting on the recommendation of the Appointment, Compensation & Governance Committee, decided not to allot stock purchase options in 2013 and only to allot free shares or performance shares to employees and corporate officers under the terms and conditions adopted by the Board of Directors at its meeting on March 27, 2012 and announced to shareholders in the Board of Directors' report on the resolutions presented at the Shareholders' Meeting on June 4, 2012. The Board of Directors decided to allot 473,814 free shares or existing shares to employees and corporate officers of which:

- 74,400 performance shares to the Operations Committee members (excluding Jacques Aschenbroich);
- 42,780 performance shares to the Liaison Committee members (other than the Operations Committee members);

- 161,000 free shares or performance shares to the main direct reports of the Liaison Committee members; and
- up to 170,000 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, 2013 and acting on the recommendation of the Appointment, Compensation & Governance Committee, all the performance shares allotted to the Operations Committee members (excluding Jacques Aschenbroich) are subject to the same performance criteria as the performance shares allotted to the Chief Executive Officer by the Board of Directors on the same day (described in "Stock purchase options and performance shares", section 3.3.1, pages 99 to 100).

All the performance shares allotted to the members of the Operations Committee are conditional upon the achievement of performance criteria measured over the 2013, 2014 and 2015 fiscal years. These criteria are (i) an average pre-tax return on assets (ROA) ratio over the period equal to or greater than 12.5%, and (ii) an operating margin ratio and a return on capital employed (ROCE) ratio such that the average over the three years of the reference period, of the ratio between the actual return achieved and the target return that will be set by the Board at the beginning of each reference year, and that will be at least equal to the guidance for the year under review, is equal to or greater than one. The following scale then applies:

- if all three criteria for fiscal years 2013, 2014 and 2015 are met, all the performance shares allotted will vest;
- if two of the three criteria for fiscal years 2013, 2014 and 2015 are met, only 60% of the performance shares allotted will vest, the remainder will be forfeited;
- if only one of the three criteria for fiscal years 2013, 2014 and 2015 is met, only 30% of the performance shares allotted will vest, the remainder will be forfeited;
- if none of the three criteria for fiscal years 2013, 2014 and 2015 are met, no performance shares allotted will vest, and all the performance shares will be canceled.

In accordance with the principles adopted by the Board of Directors at its meeting on March 27, 2013 and acting on the recommendation of the Appointment, Compensation & Governance Committee, all the performance shares allotted to the Liaison Committee members (other than the Operations Committee members) and 50% of the performance shares allotted to the main direct reports of the Liaison Committee members are conditional upon the achievement of two performance targets: an operating margin ratio and a return on capital employed (ROCE) ratio such that the average over the three years of the reference period, of the ratio between the actual return achieved and the target return that will be set by the Board at the beginning of each reference year, and that will be at least equal to the guidance for the year under

review, is equal to or greater than one. The following rule applies to allotments subject to performance criteria and performance shares:

- if both criteria are met for fiscal years 2013, 2014 and 2015, all the performance shares allotted will vest;
- if only one of the two criteria is met for fiscal years 2013, 2014 and 2015, 50% of the performance shares allotted will vest, the remainder will be forfeited;
- if neither of the two criteria is met for fiscal years 2013, 2014 and 2015, no performance shares allotted will vest, and all the performance shares will be canceled.

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.

Free shares that are not subject to performance criteria will vest after the expiration of a three-year vesting period, and the beneficiaries must hold the shares for a two-year period; however, this holding period will be three years for beneficiaries who are Italian and Spanish tax residents, and the vesting period is five years for beneficiaries who are tax residents of other countries. In exchange, they are exempt from the minimum holding period.

All 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 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 free shares or performance shares allotted to employees and corporate officers, including Jacques Aschenbroich, during 2013 were all existing shares and therefore had no dilutive impact; they represented 0.60% of the Company's share capital at December 31, 2013. All the shares to which the stock purchase options give access and the free shares or performance shares allotted to employees and corporate officers, including Jacques Aschenbroich, since 2010, represented respectively 2.09% and 1.78% of the Company's share capital at December 31, 2013.

At its meeting on October 20, 2009, the Board of Directors, acting on the recommendation of the Appointment, Compensation & 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:

- cap due to the nature of the plan: additional pension of 1% of the reference salary per year of seniority, 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 maximum of 20%;
- cap on the basis for the determination of the rights: the total amount of vested retirement rights, all professional activities resulting from all plans (mandatory plans in France and mandatory collective equivalent outside France) combined, including those from other supplementary pension plans of Valeo, acquired by the beneficiary in respect of his/her entire activity in France and outside France, shall in no case exceed 55% of the salary at the time of retirement.

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", section 3.3.1, page 100).

At its meeting on February 21, 2012, the Board of Directors, acting on the recommendation of the Appointment, Compensation & 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.

Lastly, at its meeting on January 23, 2014, acting on the recommendation of the Appointment, Compensation & Governance Committee, the Board of Directors decided to adjust the supplementary pension plan to bring it in line with market practices. This adjustment, which will not have retroactive effect, involves taking into account in the reference salary (calculated using an average of the last three years) the basic fixed compensation and the portion of variable compensation actually paid for the periods after February 1, 2014. The supplementary pension remains capped at 20% of the reference salary, which complies with and is even lower than the maximum percentage recommended by the AFEP-MEDEF Corporate Governance Code as amended in June 2013, that establishes a maximum percentage of 45% of the fixed and variable compensation due in the reference period. All the Group's senior executives benefited from this adjustment.

3.3.4 Information about stock purchase options, stock subscription options and performance shares

The stock purchase option, stock subscription option and performance share allotment policy is set out in section 3.2.5 of this Chapter, page 91, and in section 3.3.1, pages 98 to 103 regarding allotments to executive corporate officers, as well as in section 3.3.3, pages 105 to 107 and in this section regarding allotments to other beneficiaries. Stock purchase options and free share allotments are described in detail in Chapter 6, section 6.6.3, pages 334 to 337.

Stock purchase options and stock subscription options allotted and exercised during the year

Stock purchase options and subscription options allotted to the ten employees receiving the greatest number of options and options exercised by the ten employees exercising the greatest number of options, excluding corporate officers

	Number of options allotted/exercised	Weighted average strike price	Expiration date	Date of Board meeting
Options allotted in 2013 by Valeo and/or other Group companies to the ten employees of the issuer or other Group companies receiving the greatest number of options	-	-	-	-
Options exercised in 2013 by the ten employees of the issuer or other Group companies holding the greatest number of options	419,950	€35.09	11/16/2013 11/19/2014 03/06/2015 11/14/2015 03/19/2016 03/23/2018	11/17/2005 11/20/2006 03/07/2007 11/15/2007 03/20/2008 06/24/2010

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⁾	65,000	03/27/2013

(1) Valued at 35.11 euros on the grant date, under IFRS.

3.3.5 Pensions and other post-employment benefits and related provisions

At December 31, 2013, 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 14 million euros, as opposed to 11 million euros at December 31, 2012.

At December 31, 2013, 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, 1.8 million euros, as opposed to 6.2 million euros at December 31, 2012 and 107,069 euros, as opposed to 103,448 euros at December 31, 2012.

3.4 Internal control and risk management AFR

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 Guide 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.

3.4.1 Internal control and risk management – Definitions and applicable standards

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 safeguard its assets;
- risk management;
- 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 Guide.

3.4.2 Scope of internal control and risk management

Valeo's internal control and risk management procedures are applied to the entire Valeo Group, defined as the parent company Valeo and all of its fully consolidated subsidiaries.

3.4.3 Components of the Valeo Group'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: 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.

Capitalizing on its Code of Ethics and its culture of integrity, the Group has implemented a compliance initiative since 2012 under the aegis of the Ethics and Compliance Department, which created a program to fight corruption and anti-competitive practices. This program is both in-depth and specific, and is adapted to the regulatory constraints and the culture of the countries where Valeo operates.

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.

Risk management procedures are coordinated by a Risk Committee made up of nine permanent members: 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. This Committee met six times in 2013 and is tasked with reviewing the risk mapping process and overseeing the dynamic system for risk management. This involves identifying for each major risk in the mapping process a "risk owner" who reports 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 & Risks Committee at its meeting on November 19, 2013. 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 "Risk factors". They are:

- operational risks, which include in particular risks relating to the automotive supply business, risks relating to the development of new products, supplier default risks, geopolitical risks and IT failure risks;
- environmental risks, industrial risks and risks related to natural disasters;
- legal risks, comprising notably risks relating to intellectual property, risks relating to products and services provided, risks of non-compliance with law or the Code of Ethics, and risks relating to ongoing claims, litigation, and governmental, legal and arbitration proceedings;
- financial risks, which include liquidity risk, risk related to commodities, foreign exchange risk, interest rate risk, bank counterparty risk, equities risk and customer 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 above.

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 2013, 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 5000. In addition, the QRQC (Quick Response Quality Control) method ensures the prompt implementation of corrective action, and the Lessons Learned Cards (LLC) process enables the Group to monitor best practices and explore avenues for improvement. 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. These seminars were updated in 2012 and 2013. 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.

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 and Internal Control Department. This Department is tasked with carrying out assignments within the Group to ensure that the procedures set up, which do not only concern the reliability of financial and accounting information, 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 and using rotation criteria. For 2013, Internal Audit performed financial and IT audits of the operational

entities and shared services centers (finance) as well as cross-functional audits examining the development process for R&D projects and the construction process for plants in emerging countries.

Internal Audit also investigated fraud at the request of the Operations Committee following alerts received. The Audit & Risks Committee was informed of the findings of the investigations carried out by Internal Audit and the action plans to be put in place.

Recommendations for critical issues identified during the various assignments carried out by Internal Audit are put forward to the audited entities, which are subsequently required to implement appropriate action plans. Internal Audit's work and findings, as well as the progress made with the action plans in the audited entities, are presented to the Audit & Risks Committee every year in accordance with the Committee's internal procedures.

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, 2013, these two standards had been awarded to 109 and 102 sites respectively, out of a total of 116 sites. The percentage of ISO 14001 and OHSAS 18001 certified sites is therefore 94% and 88%, respectively.

3.4.4 Organization of internal control and description of the assessment process

Internal Control is a unit with the Internal Audit and Internal Control Department based at the headquarters. It works with a network of internal controllers who report to the Business Groups in Europe and the National Directorates in the other geographic areas.

The Group has developed a self-assessment process based on a questionnaire in order to measure and assess the relevance and correct implementation of existing internal control procedures throughout all of its entities.

To assess entities' compliance with the internal control system, the Group used the following two initiatives in 2013:

- 1) Launching the internal control "action plans" campaign conducted in 65 management entities based on two criteria: sales and the rate of compliance based on the self-assessment campaign in 2012. The goal of this specific campaign, which started in 2013, was to ensure that the major action plans identified to make the level of internal control more reliable were implemented in the entities concerned.

- 2) Rollout of a self-assessment questionnaire that focuses on the following 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. The self-assessment campaign involved 127 operational entities and 21 shared services centers (finance). In 2013, the entities that integrated the Group as a result of the acquisition of the Niles Group did not take part in the internal control self-assessment campaign.

Rules relating to documentation and testing – particularly regarding the size of the sample used – are set out so as to ensure reliability and uniformity of the tests carried out in the entities. A special database of internal control best practices has been posted on the Group's intranet.

A report on the two initiatives implemented in 2013 was presented to the Audit & Risks Committee on November 19, 2013. The results highlight a certain disparity between the regions and the need for the Group to support growth in emerging countries through training initiatives on the Group's internal control standards. The results 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 3.4.6 "Outlook" of this chapter.

In addition to the internal control self-assessment and the implementation of action plans, Valeo has rolled out a procedure aimed at reviewing user profiles and access controls for the integrated business software package used 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.

3.4.5 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 the International Financial Reporting Standards (IFRS) as adopted by the European Union. 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⁾ by Business Groups/Product Groups and geographic areas;
- 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.

3.4.6 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 2014, the Group's goal is to strengthen the resources dedicated to internal control at the headquarter and regional levels, in order to better coordinate the action plans and support growth in emerging countries.

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.

This approach is actively supported by the Group's General Management.

(1) See Financial glossary, section 5.9, page 319.

3.5 Statutory Auditors' report, prepared in accordance with Article L.225-235 of the French Commercial Code, on the report prepared by the Chairman of the Board of Directors of Valeo AFR

Year ended December 31, 2013

This is a free translation into English of the Statutory Auditors' special report on the report prepared by the Chairman of the Board of Directors of Valeo 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.

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 for the year ended December 31, 2013.

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 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. 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.

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.

Courbevoie and Paris-La Défense, February 20, 2014
The Statutory Auditors (*French original signed by*)

MAZARS

David Chaudat

Lionel Gotlib

ERNST & YOUNG et Autres

Jean-François Ginies

Gilles Puissochet



Valeo believes that its employees are its most vital asset.

4

SUSTAINABLE DEVELOPMENT

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4.1 Sustainable development policy

Valeo has promoted the values of the UN Global Compact ever since it signed up to the principles in 2004. Set up in 2011, the Sustainable Development Department works with functional and operational departments – mainly the Human Resources Department and Risk Insurance Environment Department (RIE) – to provide Group-wide training and targeted initiatives.

Valeo plays a role in designing and creating the car of the future, drawing on the strength of its human capital and maintaining active relations with all of its stakeholders, from its order-givers to its direct and indirect suppliers, within the automotive industry and across all value chains.

4.1.1 Valeo, designing vehicles while taking greater steps to protect the environment

Ongoing progress in research to reduce CO₂ emissions and promote intuitive driving

Reducing CO₂ emissions is a top priority in the Valeo Group's strategy, while aiming to produce more energy-efficient vehicles. Valeo also creates innovative solutions to advance in safety, reliability, sustainable mobility and connectivity.

The R&D process at Valeo is:

- forward-looking in terms of consumer demand;
- integrated based on "Megatrend" studies;
- local, by adapting to the specific needs of markets;

- customer-centric, focused on the needs and requirements of local markets;
- collaborative, involving all players in the business.

Increasingly higher environmental standards for production processes

Valeo aims to reduce its carbon footprint (water, energy, greenhouse gases) by 10% at its 124 sites worldwide by 2015. The Group's environmental performance and targets are described in section 4.3 "Environmental performance", page 131.

4.1.2 Valeo bases its corporate responsibility on the development of human capital

Being a responsible company, Valeo strives to provide its employees with motivating working conditions in line with fundamental human rights and applicable laws by promoting active corporate social responsibility. This CSR policy encompasses:

- health and safety;
- well-being;
- training and employability;
- labor practices.

Over the past few years, Valeo has made a priority of reinforcing its internal ethics and compliance requirements with a program that includes training, awareness campaigns and communication tools.

Integrating Ethics and Compliance: efforts and monitoring in support of values

In 2012, the Ethics and Compliance Department focused on designing the compliance program and setting up an intensive training program including both face-to-face and e-learning courses.

The program was developed further in 2013, by:

- rolling out the program across the Group, by country and function;
- creating specific tools and methods in response to the concerns, risks and needs of the individual business lines;

- continuing and implementing training on a large scale: over 22,000 engineers and managers were trained in corruption risk and the fight against anti-competitive practices;
- taking all the preparatory steps to launch a whistleblower hotline in January 2014: checks and authorizations.

CSR measurement tools: tomorrow's responsible development indicators

In an effort to continuously assess and modernize its initiative, the Sustainable Development Department in coordination with the RIE department and the Human Resources Department put in place an annual reporting tool in 2008. It was updated in 2013 to track social, corporate citizenship and environmental performance at Valeo's various sites (Plants' Initiatives). In 2013, the Group had 100% feedback from its sites on sustainable development initiatives. The commitment of the Group's 124 sites to take action and to

assess their impacts on local populations made it possible to measure the encouraging progress made in 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. In doing so, sustainable development focuses on site employees and the inhabitants of local communities who can interact within the structured framework that has been set up. Most of the results are provided in this chapter.

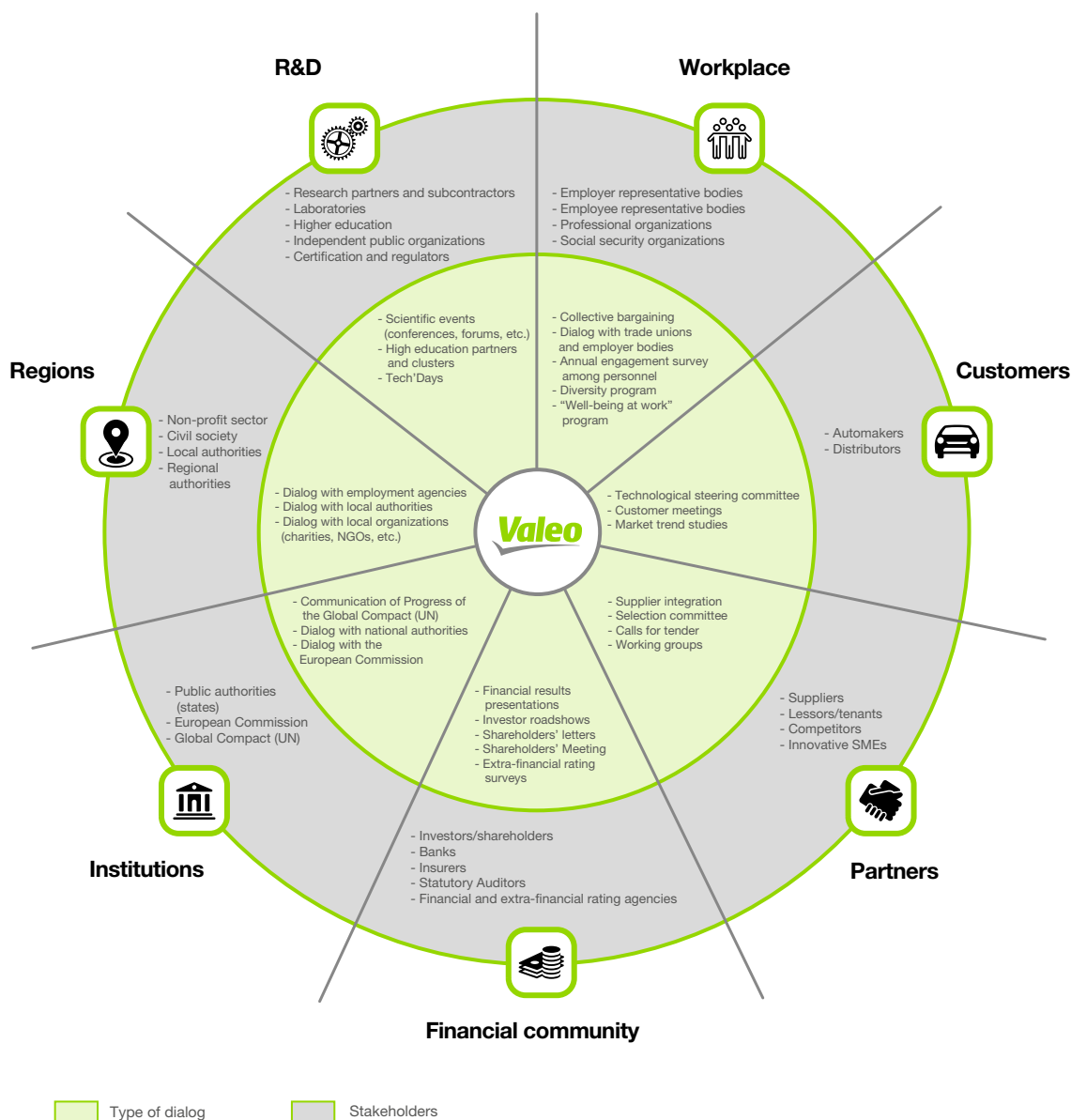
In 2013, Valeo had a vast internal survey conducted among its engineers and managers. With nearly 80% of these employees participating, the Human Resources network was able to identify their needs and define future strategic issues. Similarly, a working group was created under the Diversity program for each of Valeo's four priority issues (gender, disability, cultural and generational issues). See section 4.4 "Labor-related indicators", pages 173 to 179 for further information on the measures taken.

4.1.3 Valeo forges strong relationships with its stakeholders

Valeo is part of a competitive economic, industrial and social whole. With its innovative and responsible approach to the automotive industry, the Group maintains relationships with the different stakeholder groups that are involved throughout the production process. This includes the design (research

centers and universities, engineers), production (suppliers, employees) and sales (automakers, distribution networks) stages for the original equipment and aftermarket segment.

In 2013, Valeo listed its stakeholders and evaluated its engagement with each of them.



Valeo, a key driver of a sustainable automotive industry

As a steward of the French automotive industry, Valeo was an investor in the Automotive Suppliers' Modernization Fund (*Fonds de Modernisation des Equipementiers Automobiles – FMEA*), dedicated to a selection of tier-two suppliers. The Group, along with other major industry suppliers, is a key driver of tier-two⁽¹⁾, three or four suppliers helping them consolidate their activities both in France and in growing markets.

Placing great importance on its involvement in different consultation bodies in the automotive industry, Valeo actively participates in national, European and international working groups:

- in France the Group took part in creating the Automotive Industry Platform (*Plateforme de la Filière Automobile – PFA*), which works to improve customer-supplier relationships and in turn better align research and production;
- in Europe, Valeo is involved in European collaborative, pre-competitive research through the European Road Transport Research Advisory Council (ERTRAC);
- in a global strategic framework, Valeo is also a member of the French-Chinese automotive industry working group that is coordinated by the countries' respective ministries of industry;
- in the United States, Valeo works with the National Highway Traffic Safety Administration (NHTSA) research teams.

Valeo, corporate citizen and partner to sustainable development

The Group drives social and environmental initiatives at the local level by establishing contact and offering support for local authorities.

Valeo's technological choices have an impact on the upstream supply chain (materials, systems, etc.). The 2013 CSR Survey was conducted to better understand suppliers' progress in their sustainable development initiatives, based on economic (plant optimization), environmental (certification) and social (labor law) criteria. The Group focuses on working with locally-based suppliers with practices in line with its expectations. The survey helps identify and guide suppliers in their global sustainable development approach.

To increase transparency, Valeo reports on all core Global Reporting Initiative (GRI)⁽²⁾ indicators and on the additional GRI indicators that it considers relevant. Core indicators are identified in this report in a green box, while additional indicators are identified in a gray box. A cross-reference table is available on page 195.

(1) The tier corresponds to the automotive suppliers 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.
(2) See Sustainable Development Glossary, section 4.6.3, page 201.

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

Designing the automobile of tomorrow, efficiently meeting current market demands, anticipating future needs and creating them through innovation and technology are the fundamental principles of Valeo's Research and Development (R&D) strategy.

The Group's key R&D performance indicators

	2012	2013	Change
Research and Development expenditure, net (<i>as a % of sales</i>)	5.2%	5.3%	+0.1 pts
R&D headcount	8,800	9,400	+7%
Number of customer projects managed	2,100	2,200	+5%
Number of collaborative projects	>60	>60	=
Number of patents filed	722	786	+8.8%
Proportion of innovation in the order intake	28%	30%	+2 pts

4.2.1 Valeo's vision and innovation policy

Innovation policy guidelines

To ensure that its products meet 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 ten-year technological roadmaps. 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 the "Megatrend" studies. New innovations 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 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 and research centers, within public/private partnerships or as part of European or French research programs.

Through this all-encompassing strategy, Valeo aims to be a catalyzer, fostering the emergence of innovative technological solutions within its value chain.

From analysis of “Megatrends” to the notion of vehicles of tomorrow

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

Urban mobility is also set to change in the coming years. Vehicles will be used differently (frequency, distance, travel range, sharing), leading to different forms of user interaction with the vehicles of tomorrow.

Other factors must also be taken into account, such as new and tighter legislative requirements worldwide (European standards: emissions of 95 g of CO₂/km by 2021, improved Euro NCAP safety⁽¹⁾).

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 CO₂ emissions. With its broad portfolio of innovative products, it is an essential partner for automakers. The CO₂ emissions quota of 95g of CO₂/km imposed by the European Commission by 2021 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 CO₂ emissions as well as other pollutants such as nitrogen oxides are being reinforced. These standards impose considerable technical constraints and new challenges: some technologies reducing CO₂ emissions can paradoxically undermine a vehicle's overall environmental performance, in areas such as particulate emissions (diesel).

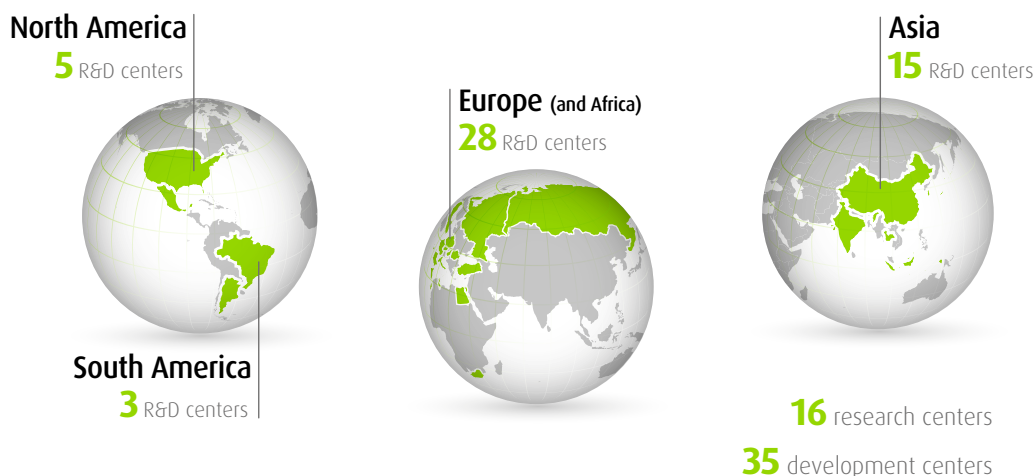
Automotive suppliers, especially their powertrain systems (combustion engines, electric motors and transmissions) and thermal systems (climate control and engine cooling) entities, can play a crucial role alongside automakers in rising to these new challenges and achieving regulatory objectives;

- **savings on energy and raw materials.** Reducing fuel consumption is not the only way to reduce a vehicle's overall environmental footprint. Valeo takes care to make eco-design central to its R&D process. Valeo's teams also make continuous efforts to use recycled materials and to scale back the use of materials that are rare or difficult to procure;
- **intuitive driving and safety:** Valeo is a global leader in driving assistance which is becoming safer, more autonomous and more connected. So-called “intuitive” driving has three objectives:
 - facilitate urban maneuvers,
 - assist drivers in various driving situations,
 - encourage interaction between the vehicle, the driver and the surrounding environment;
- **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.

(1) Euro NCAP provides motoring consumers with a realistic and independent assessment of the safety performance of European cars.

4.2.2 R&D organization

R&D worldwide



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** are dedicated to pure research, advanced engineering and the formulation of new product standards. There are currently 16 centers, following the sale of the Access Mechanisms business;
- **development centers** adapt standards in line with customer requirements and coordinate the work of launch and support teams together with front office personnel. There are currently 35 of these centers, following the sale of the Access Mechanisms business;
- **launch and support teams** are tasked with launching new products and providing support throughout the production phase;
- **front office personnel** work alongside customers, assisting with product definition and providing back-up for project teams;
- **Group technical service centers** provide specific competences in a cross-disciplinary manner, especially for the development of software and electronics.

In 2013, Valeo's R&D teams managed nearly 2,200 projects as a direct result of the Group's strong presence in all automotive markets worldwide.

With 5.3% of its sales plowed back into net R&D expenditure, **Valeo maintains a high level of R&D expenditure** in order to offer its customers, year after year, the best of technological innovations to meet a specific need.

Promoting talent dedicated to R&D by providing ongoing training and adapting locally

Globally, the number of people working in R&D increased by 7% year-on-year, rising from 8,800 engineers and technicians in 2012 to 9,400 in 2013. Its strong presence in France, where a significant portion of its research centers are located, meant that there were 3,030 employees dedicated to R&D in 2013 in France.

A network of experts and key training to foster innovation

Valeo has consequently set up its own three-level network of "experts": "expert", "senior expert" and "master expert". The Group has **750 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. As a result, the number of hours of training received by engineers continued to increase in 2013 compared with 2012.

Change in the number of hours of training for engineers by Business Group between 2011 and 2013

Business Groups	2011	2012	2013	Change 2012-2013
Powertrain Systems	16,800	26,900	44,500	+65%
Thermal Systems	11,900	23,000	30,100	+31%
Comfort & Driving Assistance Systems	9,400	15,000	33,000	+120%
Visibility Systems ⁽¹⁾	14,000	33,600	18,700	-44%
TOTAL	53,000	98,500	126,300	+28%

(1) The significant drop in the number of hours in Visibility Systems is due to an overhaul of the training program. Training materials were reviewed to simplify and clarify their content. Improved targeting of employee needs cut the amount of training time in half. The benefits of these changes can already be measured in 2013 as twice as many people received training.

Valeo stepped up its training program for its engineers, with the hours of training rising from nearly 99,000 in 2012 to over 126,000 in 2013, an increase of about 28%. In 2013, training efforts focused on newly hired engineers in high-growth markets. These measures reflect how valuable R&D is to Valeo, one of the most innovative automotive suppliers in the world with its large-scale communication on its standards and practices.

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 Eastern Europe, Russia, China, 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.

Valeo focuses its R&D activity on competitively priced design solutions in emerging countries using standardized practices that boost both efficiency and quality. Engineers at the VIPL⁽¹⁾ Technical Services Center in India aim to develop low-cost projects designed for specific markets (Russia, India, Brazil, China, etc.).

4.2.3 A collaborative R&D approach GRI EN6

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

Strategic partnerships

Valeo plays a role in cross-sector initiatives, making its expertise available to various partnerships and organizations. These partnerships help create and promote standards of quality and environmental performance that are both demanding and stimulating for the sector. Valeo takes part in this collaborative and constructive approach for the automotive industry alongside the sector's committed players.

Valeo and Safran sign a research partnership agreement in driving aid and autonomous vehicles

Valeo and Safran signed a research partnership agreement in driving aid and autonomous vehicles in 2013. In launching this research program, which is dedicated to human-machine interfaces (HMI) and automation, the partners aim to pool their competences and expertise to speed the development of innovative products and create new markets. This R&D alliance brings together two innovative groups in their respective technologies in distinct markets in the automotive, aerospace and defense sectors. It will develop new innovations in vehicle driving aid as well as self-driving and self-piloting solutions for automobiles, military vehicles and aircraft.

(1) Valeo India Partnership Limited.

In its initial phase, the research program will focus on four main research areas:

- driver attention monitoring, leveraging the latest image recognition technology;
- 360-degree visibility, using advanced imaging technology to produce wrap-around views of vehicle surroundings;
- visibility in extreme weather to help drivers and pilots navigate in all types of weather conditions, particularly fog;
- vehicle robotization/dronization, to jointly develop certain technologies that will make land vehicles more autonomous.

The program is designed to create balanced partnerships with research institutes and universities, as well as innovative SMEs.

Partnership with the French Alternative Energies and 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 world-renowned organization in order to use its latest computer, known as AIRAIN. This machine is one of the world's 15 biggest supercomputers. It will allow Valeo to perform calculations much faster than its own resources would otherwise allow.

Car Connectivity Consortium

Since 2012, Valeo has been 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 contributes to accelerating 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.

European Road Transport Research Advisory Council (ETRAC)

As the European Commission's official technology platform in operation for 10 years, ETRAC is responsible for steering and coordinating road-transportation research policy. The automaker Volkswagen acts as Chairman, with Valeo

serving as the sector leader for tier-one original equipment manufacturers since 2008. This pan-European organization promotes its research policy with EU authorities.

ETRAC is built around public and private organizations (national governments, city associations promoting mobility, the environment and consumers) and the competent European Commission directorates.

With its industry-led governance, ETRAC'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.

In 2013, ETRAC released its multi-annual research plan for Horizon 2020 (Framework Programme No. 8 [FP8]⁽¹⁾) and developed multi-stakeholder roadmaps on the following topics:

- energies and powertrains (particular emphasis on research into electrification);
- truck transport in the urban environment.

The European Commission has approved and accepted the content of the various topics proposed and officially allocated the initial funding. This made 2013 a pivotal year between the end of FP7 (2007-2013) and the definition of FP8 (2014-2021). Valeo had the opportunity of contributing significantly to proposing topics that covered both industrial and social issues, working with its automaker customers and other stakeholders associated with more social and competitive aspects.

Collaborative research

Valeo attaches growing importance to collaborative research. The different systems that make up a vehicle today are expanding into new scientific and technological domains and new fields are taking shape.

Autonomous vehicles not only mean automatic driving (traction, braking, steering) and detecting and analyzing the vehicle's environment (sensors, embedded intelligence), but also the interaction with the driver (human-machine interface, human behavior) and vehicle communication with its environment (positioning, connection to smartphones, communication systems, etc.).

New expertise is required from outside the traditional realm of the automotive industry, and Valeo is taking advantage of its many team efforts to advance more quickly and more efficiently. The Group collaborates with scientific organizations as well as young innovative technology providers and of course the automakers, which are naturally its closest partners in the innovation ecosystem developed by Valeo.

(1) Framework Programmes for Research and Technological Development, also called Framework Programmes or abbreviated FP, are funding programs set up by the European Union to back and encourage European research in order to promote European industrial competitiveness.

Its joint academic projects can take a number of forms:

- supervision of doctoral theses;
- bilateral projects;
- government-funded multi-partner collaborative projects;
- university chairs.

The work accomplished can be used both to foster innovation and to increase scientific knowledge about the products and technology. Training through research is another focus, reflected in specialized master's degrees and the participation of Valeo's Experts in scientific courses (classes and labs).

Valeo simultaneously finances over 50 doctoral theses on new materials or technologies, new calculation and simulation tools and methods, new system architectures along with component optimization.

Unsurprisingly, many of these scientific alliances (with universities, engineering schools or research organizations) are in Europe, primarily in France and Germany, but are also developing in other regions where Valeo has set up new local R&D centers (most recently in India, China and Egypt).

To meet its needs for research conducted in France, Valeo has teamed up with more than a hundred research centers in the country.

Among its partnerships, Valeo joined forces 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.

This industrial chair 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 professor/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.

Collaborative projects

Essencycle collaborative project: development of a new hybridization system for new gasoline-powered vehicles

In July 2013, the European Commission approved 24.2 million euros in funding to back Valeo's program to develop a new hybridization system for intermediate (or mild) gasoline-powered vehicles. These offer a compromise between the current hybrid solutions of a low-cost stop-start micro vehicle with limited CO₂ gains and a full electric drive hybrid system featuring significant CO₂ gains but at a higher price tag. The funding will be used to fill a genuine gap in the market by backing a project involving other partners led by Valeo.

AquaBlade®, a collaborative project to improve safety and reduce environmental impact developed with Mercedes-Benz

Valeo partnered with automaker Mercedes-Benz to develop a unique, innovative wiper system to optimize visibility. The innovation is designed to distribute 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, **and at the same time halving the amount of liquid required**. To measure and certify the safety impact, Valeo launched a study with the Fraunhofer Institute of Optonics, System Technologies and Image Exploitation (IOSB) in Karlsruhe, Germany.

The institute conducted over 7,500 tests with more than 200 different drivers in real vehicles equipped with either the AquaBlade® system or traditional wiper systems. The findings show that the AquaBlade® system reduces braking distance **by four meters** compared with a traditional system.

Mercedes SL and S Class lines are equipped with the AquaBlade® wiper system as of 2013. AquaBlade® is offered as an option but 90% of customers choose it. In addition, the Eco-bus company has factory fitted its buses with the system since 2012. Valeo is working to adapt the system to trucks. Another AquaBlade® system is being reviewed to equip intermediate-range vehicles.

Valeo's AquaBlade® system won the Automotive News PACE (Premier Automotive Suppliers' Contribution to Excellence) Award in 2012.

The “SiLLK” air intake module, a collaborative project to develop a thermal system that improves the performance of small cylinder engines with Volkswagen

Valeo brought its expertise in thermal systems to partner with the Volkswagen group in developing an air intake module. Developing the module from the initial joint-innovation up to series production required several years of intense collaboration.

To support this partnership, a special structure was set up with a Valeo multi-product team to better manage the short deadlines set by the development timetable and to optimize the team effort between the Powertrain Systems and Thermal Systems Business Groups

The air intake module developed by Valeo is a new system used to downsize engines and increase their efficiency. Vehicles equipped with the module feature a better torque and run more smoothly with less turbo lag when shifting gears. They are in line with Euro 6 and Euro 7 standards and emit less air pollutants such as NO_x, which is reduced by 2% to 3% with the Exhaust Gas Recirculation (EGR).

This project marked Valeo’s breakthrough from components production into developing and manufacturing entire modules. Meanwhile, it gave Valeo’s teams the opportunity to build their expertise in the area, with the full cooperation and expertise in engine technology from Volkswagen.

After already winning two PACE Awards in the “Product” and “Innovative Partnership” categories in 2013, Valeo received a “VW Group Supplier Award” from the automaker Volkswagen.

Valeo demonstrated its ability to share resources and expertise with its end customer to develop innovative, efficient technology.

4.2.4 Integration of Corporate Social Responsibility principles in R&D GRI PR1

Tools for integrating eco-design

In 2007, Valeo adopted an **Eco-design Standard Directive** and **eco-design guidelines by product line**. This approach enables engineers to assess all environmental impacts from all products over the course of the project’s development. Impacts concern:

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

Above all, the directive 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.

To ensure the directive’s dissemination and implementation, Valeo has 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 as of the upstream project phase**. This means that products are consistently engineered from the outset with an eye to **sustainability compliance**.

This Eco-design checklist has been rolled out at every level of the Group’s R&D process over the past two years. Its purpose is to:

- reduce CO₂;
- reduce weight;
- increase the recyclability of materials or systems.

Project teams refer to this checklist in their qualitative and quantitative analysis of areas such as electric consumption, use of hazardous materials or component weight to reduce the amount of components and materials that do not benefit the environment or the consumer.

The checklist also provides a way of anticipating future changes in the European directive on End-of-Life Vehicles (ELV). As of 2015, its targets will require automakers to produce vehicles with a recycling and reuse rate of 85% and even 95% if incineration is included. As a result, automakers have established increasingly higher standards with their suppliers to gradually raise the recycling rate of their products.

Integration of Lifecycle Analysis (LCA) criteria with the Eco-design checklist

In the automotive sector, it is the automaker or order-giver that performs the Lifecycle Analyses (LCA). Due to its wide range of products, Valeo does not run an LCA on its entire product line. Consolidated data on components and modules are available through the LCAs performed by automakers. However, in 2013 Valeo conducted an LCA on its LED fog lights to compare traditional halogen lighting systems with the new LED designs. The analysis assessed their environmental impacts throughout the life cycle: production phase (including LEDs and electronic driver), use phase (fuel consumption, CO₂ emissions) and the end-of-life or recycling/reuse phase. The Group gained considerable expertise in performing these experiments.

Based on the information listed and monitored in its Eco-design checklist database, the Group currently estimates that nearly 80% of the data required for a product LCA is now available. Valeo uses this information to create and develop products with a lower impact on the environment.

Product Lifecycle Management (PLM) is a system that lists the components of products and systems used in their design and requires compliance with clearly defined standards. Any detected departure from the procedures (in particular the use of non-documented materials) must be justified. By systematically integrating standards, Valeo demonstrates its determination to embed eco-design (including CO₂ impact analysis) into product development as early as possible.

Valeo has also 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.

Instead, the reductions calculated by Valeo are those resulting from the impact of innovations on the vehicle as a whole.

RAISE Methodology

In 2010, Valeo began developing a methodology called RAISE, which stands for:

- **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. This is essential to applying them properly at a group like Valeo, which works in a number of languages and cultures;
- communicate on the standards and disseminate them internally. The knowledge sharing phase is key to Valeo's processes. Standards must be available in a single, global database (the PLM database), with training on these standards provided at Valeo Technical Institutes;
- verify that standards are properly implemented. The RAISE teams regularly visit sites to review project design. They do this to ensure that standards are applied correctly and to gain any feedback that can be used to improve the standards. RAISE methodology is a fundamental approach that is now part of Valeo's collectively driven Constant Innovation Policy⁽¹⁾. At the end of 2013, over 8,000 product and process standards were implemented and maintained in the different Product Groups. They are applied day-to-day in designing new products and their manufacturing processes.

Special training programs (core RAISE training courses: reviews of design, risk analysis and reliability) are continuously provided for R&D and Industrialization teams to extend their reach even further.

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

REACH regulation **GRI PR3**

The Group also gives high priority to eliminating **hazardous substances in the Group's products**.

The European Regulation, commonly known as REACH, established a single system for the Registration, Evaluation and Authorization of Chemicals. It replaced more than 40 directives and regulations when it took effect in 2007. 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.

⁽¹⁾ See Chapter 1, section 1.3.3, page 21.

For REACH purposes, the Valeo Group is generally considered to be a user of chemicals. This means that Valeo must list the substances used in manufacturing its products and those required to operate its industrial facilities to ensure the safety of its supply chain and its operations.

Valeo actively participates in both European and international professional organizations and applies the recommendations of the Automotive Industry Guide published in 2007. The Group is also part of a REACH working group set up within the European Association of Automotive Suppliers (which is known under the French acronym CLEPA) to monitor hazardous substances.

Valeo has introduced a **special structure** to comply with REACH regulations. Within the Company, the REACH manager heads a team made up of representatives from each Business Group. Together, they decide on Group strategy, implement policy and determine how to eliminate hazardous substances contained in products. Each entity affected by REACH regulations and every Valeo plant has a REACH representative, which has created a **network of REACH managers assigned to each Group site and technical center**. The R&D, Purchasing and Customer Quality departments are required to have a full understanding of Valeo's products and are responsible for communicating with outside parties (suppliers, customers and competent authorities).

REACH regulations are currently being extended at a global level to countries and regions such as Brazil, China and California.

REACH covers nearly 30,000 substances out of some 100,000 currently on the European market. Of these, 1,500 are considered to be the most hazardous. Their use is now controlled by the European authorities. As of December 31, 2013, 151 substances of very high concern (SVHC) had been identified, with 22 gradually requiring authorization as of 2014. These substances concern mostly solvents used essentially to manufacture materials, plasticizers to soften polymers and certain surface treatment processes.

In 2011, Valeo initiated in-depth research into the potential presence of SVHCs in its products and began to replace them with substances having a lower environmental impact. Valeo has set an ambitious target of eliminating the use of any substance requiring authorization from all its products and all its markets. It will engage with its suppliers to find alternative solutions to avoid using SVHCs.

The SVHC substitution plan has already been initiated and will enable Valeo to remove products containing DEHP, a phthalate widely used as a plasticizer, from the market in 2014.

Valeo is working on gradually replacing these substances in response to consumer concerns about their presence in vehicles.

Valeo has also created a reference database of substances that are banned or restricted in the automotive industry. The database was updated again in 2013, and the process will continue in 2014. It 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.

Consumer health and safety **GRI PRI**

Valeo has made reducing CO₂ emissions one of the principle pillars of its growth strategy, with a large number of innovations offered to automakers to help reduce the amount of pollutants released into the atmosphere. The Group has also made driver safety a major 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 CO₂ emissions in accordance with current and future regulations.

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.

Exchanged systems are mainly alternators and starters but also include clutches and climate control compressors.

Valeo set up an efficient system to collect used parts called e-CORPS. The system permits the immediate identification of product references (type of part, origin, size, production year, etc.). 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, which most importantly involves eliminating any traces of hazardous substances to guarantee personal protection. With more than 40 testing points for rotating machines on test benches, Valeo meets the standards of the original equipment market and tests all remanufactured products before packaging them for sale on the aftermarket.

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

Awards

At the last Moscow International Motor Show held in August 2013, Valeo received the “**Innovative Development of the Year**” Award for its polyphenol cabin air filtering system that neutralizes allergens. This was the first international award earned for this system.

Cabin air may be up to five times more polluted than outside air. Constant exposure can trigger allergies at any age. As an air quality specialist, Valeo has developed, exclusively for the European market, a system that filters up to 92% of the most potent allergens in cabin air. ClimFilter™ Supreme combines active carbon technology with a polyphenol layer to capture and neutralize allergens in the filter. This product protects drivers and passengers against particles, harmful gases, unpleasant odors and the entry of airborne allergens into the cabin.

4.2.5 An acknowledged approach and new product offerings integrating sustainability

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

In 2013, Valeo secured a position in the Thomson-Reuters ranking of the **100 most innovative companies worldwide for the second year in a row**. Only four automotive suppliers were included in the ranking, highlighting Valeo's excellence in research.

Its 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 patent is based on genuine innovation (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 the work and practices of its engineers.

Examples of socially responsible innovations combining significant social and environmental benefits

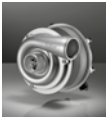
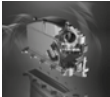
For the fourth consecutive year, about 30% of Valeo's order intake is made up of innovations, i.e., products or technologies that have been on the market for less than three years.

The innovations listed in the table hereafter met this definition in 2013 and stand out in their contribution to sustainable mobility:

- reduction of CO₂ or other pollutant emissions (environmental dimension);
- driving assistance for a safer and more autonomous vehicle (driving comfort and safety);
- contribution to developing autonomous vehicles (connectivity, vehicle/driver interactivity, intuitive driving).

4 SUSTAINABLE DEVELOPMENT

The R&D process at Valeo: from megatrends to innovation

Innovation and technical features	Description	CO ₂ impact or eco-design	Driving assistance for a safer and more autonomous vehicle
Hybrid4All (including an enhanced stop-start system) 	Hybridization of powertrains (gasoline and diesel). Energy is recovered when the driver reduces speed or brakes. Cost per gram of CO ₂ saved halved compared with hybrids currently on the market.	Fuel saving of up to 15%. In 2013, 120,000 metric tons of CO ₂ were saved using the Stop-Start System according to NEDC ⁽¹⁾ . Since its series production launch, over 300,000 metric tons have been saved during the engine shut-down phase.	
Electric supercharger 	Key factor in downsizing/ downspeeding powertrains (gasoline and diesel). Uses the electrical energy recovered in the braking phase.	With 12-volt architecture, fuel savings of 8% to 10%.	
Dual dry clutch 	Consumption reduced compared with an automatic transmission. No hydraulic fluid.	CO ₂ emissions reduced by 6% to 10%.	Improved driving comfort.
Air intake module of internal combustion engines 	Improved combustion management.	NO _x reduced by 2% to 3%.	
Control valve on the engine's water circuit 	Optimized engine warming and intelligent management of the temperatures of the engine's water circuit.	Fuel savings of up to 3%. Exhaust emissions such as CO ₂ and NO _x reduced by up to 10%.	
Battery thermal management modules 	Optimization of battery thermal management modules for hybrid and electric drivetrains.	Increased vehicle travel range and battery life.	
Park4U® parking assistance system 	Semi-automatic parking assistance system.	Reduction in traffic.	Parking assistance. Detection of obstacles. Automated parking.
BiLED™ headlamps 	100% LED headlamp technology with one lens used for both low- and high-beam headlamps.	Decreased electricity consumption.	Improved visibility.
BeamAtic® headlamp 	This system makes it possible to drive with high beams on at all times without blinding other drivers.	Decreased electricity consumption.	Improved visibility without blinding other drivers. Automated function.
360°Vue® peripheral view 	Offers a view of the vehicle's surroundings transmitted by a system of cameras.		Improved peripheral view. Detection of the vehicle's surroundings.
AquaBlade® wiper system 	Improves windshield washing by distributing washer fluid directly on the wiper blade thanks to the perforated distribution edge built along its entire length.	Halves the amount of windshield wash liquid needed, cutting 2 kg off the system's weight. Reduction in CO ₂ emissions, up to 0.2 g/km.	Improved visibility in rainy conditions, reduced braking distance. Automated function.

(1) New European Driving Cycle.

4.3 Environmental performance

4.3.1 A sustainable and strategic commitment to the environment

Rigorous and determined environmental governance

For more than 20 years now, Valeo has proven its commitment 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 commitments also appear, as follows, in the Valeo Sustainable Development Charter:

- ensure the compliance of its activities with applicable laws and international agreements;
- deploy the ISO 14001 environmental management system at 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 use of substances that are dangerous to the environment and health.

To translate these commitments at the operational level, the RIE department sets targets for improving environmental performance. With regard to this, 2013 marks the start of a new **three-year plan, from 2013 to 2015**. Through this plan, Valeo will be pushing ahead with reducing environmental impact throughout **the whole 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
- 2013: First Group sites to receive ISO 50001 certification

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 from national and international organizations bearing on its extra-financial performance.

In 2013, the Group once again took part in the survey of the Carbon Disclosure Project (CDP)⁽¹⁾, which assesses companies on the transparency of their communications in respect of climate impact: Valeo was accordingly among the 35% of SBF 250 companies to take part in the "CDP 2013 France" survey. After scoring 61 out of 100 on transparency in 2012, Valeo scored 76 out of 100 on transparency in 2013, slightly above the French average. Valeo also obtained a C rating on performance in 2013, around the French average.

(1) See Sustainable Development Glossary, section 4.6.3, page 201.

Valeo's environmental performance is also evaluated by international rating agencies, such as RobecoSAM (Sustainable Asset Management⁽¹⁾), as part of the establishment of the Dow Jones Sustainability Indexes (DJSI). The Group obtained a score of 71 out of 100 on environmental issues in 2013, well above the sector average of 49.

Oekom-Research⁽¹⁾, another international extra-financial rating agency, analyzed the sustainable development performance of 40 automotive equipment manufacturers. Of the 16 companies in the ranking, Valeo was third.

The French Business Information Center (*Centre Français d'Information sur les Entreprises* – CFIE⁽¹⁾) analyzed the quality of environmental performance information provided by 44 French companies. Again, Valeo was third in the ranking.

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**. Valeo takes account of all the remarks made by these agencies, and will be pushing ahead with its efforts on transparency in 2014.

Valeo's initiatives addressing local communities

Valeo is also keen to play an exemplary role in the environment with regard to the communities within which it operates.

In 2013, local government administrations praised two Valeo sites for their work on environment-related initiatives:

- the Powertrain Systems site at San Luis Potosi in Mexico received a distinction from the San Luis Potosi City Council for three reforestation campaigns carried out in 2013. Planting was carried out at the university, the city hall and the industrial estate where the Valeo plant is sited. The 500 trees came from the site nursery garden;
- in addition, the Valeo Visibility Systems site at San Luis Potosi was awarded the State Quality Award Plus by the city's Chamber of Commerce. This distinction followed an audit covering three main points: capacity to reduce environmental impact (waste management, atmospheric emissions, etc.), commitment to personnel health (vaccination campaigns, daily sanitation checks at the staff canteen, etc.), and safety (risk analysis at all workstations, program for improving ergonomics, etc.).

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 section 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) are dealt with, as well as a number of additional GRI indicators deemed relevant (identified in the text by a gray box). A cross-reference table is available on page 197.

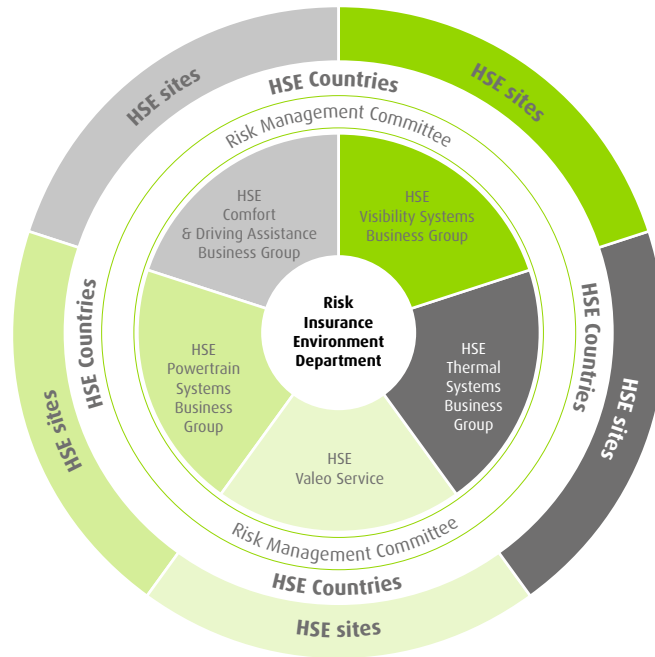
(1) See Sustainable Development Glossary, section 4.6.3, page 201.

4.3.2 A global environmental policy

Valeo's organization on environmental matters, and evaluation and certification processes

A multi-tiered organization

Valeo's environmental management is based on continuous improvement driven by the **RIE department**, based on an organization structured around Business Groups, countries and sites: a **network** of Health, Safety, Environment (HSE) managers is fielded to ensure compliance with Valeo's environmental policy and fulfillment of its objectives.



The head of the RIE department is also a permanent member of the Risk Committee, headed by the Chief Operating Officer (see Chapter 3, section 3.4.3, page 109) the body responsible for establishing and monitoring the action plans derived from risk mapping.

Risk Management Committee

The **Risk Management Committee** is the central steering body of the RIE department. Comprising the Head of the RIE department and the HSE managers of the four Business Groups and Valeo Service, it meets every month to capitalize on the feedback from each of its members and to advance the Group's environmental policy and management of its industrial risks. In 2013, the committee's work includes developing new tools, directives and training modules.

The committee reviews industrial projects (construction of new plants, extensions, etc.) on a monthly basis to determine requirements as regards environment and safety. To monitor

progress on all these projects, the RIE department uses standardized tools capable of ensuring compliance with the Group's rules.

Committee meetings also provide an opportunity for Valeo to invite internal and external speakers in different fields of expertise.

Health, Safety, Environment network

The RIE department relies on a network of HSE managers in line with the Group's matrix-based organization.

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. HSE managers 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.

(1) See Sustainable Development Glossary, section 4.6.3, page 201.

4 SUSTAINABLE DEVELOPMENT

Environmental performance

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. 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.

Country HSE managers are appointed at national level, selected from among site HSE managers. They coordinate national environmental projects, such as translation of the Group's standards into local languages. Their proximity to the sites further strengthens the **sharing of best practices** and enables the completion of cross-cutting work such as monitoring of local regulations. Country HSE managers also take part in induction programs for new site HSE managers, providing information on Valeo tools and standards.

In total, there are **more than 200 people** 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 mapped Valeo's industrial activities to identify the environmental issues facing each Business Group.

"Grenelle" theme	Powertrain Systems Business Group	Thermal Systems Business Group	Comfort & Driving Assistance Systems Business Group	Visibility Systems Business Group	Valeo Service
Organization and policy		- ISO 14001, ISO 50001 and OHSAS 18001 certification - Regulatory compliance			
Sustainable use of resources	Water and energy consumption	Water and 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⁾		
Waste management	Production of waste				Reuse of waste
Climate change	Indirect GHG emissions⁽¹⁾	Direct and indirect GHG emissions⁽¹⁾			GHG emissions⁽¹⁾ related to the transportation of goods

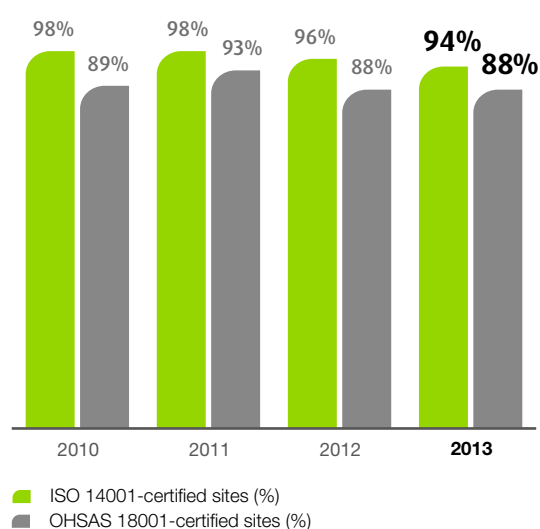
(1) See Sustainable Development Glossary, section 4.6.3, page 201.

Active certification policy

More than 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, ISO 50001 energy management 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 certification may also be obtained for product lines, across all the sites concerned.

By the end of 2013, **94% of Valeo sites⁽¹⁾ had obtained ISO 14001 certification and 88% OHSAS 18001 certification.**

ISO 14001 and OHSAS 18001 certification



(1) The scope used to calculate these data is set out in section 4.6.1, page 192.

The number of sites certified is down slightly on the 2012 figure. This is because six certified sites were sold (with the sale of the Access Mechanisms business), whereas the four new sites acquired are preparing for certification.

In 2013, initial certifications were obtained by the following sites that recently joined the Valeo Group:

- Istanbul (Valeo Service, Turkey): ISO 14001 and OHSAS 18001 certification;
- Tangier (Visibility Systems, Morocco): OHSAS 18001 certification;
- Chennai (Visibility Systems, India): ISO 14001 and OHSAS 18001 certification.

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

ISO 50001 certification

In line with its objectives on improving environmental performance over the period 2013 to 2015, Valeo wishes to see 10% of its sites obtain ISO 50001 energy management certification by the end of 2015.

Two sites obtained this certification in 2013:

- Martorelles (Thermal Systems, Spain);
- Wemding (Comfort & Driving Assistance Systems, Germany).

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 15 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 environmental risks and impacts through ISO 14001, ISO 50001 and OHSAS 18001 management systems;
- information for employees through newsletters and dedicated displays, and at task force meetings, etc.;
- dedicated events such as "Sustainable Development Week", featuring local initiatives.

In 2013, nearly 44,000 hours of environmental training were provided across all sites.

Example of good practice: Itatiba (Thermal Systems, Brazil)

The Itatiba site ran a number of personnel awareness-raising events in 2013, including Water Day in March, Environment Week in July, and Pollution Prevention Week in November. These campaigns insisted on the finite nature of natural resources in order to educate personnel on sustainable consumption issues.

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. The RIE department promotes 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. In 2013, the RIE department published a new edition of the manual and its related directives, with a view to making them easier to understand, and thus improve implementation.

The RIE department aims to maintain binding requirements at least equivalent to the most stringent local regulations. Implementation of these directives is mandatory for all Group sites.

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 response and business recovery plan. In 2008, Valeo developed the Valeo Emergency and Recovery Management system to assist in the design and implementation of emergency, crisis management and business recovery plans. Working from feedback on the crisis management and business recovery plans drawn up by certain sites, Valeo began a process for simplifying use of this system in 2013.

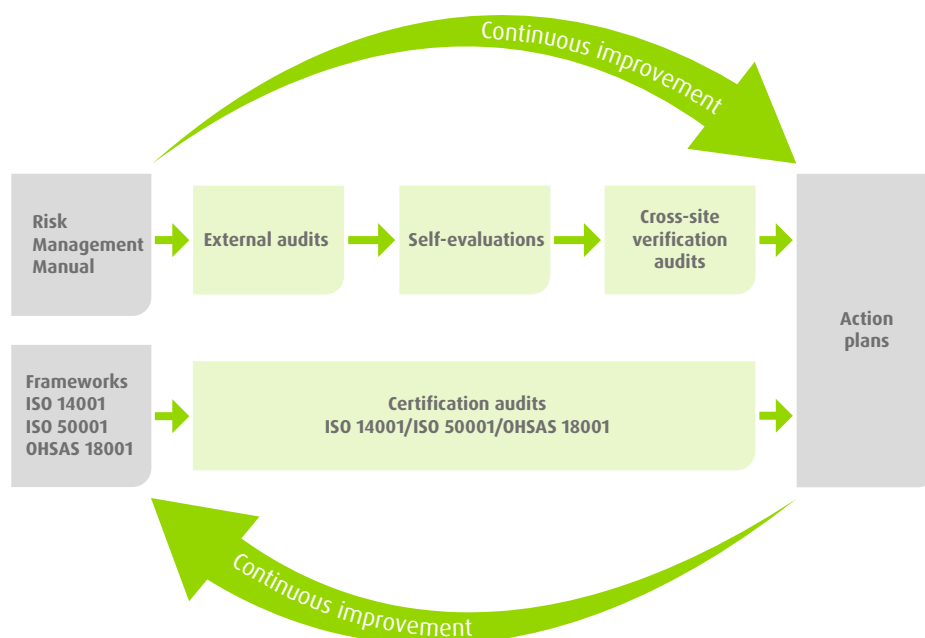
Maintaining a high level of operational safety

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 in seismic risk zones have been built or upgraded to comply with the most recent seismic standards;
- Valeo sites are not located in flood zones or, if they are, are equipped with flood protection systems and emergency plans;
- new Valeo facilities are located far from sites representing a significant potential risk (Seveso sites⁽¹⁾, etc.) which could, through a domino effect, endanger Valeo's sites;
- 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 security systems for facilities (access control, video surveillance and intrusion detection). The Group also conducts intrusion tests to verify effectiveness.

An ambitious audit program worldwide

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



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.

In 2013, the RIE department began work on an update of the audit standard, based strictly on the requirements set out in the Valeo directives. As well as ensuring that sites address all Valeo requirements, the new version will also provide a sounder basis for comparison between sites.

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

(1) See Sustainable Development Glossary, section 4.6.3, page 201.

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* a system known as the **HSE Action Plan**.

In 2013, **143 external audits** were performed, in addition to 201 ISO 14001, OHSAS 18001 and ISO 50001 certification and monitoring audits.

Self-evaluations

In addition to external audits, a self-evaluation tool known as **Roadmap Manager** has been in place since 2008. 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.

In 2013, the Environment Roadmap was updated to ensure consistency with the requirements set out in the Valeo directives.

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 competences-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 12 million euros in 2013. 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 3 million euros.

In 2013, Valeo invested more than 4 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.

Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations **GRI EN28**

Administrative sanctions were leveled at five of the Group's sites in 2013, totaling 38,000 euros. Two sites account for the bulk of these fines, one at Fuenlabrada (Powertrain Systems, Spain), for cutting down trees without authorization, and the other at São Paulo (Visibility Systems, Brazil), for failing to check potential contagion sources during a dengue fever epidemic. Both sites took immediate action to regularize their situation.

Amount of provisions and guarantees for environmental risks

Provisions set aside for site restoration or for the environment amounted to 17 million euros at December 31, 2013.

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: three sites are concerned since 2012, for an amount estimated at 1 million euros, and six other sites will be required to set aside guarantees as from 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, the relevance of the indicator to its automotive suppliers sector, and the expectations of its stakeholders. These indicators are presented in a manner consistent with the guidelines of the Global Reporting Initiative (GRI).

In 2013, the VRI were updated to further improve the reliability of site reporting. For example, HSE managers in charge of reporting are now required to give precise information on the industrial processes at their sites. The resulting industrial mapping provides the independent organizations in charge of monitoring environmental information with a better view of the data on operations at each site.

The environmental data published concern **all plants and distribution platforms** worldwide, excluding subsidiaries in which the Group has a non-controlling interest and administrative sites. In all a total of **122 sites** report environmental indicators.

ISO 14001, OHSAS 18001 and ISO 50001 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. Accordingly, ISO 14001, OHSAS 18001 and ISO 50001 certification is applicable to 116 sites.

Moreover, as in previous years, responses from all sites were consolidated and underwent an in-depth check by an external firm in order to ensure their quality. To ensure the highest possible reliability for the final indicator value, this verification included questions asked to sites reporting significant year-on-year changes in any item. In all, 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 192.

External audit imposed by the "Grenelle 2" regulation

Pursuant to Article 225 of the "Grenelle 2" regulation dated July 12, 2010, Decree No. 2012-557 of April 24, 2012 on companies' obligation of transparency in respect of social and environmental issues, and the Order of May 13, 2013 on audit missions by independent organizations, provide for the verification by an independent third party of information disclosed by French companies. In 2012, despite the fact that the Ministerial Order defining the terms of this audit had not yet been published, Valeo nevertheless decided to designate an independent verifier to perform an audit of its labor-related and environmental information at four sites in France and Spain.

In 2013, Valeo commissioned audits at six sites in France, Thailand, China and Poland. The four sites audited in 2012 underwent follow-up audits in 2013.

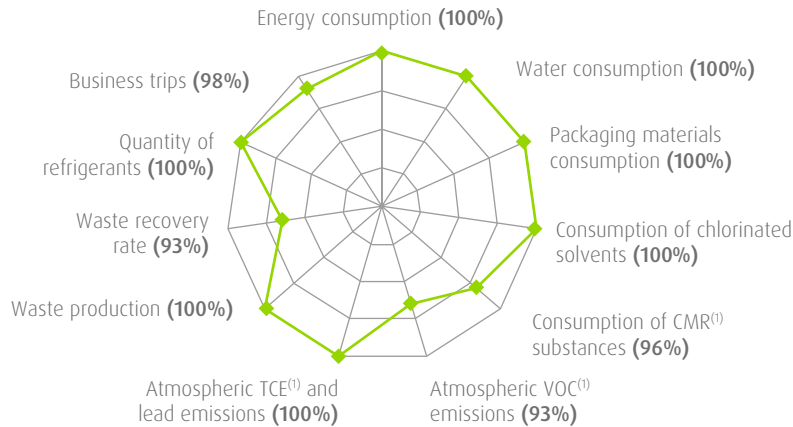
This assignment took place in three stages:

- the first stage involved a review of the reporting process: scope, definitions of indicators, methods of calculation, consolidation process and controls;
- in the second stage, 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 2013. This report appears in section 4.8, pages 206 to 208 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 2013, the response rate per indicator was very good, as shown in the following diagram: readings of 100% for most indicators published, confirming the sites' commitment to reporting.

Response rate for main indicators in 2013



Environmental objectives in keeping with the Group's commitment

Performance improvement targets for 2013-2015, and performance results in 2013

Under its new Environmental Action Plan for 2013-2015, the RIE department set ambitious quantified targets for the Valeo Group, based on the results from the previous plan for 2010-2012.

Objective	Unit	2015 target (base = 2012)	2012 results	2013 results	2013 results (base = 2012)
Sustainable use of resources					
Reduction in water consumption	cu.m/€m	-10%	215	211	-2%
Reduction in energy consumption	MWh/€m	-10%	158	158	0%
Reduction in packaging materials consumption	kg/€m	-7%	6.1	6.6	+8%
Production of waste					
Reduction in the production of hazardous and non-hazardous waste	metric t/€m	-7%	17	17	0%
Carbon emissions					
Reduction of direct and indirect greenhouse gas emissions (Scope 1 and Scope 2) ⁽¹⁾	metric t CO ₂ /€m	-10%	56.7	59.6	+5%
Management systems					
ISO 14001 certification	% of sites ⁽²⁾	100%	96%	94%	-2 pts
OHSAS 18001 certification		100%	88%	88%	0%
ISO 50001 certification (energy management)	% of sites	10%	-	2%	N/A

(1) See section 4.6.1, page 192 for a description of the scope covered by the target.

(2) For new sites, ISO 14001 and OHSAS 18001 certification to be obtained within three years of entry into the Group.

After reducing water consumption by 32% from 2010 to 2012, Valeo continued the downward curve in 2013 with a further reduction of nearly 2%. Energy consumption and waste production were steady with respect to 2012. Consumption of packaging materials continued to rise.

These figures are impacted by a significant change in the reporting scope for 2013: the sale of the Access Mechanisms business and consolidation of new sites at the early stages of a process for reducing environmental impact. In addition, the calculation systems provided to sites under the program for increasing the reliability of VRI reporting brought about an improved understanding of what managers in charge of reporting are required to declare. These two factors tended to lower the scores obtained on some indicators.

(1) See Sustainable Development Glossary, section 4.6.3, page 201.

In 2012, Valeo undertook to toughen its criteria for evaluating the environmental performance and compliance of its subcontractors, suppliers and service providers. In 2013, a questionnaire was sent out to a panel of the Group's key subcontractors, suppliers and service providers, accounting for a total purchasing volume of 750 million euros.

This survey found that some 75% of these companies had set up an environmental policy, reporting on environmental indicators and encouraging all sites in their respective groups to set up measures for reducing their environmental impact. In addition, more than half of the companies declared that their sites had obtained ISO 14001 certification.

Valeo also requested information on the respondent companies' exposure to climatic risks such as flooding, tsunamis and earthquakes. Some 95% of the companies returning the questionnaire declared that fewer than 10% of their sites were exposed to such risks. More than two-thirds of the companies indicated that more than 60% of their sites were equipped with automatic sprinkler protection against fire.

In 2014, Valeo will be widening the survey panel to obtain an even more comprehensive map of the environmental performance and compliance of its subcontractors, suppliers and service providers.

This map will enable Valeo to perform an even more rigorous selection of subcontractors, suppliers and service providers, factoring in these criteria.

The objective of promoting initiatives on biodiversity is discussed in section 4.3.7, page 151.

2013 readings for each indicator are described in more detail in sections 4.3.4 to 4.3.7, pages 140 to 151. In addition, a summary on environmental performance is available in section 4.7.1, page 202.

4.3.4 Prevention of pollution and management of waste

Measures to prevent, reduce or remedy emissions into air, water and soil

Reducing air emissions

Emissions of nitrogen oxides (NO_x) and sulfur oxides (SO_x) and other significant air emissions

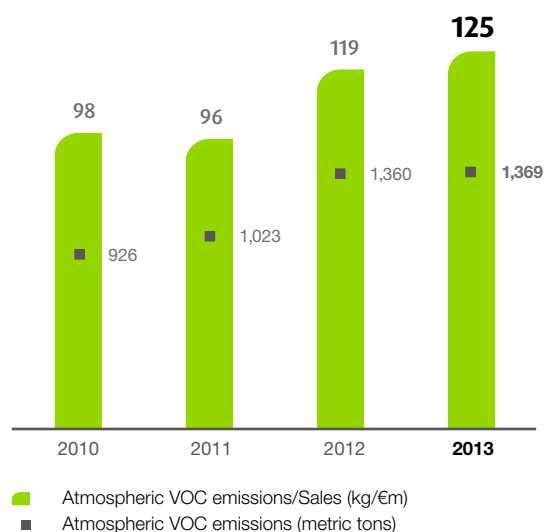
GRI EN20

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 oxides (SO_x) are not monitored, as combustion equipment mainly uses natural gas.

NO_x emissions in 2013 are estimated at 132 metric tons, down slightly on 2012.

Atmospheric VOC emissions



After a significant rise in emissions as a proportion of sales in 2012 (up by 24% on 2011), explained by the consolidation of eight Niles sites (Comfort & Driving Assistance Systems) in the environmental reporting scope for the first year, 2013 saw a slight increase in VOC emissions, both in absolute terms (up by 0.7%) and as a proportion of sales (up by 5%). One explanation for these relatively steady figures comes from the fact that VOC emission figures from nine sites (six in China and three in South America) are excluded from the overall total because data reliability is considered insufficiently proven for inclusion.

Possible shortcomings in the reliability of reporting data in no way detracts from the efforts taken by all Valeo sites on reducing atmospheric VOC emissions, which arise primarily from the consumption of chemical substances such as solvents and paint. For example, the Taegu site, the biggest environmental reporting contributor in the Powertrain Systems Business Group, achieved a substantial reduction in emissions by setting up a filtration system in 2013.

To improve the reliability of this indicator, Valeo has introduced a calculation system based on sites' consumption of chemical substances. In 2014, information on the new system will be enhanced to ensure it is fully understood at all sites.

In addition, the Group monitors the release into the atmosphere of lead and TCE, two substances used in legacy production processes. Lead emissions are not significant (9.5 kg in 2013). Emissions of TCE, which is still used at one Group site (Taegu, South Korea), fell from 249 metric tons in 2012 to 19.4 in 2013. This substantial reduction is achieved by a new treatment system that traps TCE emissions before release into the atmosphere.

Emissions of ozone-depleting substances

GRI EN19

Valeo has for several years sought to be proactive in reducing emissions of ozone-depleting substances and its commitments are set out in a specific directive in 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 on system replacement and periodic monitoring of leaks from equipment containing refrigerants.

In 2013, the Group again made an overall estimate of emissions of CFCs and HCFCs: 567 kg of CFC-11 equivalent (reference component for measuring the ozone layer depletion potential), an increase of 19% on the 2012 figure. This is the second year that these emissions have been reported, and the increase is explained by the fact that estimates are now more accurate.

Several sites have begun a process of phasing out ozone-depleting substances in favor of more environmentally friendly alternatives:

- Sablé-sur-Sarthe (Powertrain Systems, France): management decided to discontinue use of R22 gas in advance of the regulatory ban on HCFCs in 2015. R22 has been replaced by R407a, which does not damage the ozone layer.
- Meslin-l'Évêque (Visibility Systems, Belgium): a new environmentally respectful machine was brought in to replace the last of the site's coatings machines using CFC.
- San Luis Potosi (Powertrain Systems, Mexico): use of HCFC substances at this site fell from 1,599 kg to 245 kg, chiefly as a result of replacing traditional gas by a more ecological alternative in nine of its machines.
- Mondeville (Comfort & Driving Assistance Systems, France): in advance of the HCFC ban scheduled for 2015, R22 gas was replaced by R422D in nine machines, without the need for equipment replacement.

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. Effluent discharge figures were previously only reported by sites having a wastewater treatment plant. In 2013, all Valeo Group sites reported industrial effluent discharge figures, which totaled 807,000 cu.m.

In 2013, the amount of heavy metals discharged from internal treatment stations totaled 269 kg, a steep rise on the 2012 figure, explained by an underestimated value from a plant in Thailand in 2012.

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 spills into the environment. In addition, underground tanks are banned within the Group since the early 1990s, with 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 spills

GRI EN23

An accidental spill occurred at the São Paulo site (Visibility Systems, Brazil) in 2013. Five cubic meters of a mixture of water and varnish overflowed from the containment basin of a tank at the site's treatment station. The site shut down the system immediately and called in a specialized contractor to excavate the polluted soil. Through these measures, groundwater pollution was prevented.

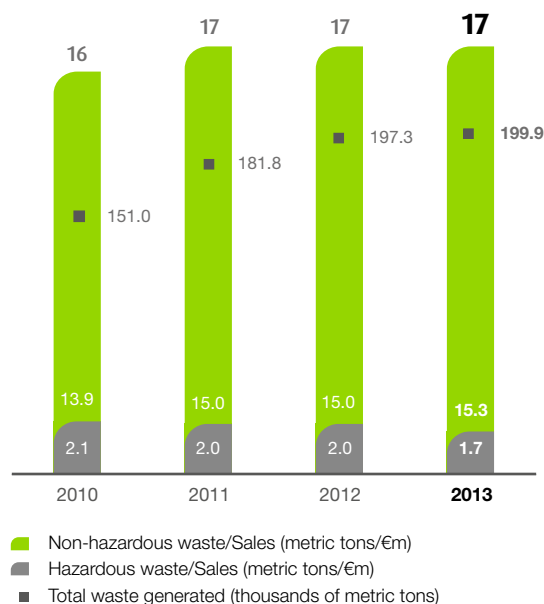
Prevention, recycling and disposal of waste

Total weight of waste, by type and disposal method 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.

Production of hazardous and non-hazardous waste

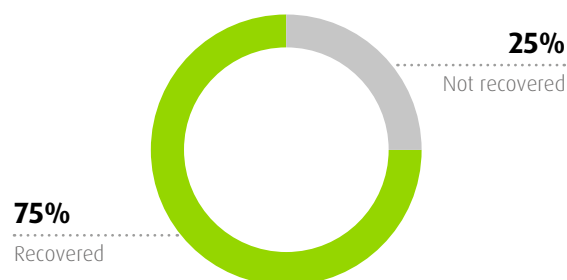
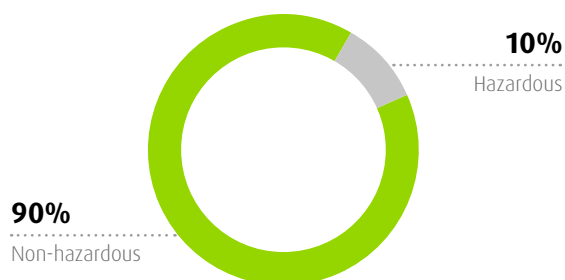


The amount of waste produced is steady both in absolute terms and as regards quantity as a proportion of sales. This stemmed from efforts by the sites of all Business Groups to reduce their waste production. Progress was particularly noteworthy in the Comfort & Driving Assistance Systems Business Group, which achieved a 37.5% reduction in waste as a proportion of sales between 2012 and 2013. Some 75% of waste was recycled in 2013, a decrease of 5% on 2012.

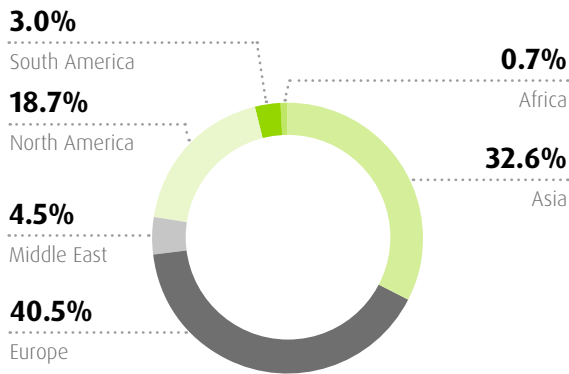
The proportion of hazardous waste continues to fall, from 12% in 2012 to 10% in 2013.

Quantities and characteristics of waste generated

	2010	2011	2012	2013
Total waste generated (<i>thousands of metric tons</i>)	151.0	181.8	197.3	199.9
of which hazardous waste (%)	13%	12%	12%	10%
Intensity of waste production (<i>metric t/€m</i>)	16	17	17	17
Percentage of waste recovered	83%	83%	79%	75%



Regional breakdown of waste production



Waste production in Europe and Asia showed virtually no change in 2013 with respect to 2012. In North America, the figure rose from 15.8% in 2012 to 18.7% in 2013.

Noise and other forms of pollution

Valeo strives to follow up all complaints addressed to its sites on environmental issues. In 2013, four complaints were registered across the whole of the Group; all concerned noise nuisance. As part of their ISO 14001 certified environmental management systems, the sites concerned took the appropriate measures.

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 example.

In 2013, 319 metric tons of waste were exported, approximately 40% of which was hazardous waste. These amounts accounted for less than 1% of total waste generated across all Group sites.

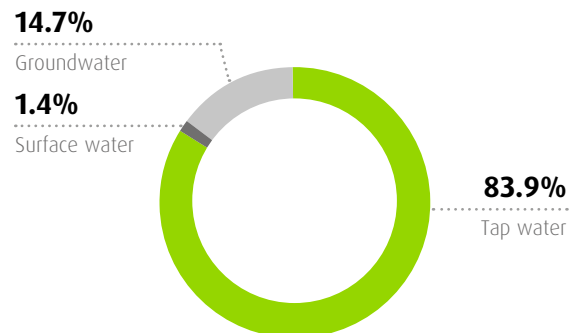
4.3.5 Sustainable use of resources

Water consumption and water supply in line with local constraints

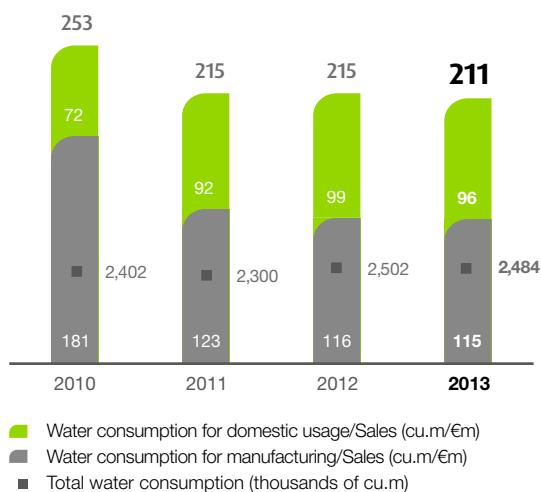
Total water withdrawal by source **GRI EN8**

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 use of groundwater and surface water (16.1%) in 2013 showed no change on 2012, and neither did the proportion of water consumed for industrial use (54.5%).

Water supply sources



Water consumption



Over the 2010-2012 period, Valeo reduced its water consumption by 32% with respect to 2009. This was achieved by many years of effort across all Valeo sites, primarily addressing the detection and remediation of leaks, and reductions in the industrial use of water for cooling purposes, with the phasing out of open-circuit systems.

In 2013, water consumption continued to fall across the Valeo group, both in absolute terms (down by 0.7%), and as a proportion of sales (down by 1.9%).

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 2013, only one site in France was affected by water restrictions. Three sites (two Asian sites and one European site in the Visibility Systems Business Group) were affected by outages in the public water supply system.

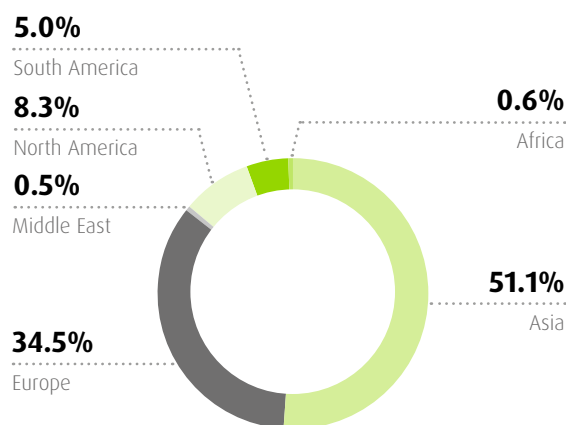
As announced in 2012, Valeo carried out its first Water Footprint survey under the Carbon Disclosure Project (CDP)⁽¹⁾ in 2013. Though the survey does not yet issue ratings, it did provide Valeo with a fuller view of stakeholder concerns on this matter. Valeo will continue with its Water Footprint program in 2014.

Percentage and total volume of water recycled and reused GRI EN10

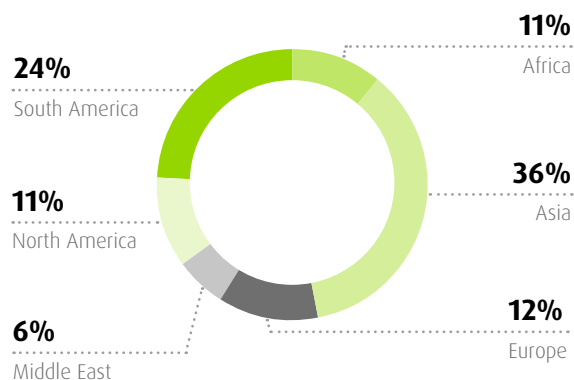
Plants use water to cool production lines: water circulates in a closed loop in accordance with the Group's requirements. In addition, in 2013, four sites declared that they recover rainwater for use and seven sites declared that they recycle and reuse their industrial water internally.

Regional breakdown of water consumption in 2013

Regional breakdown of overall water consumption



Regional breakdown of water consumption as a proportion of sales



Sites in Europe and Asia performed well and account for more than 85% of overall water consumption but just 48% of consumption as a proportion of sales.

Conversely, sites in South America, the Middle East and Africa account for barely more than 6% of overall water consumption but 41% of consumption as a proportion of sales. Efforts on water consumption are called for at these sites.

Water consumption as a proportion of sales at sites in North America is in line with overall site consumption figures.

(1) See Sustainable Development Glossary, section 4.6.3, page 201.

Consumption of raw materials and measures taken to improve efficient use

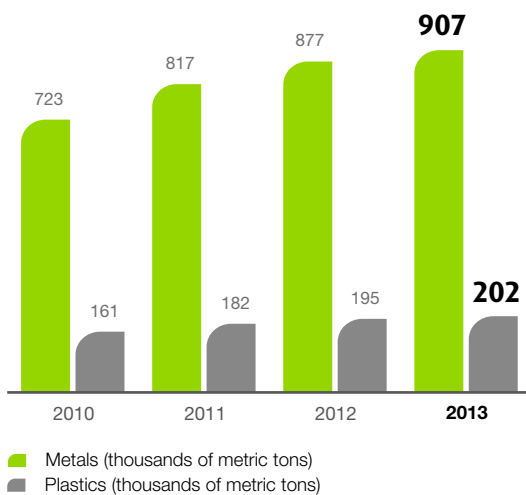
Materials used by weight or volume

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 section 4.2.4, "Integration of Corporate Social Responsibility principles in R&D", page 126, 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.

Consumption of raw materials

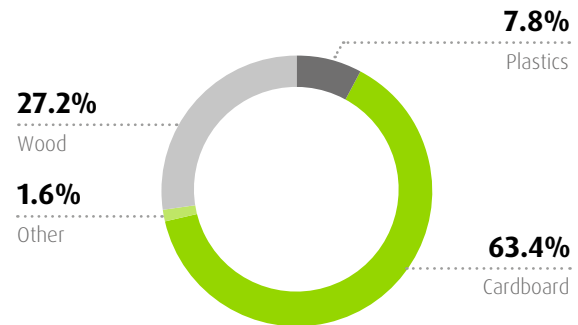


The increase in consumption of the key raw materials stemmed directly from the overall increase in the activity of the Group's sites.

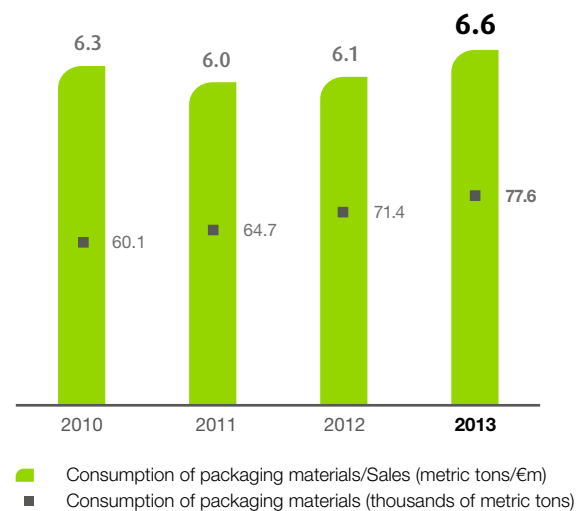
Limiting the quantity of packaging materials

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



Overall consumption of packaging materials in 2013 rose by 8.7% compared with 2012. One partial explanation for this is that data tracking systems now give a more accurate estimation of consumptions. Another is the tightening of customer requirements on packaging and transportation of parts.

Valeo is keeping its target of a 7% reduction in the consumption of packaging materials as a proportion of sales 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 (16.6 metric tons in 2013, down from 19 metric tons in 2012).

The use of chlorinated solvents also decreased (from 273 metric tons in 2012 to 261 metric tons in 2013), as is the use of CMR substances (from 279 metric tons in 2012 to 265 metric tons in 2013).

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 "REACH regulation" in section 4.2.4, page 127). 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 whose use is required by customers, or for which substitute products are either still undergoing approval or are currently prohibitively expensive.

Percentage of materials used that are recycled input materials **GRI EN2**

To reduce 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 2013, some 203 metric tons of packaging materials were recovered internally and reused, a steep decrease on the 2012 figure. Purchases of recycled plastics represented 9,770 metric tons in 2013, a decrease of 16.6% on 2012.

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 section 4.2.4, "Integration of Corporate Social Responsibility principles in R&D", pages 126 to 129).

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) thanks to its efficient collection of used parts (see "Valeo, a participant in the remanufacturing market" in section 4.2.4, page 128).

In packaging, Valeo has focused its efforts on the design of recyclable packaging and the promotion of sorting.

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**

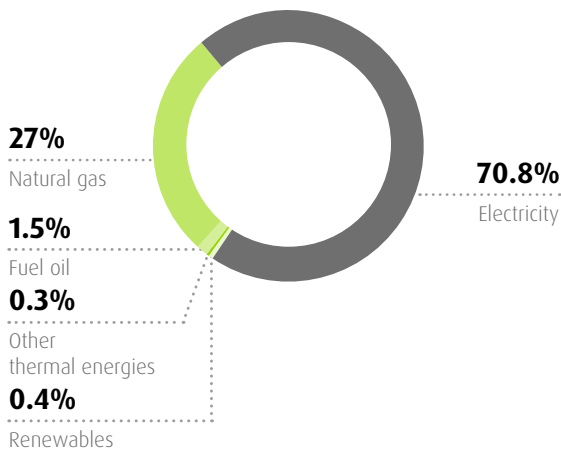
Valeo sites use the following three types of energy for industrial and domestic uses:

- 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.

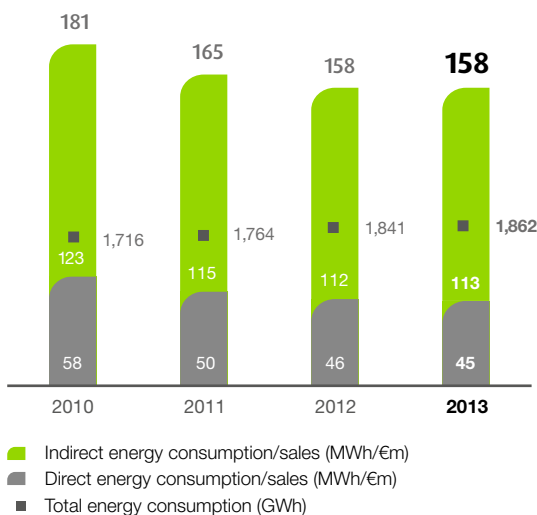
Electricity and natural gas have for several years been the two main sources of energy used by sites: together, they account for nearly 98% of the total energy consumption. The Group does not have detailed information on the primary sources used for the generation of electricity consumed on its sites. It does not take into account energy consumed in the operation of handling equipment (propane, fuel).

(1) See Sustainable Development Glossary, section 4.6.3, page 201.

Breakdown of direct and indirect energy consumption



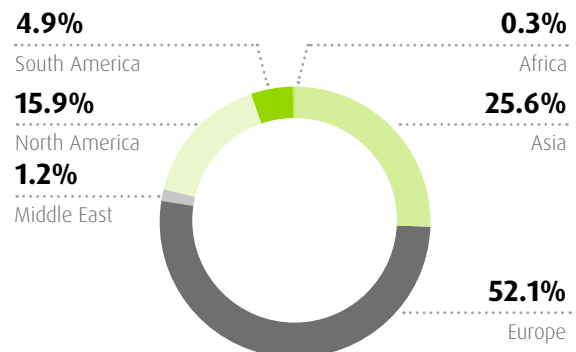
Energy consumption



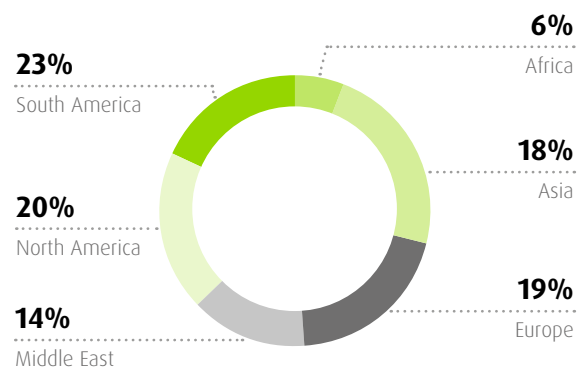
Energy consumption as a proportion of sales is **steady with respect to the prior year**. **Total energy consumption rose by 1.1%**. There are a number of explanations behind this slight rise, including harsher weather conditions in many countries, underestimated gas consumption figures from one site in 2012, and the installation of several new production lines in 2013.

Regional breakdown of energy consumption in 2013

Regional breakdown of total energy consumption



Regional breakdown of energy consumption as a proportion of sales



Sites in Europe and Asia account for close to 80% of overall energy consumption but less than 40% of consumption as a proportion of sales.

Conversely, sites in South America, Africa and the Middle East account for close to 7% of overall energy consumption but 43% of consumption as a proportion of sales.

Energy consumption as a proportion of sales at sites in North America is in line with overall site consumption figures.

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). This ratio remained steady from 2012 to 2013.

The steady figure for overall energy consumption across the Valeo Group in 2013 with respect to 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, at the sites in Kohnan (Thermal Systems, Japan), Chrzanow (Visibility Systems, Poland), Meslin-l'Évêque (Visibility Systems, Belgium);
- replacement of energy-intensive systems by more energy-efficient alternatives, or reduction in the number of systems: Ferentino (Thermal Systems, Italy), Foshan (Thermal Systems, China), Laval (Thermal Systems, France);
- automatic timers for heating and lighting: Tangier (Visibility Systems, Morocco);
- management of stand-by mode for production equipment: Sainte Florine (Powertrain Systems, France), Sablé-sur-Sarthe (Powertrain Systems, France), Chennai (Powertrain Systems, India), Chonburi (Comfort & Driving Assistance Systems, Thailand);
- improved insulation for buildings: Wemding (Comfort & Driving Assistance Systems, Germany);
- searches for leaks in compressed air systems: such action is widely used in all Business Groups, especially during annual production shutdowns.

In all, 69 sites declared that they had undertaken new energy efficiency operations in 2013. In 2014, the sites aim to achieve overall energy savings amounting to 1% of the Group's total energy consumption in 2013, i.e., around 26 GWh.

As announced in 2012, Valeo rolled out the ISO 50001 standard on energy management systems at its sites, with the aim to certify 10% of its sites by 2015. In 2013, two sites (Martorelles in Spain and Wemding in Germany) obtained ISO 50001 certification.

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 section 4.2.5, "An acknowledged approach and new product offerings integrating sustainability", pages 129 to 130).

Land use

The 122 sites in the reporting scope occupy a total area of approximately 660 hectares, of which some 11% are left in their natural state. The rest is used for buildings, traffic areas and gardens.

4.3.6 Fight against climate change **GRI EC2**

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 2013, 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⁽¹⁾, 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 (Scope 1 and Scope 2) greenhouse gas emissions **GRI EN16**

To contribute to the fight against global warming, Valeo made a significant commitment to reduce its direct and indirect GHG emissions by 10% as a proportion of sales over the 2013-2015 period, based on the 2012 performance.

Direct and indirect emissions (Scope 1 and Scope 2) at Valeo Group sites increased by 10% and 5.5% respectively in 2013.

⁽¹⁾ See Sustainable Development Glossary, section 4.6.3, page 201.

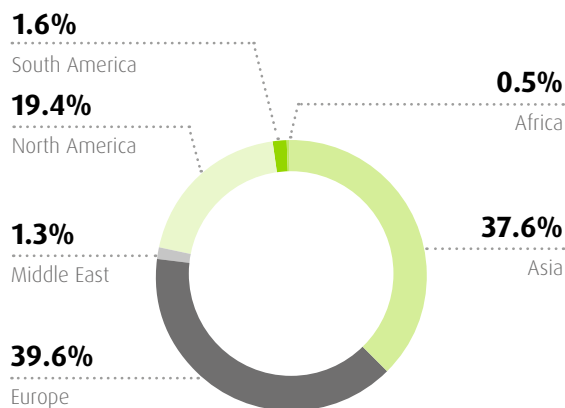
There are several reasons for these increases:

- growth in Group business;
- harsh weather conditions in 2013;
- greater reliability in the reporting of greenhouse gas emissions.

Emission category	Emission source	2010	2011	2012	2013
Direct GHG emissions (thousands of metric tons CO ₂ eq.)	Emissions generated by fuel oil and gas combustion at sites	129.1	124.5	126.0	131.8
	Direct emissions from non-energy processes	NC	2.8	4.6	14.9
	Emissions caused by Valeo's vehicle fleet	NC	4.2	5.2	7.6 ⁽³⁾
	Fugitive emissions (refrigerant leakage)	NC	NC	17.4	14.1
	TOTAL DIRECT EMISSIONS	129.1	131.5⁽¹⁾	153.2	168.4
Indirect GHG emissions (thousands of metric tons CO ₂ eq.)	TOTAL INDIRECT EMISSIONS (Emissions from consumption of electricity ⁽²⁾ and other energy such as steam)	410.5⁽⁴⁾	457.7	506.4	534.1

- (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.
- (3) As of 2013, the figure for emissions from the Valeo vehicles fleet also includes emissions from gas-powered handling equipment.
- (4) In 2010, indirect emissions did not include emissions arising from consumption of other energy.

Regional breakdown of greenhouse gas emissions in 2013



The chart shows direct emissions related to gas and fuel oil combustion at sites and indirect emissions related to electricity consumption.

Other relevant indirect (Scope 3) greenhouse gas emissions **GRI EN17**

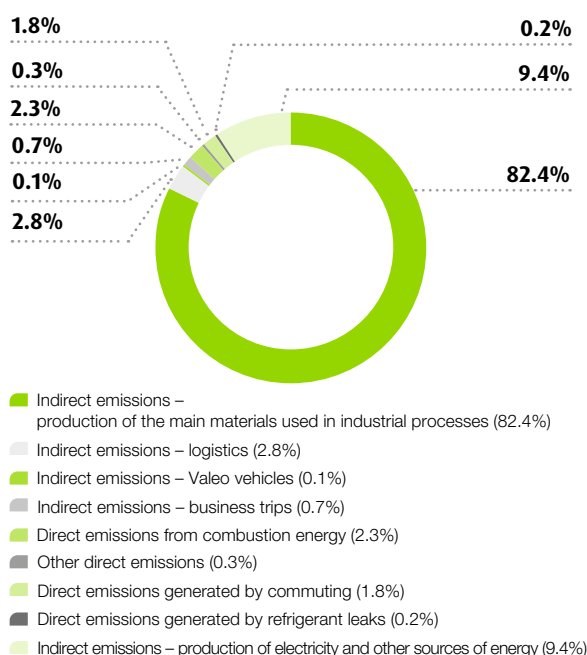
Based on the evaluation of the carbon footprint made in previous years, other indirect GHG emissions (Scope 3) considered relevant by Valeo are:

- 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);
- emissions from the transportation of personnel.

Emission category	Emission source	2010	2011	2012	2013
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 of which:	3,643.2	4,198.2	4,468.0	4,680.1
	• Materials (metals)	2,470.1	2,817.0	2,906.3	3,050.4
	• Materials (other)	1,173.1	1,381.2	1,561.7	1,629.7
	Emissions generated by logistics of which:	142.3	207.1	134.3	156.2
	• Road/rail/sea transportation	92.8	117.4	102.0	97.5
	• Air/express transportation	49.5	89.7	32.3	58.7 ⁽¹⁾
	Emissions generated by employee travel of which:	101.9	110.4	136.0	139.2
	• Work commute	68.7	77.9	86.0	99.2
	• Business trips	33.2	32.5	50.0	40
	TOTAL OTHER INDIRECT EMISSIONS	3,887.4	4,515.7	4,738.3	4,975.5

- (1) The increase in emissions from air/express transportation is largely attributable to an increase in air transportation following the maritime accident that resulted in the loss of a ship and the goods being transported. Valeo had to use emergency air transportation to deliver goods to its customers.

2013 breakdown of main GHG emissions



The chart above shows the preponderant contribution of materials used in industrial processes to the Group's overall carbon footprint (82.4%, of which two-thirds for metals), whereas direct emissions represent only 2% of the overall footprint.

The Group's overall carbon footprint (Scopes 1, 2 and 3) totaled approximately 5.68 million metric tons of CO₂ equivalent in 2013. As a proportion of sales, it was up by 4.2% on 2012.

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, page 148);
- optimization of the transportation of finished products (see GRI EN29, below);
- local initiatives at industrial sites on employee transportation. In 2013, this kind of initiative was on the increase, with sites actively encouraging car-sharing and organizing collective transport directly. Both of these

practices are commonplace at sites in Asia (Thailand, India, Japan, China, etc.). We also find more specific initiatives such as the purchase of low-carbon vehicles for fleets at some sites (Humpolec in the Czech Republic and Jonan in Japan), and servicing for the engines of employees' vehicles (San Luis Potosi in Mexico, São Paulo in Brazil, Pune in India and Chonburi in Thailand).

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 the 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 2013, working on the following three areas:

- optimization of transportation, mainly road and maritime transportation:
Work continued in 2013 on the optimization of truck routes and load factors covering several suppliers and/or sites in the same region. Thus, despite the growth in activity resulting in increased volumes and, in turn, supplies, Valeo's flow optimization kept the increase in transportation volumes below the increase in business.
- reduction of storage facilities:
Valeo 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.
- increase in the number of components per package.

The various measures concerning the three priorities in the logistics management policy delivered an 8% reduction in the Group's transportation-related expenditure in 2013.

⁽¹⁾ Information relating to the transportation of personnel is presented in the GRI EN17 and EN18 indicators, pages 149 and 150.

In 2013, Valeo also pushed ahead with work based on the document “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.

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.

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., more than 90% 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 such sites were inventoried in 2013: three in Asia, four in South America and thirteen in Europe. These include nine sites in France, chiefly in the vicinity of Natura 2000⁽¹⁾ areas or natural areas of ecological, flora and fauna interest (ZNIEFF⁽¹⁾). The sites concerned 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** was issued 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.

Many sites are running biodiversity projects. Examples include:

- **Hudson (Comfort & Driving Assistance Systems, United States).** In 2013, the Hudson site ran a number of biodiversity conservation initiatives: recovery and recycling of batteries, recycling of ink cartridges, distribution of reusable bags with information on recycling, distribution of seeds for planting (vegetables, fruits, plants), recovery of old phone sets to be donated to local charities, conversion of waste into heat;
- **San Luis Potosi (Powertrain Systems, Mexico).** The San Luis Potosi site is running a reforestation program, which involved tree-planting operations in 2013 with a local university, the city hall and the industrial estate where the site is located. All 500 trees planted came from the nursery garden set up by the site.

(1) See Sustainable Development Glossary, section 4.6.3, page 201.

4.4 Labor-related indicators

4.4.1 Introduction

Valeo's Human Resources strategy is critical in order to support its international expansion and the reduction of CO₂ emissions and the development of new technologies.

It is a global approach, taking into account specific cultural, economic and market conditions, thereby allowing the Group to deal with a broad range of situations in the various countries where it operates.

It allows Valeo to compete for high performers in certain professions, not only in fast-developing countries, but also in many other countries, and to adjust staffing needs by means of forward-looking management of employment and competences.

The priorities of the Human Resources Department are:

- the promotion of and compliance with Valeo's values:
 - ethics,
 - transparency,
 - autonomy,
 - professionalism, and
 - teamwork;
- employee safety and improved ergonomics;
- diversity in all its dimensions (gender, disability, social and cultural, generational);
- "Well-being at work";
- the motivation and engagement of all employees (see "Engagement survey of engineers and managers" in section 4.4.7, page 179).

These fundamental issues are addressed in Valeo's corporate social responsibility policy, which was strengthened by the Corporate Social Responsibility (CSR) agreement signed on July 10, 2012 between the Group's 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 that go beyond legal and regulatory obligations, by:

- giving due consideration to employee health and safety issues when thinking about new capital investments;

- making one-to-one employee meetings a common practice in order to encourage the development and adaptation of competences;
- anticipating, in the event of changes in the economic and industrial environment affecting its workforce, how employees will be impacted by strategic decisions taken;
- ensuring that adequate assistance is provided to those affected, in line with the best industry practices in the relevant local market, through informative meetings with employee representative bodies.

The Human Resources and Sustainable Development Departments implemented an annual reporting tool in 2008 enabling them to identify the initiatives taken on Valeo's various sites in respect of labor, corporate citizenship and environmental issues. This tool, known as "Plants' Initiatives", was updated in 2013 to focus responses on the most relevant issues and concrete measures taken in the various regions (Africa, North America, South America, Asia, Eastern Europe, Western Europe). The results of the survey are presented either as charts or included directly in the content of the various themes addressed.

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 de Commerce*) resulting from the "Grenelle 2" decree of April 24, 2012. Valeo has opted to include its entire worldwide scope of consolidation, with the exception of the Access Mechanisms joint venture in India and the Interior Niles Fuzhou FNE joint venture in China.

Valeo has 124 sites, 16 research centers, 35 development centers and 12 distribution platforms in 29 countries worldwide.

Most of the indicators presented in this chapter have been audited by an independent external body, whose report is provided in section 4.8, page 206.

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** **GRI LA13**

Change in headcount over three years

	2011	2012	2013	Change 2012-2013	Scope of labor-related indicators 2013
Engineers and managers	13,611	15,929	16,855	+6%	16,831
Administrative staff, technicians and supervisors	10,910	9,333	9,559	+2%	9,436
Operators	35,268	39,748	40,709	+2%	40,548
Registered headcount	59,789	65,010	67,123	+3%	66,815
Temporary staff (<i>full-time equivalent at December 31</i>)	8,211	7,590	7,647	+1%	7,368
Total headcount	68,000	72,600	74,770	+3%	74,183
of which:					
Permanent staff	54,897	60,708	52,922	-13%	52,655
Non-permanent staff (fixed-term and temporary)	13,111	11,892	21,848	+84%	21,528

At December 31, 2013, the Group employed 74,770 people, an increase of 3% in the total headcount compared with 2012. The increase was attributable primarily to the increase in the number of engineers and managers (6%). The real growth in the Group's headcount was partially masked by the disposal of the Access Mechanisms business, representing 4,500 employees and 6% of the headcount.

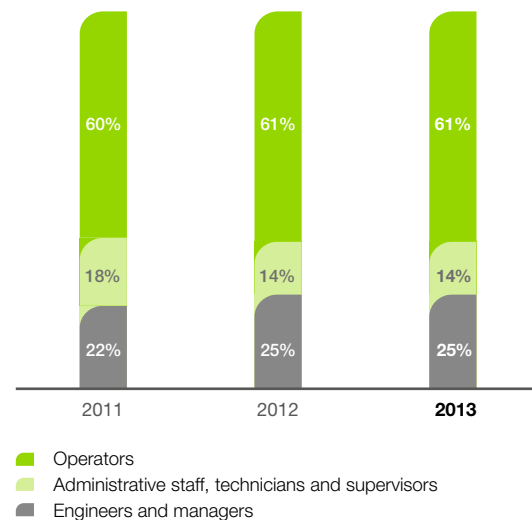
The Group continues to increase its competences through the recruitment of a growing number of engineers and managers in the wake of substantial investment in innovation, primarily in Europe and Asia. Its growth strategy resonates in the extension of industrial capacity in high-growth countries in North America and Asia. For the first time in its history, Valeo now employs more operators in China than in France, reflecting the strength of its operations in that country.

29% of the Group's employees are classified as non-permanent (an increase of 84% compared with 2012) due to a change in the rules for determining the number of employees on permanent contracts in China. Local practice is generally to hire employees on an initial fixed-term contract before transferring them to a permanent contract. The Group has decided to end the practice of equating these contracts with permanent contracts.

Furthermore, the automotive market is cyclical: considerable flexibility is required to adapt capacity on a constant basis to fluctuating demand from clients around the world.

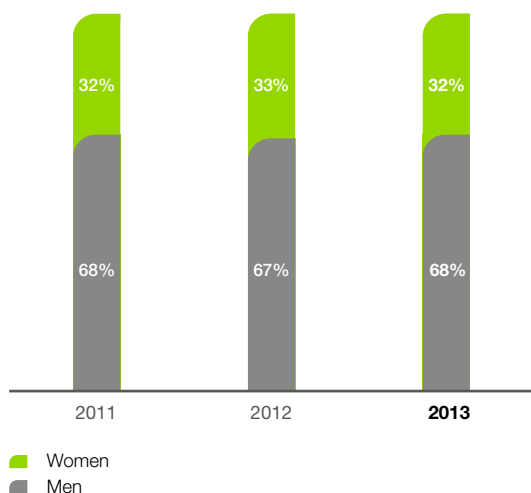
The indicators below are based on the scope of consolidation defined in section 4.4.1, page 152.

Breakdown of registered headcount by socio-professional category



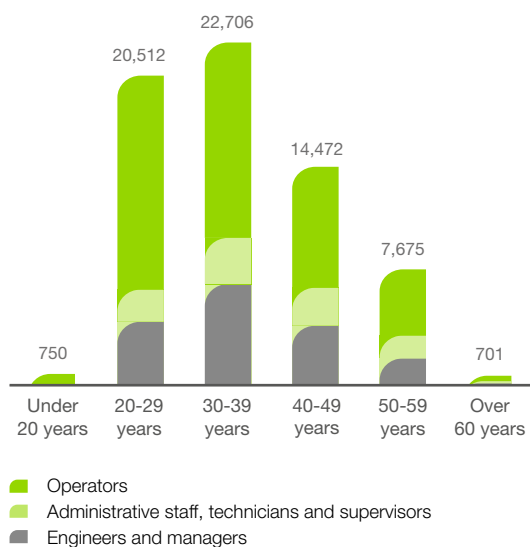
Innovation is central to Valeo's strategy, and a key factor in its success. The increase in the proportion of engineers and managers in the headcount since 2011 demonstrates its policy of international growth and innovation.

Breakdown of registered headcount by gender



While the overall proportion of women at Valeo was down slightly (-1%), the recruitment of women in occupations where their numbers are lower (engineers and managers and technicians) is increasing (see section 4.4.6, page 173) thanks to initiatives taken by Valeo in terms of gender equality and the promotion of its professions.

Registered headcount by age bracket



At December 31, 2013, the Group's registered headcount by age was as follows:

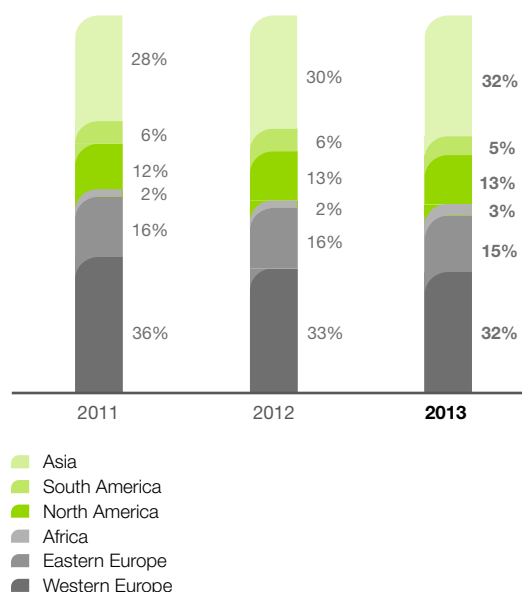
- 1.1% aged under 20;
- 30.7% aged between 20 and 29;

- 34.0% aged between 30 and 39;
- 21.7% aged between 40 and 49;
- 11.5% aged between 50 and 59;
- 1.0% aged 60 or over.

In all, 39.8% of engineers and managers are in the 30-39 age bracket, compared with just 32.4% of administrative staff, technicians and supervisors, and 31.9% of operators. In all, 35% 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 2013, the headcount fell by 12.8% in South America, 2% in Western Europe and 3.1% in Eastern Europe, reflecting the adaptation of the workforce due to the economic slowdown in these regions.

By contrast, the headcount increased by 5% in North America, 28.3% in Africa and 9.3% in Asia. Growth in Asia stemmed from Valeo's strategy, which prioritizes expansion in emerging countries, including China.

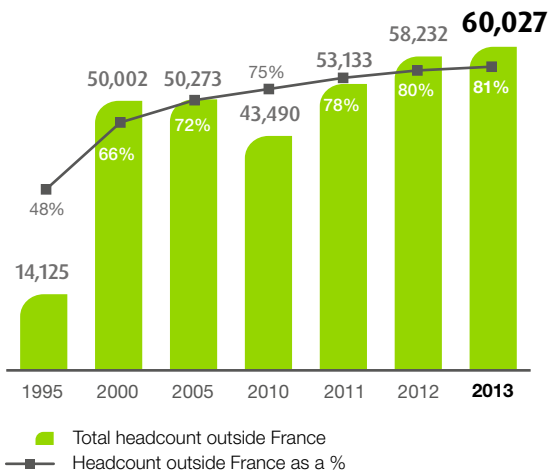
New hires and employee turnover

GRI LA2 GRI EC7

Valeo's policy of international expansion has led to a 3% rise in the number of employees worldwide. Today, 81% of employees are based in a country other than France, compared with 66% in 2000, despite the disposal of the Access Mechanisms business.

Growth was particularly strong in Asia, with a 14% increase in the headcount between 2012 and 2013, despite the disposal of the Access Mechanisms business.

Headcount outside France



Valeo's success hinges on being able to attract top international performers, particularly in fast-growing markets and emerging countries, and in fields related to CO₂ emissions reduction technologies. Skilled teams ensure that 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 consistently and professionally, all managers are trained using a recruitment kit. This kit combines the various communication and recruitment tools developed by the Group, such as the Employer Brand, the Internal Mobility Charter and the Valeo Competences system,

launched in 2004. A Recruitment Guide describes the Group's operating culture, and sets out the key messages to pass on 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 non-technical transversal competences has also been added to the kit, making it possible to focus the selection of applicants more closely on these specific competences.

In 2013, Valeo hired 17,511 people worldwide, 8,278 of whom on permanent contracts, including more than 3,000 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 local labor pools where competition for skilled labor is fierce.

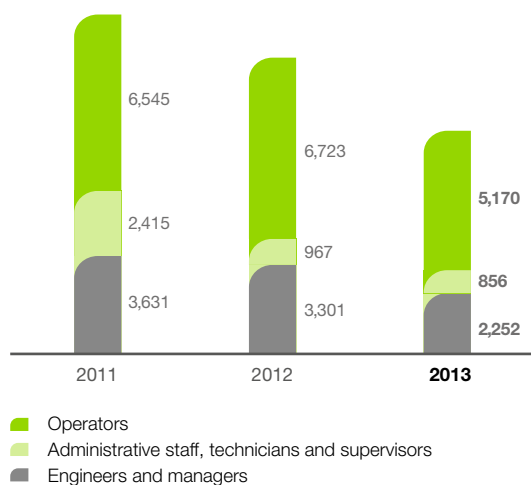
Change in hiring over three years

2011	2012	2013
+76%	-12%	+6%

While growth in the number of new hires appeared to slow in 2012 compared with 2011, this was actually due to the acquisition of Niles (now Valeo Niles), whose workforce comprising almost 4,000 employees was added to the 2011 hiring figures. Stripping out this impact, new hires on permanent contracts rose from 8,600 in 2011 to around 11,000 in 2012, reflecting a significant increase in new hires.

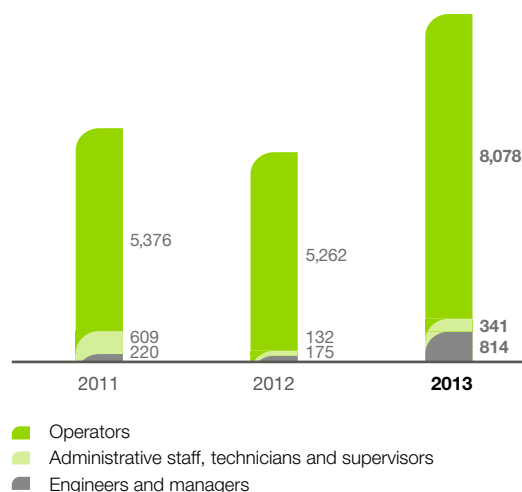
In 2013, the global automotive market grew at a slower pace than in 2012 (4% compared with 6%). In the face of this significant slowdown in growth, caution was vital. Excluding China, the proportion of hires on fixed-term contracts (48%) moved closer to that of the number on permanent contracts (52%). In China, the modification of the rule applied to permanent contracts has led Valeo to classify all fixed-term contracts as temporary contracts as opposed to permanent contracts, whatever their term. 60% of the new hires in China in 2013 are affected by this change.

Number of new hires on permanent contracts



The number of employees hired on permanent contracts fell by 25% to 8,278 in 2013, compared with 10,991 in 2012.

Number of new hires on fixed-term contracts



Valeo hired 9,233 employees on fixed-term contracts during the year, an increase of 66% compared with 2012. The increase was attributable primarily to the change in the definition of permanent contracts in China and greater caution on hiring, in response to slower growth in some regions.

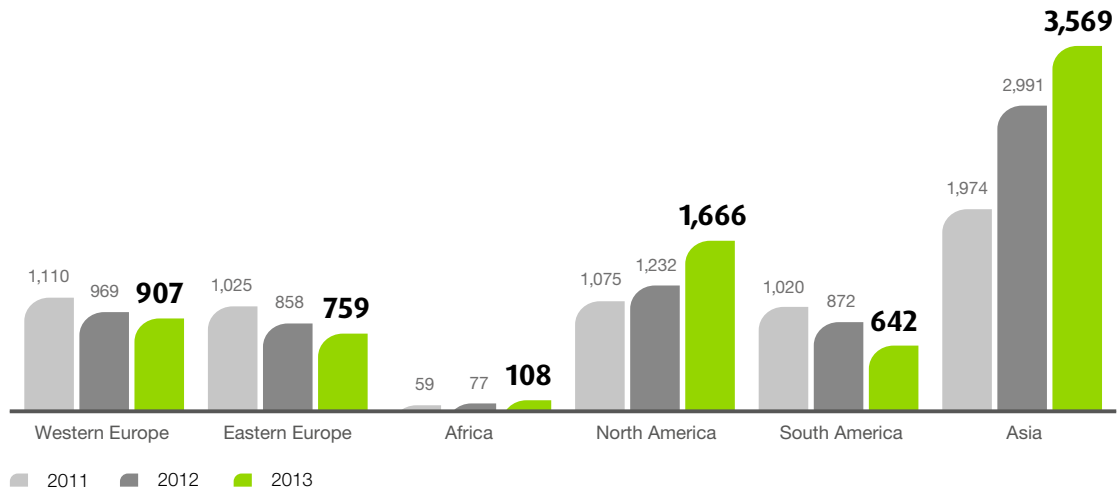
Breakdown of new hires by geographic area

	Permanent contracts				Fixed-term contracts			
	2011	2012	2013	Change 2012-2013	2011	2012	2013	Change 2012-2013
Western Europe	1,452	1,408	1,161	-18%	2,255	2,031	2,097	+3%
Eastern Europe	1,686	1,437	1,263	-12%	780	942	512	-46%
Africa	227	268	211	-21%	381	402	746	+85%
North America	1,338	2,559	1,763	-31%	1,904	1,331	1,403	+5%
South America	946	573	960	+68%	39	41	74	+80%
Asia	6,942	4,746	2,920	-38%	846	822	4,401	+435%
TOTAL	12,591	10,991	8,278	-25%	6,205	5,569	9,233	+66%

The accelerated growth in hiring mirrors the expansion strategy in Asia. The 17,511 new hires break down as follows in the various geographic areas, in descending order: Asia (7,321), Western Europe (3,258), North America (3,166), Eastern Europe (1,775), South America (1,034), and Africa (957).

Asia and America are accordingly the fastest-growing areas, while Western Europe remains a dominant region for the Group.

Breakdown of departures over three years by geographic area

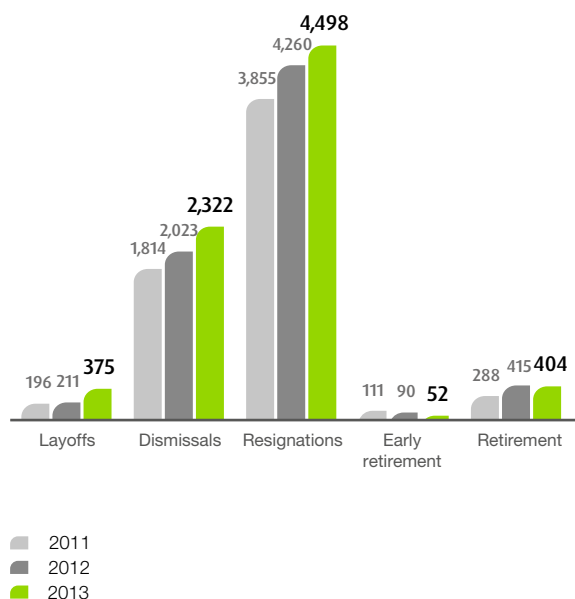


Labor markets are particularly active in Asia and North America, including markets for operators, but the Group's headcount continues to grow significantly in both areas, while the number of departures continues to slow in the other major markets.

Breakdown of departures by geographic area in 2013

	Western Europe	Eastern Europe	Africa	North America	South America	Asia	Total
Layoffs	113	28	13	80	34	107	375
	30.1%	7.5%	3.5%	21.3%	9.1%	28.5%	100%
Dismissals	155	225	13	620	418	891	2,322
	6.7%	9.7%	0.5%	26.7%	18%	38.4%	100%
Resignations	396	490	79	876	186	2,471	4,498
	8.8%	10.9%	1.8%	19.5%	4.1%	54.9%	100%
Early retirement	44	0	0	5	0	3	52
	84.6%	0.0%	0.0%	9.6%	0.0%	5.8%	100%
Retirement	199	16	3	85	4	97	404
	49.3%	4.0%	0.7%	21.0%	1.0%	24.0%	100%
TOTAL	907	759	108	1,666	642	3,569	

Breakdown of departures by category



In 2013, 7,651 people left the Group, i.e., 14.5% of permanent employees.

Early and statutory retirements represented 0.9% of permanent employees, compared with 0.8% in 2012 and 0.7% in 2011.

Resignations, which were again one of the main reasons for departure, represented 8.5% of permanent employees in 2013, compared with 7% in 2011 and 2012. By socio-professional category, resignations represented 7% of permanent engineers and managers, 4.4% of permanent administrative staff, technicians and supervisors, and 10% of permanent operators.

The Group has a single information process in respect of resignations. The resignation of an engineer or manager triggers a "resignation alert" sent by the Human Resources Department to various people (supervisors, functional managers, HR network, etc.) on the day the employee submits his or her resignation.

The "resignation alert" sets out very concisely the reasons for the resignation. The relevant managers examine it in order to determine the necessary action in view of several factors (reasons for the resignation, the employee's profile, skills, etc.).

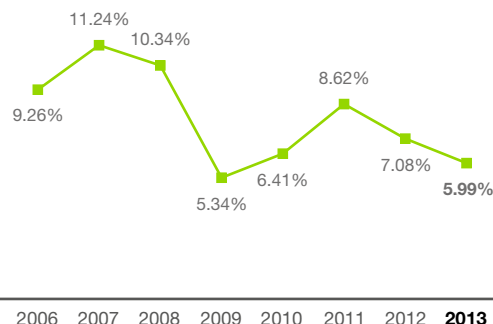
Subsequently, two meetings are organized with the resigning employee: one with a member of the Human Resources Department and the other with his or her manager. The purpose of these meetings is to look more closely at the reasons for the resignation, and on that basis to set out appropriate corrective and preventive measures with the relevant manager(s).

Layoffs accounted for 13.9% of terminations, compared with 9.4% in 2012 and 9.8% in 2011. Their main causes were the closure of Front-End Modules sites working on a just-in-time basis in Mexico and the United Kingdom, and measures to streamline the workforce in response to reduced production volumes on certain sites in Brazil, China and Japan.

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. These measures include 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 trade unions and uses all available mechanisms to find alternative employment through calls for volunteers, internal redeployment, outplacement, takeover of the plant by another owner or reindustrialization of local labor pools.

Turnover of engineers and managers



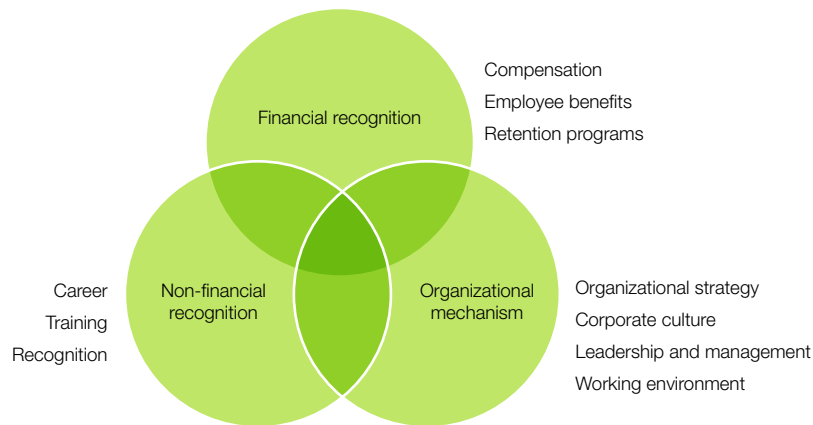
Headcount turnover (voluntary departure) at Valeo represents the number of voluntary departures of engineers and managers expressed as a percentage of the total number of engineers and managers on the payroll (retirements and contract terminations are not taken into account).

Engineers and managers 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 initiate measures to address them.

In 2013, the turnover of engineers and managers in the Group was 5.99%, compared with 7.08% in 2012. Turnover increased sharply in 2007 before falling sharply in 2009. These trends reflect a more stable organization, adverse economic conditions in certain countries, and the proactive initiatives taken by the Group in response. Turnover was lowest in Spain (2.59%), Japan (3.33%) and Germany (3.34%).

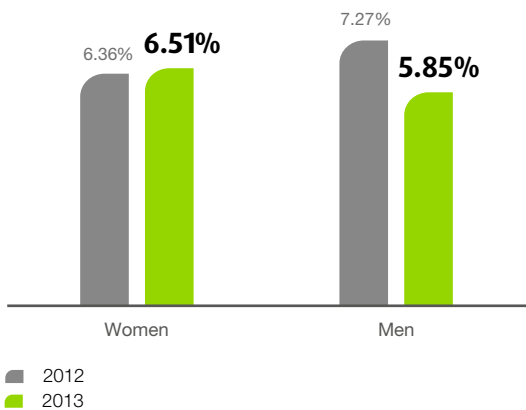
Turnover is higher in emerging countries such as China, where it was 8.7% (compared with 9.8% in 2012) and India, where it was 9.9% (14.9% in 2012). A global talent retention policy has been implemented, and has yielded results in these regions over the past few years.

This strategy is based on three key concepts:



Forging loyalty among teams and being able to retain them is an essential part of ensuring operational excellence.

Turnover of engineers and managers by gender



The main reasons cited by both men and women when resigning are visibility on their career paths and compensation. To boost loyalty and sustainably reduce turnover, Valeo has accordingly decided that career paths should be discussed during mid-year (or year-end) appraisal meetings with engineers and managers. Valeo also conducts regular competitiveness analysis of salaries in major markets, to ensure the appropriateness of pay scales in the countries where the Group operates.

Women also cite the workload as a reason for resignation. To ensure a proper work-life balance, Valeo has rolled out a global "Well-being at work" policy, which has resulted in the implementation of initiatives at various sites, including flexi-time arrangements, bans on late meetings, company concierge services and the reservation of nursery places, etc. Thought is being given to the introduction of telework in France, and concrete action on this issue is anticipated in 2014 and similar initiatives will be phased in worldwide.

Organization of work according to Group needs

Working week of full-time employees

The working time of employees at the Group's 124 plants, 16 research centers, 35 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.

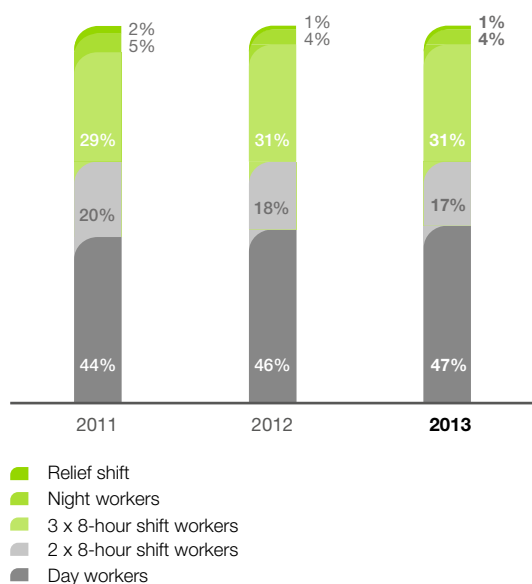
Working week of part-time employees

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 socio-professional category.

A total of 1,170 employees were working part-time in the Group in 2013, or 1.75% of the registered headcount (compared with 1.6% in 2012 and 1.9% in 2011).

Women represent 64% of part-time employees (68% in 2012 and 72% in 2011). By category, part-time employees break down as follows: engineers and managers: 12%; administrative staff, technicians and supervisors: 13%; and operators: 75%.

Breakdown of registered headcount by working hours (%)

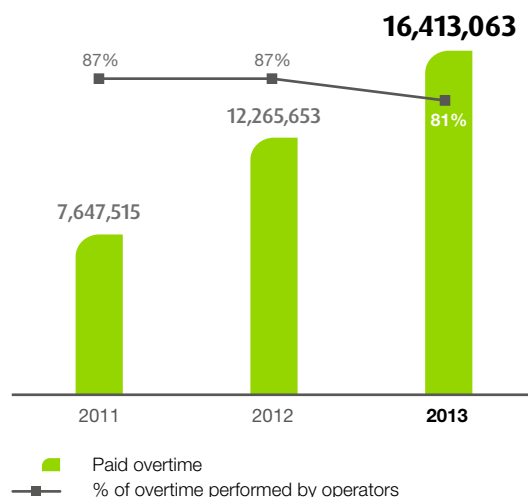


Valeo adapts working time so as to optimize plant utilization. Certain machinery is operated round-the-clock, thereby requiring three different shifts: a morning shift, an afternoon shift and a night shift, as part of 3 x 8-hour shift arrangements. In some plants, employees working nights may be part of a fixed shift, which means that they work nights on a regular basis. These are known as 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 2013, 53% 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.

Paid overtime hours



Paid overtime corresponded to 12.3% of total possible working hours (i.e., the number of basic hours that could be worked by all Group employees).

In 2013, Valeo saw a 33% increase in overtime compared with 2012, reflecting excess activity at certain plants.

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 of his or her site against benchmarks based on Group HSE directives. The tool is used in addition to the audits performed by external consultants (see section 4.3.2, page 136), and makes it possible to assess site performance on a more regular basis.

To standardize and entrench safety culture at its sites, the Group has established several internal training modules for its site managers, covering all of its HSE Guidelines.

In October 2013, the Group also reviewed and amended its Valeo 5000 framework (internal audit based on the 5 Axes framework), notably the Safety and Ergonomics section. Emphasis has been placed on prevention, compliance with procedures and management training in the various sites.

In keeping with its policy of continuous improvement and its determination to guarantee complete transparency, new accident-tracking software has been developed. Its rollout to all sites began in October 2013. This software, known as VIM Safety (Valeo Incident Management), is based on the Safety QRQC (Quick Response Quality Control) analysis tool introduced in 2007. The new tool provides real-time information on safety incidents/accidents in each site at all levels (Business Groups, Group, etc.) through a "Red Alert" process. It identifies and monitors the implementation of corrective and preventive actions. The tool makes it possible to monitor the implementation of actions taken at each site, and compliance over time, and to share very simply and quickly various safety measures with other sites liable to face the same issues.

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. All variable compensation (for eligible managers) is weighted up or down by a safety indicator: the frequency rate of accidents with lost time.

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 have gradually been extended to all of the Group's companies outside Europe. As of February 15, 2013, it was applicable to all Group sites worldwide.

The implementation of this agreement led to the preparation of a specific report in respect of 2012 on the European Union scope (for most parameters), presented to the Committee members of the European Works Council in two meetings in March and November 2013.

The policies ushered in by the agreement are as follows:

- investments shall not jeopardize the health or safety of employees;
- working conditions shall be monitored 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 or her colleagues;

- risk prevention initiatives shall be rolled out as part of a continuous 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 to employee representatives.

In addition to this European agreement, 52 sites in 13 countries signed health and safety agreements in 2013: one in Brazil, two in China, 31 in France, two in Germany, one in India, two in Japan, five in Mexico, two in Romania, one in Russia, two in Spain, one in Thailand, one in Tunisia and one in Turkey (see "Collective bargaining agreements" in section 4.4.4, page 169).

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.

This indicator includes all Valeo employees whatever their type of employment contract. 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 the employment contract.

These three indicators highlight the Group's improved safety performance since 2007, owing largely to management's commitment to this issue.

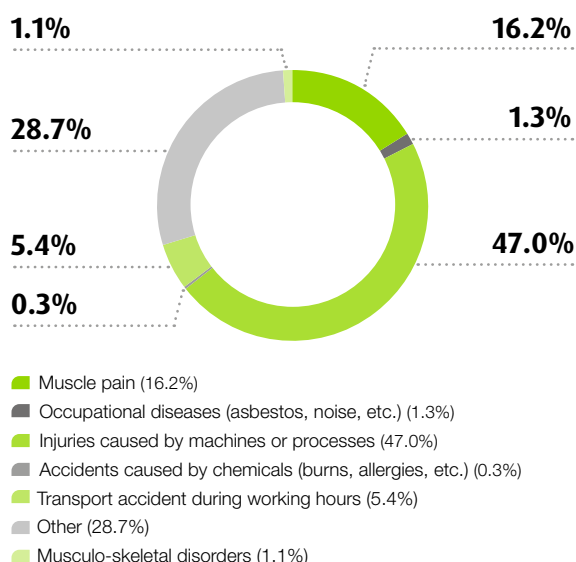
4 SUSTAINABLE DEVELOPMENT

Labor-related indicators

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, 13% of training hours organized within the Group in 2013 were dedicated to safety. In 2013, 41% of employees attended at least one training session on safety (65% in 2012).

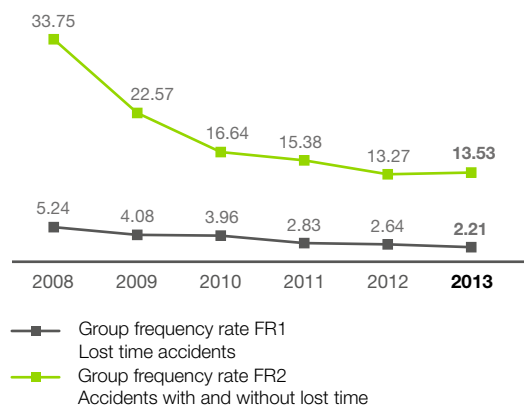
Breakdown of lost-time accidents by cause



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⁽¹⁾/FR2⁽²⁾)



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

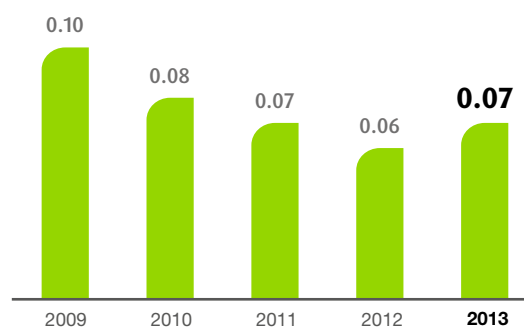
(2) Formula for calculating FR2: (number of accidents with or without lost time x 1,000,000)/number of hours worked.

The percentage stake in joint ventures is applied to this indicator.

In 2013, the FR2 ratio was 13.53, compared with 33.75 in 2008, illustrating the ongoing improvement in the Group's safety record, with a drop of 60% in accidents over the past five years. The slight increase in 2013 compared with 2012 was attributable to the policy of more systematic reporting of all accidents in all countries.

In 2013, the number of accidents with lost time continued to fall, with an FR1 ratio of 2.21, compared with 5.24 in 2008, representing a 58% improvement over the past five years.

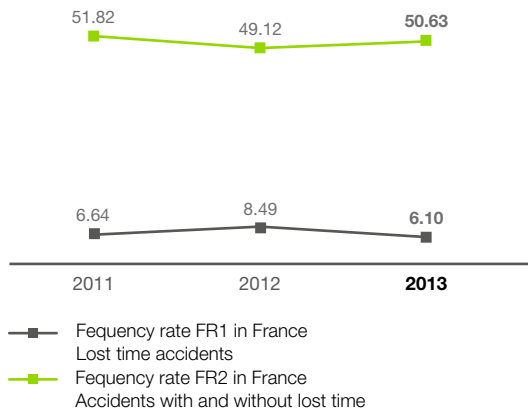
Group severity rate (SR1)⁽¹⁾



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

The percentage stake in joint ventures is applied to this indicator.

Frequency rate in France (FR1/FR2)

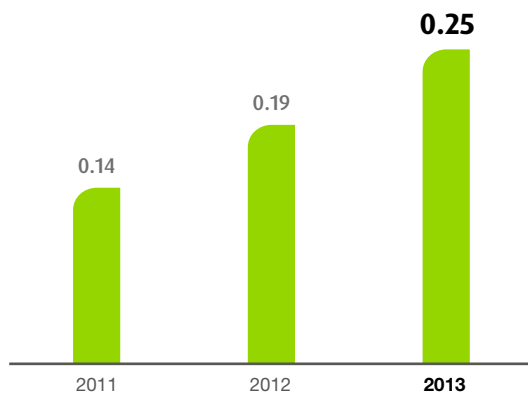


The number of accidents with lost time expressed as a percentage of the total number of accidents reported is an effective way of measuring the reliability of the information provided by sites.

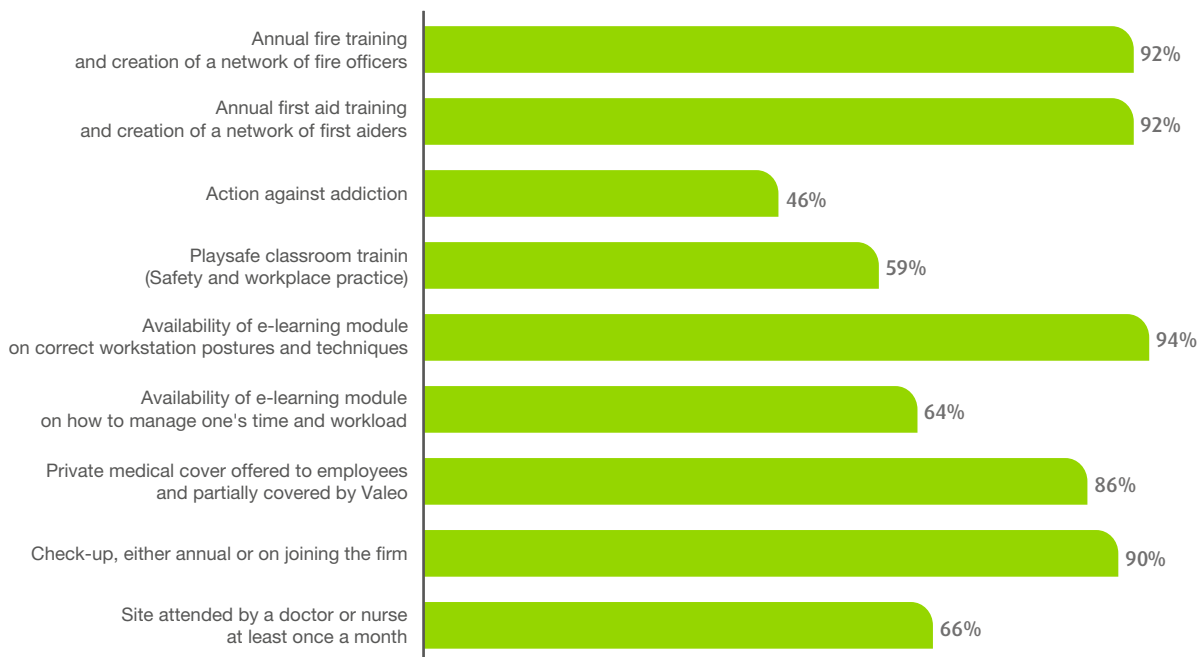
The ratio varies widely between countries: 3% in the United States, 13% France, 50% in Poland and 53% in Germany. In view of these differences, the Group will continue to improve communication on this issue and encourage sites to report all accidents – even those causing no injuries or lost time. In fact, reporting even minor accidents may help avoid more serious ones in the future, thanks to the analysis of the causes of accidents and the implementation of appropriate action plans.

The Group seeks to raise safety awareness at different levels of its organization. Indicators are presented at Operations Committee and Liaison Committee meetings, as well as at meetings of the Risk Management Committee.

Severity rate in France (SR1)



Percentage of sites having implemented health and safety initiatives in 2013

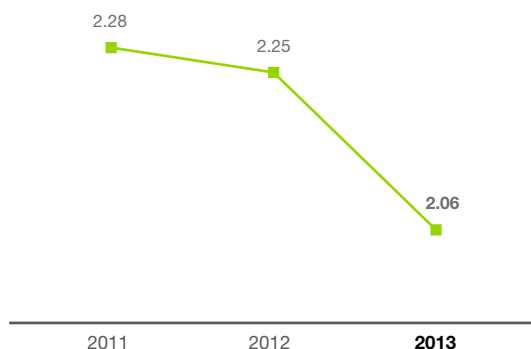


86% of Valeo's sites offer their employees private medical insurance. All sites offer medical insurance in South America and 95% in North America.

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, suspensions or other reasons. The absenteeism rate has fallen slightly over the past three years, from 2.28% in 2011 to 2.06% in 2013.

Group absenteeism rate



Calculation: actual hours of absence expressed as a percentage of total possible working hours.
The percentage stake in joint ventures is applied to this indicator.

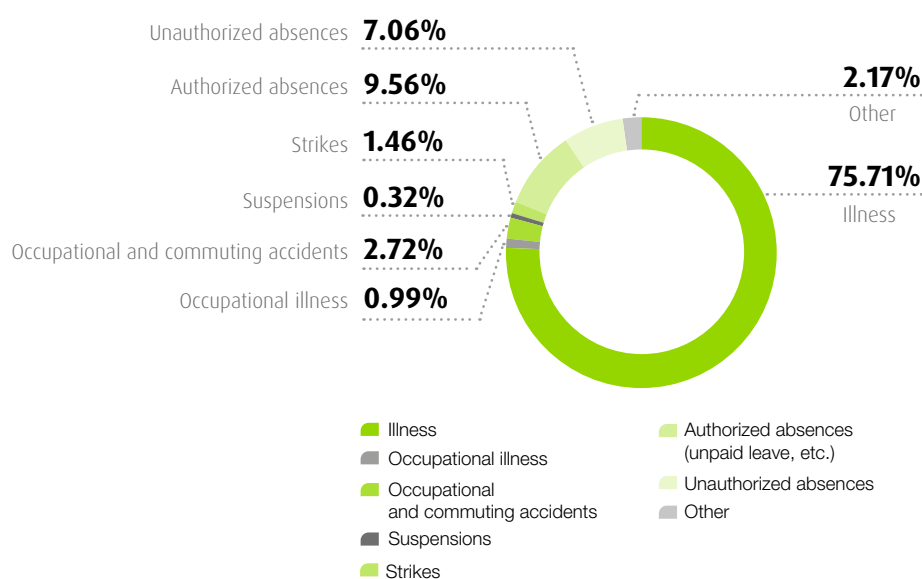
Absenteeism rate by geographic area



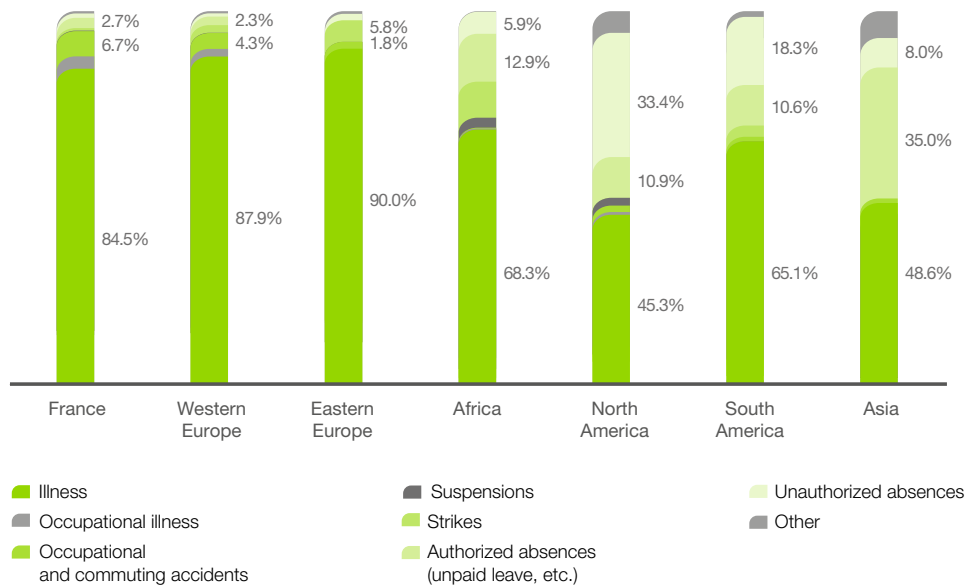
The global absenteeism rate fell by 0.19 percentage points between 2012 and 2013, and by 0.22 percentage points between 2011 and 2013. However, this trend varies between regions. Rates were down in the Group's two main geographic areas, Western Europe (by 0.12 points) and Asia (by 0.32 points), but up in Eastern Europe (by 0.09 points), North America (by 0.03 points), South America (by 0.15 points) and Africa (by 0.20 points).

Although Valeo has a consistent policy for tracking absenteeism, the level of social security coverage and cultural differences have a strong bearing on national rates.

Breakdown of absences by cause



Breakdown of absences by cause and geographic area



“Well-being at work”

Valeo’s values are ethics, transparency, independence, professionalism and teamwork. They are based on fundamental principles such as mental, emotional and physical balance, respect for others, diversity, solidarity, recognition and “Well-being at work”.

It was with these values and these principles, laid down clearly in the Code of Ethics, that Valeo framed its “Well-being at work” policy and opted to address the psychosocial risks that can arise when there is an imbalance between the individual and his or her working environment.

In 2010, the Group’s Management accordingly decided to open negotiations with the unions in France on the question of “Well-being at work”. These negotiations also aimed to raise the awareness and understanding of psychosocial risks among managers, employees and their representatives.

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 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. ✓ 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 in response to the findings of the survey. ✓ "Well-being at work" film produced and screened at all French sites. ✓ Establishment of a method for assessing psychosocial risks in order to integrate them into the single document of each site in France.
2012	✓ "Well-being at work" program rolled out worldwide. ✓ "Well-being at work" film subtitled in English.
2013	✓ "Play Well" training module designed, enabling managers to build an environment favorable to personal development at work, and to detect and prevent psychosocial risks, both in and outside the workplace. ✓ Communication with sites on Valeo's "Well-being at work" program and its follow-up (France, Tunisia, etc.). ✓ Systematic inclusion of the criterion of value and respect for individuals in tools used to assess employees' potential and to promote them. ✓ Rollout of individual action plans at each site.

Update on the worldwide implementation of the "Well-being at work" program

Worldwide implementation of the "Well-being at work" program began in 2012. It 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 at French sites.

The process involved the following noteworthy actions:

- the creation of 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 their 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 of employee "Well-being at work" indicators in the monthly review of operational management's financial performance.

The plan accordingly continued throughout 2013 in the various countries where Valeo operates.

A seven-point methodology was used to measure progress in the deployment by country. The deployment is considered fully completed in countries where the following steps have been validated:

- deployment plan formalized;
- project team appointed;
- project team trained;
- "Well-being at work" committee appointed;
- training plan formalized;
- communication kit created;
- good practices identified and shared.

In view of this methodology, progress in the 25 major countries where initiatives were taken is as follows:

- two countries have fully implemented the “Well-being at work” program (France and Spain);
- five countries have done more than 50% of the required work (Brazil, Czech Republic, Hungary, Romania, South Korea);
- the other countries have begun the process, but still need to take further action in 2014.

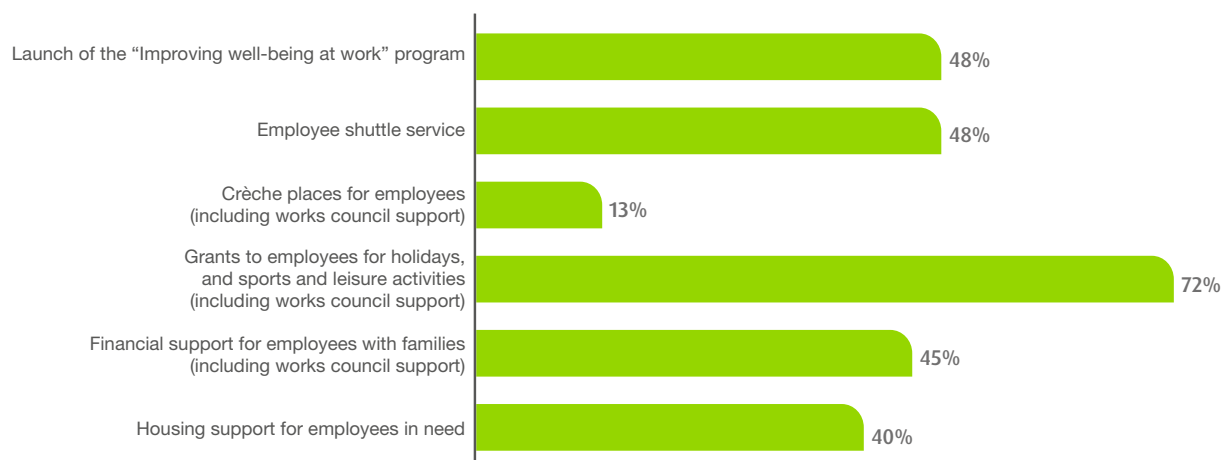
Furthermore, the engagement survey carried among engineers and managers (see section 4.4.7, page 179) was updated in 2013 to reflect new issues relating to the “Well-

being at work” program (work load, autonomy, atmosphere in work teams, work-life balance, etc.). All Valeo engineers and managers worldwide were asked to respond to the survey, the results of which are presented on page 179.

The Group also wishes to survey non-management employees on “Well-being at work”. In 2013, Valeo organized surveys of this type for the aforementioned populations in 30% of the countries where it operates. The goal for 2014 is to survey all non-management Valeo employees worldwide.

It should also be noted that seven countries have in recent years negotiated agreements with unions on issues relating to “Well-being at work” or psychosocial risks.

Percentage of sites having implemented “Well-being at work” initiatives in 2013



Focus on South America

57% of sites have established financial aid for employees with children.

86% of sites have set up home-work shuttles for employees.

43% of sites offer nursery places for employees.

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

Group Committee in France

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. The composition of the Group Committee was changed in 2013.

European Works Council

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 16 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 44.3% of the Group's registered headcount, or 29,600 employees.

Annual monitoring was implemented following the signing in July 2012 of the Agreement on Corporate Social Responsibility with the committee members of the European Works Council. A presentation of the first results of the application of this agreement was made to the European Works Council at its March meeting.

International level **GRI LA4** **GRI LA6**

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.

At least one employee holds a mandate as staff or union representative in 24 countries (more than 75% of the countries in which Valeo operates). A total of 12,680 Valeo employees, accounting for 24% of the permanent headcount worldwide, had at least one such representative in 2013.

In addition, over 80% of Valeo sites have set up a committee dealing with health and safety issues and/or working conditions.

Lastly, 92 Valeo sites are covered by a collective bargaining agreement, at least for part of their personnel.

Stoppages/strikes

Valeo does not have to contend with many strikes at its sites; strikes account for only 1.46% of absences worldwide. Only 24 of Valeo's sites worldwide (16%) were faced with stoppages or strikes, whether or not production was halted. Some sites in France were affected by strikes resulting in production stoppages, generally ranging from 30 minutes to 1.5 hours lost per shift.

Collective bargaining agreements GRI LA9

Valeo has developed an active policy of negotiating with unions. In 2013, agreements were signed on at least one site in 21 countries:

Number of sites to have signed an agreement	Working hours	Compensation	Bonus	Health and safety	Other
Belgium	0	0	0	0	1
Brazil	4	3	1	1	3
China	7	4	2	2	3
Czech Republic	1	2	1	0	0
France	2	5	0	31	10
Germany	2	3	5	2	0
Hungary	0	1	0	0	1
India	1	1	3	1	0
Ireland	0	1	0	0	0
Italy	2	0	1	0	2
Japan	3	3	3	2	1
Mexico	5	7	3	5	2
Poland	1	2	0	0	1
Romania	1	2	2	2	1
Russia	2	1	1	1	0
South Korea	0	3	0	0	1
Spain	6	5	0	2	5
Thailand	0	5	3	1	2
Tunisia	1	2	0	1	1
Turkey	1	1	1	1	0
United States	1	1	1	0	0
TOTAL	40	52	27	52	34

Roughly 200 collective bargaining agreements were signed at local level at Valeo's various sites worldwide in 2013. The topics covered by these agreements are as follows:

- 20% on working hours;
- 39% on compensation or bonuses;
- 25% on health and/or safety.

The other agreements bore chiefly on themes related to diversity (*contrat de génération* or generational contract in France, for instance) or site competitiveness.

In France, four group-wide negotiations in 2013 concerned the 13 legal entities and their 35 sites. Those bearing on the profit-sharing bonus agreement and the establishment of a French industrial relations observatory were signed by three trade unions out of the four representative organizations at Group level. Negotiations focused on the harmonization of healthcare and life insurance and invalidity care regime costs within Valeo in France resulted in the unanimous signing of two agreements by all representative trade unions.

Focus on France: harmonization of life insurance and invalidity care and healthcare costs

Recognizing that the considerable disparity between schemes in place within Valeo's various entities in France is a factor of inequality and an obstacle to internal mobility, management and the representative trade unions launched wide-ranging negotiations in autumn 2012. French employees belong to one of 70 different regimes depending on the Valeo site to which they are affiliated, their professional category or the organization with which they are insured. The goal of the negotiations was to harmonize the level of benefits and contributions, and to appoint a single body to manage healthcare and welfare expenses. A total of 15 negotiating sessions were necessary to put together the two harmonized regimes applicable from January 1, 2014. The employer's share of the contribution to healthcare is the only item not to be harmonized from January 1, 2014. A transitional period has been set out, with the aim of achieving full harmonization within three years. Valeo's French employees, whether management or staff, now all benefit from the same systems in respect of medical expenses and life insurance and invalidity care.

Following the signing of the aforementioned agreements on October 24, 2013, action was taken to inform all staff through poster campaigns, briefings, the delivery of specialized documentation and interviews with HR services to ensure implementation on January 1, 2014.

Labor relations in 2013 and 2014

	Achievements in 2013	On the agenda for 2014
France	✓ Talks on the award of a French statutory additional profit-sharing bonus: agreement signed in September 2013, gross bonus of 70 euros. ✓ Talks on the harmonization of healthcare and life insurance and invalidity care regimes: agreements signed unanimously in October 2013. ✓ Talks on the establishment of French industrial relations observatory for labor relations: agreement signed in June 2013. ✓ Signature of the agreement on the composition of the Group Committee in France for 2013-2015.	✓ Talks on the 2014 French statutory additional profit-sharing bonus. ✓ Renegotiation of the Group profit-sharing plan. ✓ Renegotiation of the "Well-being at work" agreement. ✓ Renegotiation of the agreement on disability. ✓ Preparation of the harmonization of supplementary pension rates.
Europe	✓ CSR agreement monitoring arrangements.	✓ CSR agreement monitoring arrangements.
World-wide	✓ Nationwide wage negotiations. ✓ Worldwide rollout of the "Well-being at work" program.	✓ Rollout of the Disability policy. ✓ Rollout of the CSR agreement.

Promoting and respecting the core conventions

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 on the Elimination of Discrimination against Women (UN - 1967);
- Declaration of the Rights of the Child (UN - 1959).

Valeo adheres to the UN Global Compact, and reports each year to the United Nations on its progress in the area of corporate social responsibility. It accordingly publishes an annual document entitled "Communication on Progress" on the Global Compact website (available at the following address: <http://www.unglobalcompact.org/COPs/detail/23400>).

This underlines Valeo's commitment to the Ten Principles set out in the July 2000 Global Compact, which are echoed 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 and revised on May 25, 2011.

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.

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, "Business ethics and compliance program," page 187).

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 fails to comply with 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.

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 to help them assimilate and respect those rules.

Alongside the management team, the Ethics and Compliance Department works closely with 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

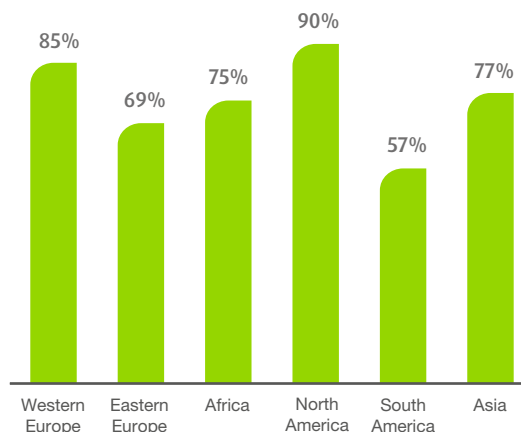
Compensation GRI EC5

To boost its image as an employer of choice, Valeo is intent on determining "fair" compensation levels in each country where it operates. 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 Business Groups. 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.

80% of Valeo sites offer an entry salary above the local minimum wage.

Percentage of sites offering an entry salary higher than the minimum local wage by geographic area



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 specialized consulting firms. Valeo

favors individually tailored compensation packages to bolster motivation through individual recognition. The more senior the employee, the more tailored the package.

(in millions of euros)	2011	2012	2013	Change 2012-2013
Payroll costs excluding social contributions and temporary staff	1,579	1,764	1,736	-1.6%
Social contributions	422	458	434	-5.2%
Pension costs under defined benefit plans	20	32	40	+25.0%
Pension expenses under defined contribution plans	64	70	78	+11.4%
Loaded payroll costs	2,085	2,324	2,288	-1.5%
Loading rate	30.8%	29.9%	29.5%	

(in millions of euros)	2011	2012	2013	Change 2012-2013
Loaded personnel costs (including temporary staff)	2,294	2,495	2,588	+3.7%
As a % of sales	21.1%	21.2%	21.4%	

Breakdown by geographic area in 2013

(in millions of euros)	France	Europe (excl. France)	Outside Europe
Payroll costs excluding social contributions and temporary staff	605	544	587
Social contributions	236	119	79
Loaded payroll costs (excluding pension costs)	841	663	666
Loading rate	39.0%	21.9%	13.5%

Financial instruments GRI LA3 GRI EC3

Statutory profit-sharing

All of the Group's French companies have implemented profit-sharing agreements. In 2013, an amount of 543,000 euros should be paid to the employees of a specific company.

Profit-sharing plans

The Group's French companies are now all covered pursuant to the Group agreement signed in June 2011.

Using the formulas set out by this agreement, a total of 9,216,000 euros should be paid to employees in ten of the Group's twelve French entities in respect of 2013.

French statutory additional profit-sharing bonus

In 2013, the Group's Management renewed its talks with trade unions regarding the profit-sharing bonus. Under the terms of the agreement that was signed by three representative trade unions at Group level, each French entity has paid a gross bonus of 70 euros per employee during the fourth quarter of 2013.

Improvement bonus in France

For many years, most 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 5.8 million euros, equating to an annual average of approximately 475 euros per employee.

Employee savings plans

Three different employee savings plans introduced by collective bargaining agreements 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;
- Investment in Valeo shares: maximum gross contribution of 350 euros.

At December 31, 2013, 11,168 employees in France, or 92% of the registered headcount in France, had signed up to PEG, while 2,176 employees in France, or 18% of registered headcount in France, had signed up to PERCO.

Employee share ownership

For the fourth consecutive year, based on recommendations by the Group's Management, on March 27, 2013 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 2013 and benefited 52,980 employees.

4.4.6 Promoting diversity and equal opportunities at work

Valeo is convinced of the importance and interest represented by broader diversity at all levels and in every profession of the Company, not only as a question of social responsibility, but also a tool for improving performance, developing competences and promoting creativity and performance.

In 2012, a committee on diversity, chaired by the Group HR Senior Vice-President, was established at the initiative of General Management. Four working groups (Gender, Disability, Social and Cultural, and Generational) were created, comprising employees from different countries and different functions, and led by four managers with diverse backgrounds, tasked with making suggestions for improvement.

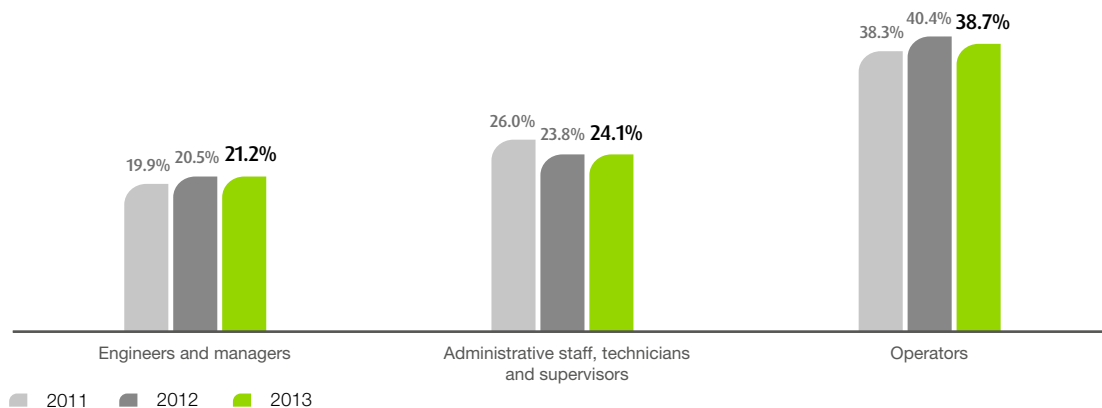
Awareness raising and training in the form of modules (notably e-learning) are encouraged and facilitated by personal commitment from key leaders within the Group, through a range of campaigns and events. All staff have

access to eight e-learning modules dedicated to diversity. In 2013, nearly 4,000 employees attended these modules to improve their understanding of the issues related to diversity in an international group.

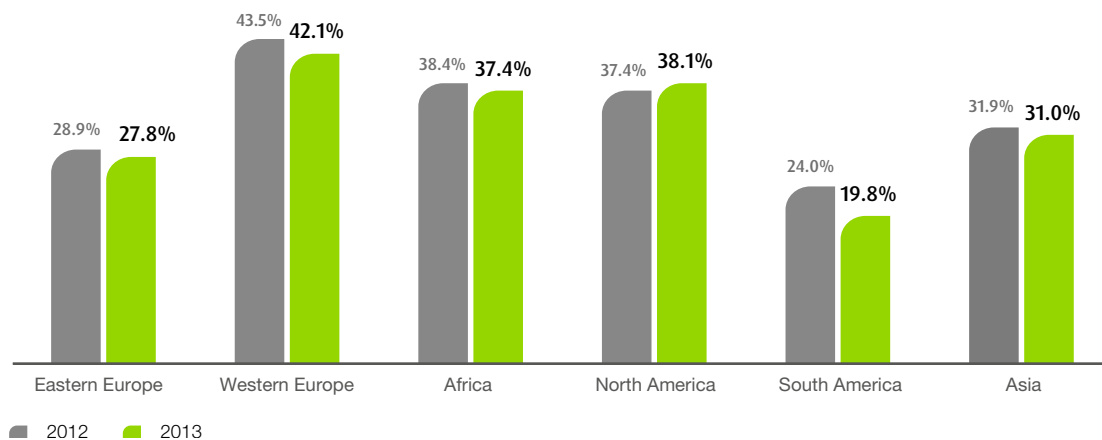
Women at Valeo GRI LA13

In endeavoring to be an employer of choice, Valeo aims to attract, promote and retain the best talent in a fiercely competitive market. To this end, Valeo joined the French Association of Diversity Management (*Association française du management de la diversité* – AFMD) in 2013. Valeo boasts a diverse mix of cultural backgrounds, and is committed to gender parity in comparable situations (career development, training possibilities and compensation, etc.). It should be noted, however, that women are not as well represented as men in the automotive industry.

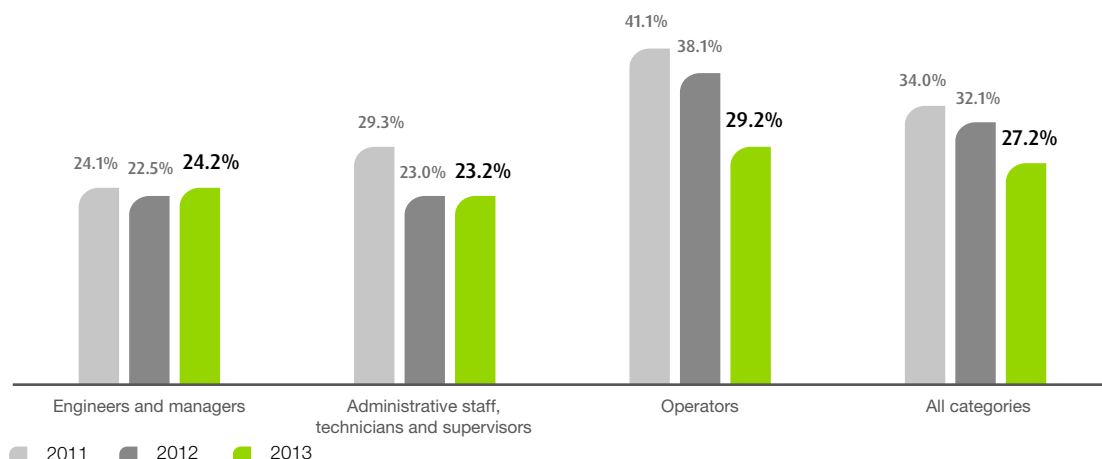
Breakdown of women by socio-professional category



Breakdown of women by geographic area (registered headcount)



Proportion of women among new hires on permanent contracts over three years



The proportion of women engineers and managers among new hires increased to 24.2% in 2013, a gain of 1.7 percentage points compared with 2012. In some countries enjoying particularly strong growth, such as China, women represented over 34% of new hires.

An improvement was noted in all Group networks in 2013. 65% of networks currently have more than 20% of women in management roles.

The Gender Diversity sub-working group, created in 2012, laid out a four-pronged approach in 2013:

- ongoing collaboration with the network of women members of the Valeo Group so as to better grasp the needs and challenges faced by the women of the Company;
- benchmarking of best practices and approaches in place in various international groups and among experts on gender equality issues so as to gather their opinions and advice on how to identify key success factors. Talks were initiated with Equilibres, a company specializing in questions of equal opportunity, work-life balance and parenting, to help Valeo structure its approach to gender equality within the Group;
- internal survey of country HR Directors so as to better understand the issues of gender equality by continent and to analyze the tools and training modules available in local markets;
- awareness-raising among the Company's stakeholders to achieve change in attitudes, particularly in the Human Resources network, as well as in General Management.

Since 2013, gender equality has been systematically analyzed and put into perspective in each of the Group's development processes, particularly in terms of analysis of the rate of departure, succession planning and salary reviews.

Focus on France

With regard to the issue of equality between men and women, a tool to detect potential gaps in compensation has been developed. It has been implemented in all of the Group's legal entities in France, with the aim of devising corrective action plans wherever necessary. Multiple regression analysis was used to select, among 64 variables, those correlated with gross annual compensation. The neutralization of correlated variables other than gender makes it possible to identify people whose compensation can only be explained by a factor not included in the analysis, or by discrimination on the basis of gender. Qualitative analysis can then be used to identify the cause of the discrimination and, if necessary, to determine the appropriate corrective measures. All French companies have undergone statistical analysis; a program of qualitative analyses in descending order of observed differences was rolled out in 2013.

To enhance the Valeo Group's reputation in terms of gender equality, a project was launched in partnership with *Compagnieros* and in relation with four engineering schools (ENSAE, ENSAE, Supélec and UTC). The purpose of the project was to educate students on gender issues using an interactive platform, turning students into diversity actors from the moment they start their career.

Valeo continued its partnership with *Elles Bougent*, an association that promotes careers in engineering among female high school students, taking part in actions initiated by the association (site visits, presentation of professions in high schools by women mentors, contribution to the activities of regional delegations, attendance at the association's annual forum, internships for schoolgirls, seat on the Board of Directors). Valeo also took part in the Women's Forum in Deauville.

A year after its launch, the Valeo Women Connected network had attracted more than 1,000 members, both women and men, in 11 countries. 61% of Valeo sites held at least one event in support of the network's initiatives in 2013.

Valeo Women Connected provides a platform for dialog and communication dedicated to promoting networks formed by the women of Valeo, bringing together women (and men) at all levels of the organization with a view to identifying and encouraging talent internally by providing information on possible career paths and professional development options.

Valeo Women Connected is now expanding internationally. In each of the 11 countries, two employees (women and/or men) act as the network's ambassadors and coordinate the organization of events. Four events provide an annual forum allowing the network to meet globally and share best practices, thereby fostering the consideration of cultural factors, another focus of diversity.

Network members now wish to foster the development of this initiative on a site-by-site basis, encouraging thinking and proposals within each site, and opening the network to the other countries where Valeo operates.

Measures promoting the employment and integration of people with disabilities

In France

The agreement for the professional and social integration of people with disabilities signed in France on May 29, 2012 underscores Valeo's commitment in the deployment of its corporate social responsibility and diversity policies.

Improvement targets have been set with regard to people with disabilities, with the aim of significantly and sustainably improving employment rates at Group level.

Continue the recruitment of people with disabilities

The particularly challenging competitive and economic environment in France compromised Valeo's hiring objectives. Fourteen people with disabilities were brought into the Company, out of the target of 60 new hires in 2013. Partnerships with specialist firms and associations were accordingly signed to help the French sites hire people with disabilities in numbers more consistent with the Company's expectations.

Maintain and develop employment

All Group entities have taken steps to keep people with disabilities in employment, and adjustments were made to several positions in 2013. For example, the Isoire site reorganized a workstation, compensating for the

disability of an employee by purchasing a manipulator and height-adjustable equipment; the Amiens plant conducted ergonomic studies to keep two employees recognized as disabled in their jobs. Generally speaking, the French sites make every effort to preserve the health of their employees.

Improve integration and training

Employees with disabilities have access to all courses offered by the various sites, in the same way as other employees. Adjustments are sometimes necessary to give employees with disabilities access to vocational training. To assist in the professional development of an employee with a disability, Valeo's disability mission paid transportation and accommodation costs during retraining (Étapes).

Adapt jobs to new technologies

No such training was required in 2013. However, employees with disabilities can take part in all training courses related to technological change and the introduction of new working methods, in the same way as other employees.

Talk openly about disability and raise the awareness of all stakeholders

Recognizing that the success of a policy for the employment of people with disabilities requires commitment on all sides, Valeo has developed specific training for different groups of employees, to make them genuine actors and promoters of measures taken. Training sessions on disabilities have been provided to the following groups:

- members of Management Committees (73% of people trained);
- managers (75% of people trained);
- disability assessors appointed under the agreement (100% of people trained);
- HR and HSE teams (72% of people trained);
- Health, Safety and Working Conditions Committee members (65% of people trained);
- occupational medicine teams (80% of people trained).

For each group, different contents and intervention methods are presented with three common objectives:

- learn about key concepts related to disabilities;
- share the main thrusts of the agreement and the actions implemented;
- help people position themselves in the disability program by providing concrete tools and training each person to fulfill his or her role.

These very popular courses helped raise the awareness of 1,355 people, or 74% of people eligible for training, and 174 people declared a disability in 2013.

In addition to these initiatives, a film based on interviews with employees with disabilities was screened at Valeo's French sites in 2013. The film was subtitled in French for the hearing impaired and in English for international distribution.

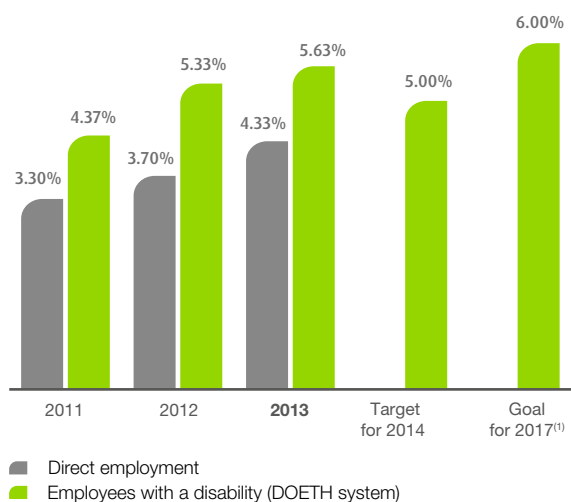
In 2014, Valeo aims to raise the awareness of all employees in an enjoyable way through 30-minute modules designed to ensure that all employees feel involved in the disability process.

Step up cooperation with the sheltered sector

In 2013, during the Week for the Employment of People with Disabilities (*Semaine pour l'Emploi des Personnes en situation de Handicap* – SEPH), Valeo undertook a collaborative program with GESAT, a network covering the protected and sheltered sector. This program saw 22 French sites play host to two or three players in the local protected and sheltered sector, raising employees' awareness about Valeo's approach in the subcontracting process, its CSR commitment and the appeal of the services of organizations that help people with disabilities back into work (*établissements et services d'aide par le travail* – ESAT) or sheltered employment providers (*entreprises adaptées* – EA) for individual employees.

In 2013, 223 units used the services of ESATs (204 in 2012), of which 140 (186 in 2012) were included in the calculation of the employment rate due to the legal limit.

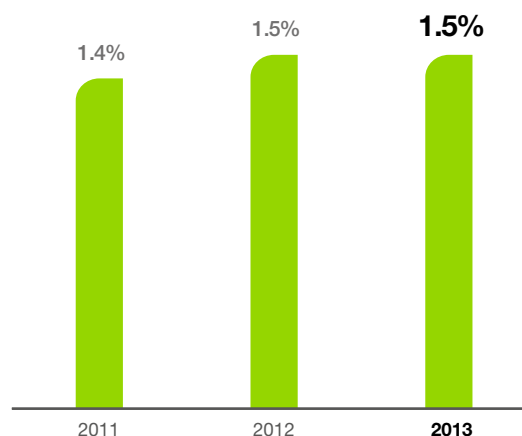
Percentage of Valeo employees with disabilities in France



(1) Regulatory threshold in France.

Internationally

Percentage of Valeo employees with disabilities worldwide (direct employment)



The definition of disability used is that which applies in the countries where the Group is based.

In 2013, a group of international projects was established to expand the disability policy to the global scope from the beginning of 2014.

The global disability policy has five objectives:

- appoint one diversity correspondent per site, as well as one coordinator by Business Group and by country;
- launch an awareness campaign on the integration of people with disabilities in the workplace targeting all staff at all sites;
- design and implement a training plan for all stakeholders affected by disabilities at each site;
- achieve, within three years, and in all countries, a minimum level of 1.5% of workers with disabilities (or comply with the statutory national minimum if one exists and is greater). Adapt workstations and premises so as to keep employees with disabilities in their jobs, and hire, train and promote employees with disabilities;
- increase by 5% per annum sales with companies specializing in facilitating the employment of people with disabilities until they reach a maximum of 50% of the legal requirement or the minimum rate set by Valeo.

Percentage of sites having implemented disability initiatives



Valeo's policy for young and older workers

Professional integration of young people GRI LA11

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 2013, the Group took part in many events to make contacts with future graduates at school forums including Audencia, Centrale-Supélec, Collégium (ENSEA, EISTI and Supméca), EDHEC, ESEO, ESTACA, Sup'Optique, UPMC, UTC (France), the VIE⁽¹⁾ forum organized by UbiFrance, the apprenticeship forum with CEFIPA (France) and ten forums in Germany. It was also present at events held in 33 universities in China (Shanghai, Nanjing, Guangzhou, Wuhan, Chengdu, Changchun, etc.), Brazil, India, Italy, Mexico, Poland and Thailand.

Valeo also sponsors the Engineers' and Managers' curriculum of Audencia Nantes, which allows graduate engineers to qualify at this renowned business school through a specific program.

These initiatives in favor of youth employment and the integration of young people in the workplace allowed the Group to welcome 1,403 interns, 935 people on apprenticeships or training contracts and 126 people on VIE programs. The five countries attracting the highest number of interns, trainees and people on VIE programs were France, Mexico, Brazil, Germany and China. At the end of their various contracts, 685 young were hired (28% of people going through the Group).

The Group was also represented at the Top Women, Top Careers forum in Brussels, with the objective of attracting applications from female engineers or women seeking a career in industry. Valeo accordingly 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 Valeo mentors.

Valeo partnered with *Tremplin*, an association that works with the disability missions of French schools and offers support for young students with disabilities (from different schools and all levels from high-school to PhD), helping them find job vacancies within the Group. Valeo also took part in the *Handi2day* forum targeting people with disabilities in France.

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 Mumbai, India, in December 2013.

Lastly Valeo launched the Valeo Innovation Challenge in late 2013. This event offers students in scientific and technical fields throughout the world the chance to submit and present an innovation that will revolutionize cars in 2030. The challenge offers a first prize of 100,000 euros, which will be presented at the Paris Motor Show in October 2014.

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 skills and expertise, and promote integration among all generations at Group entities.

Longer working lives give genuine opportunities for personal development among employees. It is important to sustain job motivation among employees and develop each employee's employability throughout his or her career by providing them with the means to build up competences or, if so desired, change career orientation.

In 2013, Valeo had a total of 8,376 employees over the age of 50 worldwide (compared with 8,443 in 2012 and 7,210 in 2011), representing 13% of the registered headcount. In France, it had 2,768 employees over the age of 50 (compared with 2,951 in 2012 and 2,771 in 2011), representing 22.7% of the registered headcount in France.

(1) *Volontariat International en Entreprises*.

Intergenerational contracts **GRI LA13**

The professional induction of young people and the employability of older workers are the foundations of Valeo's policy in respect of intergenerational diversity.

France

All of the Group's French companies held negotiations on the *Contrat de génération* or generational contract in 2013. Five of its 13 legal entities signed a generational contract, while eight signed an action plan.

These agreements or action plans are intended to promote:

- the hiring and professional induction of young people within the company;
- the hiring, retaining and retraining of qualified older employees;
- interaction between these two groups.

It is important, in this perspective, to sustain motivation and promote each employee's employability throughout his or her professional career by providing them with the means to build up competences and/or change career paths.

Internationally

Globally, a working group has been set up within the framework of the promotion of diversity in Valeo. It met eight times during 2013.

It focused its activities on the following areas:

- cultural differences in perception and legal aspects related to the notion of "young" and "older" in different countries;
- possible differences in the expectations of members of what are generally referred to as the baby boom (born between 1946 and 1964), X (1965 and 1980) and Y (after 1980) generations in respect of their professional development and the work-life balance;
- the fit between the needs expressed or expected by each generation and their level of satisfaction;
- shared components that unite various generations within Valeo, in particular the common business and corporate values;
- maintaining motivation throughout employees' careers, regardless of age;
- mentoring of older employees by younger managers and tutoring. Worldwide, 46% of Valeo sites have implemented a tutoring system. In Asia, 84% of sites have done so;
- gradual integration of the replacement of older employees in succession plans as retirement approaches;
- adapting workstations to take into account ageing employees;

- reasons for the departure of young people and the retention policy;
- development of training and awareness modules devoted to intergenerational diversity.

During the fourth quarter of 2013, the Group initiated discussions within a multi-disciplinary working group on the strengthening of ergonomics issues to be considered as a function of the employee's age in the design and adaptation of workstations.

2014 will see further work on these programs initiated in 2013, with a view to developing concrete proposals.

Cultural diversity within the Group

Valeo's operations, spanning 29 countries, strongly promote diversity.

The ten most prevalent nationalities within the Group are French, Chinese, Mexican, Polish, German, Brazilian, Thai, Spanish, Japanese and Indian.

The countries where Valeo has the largest number of different nationalities are France (70 nationalities), Germany (48 nationalities), Ireland (29 nationalities), the United States (22 nationalities) and the Czech Republic (21 nationalities).

Valeo counts among its ranks a total of 366 expatriates and former expatriates who have signed a local contract. The five countries attracting the highest number of expatriate employees and former expatriates who have signed a local contract are China, France, Thailand, Mexico and the United States.

Furthermore, 28% of site managers are not nationals of the country in which their site is located.

Valeo recognizes cultural and social diversity as a real factor of performance that should be nurtured and structured. Accordingly, a working group was created at the global level in 2013. It has set a twofold objective:

- succeed in naturally accommodating multicultural teams through the respect and acceptance of differences of origin, religion, perceptions and feelings, sexual orientation, etc.;
- ensure the cohesion and efficiency of multicultural teams and avoid potential conflicts by training management in this regard.

Various lines of work and action plans were identified to achieve these goals:

- raise staff awareness in respect of cultural and social diversity: information on the principles of equality and non-discrimination, distribution of articles, etc.;
- train as required: from general training to practical cases of conflict management in a multicultural team. In 2013, Valeo organized training sessions on intercultural management in 38% of its sites;

- assign the management of cultural and social diversity to local teams so as to ensure a better grasp of the sensitive issues and the priorities appropriate to each country. Actions taken in each country must naturally be fully consistent with the Group's overall policy;
- create appropriate tools to facilitate group work in multicultural teams;
- foster the mobility of engineers and managers: a major avenue for the promotion of cultural and social diversity;
- promote the use of English in some countries as a common working language to facilitate and boost exchanges.

All these actions are included in a progress plan currently being drawn up.

The result can be measured both by the number of nationalities in a given country and by the ability to generate greater international mobility among teams.

In 2014, the working group will tackle the transformation of these avenues of work into concrete action plans and accessible tools.

Concurrently, to supplement Valeo's social initiatives, activities targeting the most disadvantaged people in each country (sponsorship, training assistance, reintegration activities, etc.) will also be offered. 25% of Valeo's sites have agreements with local employment agencies to hire or train low-skilled, young and older workers, as well as people undergoing retraining.

4.4.7 Engagement and competences development for all Group employees

Feedback from engagement survey of engineers and managers

In 2013, Valeo conducted a new global engagement survey among its engineers and managers. A total of 12,554 engineers and managers responded, 79% of the targeted headcount. This was 7 percentage points higher than in the previous survey conducted in 2011.

The 2013 results indicate a significant improvement in perception among engineers and managers. As a group, they have a more optimistic view about the Group and their position within it.

The main subjects they put in a particularly positive light were the strategy and the bolstering of Valeo's image, top management and diversity. These factors helped achieve a substantial increase in engagement among engineers and managers.

Overall, the results improved consistently throughout the organization. The improvement was particularly perceptible among Group executive managers. Management style is now seen as more innovative than in the past, and more focused on decision-making.

In 2011, Valeo set five major goals, and improvements can be seen on each of them:

- differences of judgment by management level have been reduced;
- management of talent has improved significantly, especially in the areas of recruitment, development and retention;
- more engineers and managers feel that decisions are taken at the right level of the organization, although some still express frustration about excessive red tape;
- decisions taken by management are seen as being more attune with Group values.

Today, 29% of engineers and managers have a sustainable level of commitment.

The survey revealed areas for improvement, including:

- autonomy: encourage the delegation of decision-making and focus on the potential benefits of risk-taking;
- organizational efficiency: reduce red tape and simplify the decision-making process;
- learning and development: develop career paths, especially in logistics networks, production, and R&D.

Each entity has been made aware of the results, and will now determine the four priorities to be translated into local action plans in 2014.

Promoting internal mobility **GRI LA11**

To offer attractive career prospects to the engineers and managers employed by Valeo, the Group aims to fill at least three out of four vacant positions 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.

To prepare employees for success in their next career step, Valeo has a standard "individual development plan," which compares the competences 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 interviews 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 3,561 engineers and managers benefited from career opportunities in 2013, the average seniority of Valeo engineers and managers being eight years.

To facilitate the return to study, vocational retraining and business creation, 61% of Valeo sites have implemented support systems.

To encourage the transfer of cultures, technologies and working 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

the optimization of costs associated with these moves. With this in mind, the Group has set up a shared services center for managing international mobility, which ensures a high level of support for expatriates and their families.

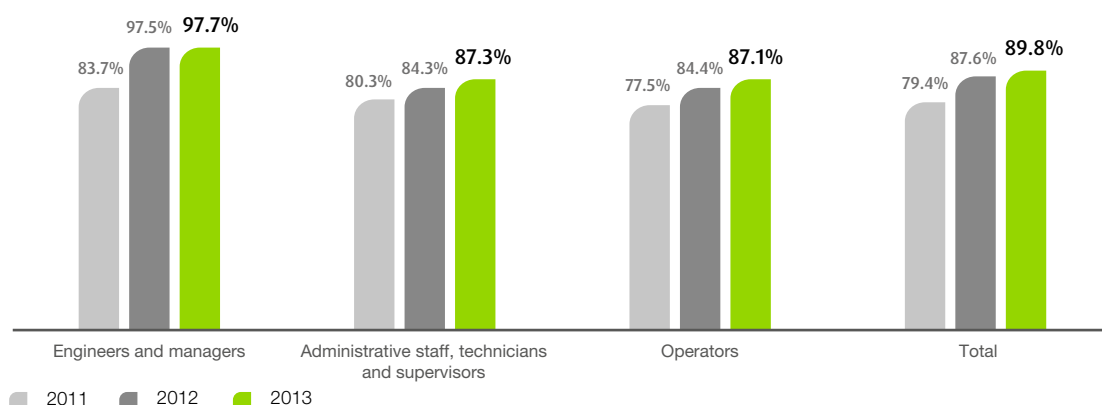
Training GRI LA10 GRI LA11

In 2013, spending on training amounted to 25,130,633 euros, an increase of 7.8% compared with 2012. Training expenditure represented 1.45% of personnel expenses, excluding social security contributions (1.32% in 2012). In absolute terms, the numbers of training hours and trainees rose by 16% and 5% respectively year-on-year.

In 2013, the Group continued to extend its training policy to a larger number of employees. In all, 89.8%⁽¹⁾ of employees took part in at least one training session during the year (compared with 87.6% in 2012). There was a 0.2-percentage-point increase in engineer and manager attendance, with 97.7% of this employee category attending training. The training participation rates for operators and for administrative staff, technicians and supervisors increased by 2.7% and 3% respectively.

	2011	2012	2013
Number of training hours provided	1,029,768	1,119,584	1,304,090
Expenditure on training (in millions of euros)	21.2	23.3	25.1
Number of employees trained	44,298	56,954	59,992

Percentage of employees trained



It should be noted that the above figures do not include on-the-job training provided by Valeo employees (mainly for operators).

New-entrant and job-instruction training fell from 63% in 2012 to 59% in 2013, as the Group's organization stabilized. Training initiatives dedicated to the development of transversal competences for internal mobility purposes or for advancement within one of the Group's Business Groups rose 41% in 2013 (compared with 37% in 2012).

For operators, 46% of Valeo sites have implemented measures aimed at identifying career paths specific to their category and creating value from their experience. 61% of sites have implemented a training program aimed at developing new competences among operators.

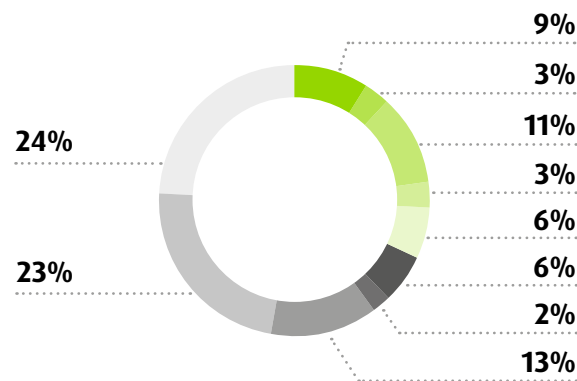
(1) Calculation of the ratio: All employees trained during the year (including those no longer in the Group)/Total headcount at end-December.

Average number of training hours per socio-professional category

	2011	2012	2013
Engineers and managers	35	30	36
Administrative staff, technicians and supervisors	28	26	26
Operators	17	13	14
TOTAL	23	20	22

The average number of training hours per employee increased slightly across all categories in 2013 compared with 2012 (from 20 hours in 2012 to 22 hours in 2013).

Breakdown of training hours by subject category in 2013

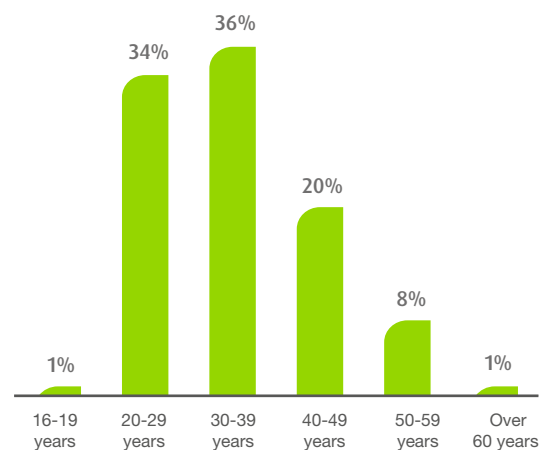


The 5 Axes (9%) Environment (3%) Induction (11%) Communication/Training (3%) Languages & intercultural awareness (6%)
 Management (6%) Office technology (2%) Security (13%) Technical/Products (23%) Other (24%)

Employees trained by subject category in 2013

	2013
5 Axes	28%
Environment	13%
Induction	38%
Communication/Training	8%
Languages and intercultural awareness	4%
Management	11%
Office systems	9%
Safety	41%
Technical/Products	33%
Other	54%

Breakdown of training hours by age group



Training requirements are analyzed based on competences assessments and trends in the business and organization. Individual Career Development Plans are drafted to support talent development in three stages: (i) theory, (ii) practical application, 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 highest in terms of the number of training hours given, accounting for 23% of the total in 2013. 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 13% of total training hours. In 2013, 41% of Group employees participated in a training module on safety. The deployment of the "Play Safe" module and the continued deployment by the 5 Axes schools of specific Safety First training contributed to the increase in the number of employees trained. The Safety First module is gradually being adapted to other regions to facilitate its deployment internationally.

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.

Alongside classroom training or distance learning (virtual classroom, visioconference or telephone courses) conducted by external instructors or Valeo Experts, field training initiatives have also been developed involving local management in order to increase operators' versatility and range of competences. Training is also given by the 5 Axes schools to enhance expertise in Valeo's specific working methods and tools. Two new 5 Axes schools were established in Japan and India in 2013, with a view to strengthening the training effort in these countries.

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 meet cross-cultural challenges.

The 5 Axes training path (training hours up 47.8% in absolute terms, representing 9% of total training hours), along with induction programs for new hires (representing 11% of training hours, a rise of 23.6%) characterizes this multi-modal training policy. The 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 competences 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 was one of the Group's key training initiatives in 2013, with 1,883 employees attending in-class sessions and 15,129 employees successfully completing the four e-learning modules (requiring 100% of correct answers to a quiz organized 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 6% of total training hours (2.3% reduction in the number of training hours) and includes modules designed to enhance managerial skills, as well as leadership development programs in Europe, Asia and the Americas operated in association with CEDEP⁽¹⁾.

The Group has also developed a seminar to improve the "Well-being at work" program, with a new training module entitled "Play Well" to educate managers, HR staff and stakeholders about the importance of quality of life at work.

The popularity of both tutored and untutored e-learning modules continued to grow in 2013, particularly those relating to the Group's corporate culture (including compliance modules). In 2013, more than 161,000 hours of training courses were taught on the Valeo C@mpus, the Group's online training portal. Three new training modules on compliance are also being rolled out worldwide in early 2014.

The Group's international scale and the growth of its business outside France underline the importance of language and intercultural training (6% of training hours in 2013, a decline of 14% in the number of training hours completed).

⁽¹⁾ European Centre for Executive Development.

4.5 Commitment to corporate citizenship

4.5.1 Application of corporate social responsibility principles in purchasing processes

Key figures in 2013

- 1,134 suppliers account for 95% of the amount attributable to direct purchases (manufacturing purchases).
- French suppliers: 556.
- 50 suppliers account for 24% of the amount attributable to indirect purchases (maintenance, subcontracting, travel, supplies, etc.).

Presentation of the structure of the Purchasing function at Valeo and supplier relations

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 technologies or systems to automakers.

In dealing with its suppliers, the Group places priority on:

- quality;
- industrial sites;
- competitiveness.

This is achieved in accordance with standards and current laws while also meeting Valeo's ethics, compliance and sustainable development requirements.

Management of the supplier list

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

- a commodity/segment (product family) priority, focusing on the specific purchasing strategy for these commodities;
- a project and mass production priority, focusing on day-to-day operations (initiation of projects using cost-effective parts, implementation of technical manufacturing efficiencies, diversification of suppliers).

Regional purchasing departments in each Group region (Europe, Middle East, Africa, China, India, Japan, ASEAN⁽²⁾, North America and South America) interact continuously with the commodity/segment priority to ensure that efficient, meaningful purchasing strategies are applied.

In 2013, Valeo had the chance to discuss opportunities with its suppliers at the **supplier conventions** held in India and Southeast Asia attended by nearly **200 suppliers** and at the **17 Tech'Days**, during which Valeo's suppliers presented their latest innovations to the Group's R&D team.

Becoming a Valeo supplier **GRI HR1**

GRI HR2

Selection and award meetings chaired by the global **segment** buyers are held to screen all proposals from suppliers based on a number of objective and rigorous award criteria.

These criteria for selecting suppliers and awarding bids and contracts relate to:

- economic factors;
- financial risks;
- logistics;
- corporate governance;
- environmental issues and protection;
- social issues (respect for human rights, employee health and safety).

Over 90% of the mandatory items in the supplier qualification questionnaire relate to non-economic criteria. For instance, **sustainable development criteria are given a weighting of 20% in the supplier's final score**, and any failure to meet these criteria **automatically disqualifies** suppliers from Valeo's supplier list.

(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.

(2) ASEAN: Association of Southeast Asian Nations.

Before any supply agreement is awarded, suppliers must qualify 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 list, potentially once an improvement plan, jointly agreed with the supplier, has been implemented;
- after the award meeting, the supplier is officially listed, and the specific requirements for the deliverable components are set out in Valeo's specifications. A Supplier Quality Engineer, who is a member of the project team, monitors the development and industrialization of components and guides the supplier through the final component qualification. If necessary, Valeo's laboratories review the intermediate design stages, run tests and take any special measures required. In any case, Valeo always performs an on-site audit.

In order to be included on the list, all suppliers must **meet Valeo's ethics, integrity and sustainable development requirements** and sign the "**Supplier Sustainable Development Commitments**" Charter. This document follows all the fundamental principles of the UN Global Compact, the Valeo Code of Ethics and the principles of fundamental human rights, including the freedom of association, the elimination of forced labor, the fight against corruption and occupational health and safety. Any supplier that fails to respect these rules of conduct faces possible sanctions, ranging from temporary suspension of new projects with Valeo to definitive exclusion from the supplier list. No sanctions of this type were taken in 2013.

At the end of 2013, over 80% of Valeo's direct suppliers⁽¹⁾ had signed the Charter. The Group aims to have all its suppliers sign on, particularly its long-standing suppliers that were not required to make these sustainable development commitments when they qualified for the list.

Valeo's supplier list breaks down into several categories based on the degree of a supplier's integration for a given supplier family. In the event of critical performance or non-compliance with Valeo requirements, a supplier can be placed on "Probation" for a maximum of one year with the enforcement of an action plan. If the probation period is not successful, the supplier may not be retained in the supplier panel.

New suppliers are also placed on probation for at least two years. During this period, the number of projects assigned remains under strict supervision to protect the supplier against the risk of becoming overly dependent on Valeo.

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.

Corporate Social Responsibility survey

As part of the Group's policy to strengthen the guidance offered to its suppliers along the entire supply chain, the Sustainable Development and Purchasing Departments introduced a **questionnaire on Corporate Social Responsibility (CSR) choices** in 2013. This survey covered a representative sample of suppliers in terms of sales volumes, which totaled 750 million euros in sales with Valeo.

The findings principally show that, in addition to meeting Valeo's CSR requirements, three of the four suppliers surveyed also have a well-defined CSR policy based on a charter, code of conduct, best practices and a set of guidelines. The vast majority of Valeo suppliers have initiated voluntary certification programs and labeling procedures as part of their sustainable development policy and have already been audited by a third-party based on these criteria.

With this type of questionnaire, Valeo hopes to transmit its CSR experience to its suppliers by communicating quality and responsibility requirements which are important aspects in risk management and to set an example to encourage its suppliers to apply the same principles throughout the supply chain.

North American diversity programs applied to suppliers

The diversity programs in North America (United States and Canada) concerning minorities have added the criteria of Minority Business Enterprises (MBE) and Women's Business Enterprises (WBE), organizations that promote small businesses owned by minorities and women, to evaluation criteria for US and Canadian suppliers. These criteria apply to both the supplier qualification process and the selection and award meetings held to review entities located in North America. In 2013, Valeo developed sales with **over 50 suppliers that meet the above diversity criteria** (WBE or MBE).

⁽¹⁾ Raw materials and components purchases.

Conflict minerals

In 2013, Valeo's Purchasing Department adapted its sourcing processes in line with Title XV of the Dodd-Frank Wall Street Reform and Consumer Protection Act on conflict minerals that was signed into law on July 21, 2010 and in support of the joint humanitarian efforts to end violent conflict in the Democratic Republic of the Congo (DRC) and neighboring countries in part financed by mining and the mineral trade. Valeo now requires its suppliers to comply with the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act.

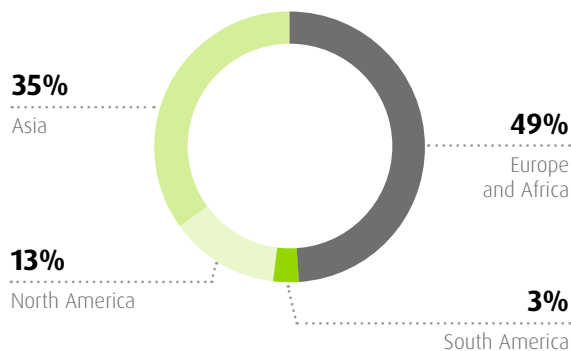
Special measures were also taken in conjunction with the R&D Department to better identify potential sources of conflict minerals and implement purchasing strategies accordingly. By applying these measures, in 2013 Valeo collected reports on conflict minerals from a group of suppliers representing sales of over 1 billion euros.

To guide suppliers in applying the Group's ethics and compliance principles, the Purchasing and the Ethics and Compliance Departments have provided manuals on Valeo's website to raise awareness about both the substantial legal risks of anti-competitive practices and corruption and about Valeo's compliance policies and requirements.

Local purchasing GRI EC6

Breakdown of direct purchases by geographic area

Breakdown of 2013 direct purchases by geographic area of origin



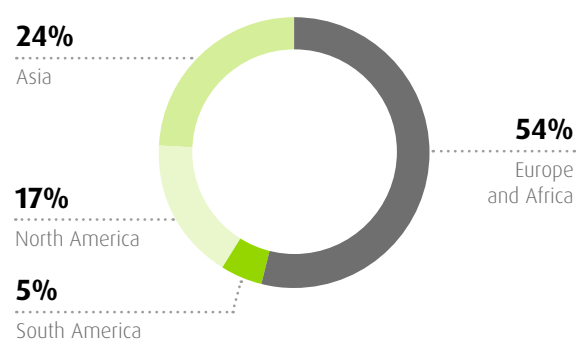
The geographic breakdown by area of consumption and by area of origin show that the Group generally favors buying locally and participates in the local integration of the economy. This is done to:

- reduce transportation-related CO₂ emissions;
- support local employment by developing competences;
- meet the expectations of local stakeholders (customers, local and national governments) that increasingly encourage local integration.

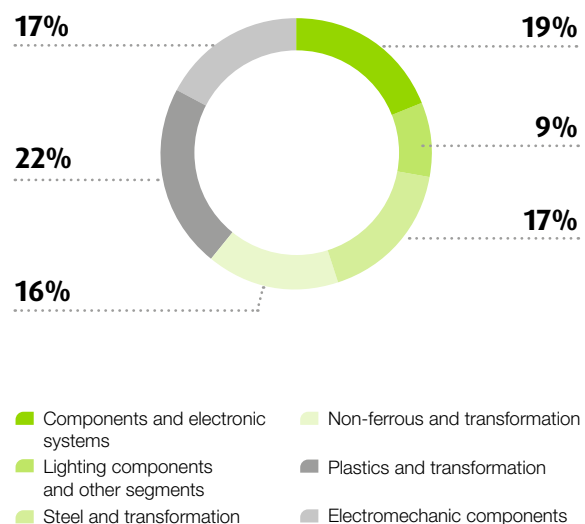
Furthermore, the policy to reduce risks, in particular relating to currency effects, has led Valeo to favor local suppliers that comply with its supplier selection criteria.

Due to its historical presence in Europe, Valeo consumes 54% of its purchases in this region, where 49% of its suppliers are located. As a direct result of the Group's growth strategy in emerging countries, Asia ranks second, both in terms of consumption (24%) and number of suppliers (35%).

Breakdown of 2013 direct purchases by geographic area of consumption



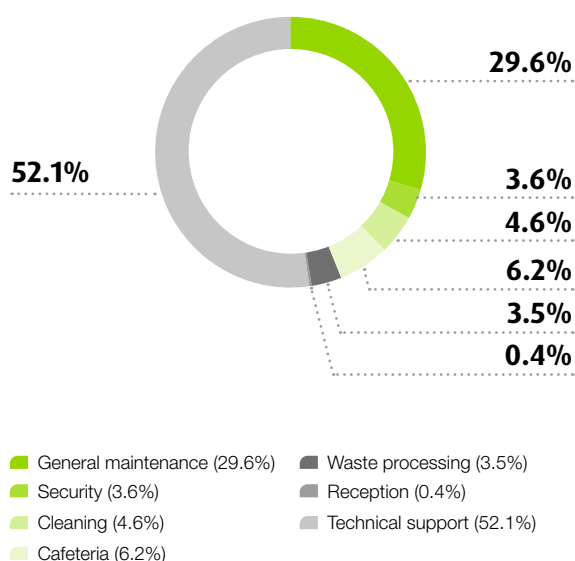
Breakdown of 2013 purchases by commodity



The Group's purchases can be divided into six large categories of components or systems purchased, referred to as commodities. Strategic decisions relating to these categories (steel and transformation, non-ferrous metals and transformation, plastics and transformation, lighting components and other segments, electronic components and systems, electromagnetic components indirect purchases) are centralized at the Group level, where they are each managed by a designated Commodity Manager.

Subcontracting

Total subcontracting expenditure by category



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 international agreements from the ILO in their dealings with subcontractors and, in particular, that subcontractors respect the articles of the Valeo Code of Ethics concerning fundamental human rights.

Subcontracting amounted to over 300 million euros in purchases in 2013, making it a significant cost item. Technical support services account for more than 50% of this expenditure due to the IT services provided by outside companies (hardware, networks, services, computer applications). General maintenance costs represent 30% due to the industrial in nature of Valeo's activities.

Automotive sector working group focused on Corporate Social Responsibility in France

Since 2012, Valeo has participated in the CSR working group set up by professional organizations of French automakers and automotive suppliers. 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.

Talks advanced in 2013 over the introduction of a label or purchasing guidelines to be applied by all major groups in the French automotive industry in order to move towards a single shared solution at a reasonable cost.

Presence of an internal mediator on the initiative of the French ministry of economy and finance

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. No dispute or problem with a supplier was filed in 2013. The internal mediator also took part in the various committees to oversee the Charter.

Ongoing sustainability commitment through the Automotive Suppliers' Modernization Fund – FMEA Tier 2⁽¹⁾

Since the FMEA Tier 2⁽¹⁾ was set up in 2010, Valeo has been involved, alongside the Public Investment Bank (*Banque Publique d'Investissement* – BPI) and other automotive suppliers (Bosch France, Faurecia, Hutchinson, Plastic Omnium), in providing the fund with capital, selecting automotive suppliers and assisting the fund in acquiring a minority stake in their share capital to support them in their growth and investments. The fund was set up to take non-controlling interests in automotive companies engaging in industrial projects and creating value.

(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.

In this way, the fund gives these companies medium- and long-term visibility, consolidates the automotive value chain and strengthens a number of these SMEs, which depend heavily on orders from automakers and tier-one⁽¹⁾ automotive suppliers. 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 and the BPI.

Valeo has contributed 2.1 million euros. This funding has been channeled into financial investments led by tier-one suppliers.

In 2013, the FMEA Tier 2 became more involved in the governance of 11 companies in which it has already invested. For future investments, the fund is examining the selection process for potential SMEs that need backing to develop in a competitive international environment.

4.5.2 Business ethics and compliance program

GRI S02 GRI S03 GRI S04 GRI S05 GRI HR3

Valeo's ethics and compliance drive

Since it was set up, the Ethics and Compliance Department has been developing a special comprehensive program to fight against corruption and anti-competitive practices.

The program entails integrating and applying a clear set of internal rules designed to:

- prohibit illegal practices;
- define the conditions and prerequisites for acceptable conduct regarding business relationships and alliances.

Training and awareness campaigns on preventing anti-competitive behavior and practices are principally aimed at engineers and managers with regard to their involvement with business and technical partners. Irrespective of their field (sales, marketing, quality, purchasing, R&D) and the context, they are trained to better understand the practices considered to be restrictive or an abuse of a dominant position and economic dependence.

The anti-corruption program is specifically geared to the Sales and Purchasing Departments and aims to train and raise awareness of questionable practices.

Group employees benefited from even further training and awareness campaigns on ethics and compliance rules in 2013. During the year, Valeo also developed rules applicable to its third-party representatives.

Awareness

The Group's ethics and compliance policy is accompanied by resources to help Valeo employees better understand, integrate and implement its rules. To improve employees' understanding of these tools, most additional **materials and guides** are **available in the Group's 13 languages**.

A number of resources available

The Code of Ethics, which has been in place since 1997 and was renewed in 2005, is signed by all Valeo employees. It is one of the cornerstones of the Group's ethics and compliance policy.

Since 2012, Valeo's employees have had access to handbooks, definitions, examples and guidelines to raise their awareness about these issues. These tools are available on 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. Acting as a preventive measure, **anticipation and reaction best practices** have also been drawn up to help employees handle potential situations of extortion or anti-competitive behavior. 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.

Meetings for each business line are regularly organized in France and abroad for managers who represent the highest-risk group. The purpose of these meetings is to provide employees with the **tools to understand** the risks specific to their field and **present them with the solutions** recommended by the compliance program.

Ethics and compliance tools are adapted to take into account the legal restrictions and cultural background of each country, similar to the tools used in the fight against corruption (relations with government officials, monetary value of gifts and invitations).

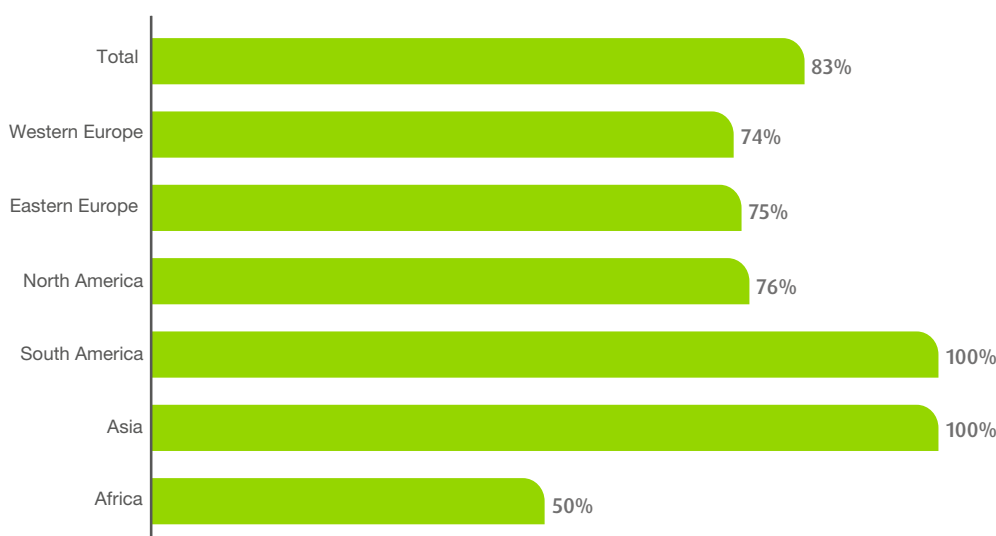
In 2013, Valeo's **policies and tools were adapted and developed** to align its compliance program with its sector and its international dimension and make it readily accessible for all those concerned.

⁽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.

Ethics and compliance training

Aimed at ensuring the implementation and effective and continuous use of these rules and resources, thorough training on the legal risks incurred, and Valeo's proposed solutions to the problems is provided, either in the classroom (in 15 languages) or via e-learning technology (in 13 languages). In 2013, **1,883 people took classroom training and 15,129 people participated in e-learning courses.**

Proportion of sites, by geographic area, that offered at least one ethics and compliance expert training course in 2013



This training is provided regularly for the engineers and managers concerned. The first course is given within a **month after they are hired** by the Group, followed by compulsory updated e-learning modules to be taken every year.

This training on **competition law and the fight against corruption** is specifically broken down into four areas. It covers practices to be avoided and the potential legal and economic consequences of anti-competitive practices and corruption. This provides engineers and managers with the tools to identify these situations and the appropriate solutions.

Anti-corruption training courses are designed to standardize honest and loyal business relationships while avoiding, for example, giving or receiving donations or gifts from suppliers or customers.

Business relationships with third parties or intermediaries representing Valeo

In 2013, Valeo introduced a system to monitor the use of **third parties or intermediaries representing Valeo**. This system provides Group employees with due diligence procedures and tools to ensure that contractual terms are met, thereby guaranteeing a framework and transparent, pre-defined financial terms.

Two awareness handbooks have been prepared for service providers:

- the first is designed to raise their awareness about **competition law and Valeo's compliance program**;
- the second addresses intermediaries and aims to **raise their awareness about corruption risks and the fight against corruption** at Valeo.

These documents are key in helping business partners understand and assimilate Valeo's expectations. A special e-learning tool is being developed specifically for them to set out these requirements.

These many awareness initiatives seek to establish good business relationships. Non-compliance with these rules represents grounds for withdrawal from a contractual relationship by the management teams at the different Group functions or Business Groups.

Valeo's role is not to regularly participate in sponsorship activities or lobbying with political parties. The Group's institutional initiatives aim to open up a strategic dialog contributing to the development of new vehicles, technology, standards and, as a result, changes in regulations in the different regions and countries in which Valeo operates.

These initiatives involve:

- uniting all the stakeholders, automaker customers, consumer organizations and relevant institutions;
- ensuring the sustainability of the Group which is fully devoted to scientific and applied research.

4.5.3 Voluntary commitment to local communities

GRI LA8 GRI S01 GRI EC9

Valeo sites, contributing to the local economic fabric

Valeo's sites contribute to the economic and social fabric of the regions where the Group operates. Its sites have multiple impacts. They are consumers, employers, spending centers and local economic agents aiming to improve human capital and attract new businesses through transfers of competences.

Valeo has a policy of encouraging its sites to take responsibility and to support local initiatives around the world.

Each site organizes local 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 and employees. The Group suggests possible areas for study by sending out internal questionnaires and examples of best practice.

At the end of 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. For example, the "Valeonline Employee News" sent by email to Group employees highlights some of the outstanding site initiatives. These sites are also acknowledged in official documents, such as the management report, by explaining and developing the purpose and results of their initiatives.

These various initiatives seek to improve the living conditions for Valeo employees while also having a positive impact on the region's local development.

Valeo, contributing to local development

Family assistance and leisure activities

Employees' benefits in kind impact the local economy and create knock-on effects. These benefits include financial assistance for employees with children and for holidays, sports and family leisure activities.

In Asia, where nearly one-third of all Valeo employees are located, eight out of ten sites offer financial assistance for Valeo employees, funding leisure activities, sports and holidays. Similarly, half of Valeo's African sites provide financial assistance for employees with children.

Valeo site donations to local cultural and educational activities

Each Valeo site determines its own donation policy, which depends on the specific local environment, its involvement in the local economy and its own culture.

In general, donations for educational and cultural activities have developed at the Group's various sites worldwide. In 2013, over 120,000 euros in aid and donations went to schools and local organizations.

Solidarity fund for employees in need

In line with Valeo's 5 Axes program, in which staff involvement serves as the basis for the Group's corporate culture, sites have developed solidarity initiatives between employees to take action in special situations (illness, catastrophe, death, etc.). In Western Europe, more than half of the sites have set up special funds for their employees faced with all types of difficulties. One-third of the sites worldwide have done the same.

Local employee solidarity initiatives

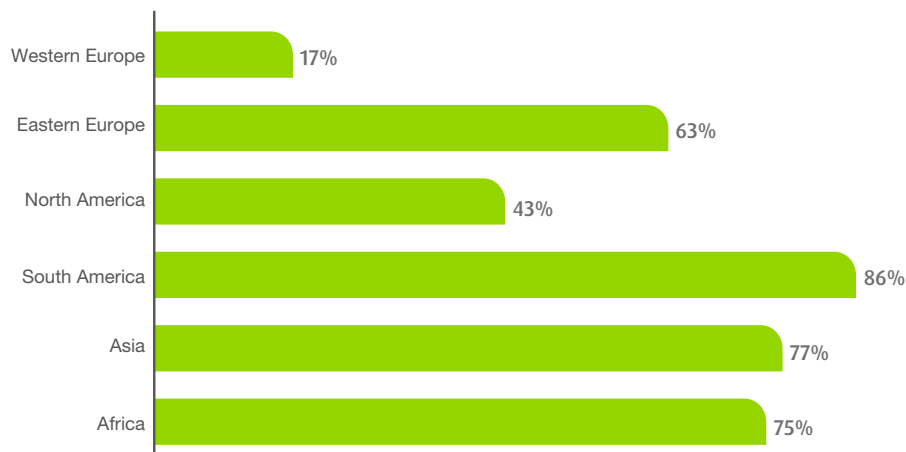
In Poland, a number of Valeo sites are partners to "the noble box project". This solidarity measure implemented in 2001 was set up to provide support for families in need during the Christmas season. The project is unique in that effective and concrete assistance is personalized depending on families' needs. The sites in Skawina (Thermal Systems and Visibility Systems Business Groups in Poland) are highly involved in this program.

Valeo collective transport: contribution to travel expenses and employee safety while commuting

In an effort to reduce the economic cost of employees' daily commute to the workplace, a number of Valeo sites have introduced a shuttle system to pick up their employees. In Asia, 77% of sites offer this service to their employees, thus limiting the economic and environmental impacts of individual employee commutes to Group sites.

These initiatives are also driven by a concern for employee safety in certain areas of the world (for example, to avoid physical aggression or violence towards women, the buses take them directly to their homes). Nearly 90% of South American sites have implemented this type of measure.

Proportion of sites that offer transport to the workplace for their employees in 2013

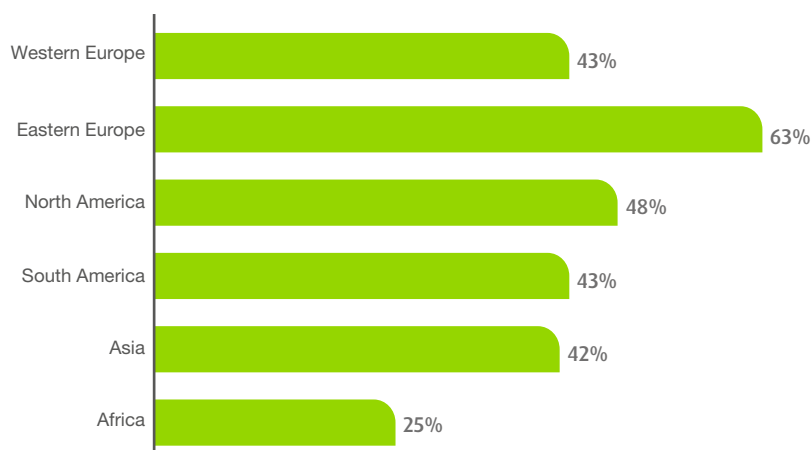


Open days at Valeo sites

To boost their local operations open to members of local communities, a number of sites have held open days to present their activities, company details and products. With an industrial tradition spanning over 90 years of history in 2013, each Valeo site, in its own way, highlighted the Group's background.

Almost two-thirds of Group sites in Eastern Europe and nearly half in North America have held open days.

Proportion of sites that held an open day in 2013



Valeo promotes regional competences

Responsible and local subcontracting

Valeo sites have developed policies designed to increase the employability of people with disabilities (see section 4.4, "Labor-related indicators", page 175) and to support the development of ESATs.

In France, over 75% of Valeo sites work with organizations adapted to workers with disabilities or ESATs for their subcontracting needs. These business relationships help boost the regional economies and promote the value of employees' individual profiles and competences.

Valeo partners the *Fondation Garches* (Garches Foundation), a recognized public-interest organization, which aims to improve the lives of people with motor disabilities

In Garches, France, Valeo assists with development at the foundation's wheelchair selection and test center. The Group is a founding member of *Institut Garches*, which was founded in 1988 and became a foundation in May 2005.

The organization 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 companies. Valeo works alongside professionals from the foundation's wheelchair selection and test center.

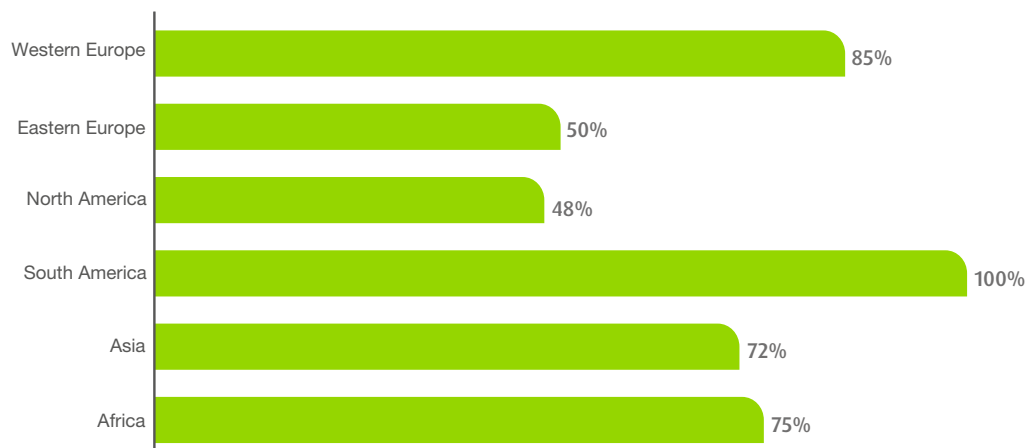
Going a step further than sponsorship funding, in 2007 Valeo set up a skills sponsorship program to develop the technological link between the automobile and the wheelchair. The Group's R&D Department thus launched a technological innovation program to build an obstacle detection system to fit into wheelchairs. The system will allow people who occasionally lose control of their movements to drive a wheelchair and offer them a certain degree of mobility. Valeo suggested adapting ultrasonic sensors that signal the approach of an obstacle and that can slow or stop the wheelchair. Research remains in the early phases, but promises considerable potential for a number of users.

Local management GRI EC7

In an effort to promote management with knowledge of the local culture and language, Valeo prefers to hire local managers. As a result, most Group site managers are from the country where they work.

In 2013, all site managers in South America were citizens of the site country, while in Africa, 75% of site managers are from the country.

Proportion of sites whose manager was a citizen of the local country in 2013



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%. This covers all countries and Business Groups, including Valeo Service, i.e., a total of **122 sites for environmental indicators**.

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.

ISO 14001, ISO 50001 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. Accordingly, **ISO 14001, ISO 50001 and OHSAS 18001 certification is applicable to 116 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 the reporting year are excluded entirely from that year's data. However, their 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, ISO 50001 and OHSAS 18001 certification and indirect greenhouse gas emissions relating to logistics and inputs. Other above-mentioned data are collected and consolidated by the RIE 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 RIE 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.

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).

Assembly plants for vehicle front-end modules located directly on manufacturers' sites cannot always report their waste quantities or water and electricity consumption.

(1) See "Centralized environmental reporting" in section 4.3.3, page 138.

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 124 plants, 16 research centers, 35 development centers and 12 distribution platforms, located in the 29 countries where Valeo operates except for the Access Mechanisms joint venture in India and the Interior Niles China Fuzhou FNE joint venture.

This covers all countries and Business Groups, including Valeo Service.

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.

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 QlikView, Access and Excel applications 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 Department. Furthermore, the consolidation 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 124 plants, 16 research centers, 35 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. The Group overhauled the "Plants' Initiatives" questionnaire in 2013 to clarify some of the data and initiatives taken by the sites throughout the world;
- data concerning Valeo's purchases and suppliers were collected and analyzed jointly by the Purchasing and Sustainable Development Departments. The CSR performance of the Group's suppliers was assessed in the "Valeo CSR Survey", which consists of an online questionnaire to be completed by the supplier. Valeo has defined a representative sample of its main suppliers;

- 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

“Megatrend” studies quoted in section 4.2.1, page 121, 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	GRI indicator	Relevant article of the French Commercial Code	Chapters/sections	Pages
STRATEGY AND ANALYSIS				
1.1	 Statement from the most senior decision-maker of the organization	-	N/A	
1.2	 Description of key impacts, risks and opportunities	-	4.1	116-119
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, 6.6.1, 7.1.1 and 7.1.2	17-21, 34-48, 332, 341
2.7	 Markets served	-	1.4	34-47
2.8	 Scale of the reporting organization	-	1.1, 1.3.2 and 4.4.2	6-9, 20-21, 153-160
2.9	 Significant changes during the reporting period regarding size, structure, or ownership	-	1.3.1, 5.1.4 and 6.4	17-19, 214-216, 255-258
2.10	 Awards received in the reporting period	-	1.3.3	21-22
REPORT PARAMETERS				
3.1	 Reporting period	-	01/01/2013 – 12/31/2013	
3.2	 Date of most recent previous report	-	12/31/2012	
3.3	 Reporting cycle	-	Annual	
3.4	 Contact point	-	6.2.2	324
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	192-194
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	192-194
3.9	 Data measurement techniques and the bases of calculations	-	Reporting	
3.10	 Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	-	N/A	
3.11	 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	-	N/A	
3.12	 Table identifying the location of the Standard Disclosures in the report	-	4.6.2	195-200
3.13	 Policy and current practice with regard to seeking external assurance for the report	-	4.8	206-208
GOVERNANCE, COMMITMENTS AND ENGAGEMENT				
4.1	 Governance structure of the organization	-	3.2	63
4.2	 Independence of the Chairman of the Board of Directors	-	3.2.1	66-81

Legend:

The basic indicators are in bold.

 Full indicator.

 Partial indicator.

 Indicator not applied.

	GRI code	GRI indicator	Relevant article of the French Commercial Code	Chapters/sections	Pages
4.3	●	Number of Independent Directors	-	3.2.1	66-81
4.4	●	Mechanisms for shareholders and employees to provide recommendations to highest governing body	-	7.1.10	343
4.5	●	Linkage between compensation for members of highest governing body and corporate officers and the organization's performance (including social and environmental performance)	-	3.3	95-103
4.6	●	Processes in place for the highest governance body to ensure conflicts of interest are avoided	-	3.2.3	89
4.7	●	Process for determining the composition of the highest governing body and its Specialized Committees, and the qualifications and expertise of its members	-	3.2.1 and 3.2.2	66-88
4.8	●	Internally developed codes of conduct and principles relevant to the organization's economic, social and environmental performance	-	3.2.2 and 3.4.3	82-88, 109-111
4.9	●	Procedures defined by the highest governing body for overseeing the organization's identification and management of economic, environmental and social performance	-	3.2.2	82-88
4.10	●	Processes for evaluating the highest governing body's own performance	-	3.2.2	82-88
4.11	○	Explanation of Valeo's implementation of the precautionary principle		N/A	
4.12	●	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	-	3.2.4	90
4.13	●	Memberships in associations and/or national/international advocacy organizations	-	4.2.3 and 4.4.4	123-126, 168-171
4.14	●	List of stakeholder groups engaged by the organization	-	4.1.3	118-119
4.15	●	Basis for identification and selection of stakeholders with whom to engage	-	4.1.3	118-119
4.16	●	Engagement with different stakeholder groups	-	4.1.3	118-119
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	-	4.1	116-119
ECONOMIC					
EC1	●	Direct economic value generated and distributed by Valeo	-	1.1	6-9
EC2	●	Financial implications and other risks and opportunities due to climate change	-	4.3.6	148-151
EC3	●	Coverage of the organization's defined benefit plan obligations	-	4.4.5	172
EC4	●	Significant financial assistance received from government	-	5.4.3 and 5.4.6 (Note 4.5.2)	228, 232
EC5	●	Ratios of standard entry level wage compared to local average wage		4.4.5	171
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	185
EC7	●	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	Art. R.225-105-1-I-1°-a)	4.4.2, 4.5.3	155, 191
EC8	●	Impact of infrastructure investments and services	Art. R.225-105-1-I-3°-a)	5.1.4	214-216
EC9	●	Indirect economic impacts	Art. R.225-105-1-I-3°-a)	4.5.3	189

Legend:

The basic indicators are in bold.

● Full indicator.

● Partial indicator.

○ Indicator not applied.

GRI code	GRI indicator	Relevant article of the French Commercial Code	Chapters/sections	Pages
ENVIRONMENTAL				
EN1	● Materials used by weight or volume	Art. R.225-105-1-I-2°-c)	4.3.5	145
EN2	● Percentage of materials used that are recycled input materials	Art. R.225-105-1-I-2°-c)	4.3.5	146
EN3	● Direct energy consumption by primary energy source	Art. R.225-105-1-I-2°-c)	4.3.5	146
EN4	● Indirect energy consumption by primary source	Art. R.225-105-1-I-2°-c)	4.3.5	146
EN5	● Energy saved due to conservation and efficiency improvements	Art. R.225-105-1-I-2°-c)	4.3.5	148
EN6	● Initiatives to provide energy-efficient or renewable energy-based products and services	Art. R.225-105-1-I-2°-c)	4.2.3	123-126
EN7	○ Initiatives to reduce indirect energy consumption and reductions achieved		N/A	
EN8	● Total water withdrawal by source	Art. R.225-105-1-I-2°-c)	4.3.5	143
EN9	● Water sources significantly affected by withdrawal of water	Art. R.225-105-1-I-2°-c)	4.3.5	144
EN10	● Percentage and total volume of water recycled and reused	Art. R.225-105-1-I-2°-c)	4.3.5	144
EN11	● Location and size of land owned, leased or 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	151
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	151
EN13	○ Habitats protected or restored		N/A	
EN14	● Strategies, current actions and future plans for managing impacts on biodiversity	Art. R.225-105-1-I-2°-e)	4.3.7	151
EN15	○ Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations		N/A	
EN16	● Total direct and indirect greenhouse gas emissions (metric tons CO₂ eq.)	Art. R.225-105-1-I-2°-d)	4.3.6	149
EN17	● Other relevant indirect greenhouse gas emissions (metric tons CO₂ eq.)	Art. R.225-105-1-I-2°-d)	4.3.6	149
EN18	● Initiatives to reduce greenhouse gas emissions and reductions achieved	Art. R.225-105-1-I-2°-d)	4.3.6	150
EN19	● Emissions of ozone-depleting substances	Art. R.225-105-1-I-2°-b)	4.3.4	141
EN20	● Emissions of nitrogen oxides (NO_x) and sulfur oxides (SO_x) and other significant air emissions	Art. R.225-105-1-I-2°-b)	4.3.4	140
EN21	● Total water discharge by quality and destination	Art. R.225-105-1-I-2°-b)	4.3.4	141
EN22	● Total weight of waste by type and disposal method	Art. R.225-105-1-I-2°-b)	4.3.4	142
EN23	● Total number and volume of significant spills	Art. R.225-105-1-I-2°-b)	4.3.4	142

Legend:

The basic indicators are in bold.

● Full indicator.

● Partial indicator.

○ Indicator not applied.

	GRI code	GRI indicator	Relevant article of the French Commercial Code	Chapters/sections	Pages
EN 24	●	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention, and percentage of transported waste shipped internationally	Art. R.225-105-1-I-2°-b)	4.3.4	143
EN25	○	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by Valeo's discharges of water and runoff			
EN26	●	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Art. R.225-105-1-I-2°-c)	4.3.5	146
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	146
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	137
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)	4.3.6	150
EN30	●	Total environmental protection expenditures and investments by type	Art. R.225-105-1-I-2°-a)	4.3.2	137
LABOR PRACTICES AND DECENT WORK					
LA1	●	Total workforce by employment type, employment contract and region	Art. R.225-105-1-I-1°-a)	4.4.2	153
LA2	●	Total number and rate of new employee hires and employee turnover	Art. R.225-105-1-I-1°-a)	4.4.2	155
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	172
LA4	●	Percentage of employees covered by collective bargaining agreements	Art. R.225-105-1-I-1°-c)	4.4.4	168
LA5	○	Minimum notice period(s) regarding significant operational changes		N/A	
LA6	●	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs		4.4.4	168
LA7	●	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities	Art. R.225-105-1-I-1°-b), c)	4.4.3	161, 164
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	189
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	161, 169
LA10	●	Average hours of training per year per employee	Art. R.225-105-1-I-1°-e)	4.4.7	180
LA11	●	Programs for competences 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	177, 179-180
LA12	○	Percentage of employees receiving regular performance and career development reviews		N/A	

Legend:

The basic indicators are in bold.

● Full indicator.

● Partial indicator.

○ Indicator not applied.

	GRI code	GRI indicator	Relevant article of the French Commercial Code	Chapters/sections	Pages
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)	4.4.2 and 4.4.6	153, 173, 178
LA14	○	Ratio of basic salary and remuneration of women and men by employee category		N/A	
HUMAN RIGHTS					
HR1	●	Percentage and total number of significant investment agreements and contracts that include human rights clauses		4.5.1	183
HR2	●	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken	Art. R.225-105-1-I-3°-b), c)	4.5.1	183
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		4.5.3	187
HR4	○	Total number of incidents of discrimination and corrective actions taken		N/A	
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	168
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	23
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	23
HR8	○	Percentage of security personnel trained in Valeo's policies or procedures concerning aspects of human rights that are relevant to operations		N/A	
HR9	○	Total number of incidents of violations involving rights of indigenous people and actions taken		N/A	
SOCIETY					
S01	●	Percentage of operations with implemented local community engagement, impact assessments, and development programs	Art. R.225-105-1-I-3°-a)	4.5.3	189
S02	●	Percentage and total number of business units analyzed for risks related to corruption	Art. R.225-105-1-I-3°-d)	4.5.2	187
S03	●	Percentage of employees trained in organization's anti-corruption policies and procedures	Art. R.225-105-1-I-3°-d)	4.5.2	187
S04	●	Actions taken in response to incidents of corruption	Art. R.225-105-1-I-3°-d)	4.5.2	187
S05	●	Public policy positions and participation in public policy development and lobbying	Art. R.225-105-1-I-3°-b)	4.5.2	187

Legend:

The basic indicators are in bold.

● Full indicator.

● Partial indicator.

○ Indicator not applied.

	GRI code	GRI indicator	Relevant article of the French Commercial Code	Chapters/sections	Pages
S06	○	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)	N/A	
S07	○	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes		N/A	
S08	○	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		N/A	
PRODUCT RESPONSIBILITY					
PR1	●	Life cycle stages in which health and safety impacts of products and services are assessed for improvement		4.2.4	126, 128
PR2	○	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes		N/A	
PR3	●	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements		4.2.4	127
PR4	○	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes		N/A	
PR5	○	Results of surveys measuring customer satisfaction		N/A	
PR6	○	Programs for adherence to laws, standards and voluntary codes related to marketing communications		N/A	
PR7	○	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications		N/A	
PR8	○	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data		N/A	
PR9	○	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services		N/A	

Legend:
The basic indicators are in bold.
● Full indicator.
● Partial indicator.
○ Indicator not applied.

4.6.3 Sustainable Development Glossary

ADEME	French Environment and Energy Management Agency (<i>Agence de l'environnement et de la maîtrise de l'énergie</i>): 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
CFIE	French Business Information Center (<i>Centre Français d'Information sur les Entreprises</i>): the CFIE informs and trains new arrivals in the industry who are interested in corporate social responsibility and sustainable development. www.cfie.net
CMR substance	A carcinogen, mutagen or substance toxic for reproduction.
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.
ISO 50001	International standard on energy 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://www.developpement-durable.gouv.fr/-Natura-2000,2414-.html
Oekom-Research	Extra-financial rating agency. www.oekom-research.com
OHSAS 18001	International standard on occupational health and safety information.
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).
RobecoSAM	Sustainable Asset Management: an international investment company focused on sustainable investments. The company jointly manages with Standards and Poor's 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. 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.
VOC	Volatile organic compound: VOCs are composed of carbon, oxygen and hydrogen and are readily found as atmospheric gases.
ZNIEFF	French natural zone of interest for ecology, flora and fauna (<i>Zone naturelle d'intérêt écologique, faunistique et floristique</i>): 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.

	Unit	2010	2011	2012	2013
Scope⁽¹⁾					
Total sales across all sites in reporting scope	€m	9,482	10,704	11,626	11,779
Number of sites in reporting scope	-	115	117	126	122
General policy on environmental issues					
Number of sites able to obtain ISO 14001 and OHSAS 18001 certification ⁽¹⁾	-	115	108	121	116
ISO 14001-certified sites	%	98	98	96	94
ISO 50001-certified sites	%	-	-	-	2
OHSAS 18001-certified sites	%	89	93	88	88
Functional expenditure allocated to environment	€k	11,123	12,454	13,911	11,853
Capital expenditure allocated to environment, excluding cleanup costs	€k	1,796	5,260	1,884	4,343
Cleanup costs, sites in operation	€k	710	704	447	3,171
Total provisions allocated to environmental risks	€m	22	22	20	17
Number of fines and compensation awards	-	3	3	2	5
Amount of fines and compensation awards	€k	8	4	3	38
Prevention of pollution and management of waste					
Atmospheric NO _x emissions	metric tons	-	-	134	132
Atmospheric NO _x emissions/Sales	kg/€m	-	-	11.5	11.2
Atmospheric VOC emissions ⁽¹⁾	metric tons	926	1,023	1,360	1,369
Atmospheric VOC emissions/Sales	kg/€m	98	96	119	125
Atmospheric TCE emissions	metric tons	19	34	249	19.4
Atmospheric TCE emissions/Sales	kg/€m	2.0	3.2	21.5	1.6
Atmospheric lead emissions	kg	1	3	6	9.5
Atmospheric lead emissions/Sales	g/€m	0.1	0.3	0.5	0.8
Emissions of ozone-depleting substances	kg eq. CFC-11	-	-	478	567
Volume of industrial effluents treated	thousands of cu.m	684	580	604	807
Heavy metal content in these effluents	kg	563	155	55	269
Number of significant spills	-	-	0	0	1
Total waste generated	thousands of metric tons	151.0	181.8	197.3	199.9
Of which hazardous waste	%	13	12	12	10
Of which non-hazardous waste	%	87	88	88	90
Total waste generated/Sales	metric t/€m	16	17	17	17
Waste recovery rate	%	83	83	79	75
Total waste exported	metric tons	-	302	748	319
Ratio of total waste exported/Total waste generated	%	-	0.2	0.4	0.2
Number of environmental complaints	-	-	14	5	4

(1) Data on the scope of environmental indicators can vary slightly depending on the sites' response rate for indicators (see section 4.3.3, page 139).

	Unit	2010	2011	2012	2013
Sustainable use of resources					
Total water consumption	thousands of cu.m	2,402	2,300	2,502	2,484
Total water consumption/Sales	cu.m/€m	253	215	215	211
Packaging materials consumption	thousands of metric tons	60.1	64.7	71.4	77.6
Proportion of plastic packaging	%	7	7	8	8
Proportion of cardboard packaging	%	63	62	63	63
Proportion of wood packaging	%	28	30	28	27
Proportion of other types of packaging	%	2	1	1	2
Packaging materials consumption/Sales	metric t/€m	6.3	6.0	6.1	6.6
Consumption of raw materials – metals	thousands of metric tons	723	817	877	907
Consumption of raw materials – plastics and resins	thousands of metric tons	161	182	195	202
Consumption of heavy metals	metric tons	25	24	19	16.6
Consumption of heavy metals/Sales	kg/€m	2.7	2.3	1.6	1.4
Consumption of chlorinated solvents	metric tons	114	6	273	261
Consumption of chlorinated solvents/Sales	kg/€m	12.0	0.5	23.5	22.2
Consumption of CMR substances ⁽¹⁾	metric tons	134	110	279	265
Consumption of CMR substances/Sales	kg/€m	14.1	10.5	24.0	23.5
Consumption of recycled plastics	thousands of metric tons	10.3	10.7	11.7	9.8
Total energy consumption	GWh	1,716	1,764	1,841	1,862
Proportion of electricity	%	67	69	70	70.8
Proportion of natural gas	%	30	29	27	27.0
Proportion of fuel oil	%	2	1	2	1.5
Proportion of other energy sources	%	1	1	1	0.7
Total energy consumption/Sales	MWh/€m	181	165	158	158
Direct energy consumption/Sales	MWh/€m	58	50	46	45
Indirect energy consumption/Sales	MWh/€m	123	115	112	113
Energy efficiency: expected gain	MWh	-	39,693	23,582	26,308
Fight against climate change					
Direct greenhouse gas emissions (GHG) ⁽¹⁾	thousands of metric tons CO ₂ eq.	129.1	131.5	153.2	168.4
Indirect GHG emissions ⁽¹⁾	thousands of metric tons CO ₂ eq.	410.5	457.7	506.4	534.1
Other relevant indirect GHG emissions ⁽¹⁾	thousands of metric tons CO ₂ eq.	3,887.4	4,515.7	4,738.3	4,975.5

(1) See Sustainable Development Glossary, section 4.6.3, page 201.

4.7.2 Summary of labor-related indicators

The indicators shown below are not exhaustive.

	2010	2011	2012	2013
Valeo Group headcount				
Engineers and managers	11,375	13,611	15,929	16,855
Administrative staff, technicians and supervisors	7,637	10,910	9,333	9,559
Operators	31,767	35,268	39,748	40,709
Registered headcount	50,779	59,789	65,010	67,123
Temporary staff	7,151	8,211	7,590	7,647
TOTAL HEADCOUNT	57,930	68,000	72,600	74,770
Permanent staff	47,146	54,897	60,708	52,922
Non-permanent staff	10,784	13,111	11,892	21,848
Based on the scope of labor-related indicators⁽¹⁾				
Number of new hires on permanent contracts	5,614	12,591	10,991	8,278
Engineers and managers	1,470	3,631	3,301	2,252
Administrative staff, technicians and supervisors	432	2,415	967	856
Operators	3,712	6,545	6,723	5,170
Number of new hires on fixed-term contracts	5,062	6,205	5,569	9,233⁽²⁾
Engineers and managers	123	220	175	814
Administrative staff, technicians and supervisors	68	609	132	341
Operators	4,871	5,376	5,262	8,078
Departures				
Contract terminations	2,058	2,010	2,234	2,697
o/w layoffs	733	196	211	375
Resignations	2,141	3,855	4,260	4,498
Early retirement	115	111	90	52
Retirement	247	288	415	404
Overtime (hours)	5,463,551	7,647,515	12,265,653	16,413,063
Number of part-time employees	1,072	1,120	1,070	1,170
Rate of absenteeism	2.35%	2.28%	2.25%	2.06%

(1) Scope of consolidation defined in section 4.4.1, page 152.

(2) Year-on-year increase mainly due to changes in the rules for determining the number of employees in China (see section 4.4.2, page 153).

	2010	2011	2012	2013
Breakdown of women by occupational category (%)				
Engineers and managers	19.0%	19.9%	20.5%	21.2%
Administrative staff, technicians and supervisors	24.3%	26.0%	23.8%	24.1%
Operators	37.1%	38.3%	40.4%	38.7%
Number of lost-time occupational accidents per million hours worked, Group (FR1)	3.96	2.83	2.64	2.21
Number of occupational accidents, with or without lost time, per million hours worked, Group (FR2)	16.64	15.38	13.27	13.53
Number of days lost owing to an occupational accident per thousand hours worked, Group (severity rate)	0.08	0.07	0.06	0.07
Percentage of training hours devoted to safety	16.4%	18.8%	15.0%	13.0%
Percentage of employees attending at least one training session devoted to safety	59.6%	58.6%	65.0%	41.0%
Number of training hours provided	944,671	1,029,768	1,119,584	1,304,090
Expenditure on training (in millions of euros)	25.2	21.2	23.3	25.1
Number of employees trained	41,317	44,298	56,954	59,992
Percentage of employees with disabilities	1.5%	1.4%	1.5%	1.5%
Number of interns	2,593	1,216	1,611	1,403
Number of apprentices	713	770	882	935
Number of international corporate volunteers	150	137	129	126

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 original report issued in the French language 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 the December 31, 2013

To the Shareholders,

In our quality as an independent verifier of which the admissibility of the application for accreditation has been accepted by the COFRAC, under the number n° 3-1050, and as a member of the network of one of the statutory auditors of the company Valeo, we present our report on the consolidated social, environmental and societal information established for the year ended on the December 31st 2013, hereafter referred to as the "CSR Information," pursuant to the provisions of the article L.225-102-1 of the French Commercial Code (*Code de commerce*).

Responsibility of the company

It is the responsibility of the Board of Directors to establish a management report including CSR Information referred to in the article R. 225-105-1 of the French Commercial Code (*Code de commerce*), in accordance with the protocols used by the company (hereafter referred to as the "Criteria"), and available on request at the company's headquarters.

Independence and quality control

Our independence is defined by regulatory requirements, the Code of Ethics of our profession as well as the provisions in the article L. 822-11 of the French Commercial Code (*Code de commerce*). In addition, we have implemented a quality control system, including documented policies and procedures to ensure compliance with ethical standards, professional standards and applicable laws and regulations.

Responsibility of the independent verifier

It is our role, based on our work:

- to attest whether the required CSR Information is present in the management report or, in the case of its omission, that an appropriate explanation has been provided, in accordance with the third paragraph of R. 225-105 of the French Commercial Code (*Code de commerce*) (*Attestation of presence of CSR Information*);
- to express a limited assurance conclusion, that the CSR Information, overall, is fairly presented, in all material aspects, in according with the Criteria;

Our verification work was undertaken by a team of five people between September 2013 and February 21, 2014 for an estimated duration of five weeks.

1. Attestation of presence of CSR Information

We performed our work in accordance with the professional auditing standards applicable in France and with the decree of May 13, 2013, determining the conditions in which the independent third party performs its engagement.

- We obtained an understanding of the company's CSR issues, based on interviews with the management of relevant departments, a presentation of the company's strategy on sustainable development based on the social and environmental consequences linked to the activities of the company and its societal commitments, as well as, where appropriate, resulting actions or programs.
- We have compared the information presented in the management report with the list as provided for in the Article R. 225-105-1 of the French Commercial Code (*Code de commerce*).
- In the absence of certain consolidated information, we have verified that the explanations were provided in accordance with the provisions in Article R. 225-105, paragraph 3, of the French Commercial Code (*Code de commerce*).
- We verified that the information covers the consolidated perimeter, namely the entity and its subsidiaries, as aligned with the meaning of the Article L.233-1 and the entities which it controls, as aligned with the meaning of the Article L.233-3 of the French Commercial Code (*Code de commerce*).

Based on this work, we confirm the presence in the management report of the required CSR information.

2. Limited assurance on CSR Information

Nature and scope of the work

We performed our work in accordance with the professional auditing standards applicable in France, with the decree of May 13, 2013, determining the conditions in which the independent third party performs its engagement and for the reasoned opinion and the reasonable assurance report, with ISAE 3000⁽¹⁾.

We undertook six interviews with the people responsible for the preparation of the CSR Information in the different departments (Group Risk Insurance Environment, Industrial relations, Public affairs and sustainability), in charge of the data collection process and, if applicable, the people responsible for internal control processes and risk management, in order to:

- Assess the suitability of the Criteria for reporting, in relation to their relevance, completeness, reliability, neutrality, and understandability, taking into consideration, if relevant, industry standards;
- Verify the implementation of the process for the collection, compilation, processing and control for completeness and consistency of the CSR Information and identify the procedures for internal control and risk management related to the preparation of the CSR Information.

We determined the nature and extent of our tests and inspections based on the nature and importance of the CSR Information, in relation to the characteristics of the Company, its social and environmental issues, its strategy in relation to sustainable development and industry best practices.

For the CSR Information which we considered the most important⁽²⁾:

- At the level of the consolidated entity, we consulted documentary sources and conducted interviews to corroborate the qualitative information (organization, policies, actions, etc.), we implemented analytical procedures on the quantitative information and verified, on a test basis, the calculations and the compilation of the information, and also verified their coherence and consistency with the other information presented in the management report;
- At the level of the representative selection of sites that we selected⁽³⁾, based on their activity, their contribution to the consolidated indicators, their location and a risk analysis, we undertook interviews to verify the correct application of the procedures and undertook detailed tests on the basis of samples, consisting in verifying the calculations made and linking them with supporting documentation. The sample selected therefore represented on average 9% of the total workforce and between 15% and 20% of the quantitative environmental information.

For the other consolidated CSR information, we assessed their consistency in relation to our knowledge of the company.

Finally, we assessed the relevance of the explanations provided, if appropriate, in the partial or total absence of certain information.

We consider that the sample methods and sizes of the samples that we considered by exercising our professional judgment allow us to express a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work. Due to the necessary use of sampling techniques and other limitations inherent in the functioning of any information and internal control system, the risk of non-detection of a significant anomaly in the CSR Information cannot be entirely eliminated.

Qualification expressed

For emissions of volatile organic compounds (VOCs), specific procedures to improve the completeness of the reported information were put in place. However, at the level of the entities audited, a heterogeneous application of the calculation methods provided by the Group was observed and may create a risk to the consolidated data.

Conclusion

Based on our work, and under this qualification, we have not identified any significant misstatement that causes us to believe that the CSR Information, taken together, has not been fairly presented, in compliance with the Criteria.

(1) ISAE 3000 – Assurance engagements other than audits or reviews of historical information.

(2) **Environmental and labor-related information:** evaluation and certification with regard to environmental issues, prevention, recycling and disposal of waste, energy consumption, measures to improve energy efficiency and use of renewable energy, greenhouse gas emissions, the consumption of raw materials and measures taken to improve efficient use, the importance of subcontracting and the integration of environmental and labor-related concerns into the purchasing policy and relations with suppliers and subcontractors.

Labor-related information: employment (total headcount and breakdown, new hires and terminations, compensation and career advancement), absenteeism, occupational accidents, especially their frequency and severity, training policies implemented, and total training hours.

(3) VIS Wuhan, THS Shashi, THS Chonburi, VIS Skawina, THS Skawina, CDA Mondeville.

4 SUSTAINABLE DEVELOPMENT

Independent verifier's statement of completeness and limited assurance report on social, environmental and societal information

Observations

Without qualifying our conclusion above, we draw your attention to the following points:

- The information reported excludes, for certain sites in China, waste not intended for recovery. This does not put into question the indicators on waste generation and waste recovery.
- For the number of working hours used in the calculation of the accident frequency and severity rates, a heterogeneous inclusion of temporary workers was observed, without calling into question the information provided.

Paris-La Défense, February 21, 2014

French original signed by

Independent Verifier

ERNST & YOUNG et Associés

Partner, Sustainable Development

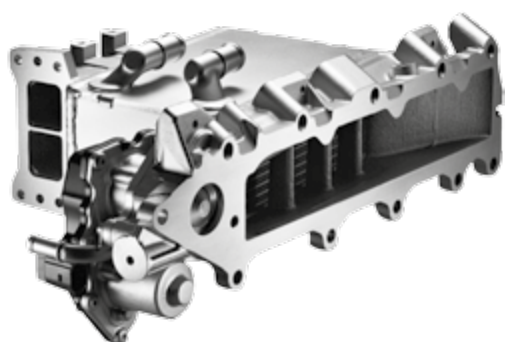
Éric Mugnier

5

FINANCIAL AND ACCOUNTING INFORMATION

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AFR The information from the Annual Financial Report is clearly identified in the table of contents by the AFR symbol



AIR INTAKE MODULE

This system meets increasingly rigid environmental standards and the need to downsize engines while increasing their efficiency. Within its compact architecture, the water cooling system helps cut both fuel consumption and toxic particulate emissions.

5.1 Analysis of 2013 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 2013 consolidated financial statements in Chapter 5, section 5.4.6, pages 223 and onwards.

5.1.1 Business review

Order intake⁽¹⁾

In 2013, Valeo recorded an order intake⁽¹⁾ of 14.8 billion euros, confirming the Group's growth potential.

Order intake was driven by:

- innovative products and systems, which accounted for 30% of order intake;
- accelerated expansion in Asia and emerging countries: Asia contributed 37% to order intake, 11 percentage points more than its contribution to original equipment sales;
- China (24% of order intake, 13% of original equipment sales) will be the Group's biggest market as from 2014.

Global automotive production

In 2013, global automotive production advanced 4%, reflecting contrasting results across the various regions

Automotive production was flat in Europe in full-year 2013, despite the sharp 8% decline in production in the first quarter. However, despite the upturn observed as from second-quarter 2013, automotive production in Europe for the year is still below its pre-crisis level (down 11% on 2007).

In the rest of the world, automotive production continued to expand, powered chiefly by bullish growth in the Chinese market and upbeat trading in North America.

Sales

Valeo's like-for-like sales (constant Group structure and exchange rates) in 2013 climbed 9% to 12,110 million euros, with a balanced performance between its different markets (original equipment up 10% and aftermarket up 8%).

Sales as reported were up 3% on a reported basis (after taking into account the sale of the Access Mechanisms business as of April 30, 2013).

Changes in exchange rates and Group structure had negative impacts of 3.1% and 2.8%, respectively:

- changes in exchange rates reflect the significant depreciation of currencies from emerging countries, particularly the Brazilian real and the yen;
- changes in Group structure were mainly attributable to the sale of the Access Mechanisms business (effective April 30, 2013) and the impact of the acquisition of a controlling interest in Foshan Ichikoh Valeo (fully consolidated as of January 1, 2013).

	As a % of total 2013 sales	Full-year 2013	Full-year 2012	Change	Change on a like-for-like basis
of which:					
Original equipment	85%	10,275	9,910	+4%	+10%
Aftermarket	12%	1,517	1,454	+4%	+8%
Miscellaneous	3%	318	395	-19%	-17%
TOTAL	100%	12,110	11,759	+3%	+9%

Original equipment sales (85% of total sales) advanced 10% on a like-for-like basis to 10,275 million euros, beating the global market by 6 percentage points. This performance reflects the gradual increase in production resulting from the high order intake recorded by the Group over the last three years.

Aftermarket sales (12% of total sales) advanced 8% on a like-for-like basis on the back of improved market conditions in Europe, strong sales momentum and continued expansion in Asia and emerging countries.

Miscellaneous sales (3% of total sales), mainly consisting of tooling revenues, fell 17% like for like.

(1) See Financial glossary, section 5.9, page 319.

Trends in original equipment sales by location of sales compared with global automotive production

Original equipment sales jumped 10% on a like-for-like basis, beating the global market by 6 percentage points (by 9 percentage points in the second half and by 5 percentage points in the first half).

Original equipment sales (by location of sales, in millions of euros)	Full-year 2013	Full-year 2012	Original equipment sales growth ⁽¹⁾	Automotive production growth ⁽²⁾	Difference vs. market
Europe & Africa	5,161	5,056	+7%	-	+7 pts
China	1,294	1,006	+31%	+15%	+16 pts
Asia (excl. China), Middle East & Oceania	1,375	1,536	-1%	-4%	+3 pts
North America	1,949	1,735	+17%	+5%	+12 pts
South America	496	577	+8%	+5%	+3 pts
TOTAL	10,275	9,910	+10%	+4%	+6 pts

(1) On a like-for-like basis.

(2) LMC & Valeo estimates.

In **Europe**, like-for-like original equipment sales rose 7%, beating the market by 7 percentage points (by 8 percentage points in the second half and by 6 percentage points in the first half), driven by the appeal of the business' portfolio of high-tech products and a favorable customer mix.

In **China**, original equipment sales were up 31% on a like-for-like basis, beating the market by 16 percentage points (by 23 percentage points in second half and by 9 percentage points in the first half), reflecting the gradual increase in production resulting from the high order intake over the past few years.

In **Asia (excluding China)**, like-for-like original equipment sales inched down 1%, outperforming the market by 3 percentage points over the year (5 percentage point outperformance in the second half, and in line with market performance in the first half).

In **North America**, like-for-like original equipment sales climbed 17%, outpacing automotive production by 12 percentage points (by 14 percentage points in the second half and by 10 percentage points in the first half), thanks to a favorable customer mix and market share gains.

In **South America**, like-for-like original equipment sales advanced 8%, beating the market by 3 percentage points, reflecting an improved situation after several periods of below-market performance (9 percentage points higher in the second half and 5 percentage points lower in the first half).

Trends in geographic positioning and customer portfolio

Valeo continues to realign its businesses geographically...

The share of original equipment sales produced in Western Europe decreased by 1 percentage point to 37%.

The share of original equipment sales produced in Asia and emerging countries (including Eastern Europe) remained stable at 54% (37% in 2007).

... and maintain a balanced, more diverse customer portfolio

German and Asian customers represented 57% of original equipment sales, stable versus 2012.

US customers accounted for 21% of original equipment sales, up 3 percentage points.

French customers decreased to 16% of original equipment sales (versus 18% in 2012).

5.1.2 Results

During the second half of 2013, and despite the depreciation of currencies from emerging countries (especially the Brazilian real), **gross margin** advanced 10% to 1,036 million euros, or 17.4% of sales (100 basis points higher than in the second half of 2012), reflecting the effectiveness of the performance improvement plans that have been implemented.

Full-year 2013 gross margin surged 6% (up 50 basis points) on 2012, to 2,073 million euros, or 17.1% of sales.

Valeo is continuing its **research and development (R&D)** efforts in response to the high order intake (786 patents filed in 2013, up 9% compared to 2012). Net R&D expenditure rose 8% to 643 million euros, or 5.3% of sales, up 20 basis points compared with 2012.

For full-year 2013, **administrative and selling expenses** improved to 5.2% of sales from 5.3% in 2012, on the back of a decrease in selling expenses to 1.6% of sales. Administrative expenses remained flat year on year at 3.6% of sales.

In the second half of the year, operating margin surged 16% (up 70 basis points) to 411 million euros, or 6.9% of sales.

Full-year operating margin climbed 10% on 2012 (up 40 basis points), to 795 million euros or 6.6% of sales.

The Group's **operating income** for 2013 came in at 728 million euros, or 6.0% of sales, after taking into account other expenses, chiefly the impact of the sale of the Access Mechanisms business (28 million euros), restructuring costs (16 million euros) and costs arising in relation to anti-trust proceedings (16 million euros), which include the fine paid by Valeo Japan Co. Ltd and legal fees in connection with these proceedings.

The cost of net debt totaled 100 million euros, down 3% compared with 2012.

Net attributable income surged 18% compared to 2012, coming in at 439 million euros, or 3.6% of sales. The effective tax rate came out at 20.5% following the recognition of a portion of deferred tax assets due to the improved profitability of the Group's US-based operations.

Excluding non-recurring items⁽¹⁾, net attributable income amounted to 501 million euros, up 22% on the 2012 figure.

The return on capital employed⁽¹⁾ (ROCE) and return on assets⁽¹⁾ (ROA) stood at 30% and 19%, respectively.

⁽¹⁾ See Financial glossary, section 5.9, page 319.

5.1.3 Segment reporting

Above-market growth in all Business Groups

As was the case for the consolidated Group, the sales performance for the Business Groups reflected the specific product, geographic and customer mix and the relative weighting of the aftermarket in their activity as a whole.

Business Group sales ^(*) (in millions of euros)	2013	2012	% change in sales	% change in OE sales ^(**)
Powertrain Systems	3,400	3,266	+4%	+6%
Thermal Systems	3,398	3,340	+2%	+7%
Comfort & Driving Assistance Systems	2,250	2,510	-10%	+10%
Visibility Systems	3,183	2,734	+16%	+20%

(*) Including intersegment sales.

(**) Like-for-like.

The Group posted above-market growth in all Business Groups, particularly Visibility Systems and Comfort & Driving Assistance Systems.

The **Visibility Systems Business Group** reported a 16% rise in total sales to 3.2 billion euros, spurred by the ramp-up of innovative solutions using LED technologies (original equipment sales up 20% on a like-for-like basis) and by a continued solid performance from the aftermarket.

Sales for the **Comfort & Driving Assistance Systems Business Group** were impacted by the sale of the Access Mechanisms business (effective April 30, 2013). In 2013, the Business Group's original equipment sales increased by 10% on a like-for-like basis, lifted by the market's growing interest in the Group's detection, radar and parking assistance systems.

EBITDA⁽¹⁾ came out at 1,356 million euros, or 11.2% of sales

At 1,356 million euros or 11.2% of sales, full-year 2013 EBITDA⁽¹⁾ climbed 8% compared to the 2012 figure (1,260 million euros) fueled chiefly by the improvement in the Visibility Systems and Comfort & Driving Assistance Systems Business Groups

In the second half of the year, EBITDA⁽¹⁾ came out at 687 million euros, or 11.6% of sales.

Business Group ^(*) EBITDA ⁽¹⁾ (in millions of euros and as a % of sales)	2013	2012	Change
Powertrain Systems	351 10.3%	331 10.1%	+6% +20 bps
Thermal Systems	394 11.6%	385 11.5%	+2% +10 bps
Comfort & Driving Assistance Systems	294 13.1%	300 12.0%	-2% +110 bps
Visibility Systems	298 9.4%	222 8.1%	+34% +130 bps

(*) Including intersegment sales.

Profitability for the Visibility Systems Business Group continued to recover thanks to the performance improvement plans implemented as well as an uptick in the aftermarket. In the second half of the year, Visibility Systems EBITDA⁽¹⁾

margin came in at 9.9% of sales, versus 8.8% in first-half 2013, while full-year EBITDA⁽¹⁾ margin jumped 34% compared to 2012, to 298 million euros or 9.4% of sales.

(1) See Financial glossary, section 5.9, page 319.

5.1.4 Cash flow and financial position

Stockholders' equity

At December 31, 2013, consolidated stockholders' equity amounted to 2,533 million euros versus 2,195 million euros at December 31, 2012. The net 338 million euro increase primarily reflects consolidated net income for the period of 469 million euros and actuarial gains of 106 million euros arising on pension obligations recognized in the statement of comprehensive income net of deferred taxes. The increase was partially offset by translation losses of 163 million euros over the period (including almost 100 million euros arising on the depreciation of the yen against the euro) recognized in other comprehensive income, and by the impact of the payment of a 115 million euros dividend to Group shareholders.

Provisions

The statement of financial position at December 31, 2013 shows total provisions of 1,142 million euros (including a non-current portion of 912 million euros), compared with 1,338 million euros at end-2012 (including a non-current portion of 1,085 million euros).

Provisions for pensions and other employee benefits totaled 791 million euros (including a non-current portion of 721 million euros) at December 31, 2013, representing a net year-on-year decrease of 127 million euros. Actuarial gains led to a decrease of 112 million euros in pension provisions in 2013. Most of the decrease results from a rise in the discount rates used – particularly for the US and (to a lesser extent) Europe.

Other provisions (including provisions for restructuring costs) fell to 351 million euros at December 31, 2013 from 420 million euros at December 31, 2012. They include 160 million euros relating to customer warranties, 43 million euros relating to provisions for restructuring costs, and 148 million euros relating to other risks and disputes.

Provisions for customer warranties decreased to 160 million euros at end-2013 from 185 million euros at end-2012, reflecting the ongoing improvement in quality delivered by the Group to its customers and the remedy of certain specific quality risks in the period.

The total amount of provisions for restructuring costs remained stable at 43 million euros at December 31, 2013 versus 42 million euros at December 31, 2012. Restructuring costs for 2013 chiefly include expenses relating to a restructuring program in Japan announced in the second quarter of the year, costs relating to restructuring operations at a site in South Korea, and expenses relating to the progressive early retirement plans in place at plants in Germany.

The amount of 148 million euros in respect of other risks and litigation corresponds mainly to provisions of a tax and environmental nature, totaling 47 million euros and 17 million euros, respectively, as well as 84 million euros in provisions for employee-related risks and various other disputes arising in connection with Valeo's operating activities across the globe.

Cash flows and debt

Net cash from operating activities surged to 1,338 million euros in 2013 from 938 million euros in 2012, reflecting the 84 million euro increase in gross operating cash flows and the sharp fall in working capital requirement, resulting in a cash inflow of 232 million euros in 2013. The fall in working capital requirement is partly due to the transfer by Valeo of its research tax credit receivables relating to 2010, 2011 and 2012 for 148 million euros in 2013.

Acquisitions and divestments of property, plant and equipment and intangible assets in 2013 represented a net cash outflow of 909 million euros, a 52 million euro increase compared to investments in 2012 (857 million euros). Given the record order intake over the past three years, investments rose sharply in both 2012 and 2013.

Free cash flow, which corresponds to net cash from operating activities of 1,338 million euros less net outflows on property, plant and equipment and intangible assets (909 million euros) and additional sales of accounts and notes receivable in 2013 compared to 2012 (114 million euros), amounted to 315 million euros (81 million euros in 2012).

In 2013, cash inflows arising on sales of investments with a loss of control, net of cash transferred, represented 170 million euros (cash outflows of 10 million euros in 2012). These cash inflows of 170 million euros reflect the impact of the May 2013 sale of the Group's Access Mechanisms business on Group cash.

In 2013, cash flows relating to financing activities mainly included dividends paid to Valeo shareholders for 115 million euros and net interest expense of 102 million euros, as well as repayments of long-term loans and borrowings for 397 million euros (of which 311 million euros relating to the bond issue maturing in 2013 and 56 million euros representing the first installment paid on the European Investment Bank loans). In all, financing activities resulted in a net outflow of 554 million euros in 2013 compared with a net outflow of 60 million euros in 2012.

Net cash flow amounted to 405 million euros and corresponds to free cash flow (315 million euros) less (i) additional sales of receivables in 2013 for 114 million euros, (ii) cash flows in respect of investing activities, relating to acquisitions

with a gain of control and disposals of investments with a loss of control (net outflow of 5 million euros and net inflow of 170 million euros, respectively) and to changes in certain items shown in non-current financial assets (outflow of 7 million euros), and (iii) cash flows in respect of financing activities, relating to dividends paid (outflow of 129 million euros), treasury share purchases and sales (net inflow of 53 million euros), interest paid and received (net outflow of 102 million euros), and acquisitions of equity interests without a change of control (outflow of 4 million euros).

Net consolidated cash and cash equivalents rose 24 million euros, compared with an increase of 19 million euros in 2012.

At December 31, 2013, net debt⁽¹⁾ stood at 366 million euros, down significantly on end-2012 (763 million euros) due to the cash generated in the period. The leverage ratio (net debt/EBITDA) came out at 0.27 times EBITDA and the gearing ratio (net debt/stockholders' equity excluding non-controlling interests) stood at 15% at December 31, 2013 compared with 37% at December 31, 2012.

Investments over the past three years

2013

To support the record order intake achieved in the past few years, investments recorded in 2013 were up 7% on 2012 at 939 million euros, or 7.8% of sales. Investments concerned property, plant and equipment⁽²⁾ for 624 million euros and intangible assets⁽²⁾ for 315 million euros (including 290 million euros in capitalized development expenditure).

The Group continued to invest in fast-growing regions such as Asia, Eastern Europe and North America, which accounted for 31%, 17% and 10%, 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 2013 to set up and extend capacity of plants in China, South Korea and Poland. Capital expenditure was mainly earmarked for the Lighting, Transmission Systems, Interior Controls, Powertrain Thermal Systems and Driving Assistance Product Lines.

In line with its development strategy in the area of technologies focusing on the reduction of CO₂ emissions, on September 30, 2013 Valeo announced the acquisition of Eltek Electric Vehicles, a Norwegian company fully dedicated to designing, developing, manufacturing, assembling and marketing worldwide high efficiency on-board chargers for passenger cars and commercial vehicles. This acquisition will enable Valeo to accelerate and expand the development of its offer for hybrid and electric vehicles and consolidate its offering with high efficiency invertors developed alongside

a number of top original equipment manufacturers. Eltek Electric Vehicles has been included in Valeo's consolidated financial statements since October 1, 2013.

In a further move consistent with the Group's CO₂ reduction strategy and plan to step up expansion in Asia and emerging markets, on May 24, 2013 Valeo confirmed the sale of its Access Mechanisms business (excluding the Indian entity) to Japan-based U-Shin for an enterprise value of 203 million euros, with effect from April 30, 2013 for accounting purposes. The sale of this business (previously part of the Comfort & Driving Assistance Business Group), primarily mechanical-based and with a strong base in Europe and South America, had a net impact of 428 million euros on the consolidated statement of financial position (see note 2.2.1.1, section 5.4.6 to the consolidated financial statements, page 229).

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 CO₂ emissions, Valeo announced the following transactions:

- on October 25, 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 held by Ford Motor Company and based in Michigan;
- on September 7, 2012, an agreement to strengthen its Lighting Alliance with Ichikoh by creating a joint venture to which the two companies will contribute their respective Chinese Lighting operations. The joint venture is 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.

(1) See Financial glossary, section 5.9, page 319.

(2) Acquisitions (see Notes 6.2 and 6.3 to the 2013 consolidated financial statements, section 5.4.6, pages 251 and 253).

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 for 524 million euros and intangible assets 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 & 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 Chinese firm 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.

Commitments

The table below shows the main commitments given:

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012	December 31, 2011
Lease commitments	134	119	117
Guarantees given	3	3	3
Non-cancelable asset purchase commitments	207	222	133
Other commitments given	79	53	92
TOTAL	423	397	345

Non-cancelable asset purchase commitments remained significant at the end of 2013, reflecting a sustained investment program relating to the very high order intake.

The rise in other commitments given in 2013 mainly reflects the vendor's warranty granted in connection with the sale of the Access Mechanisms business.

At December 31, 2013, Valeo received a total of 60 million euros (59 million euros at end-December 2012) in guarantees in connection with its acquisitions.

Details of these commitments are provided in Note 2.3 to the consolidated financial statements, section 5.4.6, page 232, for commitments given and received in relation to the consolidated group, and Note 6.5 to the consolidated financial statements, section 5.4.6, page 258, for commitments relating to non-current assets and leases.

5.2 Subsequent events

On January 15, 2014, Valeo announced the successful outcome of its 700 million euro bond issue maturing in 2024 and the final result of BNP Paribas' offer to repurchase notes maturing in 2017 and 2018 for a principal amount of 581 million euros.

This issue enabled Valeo to place 700 million euros in 10-year bonds paying a coupon of 3.25% in favorable conditions (the issue represents the longest tenor and lowest coupon bonds ever placed by the Group). BNP Paribas, Citi, Mizuho, Natixis and Société Générale were joint bookrunners on this transaction.

Regarding the offer to reimburse holders of bonds maturing in 2017⁽¹⁾ and 2018⁽²⁾ launched simultaneously by BNP Paribas, Valeo confirms the repurchase of 58% of the outstanding bonds for a principal amount of 581 million euros, including 354 million euros (71%) out of the principal amount of 500 million euros issued in January 2012 and maturing in 2017 (coupon of 5.75%) and 227 million euros (45%) out of the principal amount of 500 million euros issued in May 2011 and maturing in 2018 (coupon of 4.875%).

The existing notes purchased by BNP Paribas pursuant to the tender offer were transferred by BNP Paribas to Valeo on January 22, 2014 and immediately canceled by Valeo.

This transaction enabled Valeo to extend the average maturity of its debt and smooth the timing of repayments.

On January 22, 2014, Valeo confirmed the closing of the acquisition of Osram's 50% stake in Valeo Sylvania, with effect from January 21, 2014, in accordance with the agreement announced on June 18, 2013.

In early January 2014, Osram GmbH exercised its put option to sell Valeo its entire stake in their North American joint venture, Valeo Sylvania LLC, for a price of 104 million US dollars (equivalent to three times 2014 EBITDA as estimated by Valeo). The Group now owns all of the capital of Valeo Sylvania LLC in the US, and of its subsidiary Valeo Sylvania Iluminacion in Mexico. The acquisition of the shares in Valeo Sylvania not already owned by the Group represents a major strategic step in bolstering Valeo's global leadership in automotive lighting systems.

On February 18, 2014, Valeo completed the sale of its entire interest in the India-based 50%-50% joint venture (part of the former Access Mechanisms business) to Minda Capital Limited.

5.3 Trends and outlook

Based on the following market assumptions for 2014, the Group expects:

- 2% to 3% growth in global automotive production;
- 1% to 2% growth in automotive production in Europe;
- raw material prices and exchange rates in line with current levels;

Valeo has set the following objectives for 2014:

- sales growth higher than the market in the main production regions;
- a slight increase in operating margin⁽³⁾ (as a percentage of sales) compared to 2013.

The objectives of the strategic plan are set out in Chapter 1, section 1.2.4 "Strategic Plan", on page 15.

(1) Bonds issued as Series No.3 under the Euro Medium Term Note (EMTN) program for a principal amount of 500 million euros, paying a coupon of 5.75% and maturing on January 19, 2017 (ISIN FR0011182112).

(2) Bonds issued as Series No. 2 under its Euro Medium Term Note (EMTN) program for a principal amount of 500 million euros, paying a coupon of 4.875% and maturing on May 11, 2018 (ISIN FR0011043124).

(3) See Financial glossary, section 5.9, page 319.

5.4 2013 consolidated financial statements 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 for the year ended December 31, 2012, set out on pages 198 to 268 and 269 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* - AMF) on March 28, 2013 under number D.13-0246;
- 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 AMF on March 29, 2012 under number D.12-0237.

5.4.1 Consolidated statement of income



(in millions of euros)

Notes

2013

2012

CONTINUING OPERATIONS

SALES	4.1	12,110	11,759
Cost of sales	4.3	(10,037)	(9,811)
GROSS MARGIN	4.3	2,073	1,948
% of sales		17.1%	16.6%
Research and Development expenditure, net	4.5.2	(643)	(598)
Selling expenses		(196)	(196)
Administrative expenses		(439)	(429)
OPERATING MARGIN	4.5.1	795	725
% of sales		6.6%	6.2%
Other income and expenses	4.6.2	(67)	(53)
OPERATING INCOME	4.6.1	728	672
Interest expense	8.2.1	(108)	(117)
Interest income	8.2.1	8	14
Other financial income and expenses ⁽¹⁾	8.2.2	(47)	(39)
Share in net earnings of associates	9.1.1	7	14
INCOME BEFORE INCOME TAXES		588	544
Income taxes	10.1	(119)	(146)
INCOME FROM CONTINUING OPERATIONS		469	398

DISCONTINUED OPERATIONS

Income (loss) from discontinued operations, net of tax		-	(2)

NET INCOME FOR THE YEAR		469	396

Attributable to:

• Owners of the Company		439	371
• Non-controlling interests		30	25

Earnings per share:

• Basic earnings per share (in euros)	11.2.1	5.71	4.91
• Diluted earnings per share (in euros)	11.2.2	5.71	4.91

Earnings per share from continuing operations:

• Basic earnings per share (in euros)		5.71	4.93
• Diluted earnings per share (in euros)		5.71	4.93

(1) The amount of other financial income and expenses shown for 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes in the expected return on plan assets resulting from the retrospective application of the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1, page 224).

The Notes are an integral part of the consolidated financial statements.

5.4.2 Consolidated statement of comprehensive income

(in millions of euros)

	2013	2012
 NET INCOME FOR THE YEAR	469	396
Share of changes in comprehensive income from associates	(7)	(9)
<i>o/w income taxes</i>	-	-
Translation adjustment	(163)	(35)
<i>o/w income taxes</i>	-	-
Cash flow hedges:		
• Gains (losses) taken to equity	(19)	(3)
• (Gains) losses transferred to income (loss) for the year	17	6
<i>o/w income taxes</i>	1	(1)
Remeasurement of available-for-sale financial assets	-	-
<i>o/w income taxes</i>	-	-
Other comprehensive income (loss) recycled to income	(172)	(41)
Actuarial gains (losses) on defined benefit plans ⁽¹⁾	106	(129)
<i>o/w income taxes</i>	(6)	27
Other comprehensive income (loss) not recycled to income	106	(129)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	(66)	(170)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	403	226
Attributable to:		
• Owners of the Company	380	200
• Non-controlling interests	23	26

(1) The amount of actuarial gains and losses on defined benefit plans shown for 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes in the expected return on plan assets resulting from the retrospective application of the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1, page 224).

The Notes are an integral part of the consolidated financial statements.

5.4.3 Consolidated statement of financial position


(in millions of euros)
Notes
December 31, 2013

December 31, 2012

ASSETS

Goodwill ⁽¹⁾	6.1	1,248	1,327
Other intangible assets	6.2	850	736
Property, plant and equipment	6.3	2,181	2,075
Investments in associates ⁽¹⁾	9.1.2	103	107
Other non-current financial assets		72	27
Deferred tax assets	10.2	246	220
NON-CURRENT ASSETS		4,700	4,492

Inventories, net	4.4	848	789
Accounts and notes receivable, net	4.2	1,521	1,517
Other current assets		386	378
Taxes recoverable		33	48
Other current financial assets		36	20
Cash and cash equivalents	8.1.3.2	1,510	1,334
Assets held for sale	2.2.1.1	8	342
CURRENT ASSETS		4,342	4,428

TOTAL ASSETS		9,042	8,920

EQUITY AND LIABILITIES

Share capital	11.1.1	238	238
Additional paid-in capital	11.1.2	1,434	1,434
Translation adjustment	11.1.3	18	183
Retained earnings ⁽²⁾	11.1.4	690	197
STOCKHOLDERS' EQUITY		2,380	2,052

Non-controlling interests	11.1.7	153	143
STOCKHOLDERS' EQUITY		2,533	2,195

Provisions for pensions and other employee benefits – long-term portion ⁽²⁾	5.3	721	864
Other provisions – long-term portion ⁽²⁾	7.1	191	221
Long-term debt – long-term portion	8.1.2.1	1,520	1,564
Other financial liabilities – long-term portion		7	17
Subsidies and grants – long-term portion		23	19
Deferred tax liabilities	10.2	26	26
NON-CURRENT LIABILITIES		2,488	2,711

Accounts and notes payable		2,441	2,209
Provisions for pensions and other employee benefits – current portion	5.3	70	54
Other provisions – current portion	7.1	160	199
Subsidies and grants – current portion		13	14
Taxes payable		54	40
Other current liabilities		902	783
Current portion of long-term debt	8.1.2.1	110	440
Other financial liabilities – current portion		21	10
Short-term debt	8.1.2.2	246	73
Liabilities held for sale	2.2.1.1	4	192
CURRENT LIABILITIES		4,021	4,014

TOTAL EQUITY AND LIABILITIES		9,042	8,920

(1) The amount of goodwill shown for December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes made following the acquisition of a controlling interest in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.2.2.1, page 231).

(2) The consolidated statement of financial position shown for December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes resulting from the retrospective application of the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1, page 224).

The Notes are an integral part of the consolidated financial statements.

5.4.4 Consolidated statement of cash flows



(in millions of euros)

Notes

2013

2012

CASH FLOWS FROM OPERATING ACTIVITIES

Net income for the year ⁽¹⁾		469	396
Share in net earnings of associates		(7)	(14)
Net dividends received from associates		7	3
Expenses (income) with no cash effect ⁽¹⁾	12.1	569	539
Cost of net debt		100	103
Income taxes (current and deferred)		119	146
GROSS OPERATING CASH FLOWS		1,257	1,173
Income taxes paid		(151)	(186)
Changes in working capital	12.2	232	(49)
NET CASH FROM OPERATING ACTIVITIES		1,338	938

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisitions of intangible assets		(316)	(269)
Acquisitions of property, plant and equipment		(598)	(603)
Disposals of property, plant and equipment and intangible assets		5	15
Net change in non-current financial assets		(7)	49
Acquisitions of investments with gain of control, net of cash acquired	12.3	(5)	(19)
Disposals of investments with loss of control, net of cash transferred	12.3	170	(10)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		(751)	(837)

CASH FLOWS FROM FINANCING ACTIVITIES

Dividends paid to owners of the Company		(115)	(106)
Dividends paid to non-controlling interests in consolidated subsidiaries		(14)	(18)
Issuance of share capital		-	5
Sale (purchase) of treasury stock		53	23
Issuance of long-term debt	12.4	25	530
Interest paid		(111)	(83)
Interest received		9	17
Repayments of long-term debt	12.4	(397)	(368)
Acquisitions of equity interests without gain of control	12.5	(4)	(60)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		(554)	(60)
EFFECT OF EXCHANGE RATE CHANGES ON CASH		(9)	(22)
NET CHANGE IN CASH AND CASH EQUIVALENTS		24	19
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,239	1,220
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		1,263	1,239

o/w:

• Cash and cash equivalents		1,510	1,334
• Short-term debt		(246)	(73)
• Portion of cash-related assets and liabilities held for sale ⁽²⁾		(1)	(22)

(1) The amounts of net income and of expenses (income) with no cash effect shown for 2012 differ from those presented in the 2012 consolidated financial statements published in February 2013 since they have been adjusted to reflect changes in the return on plan assets resulting from the retrospective application of the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1, page 224).

(2) The assets and liabilities relating to the Access Mechanisms business were reclassified within assets and liabilities held for sale at December 31, 2012. At December 31, 2013, only the Indian entity of the Access Mechanisms business was still classified within assets and liabilities held for sale, since the sale of this business had not yet been finalized at the reporting date (see Note 2.2.1.1, page 229).

The Notes are an integral part of the consolidated financial statements.

5.4.5 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
STOCKHOLDERS' EQUITY								
75,028,390	AT JANUARY 1, 2012	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 year ⁽¹⁾								
		-	-	-	371	371	25	396
	Other comprehensive income (loss), net of tax ⁽¹⁾	-	-	(47)	(124)	(171)	1	(170)
	TOTAL COMPREHENSIVE INCOME (LOSS)	-	-	(47)	247	200	26	226
STOCKHOLDERS' EQUITY								
76,103,667	AT DECEMBER 31, 2012	238	1,434	183	197	2,052	143	2,195
	Dividends paid	-	-	-	(115)	(115)	(14)	(129)
1,539,151	Treasury stock	-	-	-	54	54	-	54
	Capital increase	-	-	-	-	-	-	-
	Share-based payment	-	-	-	9	9	-	9
	Other movements	-	-	-	-	-	1	1
	TRANSACTIONS WITH OWNERS	-	-	-	(52)	(52)	(13)	(65)
Net income for the year								
		-	-	-	439	439	30	469
	Other comprehensive income (loss), net of tax	-	-	(165)	106	(59)	(7)	(66)
	TOTAL COMPREHENSIVE INCOME (LOSS)	-	-	(165)	545	380	23	403
STOCKHOLDERS' EQUITY								
77,642,818	AT DECEMBER 31, 2013	238	1,434	18	690	2,380	153	2,533

(1) The consolidated statement of stockholders' equity shown for December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes in the expected return on plan assets resulting from the retrospective application of the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1, page 224).

The Notes are an integral part of the consolidated financial statements.

5.4.6 Notes to the consolidated financial statements

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In accordance with the recommendations issued by the French financial markets authority (*Autorité des marchés financiers* – AMF), the presentation of the notes to the consolidated financial statements has been changed from the previous financial year in order to make them more readable and relevant. With the exception of general accounting policies, most other accounting policies previously included in Note 1 are now included in the other notes. The previous

Notes 4, 5 and 6 which discussed the statement of income, statement of financial position and other information, are now arranged by main subject in Notes 4 to 13.

A cross-reference table linking the presentation used for the consolidated financial statements at December 31, 2013 with the presentation used at December 31, 2012 is provided at the end of the consolidated financial statements in section 5.4.8, pages 292 and 293.

Note 1 Accounting policies

The consolidated financial statements of the Valeo Group for the year ended December 31, 2013 include:

- the accounts of Valeo;
- the accounts of its subsidiaries;
- the accounts of entities jointly controlled by Valeo (joint ventures) 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 *société anonyme* (joint-stock corporation) listed on the Paris Stock Exchange, whose headquarters is located at 43, rue Bayen, 75017 Paris.

Valeo's consolidated financial statements for the year ended December 31, 2013 were authorized for issue by the Board of Directors on February 20, 2014.

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 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, 2013

1.1.1.1 Amendment to IAS 19 – "Employee Benefits"

The IASB published an amendment to IAS 19 – "Employee Benefits", which was adopted by the European Union on June 6, 2012.

The main changes resulting from this amendment are as follows:

- actuarial gains and losses arising on defined benefit plans may no longer be accounted for using the "corridor" method;
- the method used to calculate interest cost no longer takes into account the expected return on plan assets; and
- obligations relating to unvested past service costs are recognized immediately in income.

This amendment only has a limited impact on the Group's consolidated financial statements, since Valeo already recognized actuarial gains and losses within other comprehensive income.

The two main restatements in the consolidated financial statements for the year ended December 31, 2013 are:

- the immediate recognition of obligations relating to unrecognized past service costs: this represents an increase of 4 million euros in the provision for pensions at December 31, 2012 (increase of 5 million euros at January 1, 2012). The impact of applying this change in the 2012 and 2013 consolidated statement of income is not material;
- the change in the expected return on plan assets, due to the use of a rate of return on plan assets equal to the discount rate, regardless of the strategic plan asset allocation: this represents a decrease in financial income (within other financial income and expenses) of 9 million euros in 2012 and 11 million euros in 2013, offset by an actuarial gain of the same amount in other comprehensive income.

Two further adjustments are also required in certain countries:

- a 2 million euro decrease in restructuring provisions in respect of early retirement plans in Germany, due to the IFRIC's January 2012 interpretation regarding the accounting treatment of bonus payments to employees in exchange for a reduction in working hours;

⁽¹⁾ http://ec.europa.eu/internal_market/accounting/ias/index_en.htm

- a 2 million euro decrease in provisions for pensions in the UK, following clarification as to the accounting treatment of plan administration costs, which are not included in the pension provision but expensed as incurred.

To meet the disclosure requirements for consolidated financial statements, the information set out in Note 5.3, page 242 on provisions for pensions and other employee benefits now also includes details of the sensitivity of obligations to the inflation rate (see Note 5.3.7, page 247) and of expected disbursements over the next ten years (see Note 5.3.9, page 248).

1.1.1.2 Other standards, amendments and interpretations

The IASB also published IFRS 13 – “Fair Value Measurement”, the amendment to IFRS 7, and its annual improvements to IFRS for the period 2009-2011.

IFRS 13 provides a single IFRS framework for measuring fair value and indicates how to measure the fair value of both financial and non-financial assets and liabilities. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements. The application of IFRS 13 did not have a material impact on the Group's fair value measurements mainly because the financial instruments used by the Group have short-term maturities. IFRS 13 also requires specific disclosures about fair value measurements in the Notes to financial statements. Note 8.1.1, page 262 includes the additional disclosures required at the reporting date in this respect.

The amendment to IFRS 7 – “Disclosures – Offsetting Financial Assets and Financial Liabilities” (effective January 1, 2013) prescribes the circumstances in which financial assets and liabilities may be offset and the disclosures required in this case.

The two main types of agreement concerned by this amendment are:

- offsetting (netting) agreements which allow assets and liabilities to be offset in the statement of financial position, particularly those agreements which provide for a right of set-off in the event of default of the counterparty bank;
- other legally enforceable netting agreements, including the impact of the associated financial collateral.

Since the Group has not entered into any agreements with its counterparty banks that include an offsetting clause, it is not concerned by this amendment.

The annual improvements to IFRS for 2009-2011 have no impact on the Group's consolidated financial statements.

1.1.2 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, 2013 and not early adopted by the Group

1.1.2.1 Standards and amendments dealing with consolidation

The IASB published the following standards and amendments dealing with consolidation:

- IFRS 10 – “Consolidated Financial Statements”;
- IFRS 11 – “Joint Arrangements”;
- IFRS 12 – “Disclosure of Interests in Other Entities”;
- IAS 27 (revised) – “Separate Financial Statements”;
- IAS 28 (revised) – “Investments in Associates and Joint Ventures”;
- Amendments to IFRS 10, IFRS 11 and IFRS 12 – “Transition Guidance”;
- Amendments to IFRS 10, IFRS 12 and IAS 27 – “Investment Entities”.

These standards and amendments on consolidation were adopted by the European Union on December 11, 2012 and are obligatorily applicable for reporting periods beginning on or after January 1, 2014, with earlier adoption permitted for 2013. Valeo did not choose to early adopt these standards or amendments.

The nature of control over entities less than 70%-owned by Valeo either directly or indirectly was reviewed in light of the criteria defined by IFRS 10. The findings of this review were in line with the findings of the reviews of control carried out prior to the first-time application of IFRS 10. Accordingly, the first-time application of IFRS 10 at January 1, 2014 is not expected to have an impact on the Group's consolidated financial statements.

IFRS 11 is likely to have the biggest impact on the Group's consolidated financial statements, since Valeo currently proportionately consolidates its joint ventures. Following an analysis of the contracts underlying these joint arrangements, the Group classified all of these entities as joint ventures and not joint operations. Accordingly, these joint ventures will be consolidated using the equity method pursuant to IFRS 11.

In the statement of income as published for the year ended December 31, 2013, the application of IFRS 11 would have reduced consolidated sales by around 433 million euros (419 million euros in 2012) and reduced the consolidated operating margin by 30 million euros (15 million euros in 2012). However, IFRS 11 would have increased the share in net earnings of equity accounted companies (including associates and joint ventures) by 17 million euros in 2013 (11 million euros in 2012).

The amounts recorded for 2013 and 2012 in the Group's consolidated financial statements in respect of proportionately consolidated joint ventures are detailed in Note 9.2, page 279 and Note 8.1.3.2, page 266 (cash and cash equivalents).

IFRS 12 prescribes all of the disclosures required as regards an entity's interests in subsidiaries, joint arrangements and associates. The Notes to the 2014 consolidated financial statements will contain the additional disclosures required on first-time application of IFRS 12.

1.1.2.2 Other standards, amendments and interpretations

The IASB also published the following amendments:

- Amendments to IAS 32 – “Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities”;
- Amendment to IAS 36 – “Recoverable Amount Disclosures for Non-Financial Assets”;
- Amendments to IAS 39 – “Novation of Derivatives and Continuation of Hedge Accounting”.

Based on a preliminary analysis, these amendments would not have a material impact on the Group's consolidated financial statements.

1.1.3 Standards, amendments and interpretations published by the IASB but not yet adopted by the European Union

The following standards, amendments and interpretations have been published by the IASB but not yet adopted by the European Union:

- IFRS 9 – “Financial Instruments”, along with amendments to IFRS 9;
- IFRIC 21 – “Levies”;
- Amendments to IAS 19 – “Defined Benefit Plans: Employee Contributions”;
- Annual improvements to IFRS for 2010-2012 and 2011-2013.

The Group is awaiting the definitive version of IFRS 9 which could lead to adjustments in its consolidated financial statements. Only two phases of the three-phase standard have been completed (published in November 2009 and November 2013, respectively) and the impacts of IFRS 9 cannot be analyzed independently of the as-yet unpublished section on impairment of financial assets.

IFRIC 21 specifies when to recognize a liability for a levy imposed by a government (excluding income taxes). This interpretation may result in adjustments to the Group's consolidated financial statements as it could change the date on which a liability for a levy should be recognized, based on whether or not a current obligation exists at the reporting date.

The other new publications should not affect the Group's consolidated financial statements.

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.

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. In view of the uncertainties inherent in any assessment, the final 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, 2013 chiefly concern:

- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 6, pages 251 to 259);
- estimates of provisions, particularly for pensions and other employee benefits and for the risks linked to warranties (see Notes 5.3 and 7.1, pages 242 and 259);
- the measurement of the recoverable amount of deferred tax assets (see Note 10.2, page 281).

1.3 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 recorded in first-half 2013 following the acquisition of a controlling interest in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.2.2.1, page 231), the amount of goodwill shown differs from that presented in the 2012 consolidated financial statements published in February 2013 by an amount of 5 million euros.

The 2012 consolidated financial statements included in this report differ from those published in February 2013 due to the retrospective application of the amended IAS 19, effective as of January 1, 2013. Details of all such adjustments and restatements are provided in Note 1.1.1.1, page 224.

Note 2 Changes in the scope of consolidation

2.1 Accounting policies relating to the scope of consolidation

2.1.1 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 intercompany 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 intercompany disposals of assets, intercompany profits included in inventories and intercompany 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 policies. 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.

2.1.2 Foreign currency translation

2.1.2.1 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.

2.1.2.2 Foreign currency transactions

General

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 generally recognized in income.

Net investment

Certain foreign currency loans and borrowings are considered in substance to be an integral part of the net investment in a subsidiary whose functional currency is not the euro when settlement is neither planned nor likely to occur in the foreseeable future. The foreign currency gains and losses arising on these loans and borrowings are recorded under "Translation adjustment" in other comprehensive income for their net-of-tax amount. This specific accounting treatment applies 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 other 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.

2.1.3 Business combinations

Since January 1, 2010, the Group has prospectively applied IFRS 3 (revised) – “Business Combinations”.

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.

2.1.4 Transactions involving non-controlling interests

The revised IAS 27 (effective as of January 1, 2010) modified the accounting treatment applicable to non-controlling interests, and changes in non-controlling interests that do not result in a change of control have been recognized in equity since that date. 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.

2.1.5 Assets and liabilities 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 coordinated 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.

2.2 Changes in the scope of consolidation

2.2.1 Transactions carried out in 2013

2.2.1.1 Sale of the Access Mechanisms business

On June 25, 2012, Valeo announced that it was in negotiations to sell its Access Mechanisms business (Comfort & 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 therefore classified as assets and liabilities held for sale in the consolidated statement of financial position from June 30, 2012. This reclassification within assets and liabilities held for sale also led to the discontinuation of depreciation and amortization of the property, plant and equipment and intangible assets dedicated to this business from that date.

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 for an enterprise value of 223 million euros.

In the year ended December 31, 2012, the Group estimated the likely consequences of the sale of the Access Mechanisms business and as a result, recognized an impairment loss totaling 44 million euros in other income and expenses (see Note 4.6.2, page 240). This amount included 15 million euros in future IT, legal and operating costs to be incurred directly in connection with the sale and spin-off of the business.

The sale was approved by the anti-trust authorities on February 7, 2013 and was completed on May 24, 2013 (with effect from April 30, 2013) for an enterprise value of 203 million euros. At this date, it did not include the interest in the Indian joint venture, whose assets and liabilities were still classified as held for sale at December 31, 2013 in accordance with IFRS 5. The sale of this interest took place on February 18, 2014 (see Note 2.2.3.2, page 232).

An additional expense of 28 million euros was recognized in other income and expenses in 2013, relating mainly to the adverse impacts of the delay in the sale of the Indian Access Mechanisms entity and of the change in the net assets sold over the period.

The main items in the statement of financial position for this business that were sold on April 30, 2013 and had been reclassified as held for sale at December 31, 2012 prior to recognition of the 44 million euro impairment loss, are as follows:

<i>(in millions of euros)</i>	April 30, 2013⁽¹⁾	December 31, 2012
ASSETS		
Goodwill	128	128
Other intangible assets	25	23
Property, plant and equipment	109	103
Deferred tax assets	4	3
Non-current assets	266	257
Inventories, net	38	35
Accounts and notes receivable, net	107	88
Other current assets	14	5
Taxes recoverable	3	1
Current assets	162	129
TOTAL ASSETS	428	386
EQUITY AND LIABILITIES		
Translation adjustment	16	13
Retained earnings	209	181
Stockholders' equity	225	194
Provisions – long-term portion	16	16
Deferred tax liabilities	2	-
Non-current liabilities	18	16
Accounts and notes payable	119	107
Provisions – current portion	4	5
Taxes payable	4	1
Other current liabilities	43	40
Current portion of long-term debt	-	1
Short-term debt	15	22
Current liabilities	185	176
TOTAL EQUITY AND LIABILITIES	428	386

(1) The items sold at April 30, 2013 do not include the assets and liabilities of the Indian entity which continue to be classified as held for sale at December 31, 2013.

In first-half 2013 and up to the date of the sale, the Access Mechanisms business (including the Indian entity) contributed 195 million euros (569 million euros in 2012) to sales, and 4 million euros (15 million euros in 2012) to operating margin. Including cash and cash equivalents sold, this sale resulted in a net inflow of 170 million euros in the consolidated statement of cash flows for 2013.

This divestment is aligned with Valeo's strategy of refocusing on products that reduce CO₂ emissions and of stepping up its expansion in Asia and emerging markets. The Access Mechanisms business, which is primarily mechanical-based, comprises products such as locksets, steering column locks, handles and latches.

2.2.1.2 Acquisition of Eltek Electric Vehicles

On September 30, 2013, Valeo announced that it had acquired all of the capital of Eltek Electric Vehicles, a Norwegian company fully dedicated to designing, developing, manufacturing (under subcontracting agreements), assembling and commercializing worldwide high efficiency on-board chargers for passenger cars and commercial vehicles.

The purchase price includes payment of a fixed amount of 3 million euros and a maximum earnout payment of 12 million euros, calculated on the basis of the order intake between 2013 and 2020. The provisional valuation of this earnout payment led the Group to recognize a purchase price of 13 million euros, including an earnout of 10 million euros, recorded in other current liabilities in the consolidated statement of financial position at December 31, 2013.

The purchase price was allocated to Eltek Electric Vehicles' assets and liabilities on a provisional basis over the last quarter of 2013, in accordance with IFRS 3 (revised). The purchase price allocation led to the recognition of 7 million euros in goodwill at the acquisition date, essentially reflecting the synergies to be derived from combining the acquiree's technological expertise with the Group's commercial strength. This acquisition will be incorporated within the Powertrain Systems Business Group and will enable Valeo to accelerate and expand the development of its offer for hybrid and electric vehicles. Valeo will also complete its offer in power electronics by adding high efficiency conversion solutions to the ongoing development of high efficiency inverters with several top original equipment manufacturers.

Prior to the acquisition, Eltek Electric Vehicles reported sales of 3 million euros in the first three quarters of 2013.

2.2.1.3 Put and call option contract between Valeo and Osram GmbH

On June 13, 2013 Valeo and Osram GmbH agreed on an option contract by which, if the reciprocal options are exercised by Osram or Valeo in early 2014, Valeo would acquire or would be committed to acquire Osram's shares in the companies' joint operations in North America, Valeo Sylvania LLC (Visibility Systems Business Group). Until then, Valeo and Osram would continue operating in North America under a 50%-50% joint venture and the governance of this entity would be not modified. Accordingly, this contract did not result in any changes to the published consolidated financial statements for the year ended December 31, 2013, since the joint venture continues to be proportionately consolidated.

Osram GmbH exercised its put option under the contract in early January 2014, leading Valeo to purchase all of the shares concerned (see Note 2.2.3.1, page 232). An analysis of this put option at December 31, 2013 is provided in Note 2.3.1.1, page 232.

2.2.2 Transactions carried out in 2012

2.2.2.1 Alliance strengthened between Valeo and Ichikoh

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 contributed their respective Chinese Lighting operations. Valeo and Ichikoh respectively own 85% and 15% of the capital of this entity.

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 Auto Lighting Co. Ltd and Valeo Lighting Hubei Technical Center Co. Ltd.

As a result, Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd was fully consolidated in Valeo's financial statements as 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 in 2012 within other income and expenses.

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. Goodwill as calculated under the partial goodwill method amounted to 47 million euros at the acquisition date (including a 5 million euro adjustment recognized in first-half 2013).

The value of goodwill chiefly reflects the synergies expected to derive from the transaction, which will help strengthen the Lighting business within the Visibility Systems Business Group and support the Group's position in China.

Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd, which is now fully consolidated, contributed 72 million euros to Valeo's sales in 2013 (44 million euros in 2012 when it was proportionately consolidated).

Other movements in securities included sales of investments (without a loss of control) in the legal entities Wuhu Valeo Automotive Lighting Systems, Hubei Valeo Autolighting Company Ltd, Shenyang Valeo Auto Lighting Co. Ltd and Valeo Lighting Hubei Technical Center Co. Ltd. In accordance with IAS 27 (revised), these transactions led to an increase of 27 million euros in consolidated stockholders' 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.

2.2.2.2 Creation of a partnership with V. Johnson Enterprises and acquisition by that entity of Ford's climate control business

Valeo and V. Johnson Enterprises formed a new company called Detroit Thermal Systems to acquire the Climate Control business of Automotive Components Holdings, a company controlled 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 new 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.

As from the start of second-half 2013, this activity began to produce climate control systems and components for the automotive industry at the new Romulus plant in Michigan and continues to meet current product supply commitments to Ford. The acquisition is set to 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 by 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 were therefore 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 euro impact on the Group's consolidated financial statements, recorded in share in net earnings of associates.

2.2.2.3 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 euro decrease in consolidated stockholders' equity on the "Retained earnings" line and to a cash outflow of the same amount, recorded on the "Acquisition of equity interests without gain of control" line in the consolidated statement of cash flows for 2012.

2.2.3 Subsequent events

2.2.3.1 Acquisition of Osram's shares in Valeo Sylvania

In accordance with the agreement dated June 13, 2013 (see Note 2.2.1.3, page 231), Osram GmbH exercised its put option to sell Valeo its entire stake in their North American joint venture, Valeo Sylvania LLC, for a price of 104 million US dollars (equivalent to three times 2014 EBITDA as estimated by Valeo). After completion of the sale on January 21, 2014, Valeo will own all of Valeo Sylvania's capital stock and will assume control of Valeo Sylvania LLC in the US, and its Mexican subsidiary Valeo Sylvania Illuminacion.

In 2013, these two proportionately consolidated entities contributed 198 million euros to consolidated sales.

These entities will be fully consolidated as from January 1, 2014. They will be accounted for by the equity method in the comparative 2013 financial statements to be included in the 2014 financial statements due to the first-time application of IFRS 10 and IFRS 11 at January 1, 2014. In accordance with

IFRS 3 (revised), income arising on the revaluation of the previously-held equity interest will be recognized in the consolidated statement of income for 2014.

2.2.3.2 Sale of the interest in Minda Valeo Security Systems

On February 18, 2014, Valeo completed the sale of its entire interest in India-based 50%-50% joint venture (part of the former Access Mechanisms business) to Minda Capital Limited.

2.3 Off-balance sheet commitments relating to the scope of consolidation

2.3.1 Commitments given

2.3.1.1 Put and call option contract between Valeo and Osram regarding Valeo Sylvania

As discussed in Note 2.2.1.3, page 231, on June 13, 2013 Valeo and Osram GmbH agreed on an option contract by which, if the reciprocal options are exercised by Osram or Valeo in early 2014, Valeo would acquire or would be committed to acquire Osram's shares in the companies' joint venture in North America, Valeo Sylvania, LLC.

At December 31, 2013, no financial liabilities were recognized in the Group's consolidated financial statements in respect of the obligation arising from the put option granted to Osram: since the fair value of Osram's stake in the company was considered as being higher than the option exercise price, the value of the option for accounting purposes is zero.

2.3.1.2 Put option granted in respect of Detroit Thermal Systems

Valeo and V. Johnson Enterprises set up the company Detroit Thermal Systems (see Note 2.2.2.2, page 231). Valeo and V. Johnson Enterprises had a respective 49% and 51% interest in this company at December 31, 2013.

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 or 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 of the agreement defining the company's governance arrangements.

The Group reviewed the contingency clauses governing the exercise of this option in light of the present situation and considered that the conditions underlying these clauses were unlikely to materialize. No liability was therefore recognized in this respect.

2.3.1.3 Put option granted in respect of Valeo Unisia Transmissions

At December 31, 2013, Valeo and Hitachi owned 66% and 34%, 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 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 this subsidiary (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.

As the Group deems that the conditions underlying the contingency clause governing the exercise of the option are unlikely to materialize, no liability has been recognized in this respect.

2.3.1.4 Other commitments given

Other commitments given relate to guarantees granted by Valeo in connection with divestments. These totaled 66 million euros at December 31, 2013 versus 42 million euros at December 31, 2012. The rise in the amount of commitments given in the year relates chiefly to the sale of the Access Mechanisms business (see Note 2.2.1.1, page 229).

2.3.2 Commitments received

Commitments received totaled 60 million euros at December 31, 2013 (59 million euros at December 31, 2012) and correspond to guarantees granted to Valeo in connection with its acquisitions.

In 2012, Valeo received an amount of 6 million euros in commitments within the scope of the alliance with Ichikoh in the Lighting business in China (see Note 2.2.2.1, page 231).

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 five Product Groups: Electrical Systems, Transmission Systems, Electronics, Combustion Engine Systems, and Expertise and Services. This Business Group develops innovative powertrain solutions aimed at reducing fuel consumption and CO₂ 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 systems to 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. These systems help to significantly reduce fuel consumption,

CO₂ emissions and other pollutants and harmful particles from vehicles equipped with internal combustion engines. They also help expand travel range and battery life for hybrid and electric vehicles.

- Comfort & Driving Assistance Systems, comprising three Product Groups: Interior Controls, Driving Assistance and Interior Electronics. This Business Group previously included the Access Mechanisms Product Group, which was sold in the first half of 2013 (see Note 2.2.1.1, page 229). The Business Group develops interfaces between the driver, the vehicle and the surrounding environment, and helps improve safety and comfort. Intuitive driving is the Business Group's key focus, with four complementary priorities: easy, ergonomic interaction with the vehicle for the driver; driving agility with better visibility of the surrounding environment, connectivity and safe, personalized access.
- Visibility Systems, comprising two Product Groups: Lighting Systems and Wiper Systems. 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. Income and expenses for Valeo Service, which sells almost exclusively products manufactured by the Group, have been reallocated among the Business Groups identified.

In addition to these four Business Groups, the "Other" line includes holding companies, disposed businesses and eliminations between the four operating segments.

The key performance indicators for each segment are as follows:

- sales;
- EBITDA, which represents operating income (loss) before depreciation and amortization expense, impairment losses included in operating margin, and other income and expenses (see Note 4.6, page 239);
- net Research and Development expenditure (see Note 4.5.2.2, page 239);
- 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:

2013

(in millions of euros)	Powertrain Systems	Thermal Systems	Comfort & Driving Assistance Systems	Visibility Systems	Other	Total
Sales						
• segment (excluding Group)	3,358	3,366	2,229	3,129	28	12,110
• intersegment (Group)	42	32	21	54	(149)	-
EBITDA	351	394	294	298	19	1,356
Research and Development expenditure, net	(165)	(152)	(169)	(148)	(9)	(643)
Investments in property, plant and equipment and intangible assets	261	178	232	252	16	939
Segment assets	1,510	1,115	1,142	1,314	46	5,127

2012

(in millions of euros)	Powertrain Systems	Thermal Systems	Comfort & 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⁽²⁾	331	385	300	222	22	1,260
Research and Development expenditure, net ⁽²⁾	(145)	(147)	(169)	(129)	(8)	(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	1,234	39	4,927

(1) The segment assets shown for the Comfort & 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 2.2.1.1, page 229) for 289 million euros. The segment assets shown for Visibility Systems at December 31, 2012 differ from those published in February 2013 since they have been adjusted to reflect changes made following the acquisition of a controlling interest in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.2.2.1, page 231).

(2) The breakdown of EBITDA and net Research and Development expenditure by Business Group shown for 2012 was adjusted to take better account of certain items previously classified within "Other". This adjustment is not material taken as a whole.

3.2 Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating income:

<i>(in millions of euros)</i>	2013	2012
EBITDA	1,356	1,260
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses ⁽¹⁾	(561)	(535)
Other income and expenses	(67)	(53)
Operating income	728	672

(1) Impairment losses recorded in operating margin only.

Total segment assets reconcile to total Group assets as follows:

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
Segment assets	5,127	4,927
Accounts and notes receivable	1,521	1,517
Other current assets	386	378
Taxes recoverable	33	48
Assets held for sale	8	342
Financial assets	1,721	1,488
Deferred tax assets	246	220
TOTAL GROUP ASSETS	9,042	8,920

3.3 Reporting by geographic area

2013

<i>(in millions of euros)</i>	External sales by market	Sales by production area	Non-current assets ⁽¹⁾
France	1,154	2,796	806
Other European countries and Africa	5,158	3,870	954
North America	2,143	2,027	350
South America	602	536	92
Asia	3,053	3,303	932
Eliminations	-	(422)	-
TOTAL	12,110	12,110	3,134

(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.

2012

<i>(in millions of euros)</i>	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 reclassified as "Assets held for sale" (see Note 2.2.1.1, page 229) in an amount of 126 million euros, including 86 million euros in Europe and 25 million euros in South America.

3.4 Breakdown of sales by major customer

In 2013, two global automakers represented 31.9% of the Valeo Group's sales, and each of these individually accounts for more than 10% of the Group's sales.

In 2012, two global automakers represented individually more than 10% of the Group's sales, and together represented 33.4% of the Group's sales.

Note 4 Operating data

4.1 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.

Group sales rose 3.0% to 12,110 million euros in 2013 from 11,759 million euros in 2012.

Like-for-like (comparable Group structure and exchange rate basis), consolidated sales for 2013 climbed 8.9% on the previous year. Changes in the scope of consolidation during the year (sale of the Access Mechanisms business –

see Note 2.2.1.1, page 229) and adverse foreign exchange fluctuations over the period (particularly the yen and Brazilian real) had a negative impact of 2.8% and 3.1%, respectively, on sales.

4.2 Accounts and notes receivable

Accounts and notes receivable are current financial assets which 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 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 in 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 of 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 of 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.

(in millions of euros)

	December 31, 2013	December 31, 2012
Accounts and notes receivable, gross	1,536	1,537
Impairment	(15)	(20)
Accounts and notes receivable, net	1,521	1,517

Accounts and notes receivable relating to the Access Mechanisms business, reclassified as held for sale at December 31, 2012 (see Note 2.2.1.1, page 229), included gross accounts and notes receivable amounting to 90 million euros and impairment losses totaling 2 million euros. At December 31, 2013, only the accounts and notes receivable relating to the Indian Access Mechanisms entity were classified as held for sale in an amount of 3 million euros.

Prior to reclassification as held for sale, gross accounts and notes receivable not yet due and less than one month past due at December 31, 2013 totaled 1,455 million euros and 44 million euros, respectively, and represented 97% of total

gross accounts and notes receivable, the same percentage as at end-2012 (see Note 8.3.3, page 276). A detailed description of the Group's credit rate risk management policy is set out in Chapter 2, section 2.1.4 "Customer credit risk", on page 60.

Accounts and notes receivable falling due after December 31, 2013 for which substantially all risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position, represent an amount of 186 million euros at December 31, 2013 versus 72 million euros at December 31, 2012. A total of 61 million euros out of this amount of 186 million euros relates to transfer operations carried out on a recurring basis (61 million euros at December 31, 2012).

4.3 Gross margin and cost of sales

Gross margin is defined as the difference between sales and cost of sales.

Gross margin totaled 2,073 million euros in 2013, or 17.1% of sales (16.6% of sales in 2012). Cost of sales can be analyzed as follows:

(in millions of euros)

	2013	2012
Raw materials consumed	(7,113)	(6,895)
Labor	(1,566)	(1,555)
Direct production costs and production overheads	(1,018)	(1,019)
Depreciation and amortization ⁽¹⁾	(340)	(342)
Cost of sales	(10,037)	(9,811)

(1) This amount does not include amortization charged against capitalized development costs, which is recognized in net Research and Development expenditure.

The 2013 depreciation and amortization expense takes into account the positive 6 million euro impact of discontinuing depreciation and amortization on the Access Mechanisms business (see Note 2.2.1.1, page 229) up to the date of the sale (positive 8 million euro impact in 2012), and the positive

28 million euro impact of the revised useful life of certain items of property, plant and equipment as from the second half of 2012 (see Note 6.3, page 253), compared to a positive impact of 14 million euros in 2012.

4.4 Inventories

Inventories are stated at the lower of cost and net realizable value. Impairment losses are set aside when the probable realizable value of inventories is lower than their cost price.

Inventories of raw materials and goods for resale are carried at purchase cost.

Inventories of 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.

Tooling used in the production of a specific 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 (see Note 6.3, page 253, on property, plant and equipment) when Valeo has control over these risks and rewards, or is carried in inventories (until it is sold) if no such control exists. 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.

At December 31, 2013, inventories break down as follows:

(in millions of euros)	December 31, 2013			December 31, 2012
	Gross carrying amount	Impairment	Net carrying amount	Net carrying amount
Raw materials	358	(58)	300	271
Work-in-progress	90	(10)	80	77
Finished goods, supplies and specific tooling	533	(65)	468	441
Inventories, net	981	(133)	848	789

Impairment losses taken against inventories amounted to 133 million euros at December 31, 2013 (130 million euros at December 31, 2012), including an allowance (net of reversals) of 9 million euros during the period. Allowances to provisions for impairment of inventories net of reversals amounted to 1 million euros in 2012.

At December 31, 2012, inventories relating to the Access Mechanisms business that had been reclassified as held for sale (see Note 2.2.1.1, page 229) included gross inventories for 41 million euros and 6 million euros in impairment.

4.5 Operating margin and Research and Development expenditure

4.5.1 Operating margin

Operating margin is equal to gross margin less net Research and Development expenditure and selling and administrative expenses.

Operating margin totaled 795 million euros in 2013, or 6.6% of sales (6.2% of sales in 2012).

4.5.2 Research and Development expenditure

4.5.2.1 Capitalized 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, evidenced mainly by an engagement letter from the customer stating that Valeo has been chosen as supplier for the project;

- that the intangible asset will generate future economic benefits, i.e., based on whether the project is expected to generate an adequate margin;
- 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.

Changes in capitalized development expenditure in 2013 and 2012 are analyzed below:

<i>(in millions of euros)</i>	2013	2012
GROSS CARRYING AMOUNT AT JANUARY 1	1,290	1,174
Accumulated amortization and impairment	(777)	(747)
NET CARRYING AMOUNT AT JANUARY 1	513	427
Capitalized development expenditure	290	244
Disposals	-	(3)
Changes in scope of consolidation	4	4
Impairment	(10)	(11)
Amortization	(145)	(126)
Translation adjustment	(12)	(2)
Reclassifications	(2)	(20)
NET CARRYING AMOUNT AT DECEMBER 31	638	513

At December 31, 2012, a total of 21 million euros in capitalized development expenditure was reclassified in "Assets held for sale" due to the disposal of the Access Mechanisms business (see Note 2.2.1.1, page 229).

4.5.2.2 Research and Development expenditure, net

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.

Net Research and Development expenditure can be analyzed as follows for 2012 and 2013:

<i>(in millions of euros)</i>	2013	2012
Research and Development expenditure	(1,070)	(1,006)
Contributions received and subsidies	292	301
Capitalized development expenditure	290	244
Amortization and impairment of capitalized development expenditure	(155)	(137)
Research and Development expenditure, net	(643)	(598)

The Group continued to step up its Research and Development efforts in 2013 to meet the significant increase in its order book over the past three years.

The amortization expense booked in 2013 includes a positive impact of 2 million euros (4 million euros in second-half 2012) as a result of discontinuing depreciation and amortization on the Access Mechanisms business up to the date it was sold (see Note 2.2.1.1, page 229).

4.6 Operating income and other income and expenses

4.6.1 Operating income

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.

Operating income totaled 728 million euros in 2013 versus 672 million euros in 2012.

4.6.2 Other income and expenses

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".

This caption mainly includes:

- capital gains and losses arising on changes in the scope of consolidation (acquisitions and disposals);

- major litigation and disputes unrelated to the Group's operations (this therefore excludes the costs of any disputes relating to the quality of products sold, customers, suppliers or contract losses);
- costs relating to restructuring plans;
- impairment losses on fixed assets chiefly recognized as a result of impairment tests on cash-generating units (CGUs) and goodwill.

Other income and expenses can be analyzed as follows in 2013 and 2012:

<i>(in millions of euros)</i>	Notes	2013	2012
Capital gains and losses arising on changes in the scope of consolidation			
• Sale of the Access Mechanisms business	2.2.1.1	(28)	(49)
• Valeo-Ichikoh alliance	2.2.2.1	-	30
Claims and litigation:			
• Anti-trust proceedings	7.2	(16)	(19)
• Other disputes	7.1	(4)	3
Restructuring plans	7.1	(16)	(11)
Impairment of fixed assets	6.4	-	(9)
Other		(3)	2
Other income and expenses		(67)	(53)

4.6.2.1 Capital gains and losses arising on changes in the scope of consolidation

In the year ended December 31, 2012, the Group estimated the likely consequences of the sale of the Access Mechanisms business (see Note 2.2.1.1, page 229) and as a result, recognized an impairment loss for 44 million euros. A total of 5 million euros in costs already incurred in connection with the sale transaction was also booked. An additional expense of 28 million euros was recognized in 2013, relating mainly to the adverse impacts of the delay in the sale of the Indian Access Mechanisms entity and to the change in the net assets sold over the period.

In 2012, a total of 30 million euros was recognized in income on remeasuring to fair value the Group's previously-held direct and indirect interest in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.2.2.1, page 231) following the strengthening of the alliance between Valeo and Ichikoh.

4.6.2.2 Other disputes

At the end of July 2011, anti-trust investigations were initiated against numerous automotive suppliers (including Valeo) by the US, European and Japanese anti-trust authorities in the area of components and systems supplied to the automotive industry.

In 2013, the Group booked 10 million euros in respect of a settlement indemnity paid by Valeo Japan Co. Ltd (see Note 7.2, page 261) and 6 million euros in legal fees in connection with these proceedings (19 million euros in 2012).

4.6.2.3 Restructuring plans

Restructuring costs for 2013 chiefly include expenses relating to a restructuring program in Japan announced in the second quarter of the year, additional costs relating to restructuring operations at a site in South Korea, and expenses relating to the progressive early retirement plans (OAPT) in place at certain plants in Germany.

The amount recognized in this caption in 2012 mainly includes expenses relating to a restructuring plan in Spain that was announced in the last quarter of that year.

4.6.2.4 Impairment of fixed assets

As a result of the CGU impairment tests carried out in the year ended December 31, 2012, an impairment loss of 9 million euros was recognized against the Engine Management Systems Product Line (see Note 6.4, page 255).

Note 5 Personnel expenses and employee benefits

5.1 Headcount

The Group had a total headcount of 74,800 at December 31, 2013 including temporary staff (72,600 at December 31, 2012).

5.2 Employee benefits

Employee benefits are measured in accordance with the amended IAS 19, effective as of January 1, 2013. They comprise both short- and long-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.

Long-term benefits cover two categories of employee benefits:

- post-employment benefits, which include statutory retirement bonuses, supplementary pension benefits, and coverage of certain medical costs for retirees and early retirees;

- other long-term benefits payable (during employment), corresponding primarily to long-service bonuses.

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 under defined benefit plans (see Note 5.3, page 242) is recognized in liabilities in the statement of financial position.

The statement of income presents payroll expenses by function. They include the following items:

(in millions of euros)	2013	2012
Wages and salaries ⁽¹⁾	2,076	1,967
Social security charges	434	458
Share-based payment	9	9
Pension expenses under defined contribution plans	78	70
TOTAL	2,597	2,504

(1) Including temporary staff.

In France, the amended Finance Law for 2012 introduced a new tax credit: *Crédit d'impôt pour la compétitivité et l'emploi* (CICE), with effect from January 1, 2013. It is calculated on the basis of certain salaries paid to employees in French companies and is paid by the French State irrespective of the entity's situation as regards corporate income tax. It does not fall within the scope of IAS 12 – "Income Taxes". The CICE is recognized as a deduction from personnel expenses within consolidated operating income and represented income of 10 million euros in 2013.

Pension expenses under defined benefit plans are set out in Note 5.3, page 242.

Provisions for restructuring plans and employee disputes are set out in Note 7.1, page 259.

5.3 Provisions for pensions and other employee benefits

As indicated in Note 5.2, long-term benefits arising under defined benefit plans give rise to an obligation which is recognized in provisions for pensions and other employee benefits.

The pension provision 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. An asset is only recognized on overfunded plans if it represents future economic benefits that are available to the Group.

The provision for other long-term benefits is equal to the present value of the benefit obligations. The expected cost of these benefits is recorded in personnel expenses over the employee's working life in the Company.

The calculation of these provisions is based on valuations performed by independent actuaries using the projected unit credit method and end-of-career salaries. These valuations incorporate both macroeconomic assumptions specific to each country in which the Group operates (discount rate, 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.

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.

Past service costs resulting from the adoption of a new plan or change in an existing defined benefit plan are recognized immediately in income.

The expense recognized in the statement of income includes:

- service cost for the period, past service costs, and the impact of any plan curtailments or settlements recorded in operating income;
- net interest cost on pension obligations and plan assets recognized in financial income and expenses.

5.3.1 Description of the plans in force within the Group

The Group has set up a large number of defined benefit plans covering most of its current and former employees. The specific characteristics of these plans (benefit formula, funded status) varies depending on the laws and regulations prevailing in each country in which its employees work. At December 31, 2013, 94% of provisions are related to post-employment benefits, while the remaining 6% cover other long-term benefits.

The main post-employment defined benefit plans concern:

- supplementary pension benefits in Germany, Japan, the UK and the US, which top up the statutory pension plans in force in those countries:

Pension entitlement is calculated based on end-of-career salaries and number of years' service within the Group. Certain plans are pre-funded due to legal requirements in some countries (UK/US) or as a result of the choice made by the company on setting up the plan (Japan).

Most plans in the US have been frozen and no longer give rise to any additional benefits;

- retirement termination benefits in France or severance benefits in South Korea, Mexico and Italy:

These benefits are fixed amounts and are calculated depending on the number of years' service and the employee's annual compensation, either at the retirement date (as in France) or at the date the employee leaves the company for whatever reason (retirement, resignation or redundancy) - as in Italy, Mexico and South Korea;

- health cover during retirement in the United States:

Valeo pays into health plans and life insurance plans for certain retired employees in the US. These plans are not funded and have all been frozen (the last plan was frozen as of January 1, 2012). Accordingly, no additional benefits have since been offered by these plans to plan participants still working for the Group;

- top-up retirement plans for certain Group managers and executives in France. Only one such plan is still in operation (since January 1, 2010) and concerns a specific level of Valeo management (*cadres hors catégorie*); the portion of these obligations relating to the Group's executive managers in France is detailed in Note 5.5, page 250.

The table below shows the average duration of the Group's main plans and the employees covered by these plans in each region at December 31, 2013:

	France	Other European countries	North America	Asia	Total
Active Valeo employees	12,307	12,499	7,138	7,019	38,963
Active employees having left the Group	-	1,843	2,840	30	4,713
Retirees	-	3,984	2,550	227	6,761
Total employees	12,307	18,326	12,528	7,276	50,437
Average duration of post-employment benefits (in number of years)	11	18	14	9	

The Group also grants other long-term benefits, chiefly long-service bonuses or loyalty awards in France, Germany, Japan and South Korea.

All of these plans are accounted for as described above.

5.3.2 Actuarial assumptions

To calculate discount rates for the year ended December 31, 2013, 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:

Country	Benchmark index (%)	December 31, 2013	December 31, 2012
Eurozone	iBoxx Euro-Corporate AA 10-year+	3.3	3.0
United Kingdom	iBoxx E-Corporate AA 15-year+	4.4	4.0
United States	Citigroup Pension Discount Curve	4.5	3.5
Japan	10-year government bonds	0.9	1.0
South Korea	10-year government bonds	3.5	3.0

The weighted average long-term salary inflation rate was around 3.5% at December 31, 2013, largely unchanged from December 31, 2012.

The rate of increase for medical costs in the US used to value the Group's main obligations was 8.5% at December 31, 2013 (9.0% at December 31, 2012), gradually reducing to 5%

by 2032. This assumption is largely similar to that used in 2012.

The sensitivity of the Group's main obligations to a 0.5 point rise or fall in discount rates and inflation rates is set out in Note 5.3.7, page 247.

5.3.3 Breakdown and movements in obligations

Pension obligations and provisions break down as follows by major geographic area:

2013

(in millions of euros)	France	Other European countries	North America	Asia	Total
Present value of unfunded obligations	186	335	94	53	668
Present value of funded obligations	24	77	341	78	520
Market value of plan assets	(6)	(60)	(277)	(54)	(397)
Provisions recognized at December 31, 2013	204	352	158	77	791
Permanent employees at December 31, 2013 ⁽¹⁾	12,067	18,905	8,442	10,091	49,505

(1) Permanent employees shown in the table 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 2013. The Group's pension obligations in North America are significant, since a large portion of these obligations relates to retired personnel or employees having left the Group.

2012

<i>(in millions of euros)</i>	France	Other European countries	North America	Asia	Total
Present value of unfunded obligations	180	350	111	65	706
Present value of funded obligations	25	74 ⁽²⁾	407	90	596
Market value of plan assets	(8)	(53)	(275)	(48)	(384)
Provisions recognized at December 31, 2012	197 ⁽³⁾	371	243	107	918
Permanent employees at December 31, 2012 ⁽¹⁾	12,803	17,865	7,629	17,104	55,401

(1) Permanent employees shown in the table 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 2012. The Group's pension obligations in North America are significant, since a large portion of these obligations relates to retired personnel or employees having left the Group.

(2) The amount of benefit obligations shown for the UK at December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect the clarification of accounting for plan administration costs under the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1, page 224).

(3) The amount of provisions shown for France at December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect the immediate recognition of past service costs following the retrospective application of the amended IAS 19 (see Note 1.1.1.1, page 224).

The decrease in permanent staff numbers in Asia in 2013 results from a change in the rules for determining the number of employees on indefinite-term contracts in China. According to local practices, employees are usually hired under a first fixed-term (renewable) five-year contract before

transferring to an indefinite-term contract. Employees hired under such fixed-term contracts are now excluded from the permanent staff count, whereas before they were included within this category.

Movements in obligations in 2012 and 2013 are shown in the tables below by major geographic area:

2013

<i>(in millions of euros)</i>	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2013	205	424	518	155	1,302
Actuarial gains and losses recognized in other comprehensive income	(1)	(20)	(59)	(2)	(82)
Benefits paid	(15)	(14)	(25)	(13)	(67)
Translation adjustment	-	(2)	(20)	(24)	(46)
Reclassification	-	-	-	1	1
Expenses (income) for the year:	21	24	21	14	80
• service cost	16	12	2	11	41
• interest cost	6	13	18	3	40
• other	(1)	(1)	1	-	(1)
BENEFIT OBLIGATIONS AT DECEMBER 31, 2013	210	412	435	131	1,188

Actuarial gains and losses totaling 82 million euros in 2013 primarily reflect the impacts of the rise in discount rates in the United States (56 million euros) and to a lesser extent, in eurozone countries.

2012

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2012	162	321⁽¹⁾	494	153	1,130
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)
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	424	518	155	1,302

(1) The amount of benefit obligations shown for the UK at January 1, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect the clarification of accounting for plan administration costs under the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1, page 224).

In 2012, the actuarial gains and losses recognized in the year, leading to an increase of 180 million euros in the Group's obligation, were chiefly due to the sharp fall in the discount rate in eurozone countries.

5.3.4 Movements in provisions

Movements in provisions in 2013 and 2012 are shown in the table below:

(in millions of euros)	France	Other European countries	North America	Asia	Total
PROVISIONS AT JANUARY 1, 2012⁽¹⁾	157	276	237	109	779
Actuarial gains and losses recognized in other comprehensive income ⁽²⁾	38	96	19	3	156
Amounts used during the year	(13)	(16)	(18)	(13)	(60)
Reclassification	(7)	(6)	-	1	(12)
Translation adjustment	-	1	(5)	(6)	(10)
Expenses (income) for the year:	22	20	10	13	65
• service cost	12	6	1	10	29
• net interest cost ⁽²⁾	8	13	9	3	33
• other	2	1	-	-	3
PROVISIONS AT DECEMBER 31, 2012	197	371	243	107	918
Actuarial gains and losses recognized in other comprehensive income	(1)	(24)	(81)	(6)	(112)
Amounts used during the year	(13)	(16)	(8)	(23)	(60)
Reclassification	-	-	-	1	1
Translation adjustment	-	(1)	(8)	(15)	(24)
Expenses (income) for the year:	21	22	12	13	68
• service cost	16	12	2	11	41
• net interest cost	6	11	9	2	28
• other	(1)	(1)	1	-	(1)
PROVISIONS AT DECEMBER 31, 2013	204	352	158	77	791
Of which current portion (less than one year)	20	16	15	19	70

(1) The amounts of provisions shown for the UK and France at January 1, 2012 differ from those presented in the 2012 consolidated financial statements published in February 2013 since they have been adjusted to reflect changes resulting from the retrospective application of the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1, page 224). The change in the provision amount for France results from the immediate recognition of past service costs. The change in the provision amount for the UK relates to the clarification of the accounting for plan administration costs.

(2) The net interest cost and actuarial gains and losses recognized in other comprehensive income and shown for 2012 differ from those presented in the 2012 consolidated financial statements published in February 2013. This is because the rate of return used in the calculations is now equivalent to the discount rate in accordance with the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1, page 224).

An expense of 68 million euros was recognized in 2013 in respect of pensions and other employee benefits (65 million euros in 2012), of which 40 million euros were included in

operating margin and 28 million euros in other financial income and expenses.

5.3.5 Breakdown and movements in plan assets

The breakdown of plan assets at December 31, 2013 and 2012 is shown in the tables below:

2013

<i>(in millions of euros)</i>	France	Other European countries	North America	Asia	Total
Cash at bank	-	-	10	18	28
Shares	6	35	158	13	212
Government bonds	-	13	27	10	50
Corporate bonds	-	12	82	13	107
Breakdown of plan assets at December 31, 2013	6	60	277	54	397

2012

<i>(in millions of euros)</i>	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

These assets are managed by specialized asset management companies.

In managing the risk arising on these assets, 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. These committees carry out regular reviews of the investments made and of their performance.

The Group is not exposed to margin calls on its pension obligations due to the nature of its plan assets.

Movements in the value of plan assets in 2013 and 2012 can be analyzed as follows:

2013

<i>(in millions of euros)</i>	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2013	8	53	275	48	384
Expected return on plan assets	-	2	9	1	12
Contributions paid to external funds	4	4	1	17	26
Benefits paid	(6)	(2)	(18)	(7)	(33)
Actuarial gains and losses	-	4	22	4	30
Translation adjustment	-	(1)	(12)	(9)	(22)
PLAN ASSETS AT DECEMBER 31, 2013	6	60	277	54	397

The fair value of plan assets continued to rise in 2013, chiefly due to actual returns on these assets totaling 42 million euros. The difference between actual returns and the 12 million euros in expected returns, recognized in other financial income and expenses, accounts for the 30 million euros of actuarial gains

resulting from experience adjustments. These actuarial gains were recognized within other comprehensive income in 2013.

Contributions of 26 million euros were paid to external funds in 2013. Contributions in 2014 are estimated at 29 million euros.

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 ⁽¹⁾	-	2	11	1	14
Contributions paid to external funds	4	5	11	10	30
Benefits paid	(1)	(3)	(16)	(6)	(26)
Actuarial gains and losses ⁽¹⁾	-	3	17	4	24
Translation adjustment	-	1	(5)	(5)	(9)
PLAN ASSETS AT DECEMBER 31, 2012	8	53	275	48	384

(1) The expected return on plan assets and the actuarial gains and losses recognized in other comprehensive income and shown for 2012 differ from those presented in the 2012 consolidated financial statements published in February 2013. This is because the rate of return used in the calculations is now equivalent to the discount rate in accordance with the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1, page 224).

5.3.6 Data for previous years

Obligations, financial assets and actuarial gains and losses for previous years can be analyzed as follows:

(in millions of euros)	2013	2012 ⁽¹⁾	2011	2010	2009
Benefit obligations	1,188	1,302	1,132	988	886
Financial assets	(397)	(384)	(351)	(330)	(269)
Net benefit obligations	791	918	781	658	617
Actuarial (losses) and gains recognized in other comprehensive income ⁽²⁾	112	(156)	(90)	(30)	(16)

(1) The data shown for 2012 differ from those presented in the 2012 consolidated financial statements published in February 2013 since they have been adjusted to reflect the retrospective application of the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1, page 224).

(2) Actuarial gains recognized in other comprehensive income in 2013 for 112 million euros mainly include 82 million euros of actuarial gains arising on changes in actuarial assumptions regarding pension obligations and 30 million euros of actuarial gains due to experience adjustments on plan assets.

5.3.7 Sensitivity of obligations

The discount rates and inflation rates applied in each geographic area or country have a significant impact on the amount of the Group's benefit obligations.

A 0.5 point increase or decrease in these rates would have the following impact on the projected benefit obligation at December 31, 2013:

(in millions of euros)	France	Other European countries	North America	Asia	Total
Discount rate					
Impact of a 0.5 point rise	(11)	(36)	(25)	(5)	(77)
Impact of a 0.5 point fall	12	38	26	5	81
Salary inflation rate					
Impact of a 0.5 point rise	12	26	1	2	41
Impact of a 0.5 point fall	(10)	(25)	(1)	(2)	(38)

At December 31, 2013, the value of the Group's benefit obligation is less sensitive to changes in the salary inflation rate than to changes in the discount rate, particularly in the United States. This is due to the existence of plans which have now been frozen and which only bear obligations in relation to the Group's former employees.

Changes in the discount and inflation rates only have a limited impact on 2014 service cost. A 0.5 point decrease in the discount rate would lead to an additional expense of 3 million euros, while a 0.5 point increase in the discount rate would reduce the expense by 2 million euros.

A 1 point rise or fall in the rate of increase for medical costs in the United States would not have a material impact on the benefit obligation or expense for the period.

5.3.8 Sensitivity of plan assets

A decrease of 1 point in the discount rate used to calculate the expected return on plan assets would reduce the financial income recognized on these assets in 2013 by 3 million euros. An increase of 1 point in the discount rate would have the opposite effect.

5.3.9 Estimated payouts over the next 10 years

Payouts due over the next 10 years in respect of pensions and other employee benefits recognized under liabilities in the consolidated statement of financial position can be estimated as follows:

<i>(in millions of euros)</i>	France	Other European countries	North America	Asia	Total
2014	20	14	27	7	68
2015	20	15	28	10	73
2016	18	15	28	10	71
2017	10	15	27	9	61
2018	12	15	27	9	63
2019/2023	75	87	131	49	342
TOTAL	155	161	268	94	678

5.4 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.

There were no stock subscription options outstanding at either December 31, 2013 or 2012.

The terms and conditions of the shareholder-approved employee stock option and free share plans operated by Valeo at December 31, 2013 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 (in euros) ⁽²⁾	Number of shares not yet issued at December 31, 2013	Expiration date
2006	1,309,250	-	32.63	192,202	2014
2007	250,000	-	36.97	75,000	2015
2007	1,677,000	-	36.82	398,718	2015
2008	426,750	-	31.41	111,855	2016
2010	1,000,000	611,365	24.07	633,753	2018
2011	292,840	210,370	42.41	249,340	2019
2012	367,160	265,230	40.78	342,860	2020
TOTAL	5,323,000	1,086,965		2,003,728	

(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 shares 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 issued at December 31, 2013	Year of vesting ⁽²⁾
2010	400,000	178,769	119,669	2012/2014
2011	326,860	126,480	283,058	2014/2016
2012	213,140	117,220	200,297	2015/2017
2013	473,814	223,314	460,388	2016/2018
TOTAL	1,413,814	645,783	1,063,412	

(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 in 2013 and 2012 are detailed below:

2013

	Number of options and free shares granted	Weighted average exercise price
OPTIONS NOT EXERCISED AT JANUARY 1, 2013	4,213,131	28.59
Options granted/Free shares to be issued	473,814	-
Options canceled	(103,659)	24.04
Options expired	(33,495)	28.46
Options exercised	(1,482,651)	33.62
OPTIONS NOT EXERCISED/FREE SHARES NOT ISSUED AT DECEMBER 31, 2013	3,067,140	21.86
OPTIONS THAT CAN BE EXERCISED AT DECEMBER 31, 2013	1,411,528	30.10

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 issued	580,300	25.80
Options canceled	(171,009)	21.04
Options expired	(64,795)	29.48
Options exercised	(780,784)	21.74
OPTIONS NOT EXERCISED/FREE SHARES NOT ISSUED AT DECEMBER 31, 2012	4,213,131	28.59
OPTIONS THAT 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.

The main data and assumptions underlying the valuation of equity instruments at fair value were as follows:

2013

	Free shares	
	France	Other countries
Share price at grant date (in euros)	42.6	42.6
Risk-free rate (%)	0.6	0.9
Dividend rate (%)	5.8	-
Fair value of equity instruments (in euros)	35.2	32.7

An expense of 9 million euros was booked both in 2013 and 2012 in respect of stock option and free share plans.

2012

	Free shares		Stock options	
	France	Other countries	France	Other countries
Share price at grant date (<i>in euros</i>)	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 (<i>in years</i>)	-	-	8	8
Fair value of equity instruments (<i>in euros</i>)	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.

5.5 Executive compensation (Related party transactions)

At December 31, 2013, executives comprise the 14 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 2013 and in 2012.

Valeo's Board of Directors approved a number of agreements resulting in the Chief Executive Officer's eligibility for:

- a termination benefit 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) equal to 24 months of his annual fixed and target variable compensation and based on a scale which takes into account the partial or total fulfillment of five performance criteria;
- a non-competition payment over a period of 12 months in the event of his departure from the Company. If this clause is adopted, the Chief Executive Officer will receive a non-competition payment equal to 12 months of compensation (calculated on the same basis as the termination benefit). If Valeo invokes this clause, the amount owed will reduce his termination benefit.

The Group recognized an expense of 1 million euros in 2013 (2 million euros in 2012) in respect of stock subscription and purchase options and free share awards awarded to its executives. An expense was also recorded in relation to pension obligations for executive personnel in an amount of 2 million euros in 2013 (1 million euros in 2012). At December 31, 2013, provisions included in the Group's statement of financial position in respect of these pension obligations amounted to 14 million euros (10 million euros at December 31, 2012).

5.6 French statutory training entitlement (Off-balance sheet commitments)

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 994,019 hours at December 31, 2013 (1,173,568 hours at December 31, 2012), representing a usage rate of around 3.36%.

Note 6 Intangible assets and property, plant and equipment

6.1 Goodwill

Goodwill is initially recognized on business combinations, as described in Note 2.1.3, page 228.

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 6.4, page 255.

Changes in goodwill in 2013 and 2012 are analyzed below:

<i>(in millions of euros)</i>	2013	2012
NET GOODWILL AT JANUARY 1	1,327	1,438
Acquisitions during the year ⁽¹⁾	9	55
Translation adjustment	(88)	(38)
Reclassification	-	(128)
NET GOODWILL AT DECEMBER 31	1,248	1,327
Including accumulated impairment losses at December 31	-	-

(1) The amount of goodwill shown for December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes made following the acquisition of a controlling interest in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.2.2.1, page 231).

The decrease in goodwill in 2013 results from the impact of exchange rate fluctuations totaling 88 million euros, of which 62 million euros relates to the depreciation of the yen.

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 2.2.1.1, page 229), and to a lesser extent, from the depreciation

in the 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 2.2.2.1, page 231) and the end-2011 acquisition of the Chery group's lighting company in China.

The main goodwill balances are broken down by Business Group as follows:

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
Powertrain Systems	329	326
Thermal Systems	301	341
Comfort & Driving Assistance Systems	285	318
Visibility Systems ⁽¹⁾	332	341
Other	1	1
Goodwill	1,248	1,327

(1) The amount of goodwill shown for Visibility Systems at December 31, 2012 differs from the amount presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes made following the acquisition of a controlling interest in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.2.2.1, page 231).

6.2 Other 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 6.4, page 255.

Capitalized development costs recognized within other intangible assets in the statement of financial position 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 in Note 4.5.2.1, page 238. 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.

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
- capitalized development expenditure 4 years
- customer relationships acquired up to 25 years
- other intangible assets 3 to 5 years

Other intangible assets can be analyzed as follows:

	December 31, 2013			December 31, 2012
	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
<i>(in millions of euros)</i>				
Software	193	(173)	20	14
Patents and licences	104	(79)	25	31
Capitalized development expenditure	1,524	(886)	638	513
Customer relationships and other intangible assets	261	(94)	167	178
Other intangible assets	2,082	(1,232)	850	736

Changes in intangible assets in 2013 and 2012 are analyzed below:

<i>(in millions of euros)</i>	Software	Patents and licences	Capitalized development expenditure	Customer relationships and other intangible assets	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2013	190	108	1,290	262	1,850
Accumulated amortization and impairment	(176)	(77)	(777)	(84)	(1,114)
NET CARRYING AMOUNT AT JANUARY 1, 2013	14	31	513	178	736
Acquisitions	6	-	290	19	315
Disposals	-	-	-	(1)	(1)
Changes in scope of consolidation	-	-	4	1	5
Impairment	-	-	(10)	(1)	(11)
Amortization	(10)	(4)	(145)	(14)	(173)
Translation adjustment	(1)	(4)	(12)	(14)	(31)
Reclassifications	11	2	(2)	(1)	10
NET CARRYING AMOUNT AT DECEMBER 31, 2013	20	25	638	167	850

<i>(in millions of euros)</i>	Software	Patents and licences	Capitalized development expenditure	Customer relationships 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, was reclassified in assets held for sale due to the disposal of the Access Mechanisms business (see Note 2.2.1.1, page 229). 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 2.2.2.1, page 231) for 12 million euros and with the end-2011 acquisition of Wuhu Ruby Automotive Lighting Systems for 9 million euros.

6.3 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 6.4 on page 255.

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

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.

Other property, plant and equipment can be analyzed as follows:

(in millions of euros)	December 31, 2013			December 31, 2012
	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	198	(14)	184	213
Buildings	1,103	(709)	394	350
Machinery and industrial equipment	4,335	(3,338)	997	892
Specific tooling	1,430	(1,283)	147	139
Other property, plant and equipment	481	(407)	74	67
Property, plant and equipment in progress	388	(3)	385	414
Property, plant and equipment	7,935	(5,754)	2,181	2,075

No material amounts of property, plant and equipment had been pledged as security at December 31, 2013.

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 chiefly concerned processing facilities (presses) along with heat and surface treatment equipment.

In accordance with IAS 8, the change was accounted for as a change in accounting estimate and all residual useful lives of the assets concerned were modified on a prospective basis. This applied to any non-current assets not fully depreciated at July 1, 2012 and to all new non-current assets brought into service since that date.

This change gave rise to a 14 million euro decrease in the depreciation expense for second-half 2012. The estimated impact of this change in 2013 is a 28 million euro decrease in the depreciation expense.

Changes in property, plant and equipment in 2013 and 2012 are analyzed below:

(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, 2013	227	1,050	4,224	1,469	484	417	7,871
Accumulated depreciation and impairment	(14)	(700)	(3,332)	(1,330)	(417)	(3)	(5,796)
NET CARRYING AMOUNT AT JANUARY 1, 2013	213	350	892	139	67	414	2,075
Acquisitions	5	64	167	53	28	307	624
Disposals	-	2	(8)	(4)	-	(4)	(14)
Changes in scope of consolidation	-	-	1	1	1	-	3
Impairment	-	-	4	1	-	-	5
Depreciation	(1)	(46)	(229)	(74)	(32)	-	(382)
Translation adjustment	(23)	(17)	(44)	(6)	(3)	(15)	(108)
Reclassifications	(10)	41	214	37	13	(317)	(22)
NET CARRYING AMOUNT AT DECEMBER 31, 2013	184	394	997	147	74	385	2,181

(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 was reclassified in "Assets held for sale" due to the disposal of the Access Mechanisms business (see Note 2.2.1.1, page 229).

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;

- 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 6.5.1 on page 258.

Finance leases included within property, plant and equipment can be analyzed as follows:

(in millions of euros)	December 31, 2013	December 31, 2012
Buildings	5	1
Machinery and industrial equipment	5	6
Specific tooling	-	1
Other property, plant and equipment	4	2
TOTAL	14	10

6.4 Impairment losses on non-current 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.

Cash-generating units (CGUs) 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 25 CGUs had been identified at end-December 2013. 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.

Idle non-current assets are tested for impairment by comparing the asset's net carrying amount with the fair value less costs to sell. Impairment losses are recognized as appropriate.

Goodwill is tested for impairment at the level of the Business Groups, as set out in Note 3, page 233, 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 is tested for impairment using the same methodology and assumptions as those used for CGUs and as described below.

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 groups 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 applied to post-tax cash flows 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 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 indications 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.

6.4.1 Impairment testing

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 2012 and remains below the average long-term growth rate for the Group's business sector;
- a post-tax discount rate (WACC) of 8.5% (9.0% in 2012), 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% (as in 2012), a risk-free interest rate of 1.6% (as in 2012), and an industry beta of 1.4 (1.6 in 2012).

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 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.

In a persistently uncertain context, particularly in Europe, the Group mainly based the medium-term business plans and budgets used to perform impairment tests on CGUs and goodwill on projected data for the automotive market, as well as its own order book and its development prospects on emerging markets.

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 medium-term business plans for 2014-2018 are underpinned by the following assumptions:

- world automotive production of 100 million vehicles in 2018, representing average annual growth of 3.5% over the term of the business plan. This is consistent with several independent external forecasts available in October 2013, when the business plan was revised. At the end of the period covered by the business plan, Asia and the Middle East should represent 52% of global production, Europe and Africa 25%, North America 18% 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 130 yen throughout the term covered by the business plan; and at the end of the business plan period, 1 euro for: 1.29 US dollars, 7.50 yuan, 1,340 South Korean won and 2.97 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.

6.4.2 Goodwill

No impairment losses were recognized against goodwill in 2013 as a result of the impairment tests carried out at the level of Business Groups in line with the methodology described above. This was also the case in 2012.

6.4.3 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 point increase in the discount rate;
- 0.5 point decrease in the perpetuity growth rate;
- 0.5 point decrease in the rate of operating income 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 tests, 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:

(in millions of euros)	Margin of the test	Impact on the margin of the test			
	Based on assumptions for 2013	WACC of 9.0% (+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	2,075	(230)	(182)	(190)	(550)
Thermal Systems Business Group	2,263	(205)	(163)	(159)	(482)
Comfort & Driving Assistance Systems Business Group	789	(131)	(105)	(99)	(308)
Visibility Systems Business Group	1,343	(176)	(141)	(146)	(422)

The Comfort & 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 rate used to determine the terminal value fell by 4 points (3 points in 2012) or if the WACC increased by 5 points (3 points in 2012).

6.4.4 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 negative operating margin for 2013 or a fall of more than 20% in 2013 sales compared to 2012.

The scope of the CGUs tested for impairment was defined at the end of October 2013 and remained unchanged at the end of the period, since no adverse events occurred. Three CGUs were selected:

- the Components Product Line (part of the Powertrain Systems Business Group);
- the Electronics Product Group, including the Engine Control Units Product Line (part of the Powertrain Systems Business Group);
- the Interior Electronics Product Group (part of the Comfort & Driving Assistance Systems Business Group).

No impairment losses were recognized against the three CGUs as a result of these tests at December 31, 2013.

The Group recorded an impairment loss of 9 million euros against its Engine Management Systems Product Line (part of the Powertrain Systems Business Group) as a result of the impairment tests carried out in 2012.

6.4.5 Sensitivity of CGU impairment tests

Changes in the following assumptions were used to check the sensitivity of CGU impairment tests:

- 0.5 point increase in the discount rate;
- 0.5 point decrease in the perpetuity growth rate;
- 0.5 point decrease in the rate of operating income over sales used to determine the terminal value.

The impact on this margin of changes in key assumptions is set out in the following table for each CGU:

(in millions of euros)	Margin of the test	Impact on the margin of the test			
	Based on assumptions for 2013	WACC of 9.0% (+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
Components Product Line CGU	193	(21)	(16)	(15)	(47)
Electronics & Engine Control Unit CGU	114	(27)	(21)	(22)	(63)
Interior Electronics Product Group CGU	45	(8)	(6)	(8)	(19)

The last two CGUs in the above table proved more sensitive to changes in assumptions than the other CGU. Their recoverable amount would be equal to their net carrying amount if the operating margin rate used to determine the

terminal value fell by 3 points and the WACC increased by 3 points for Electronics & Engine Control Units, or if these two values increased by 5 points for Interior Electronics.

6.5 Off-balance sheet commitments relating to non-current assets and leases

6.5.1 Lease commitments

Future minimum lease commitments in force at December 31, 2013 and 2012 (excluding capital leases) are as follows:

(in millions of euros)	December 31, 2013	December 31, 2012
Less than 1 year	45	39
1 to 5 years	81	75
More than 5 years	8	5
TOTAL	134	119

Lease rentals recognized as expenses in the period in respect of outstanding lease agreements (excluding payments under finance leases) totaled 57 million euros in 2013 and 58 million euros in 2012.

Lease commitments in respect of capital leases are as follows at December 31, 2013 and 2012:

(in millions of euros)	December 31, 2013	December 31, 2012
Future minimum lease payments:		
Less than 1 year	3	4
1 to 5 years	8	7
More than 5 years	-	-
TOTAL	11	11
Of which interest charges	-	-

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
Present value of future lease payments:		
Less than 1 year	3	4
1 to 5 years	8	7
More than 5 years	-	-
TOTAL	11	11

6.5.2 Other commitments given

Valeo had given binding asset purchase commitments totaling 207 million euros at December 31, 2013 (222 million euros at December 31, 2012).

The following items recognized in assets in the Group's statement of financial position have been pledged as security:

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
Property, plant and equipment	1	1
Financial assets	7	7
TOTAL	8	8

Note 7 Other provisions and contingent liabilities

7.1 Other 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.

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.

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 loss-making (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, employee and tax risks and disputes arising in the ordinary course of operations are also included in this caption.

Movements in provisions in 2013 and 2012 are shown in the table below:

<i>(in millions of euros)</i>	2013	2012
PROVISIONS AT JANUARY 1⁽¹⁾	420	478
Amounts used during the year	(106)	(104)
Impact of changes in scope of consolidation	-	4
Translation adjustment	(16)	(7)
Reclassification	1	(4)
Additions	141	112
Reversals	(89)	(59)
PROVISIONS AT DECEMBER 31⁽¹⁾	351	420
Of which current portion (less than one year)	160	199

(1) The data for 2012 differ from those presented in the 2012 consolidated financial statements published in February 2013 since they have been adjusted to reflect the retrospective application of the amended IAS 19, applicable as of January 1, 2013 to early retirement plans in Germany (see Note 1.1.1.1, page 224).

At December 31, 2013 and 2012, provisions break down as follows:

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
Provisions for product warranties	160	185
Provisions for tax-related disputes	47	66
Provisions for restructuring costs ⁽¹⁾	43	42
Environmental provisions	17	20
Provisions for loss-making contracts	5	13
Provisions for employee-related and other disputes	79	94
Provisions for other contingencies	351	420

(1) The provision amount shown for December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect the retrospective application of the amended IAS 19, applicable as of January 1, 2013 to early retirement plans in Germany (see Note 1.1.1.1, page 224).

The decrease in provisions for customer warranties in 2013 chiefly reflects the ongoing improvement in quality delivered by the Group to its customers and the remedy of certain specific quality risks in the period.

Provisions for tax disputes include a 27 million euro 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.

At December 31, 2012, provisions for tax disputes included a 10 million euro 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 therefore be utilized. The amount was paid to the tax authorities in 2013.

The 79 million euros recognized within "Provisions for employee-related and other disputes" chiefly includes provisions for employee-related risks and various disputes arising in connection with Valeo's operating activities across the globe.

7.2 Contingent liabilities

Unlike a provision (see definition above), a contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

- a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

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, anti-trust investigations were initiated against several automotive suppliers (including Valeo) by the US, European and Japanese anti-trust authorities in the area of components and systems supplied to the automotive industry.

In the US, an out-of-court settlement was reached on September 20, 2013 between the Department of Justice and the Japanese subsidiary Valeo Japan Co. Ltd, which agreed to pay a fine of 13.6 million US dollars. In return, this agreement, which was ratified by the United States District Court for the Eastern District of Michigan on November 5, 2013, terminated

any proceedings instituted or likely to be instituted by the US federal authorities against the Valeo Group for practices that came to light during their investigations.

Three class actions were recently filed against Valeo Group companies with the United States District Court for the Eastern District of Michigan, and three other class actions before the Supreme Court of British Columbia in Canada. Due to the state of these proceedings, we are unable to assess their likely outcome. However, Valeo cannot rule out that they could have a material adverse impact on the Group's future earnings.

Outside the US, investigations by the European antitrust authorities are still in progress. At this stage, the Group is unable to predict the outcome of these investigations or of any compensation claims. However, it cannot rule out that they may have a material adverse impact on its future earnings.

Note 8 Financing and financial instruments

8.1 Financial assets and liabilities

Financial assets and liabilities mainly comprise:

- long- and short-term debt and bank overdrafts, which make up gross debt (see Note 8.1.2, page 263);
- loans and other long-term financial assets, cash and cash equivalents, which are deducted from gross debt to obtain net debt (see Note 8.1.3, page 266);
- derivative instruments (see Note 8.1.4, page 267);
- other current and non-current financial assets and liabilities (see Note 8.1.5, page 270).

8.1.1 Fair value of financial assets and liabilities

(in millions of euros)	2013 carrying amount under IAS 39			December 31, 2013	December 31, 2012
	Amortized cost	Fair value through equity	Fair value through income	Carrying amount	Carrying amount
ASSETS					
Non-current financial assets:					
• Investments in non-consolidated companies	-	4	-	4	4
• Loans	1	-	-	1	3
• Deposits and guarantees	-	-	15	15	16
• Other non-current financial assets	-	-	9	9	4
• Trading derivatives	-	-	43	43	-
Accounts and notes receivable	1,521	-	-	1,521	1,517
Other current financial assets:					
• Hedging derivatives	-	1	-	1	2
• Trading derivatives	-	-	35	35	18
Assets held for sale ⁽¹⁾	3	-	-	3	88
Cash and cash equivalents	-	-	1,510	1,510	1,334
LIABILITIES					
Non-current financial liabilities:					
• Hedging derivatives	-	7	-	7	14
• Trading derivatives	-	-	-	-	3
Bonds	993	-	-	993	1,303
Syndicated loan	249	-	-	249	248
EIB loans	228	-	-	228	283
Other long-term debt	160	-	-	160	170
Accounts and notes payable	2,441	-	-	2,441	2,209
Other current financial liabilities:					
• Hedging derivatives	-	11	-	11	2
• Trading derivatives	-	-	10	10	8
Liabilities held for sale ⁽¹⁾	3	-	-	3	130
Short-term debt	246	-	-	246	73

(1) The assets and liabilities relating to the Access Mechanisms business were reclassified within assets and liabilities held for sale at December 31, 2012. At December 31, 2013, only the Indian entity of the Access Mechanisms business was still classified within assets and liabilities held for sale, since the sale of this business had not yet been finalized at the reporting date (see Note 2.2.1.1, page 229).

IFRS 13 establishes a hierarchy of valuation techniques for financial instruments. The following categories are identified:

- Level 1: inputs directly based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: prices established using valuation techniques drawing on non-observable inputs.

The fair value of bonds is calculated based on prices quoted on an active bond market. This method corresponds to Level 1 in the fair value hierarchy.

The fair value of bonds totaled 1,124 million euros at December 31, 2013 versus 1,435 million euros at December 31, 2012.

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. This method corresponds to Level 2 in the fair value hierarchy.

These issuer spreads were estimated (source: Markit Reuters) at:

- 0.92% for the 250 million euro syndicated loan;
- 0.92% for the 169 million euro EIB loan;
- 1.02% (five-year CDS including the US dollar/euro basis swap of 0.11%) for the EIB loan drawn in US dollars.

At December 31, 2013, the fair values of these instruments are estimated at 252 million euros for the syndicated loan and 244 million euros for the EIB loans (247 million euros and 303 million euros, respectively, at December 31, 2012).

The fair value of other components of Group debt, as well as of accounts and notes payable and receivable, is equal to their carrying amount.

IFRS 13, effective as of January 1, 2013, prescribes the methods for assessing fair value and for taking into account the credit risk on uncollateralized derivatives, through:

- a Credit Value Adjustment (CVA), which is a component of the market value of a derivative financial instrument that reflects the exposure in the event of counterparty default;
- a Debit Value Adjustment (DVA), which is an adjustment to fair value reflecting the entity's own credit risk.

The net impact of taking into account credit risk was calculated according to the probabilities of default issued by Reuters.

At December 31, 2013, this has only a minimal impact on the Group.

8.1.2 Gross debt

Gross debt includes long- and short-term debt and bank overdrafts.

At December 31, 2013, the Group's gross debt can be analyzed as follows:

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
Long-term debt - long-term portion (Note 8.1.2.1, page 265)	1,520	1,564
Current portion of long-term debt (Note 8.1.2.1, page 265)	110	440
Short-term debt (Note 8.1.2.2, page 265)	246	73
Portion of liabilities held for sale related to gross debt	1	23
Gross debt	1,877	2,100

8.1.2.1 Long-term debt

This caption primarily includes bonds and other borrowings.

Bonds and other borrowings 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.

Analysis of long-term debt
(in millions of euros)

	December 31, 2013	December 31, 2012
Bonds	993	1,303
Syndicated loan	249	248
EIB loans	228	283
Lease obligations	11	11
Other borrowings	102	106
Accrued interest	47	54
Portion of liabilities held for sale related to long-term debt	-	(1)
Long-term debt	1,630	2,004

The decrease in long-term debt in 2013 chiefly reflects the redemption of the 311 million euro bond issue on June 24, 2013 and the partial repayment of the EIB loans in an amount of 56 million euros on August 5, 2013.

At December 31, 2013, long-term debt chiefly includes:

- 500 million euros in seven-year bonds maturing in 2018 and issued by Valeo on May 12, 2011. These bonds were issued as part of its Euro Medium Term Note program and pay 4.875% interest. The effective interest rate is 5.09%;
- 500 million euros in five-year bonds maturing in 2017 and issued by Valeo on January 19, 2012. These bonds were issued as part of its 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/yen cross currency swap for 237 million euros was set up on inception of the loan for the same maturity. The Group unwound part of the cross currency swap in an amount of 35 million euros on December 5, 2013;
- two loans taken out with the European Investment Bank (EIB) for a total amount of 244 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 CO₂ emissions and improve active safety:
 - a first 225 million euro loan (on which an amount of 169 million euros was outstanding at December 31, 2013 following repayment of the first installment) 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 euro loan, the subsidy was initially 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 2013 is 5 million euros. The loan is carried at amortized cost for an amount of 158 million euros at December 31, 2013, and has an effective interest rate of 6.29%;
- 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 2013 is 2 million euros. The loan is carried at amortized cost for an amount of 70 million euros at December 31, 2013;
- other loans chiefly comprise debt contracted by Group subsidiaries at reduced rates in Spain.

Covenants relating to borrowings and debt are detailed in Note 8.3.2, page 274.

Maturities of long-term debt – long term portion

(in millions of euros)	2015	2016	2017	2018	2019 and beyond	Total
Bonds	-	-	497	496	-	993
Syndicated loan	-	249	-	-	-	249
EIB loans	69	71	18	18	-	176
Lease obligations	2	1	-	5	-	8
Other borrowings	40	16	6	5	27	94
TOTAL	111	337	521	524	27	1,520

Current portion of long-term debt

(in millions of euros)	December 31, 2013	December 31, 2012
Bond	-	311
EIB loans	52	51
Lease obligations	3	4
Other borrowings	8	21
Accrued interest	47	54
Portion of liabilities held for sale related to long-term debt	-	(1)
Current portion of long-term debt	110	440

At December 31, 2013, the current portion of long-term debt relates primarily to an installment of the EIB loans due in August 2014.

At December 31, 2012, the current portion of long-term debt related primarily to the 311 million euro bond issue maturing in June 2013 and the first installment on the EIB loans paid in August 2013.

8.1.2.2 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.

(in millions of euros)	December 31, 2013	December 31, 2012
Commercial paper	109	30
Short-term loans and overdrafts	138	65
Cash-related portion of liabilities held for sale	(1)	(22)
Short-term debt	246	73

The 138 million euros recorded on the “Short-term loans and overdrafts” line relate mainly to overdraft facilities.

8.1.3 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.

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
Long-term debt – long-term portion (Note 8.1.2.1, page 265)	1,520	1,564
Current portion of long-term debt (Note 8.1.2.1, page 265)	110	440
Loans and other non-current financial assets (Note 8.1.3.1, page 266)	(1)	(3)
Portion of liabilities held for sale related to long-term debt	-	1
Long-term debt	1,629	2,002
Short-term debt (Note 8.1.2.2, page 265)	246	73
Cash and cash equivalents (Note 8.1.3.2, page 266)	(1,510)	(1,334)
Cash-related portion of liabilities held for sale	1	22
Short-term cash position	(1,263)	(1,239)
Net debt	366	763

8.1.3.1 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 in the statement of financial position as non-current financial assets.

8.1.3.2 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.

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
Marketable securities	815	793
Cash	695	541
Cash and cash equivalents	1,510	1,334

Marketable securities consist of money market funds (SICAV) for 815 million euros.

Cash equivalents include term deposits for 90 million euros.

These items were measured using Level 1 inputs.

In China and Brazil, where exchange control restrictions may exist, cash and cash equivalents amounted to 210 million euros at December 31, 2013, compared to 157 million euros at December 31, 2012. In these countries, the Group has set up local cash pooling arrangements and regularly receives dividends from several companies.

The remaining amount of cash and cash equivalents, which corresponding to the share of the Group's partners in fully consolidated companies that are not wholly owned by Valeo, totaled 45 million euros at December 31, 2013 and 48 million euros at December 31, 2012.

Cash and cash equivalents in proportionately consolidated companies totaled 38 million euros at December 31, 2013 and 50 million euros at December 31, 2012.

8.1.3.3 Analysis of net debt by currency

Net debt can be analyzed as follows by currency:

(in millions of euros)	December 31, 2013	December 31, 2012
Euro	654	1,082
US dollar	45	(66)
Yen	(57)	(6)
Brazilian real	21	(7)
South Korean won	(98)	(96)
Yuan	(171)	(95)
Other currencies	(28)	(49)
TOTAL	366	763

8.1.4 Derivative financial instruments

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, and under other current financial assets or other current financial liabilities when the underlying transaction matures within 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.

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 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.

Level 2 is used to measure the fair value of the Group's derivative financial instruments.

The fair value of financial instruments at December 31, 2013 and 2012 is set out below:

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
ASSETS		
Hedging derivatives:		
• Foreign currency derivatives	43	-
• Interest rate derivatives	-	-
Total other non-current financial assets	43	-
Hedging derivatives:		
• Foreign currency derivatives	-	-
• Commodity derivatives	1	2
Trading derivatives:		
• Foreign currency derivatives	35	18
• Commodity derivatives	-	-
Total other current financial assets	36	20
LIABILITIES		
Hedging derivatives:		
• Foreign currency derivatives	-	(3)
• Interest rate derivatives	(7)	(14)
Total other non-current financial liabilities	(7)	(17)
Hedging derivatives:		
• Interest rate derivatives	-	-
• Commodity derivatives	(4)	(1)
• Foreign currency derivatives	(7)	(1)
Trading derivatives:		
• Foreign currency derivatives	(10)	(8)
• Commodity derivatives	-	-
Total other current financial liabilities	(21)	(10)

The impact of financial instruments on income for the years ended December 31, 2013 and December 31, 2012 is set out in Note 8.3, page 271.

8.1.4.1 Fair value of foreign currency derivatives

(in millions of euros)	December 31, 2013		December 31, 2012	
	Nominal	Fair value	Nominal	Fair value
Forward foreign currency purchases	35	2	4	-
Forward foreign currency sales	(76)	4	(38)	2
Currency swaps	(488)	29	(547)	16
Cross currency swaps	(202)	43	-	-
Total assets	(731)	78	(581)	18
Forward foreign currency purchases	238	(9)	121	(4)
Forward foreign currency sales	(42)	(1)	(5)	-
Currency swaps	(359)	(7)	99	(5)
Cross currency swaps	-	-	(237)	(3)
Total liabilities	(163)	(17)	(22)	(12)
Net impact	-	61	-	6

The fair value of currency hedges is computed using the following valuation method: future cash flows are calculated using forward exchange rates at the end of the reporting period and are then discounted using the interest rate of the functional currency. This method corresponds to Level 2 in the fair value hierarchy.

8.1.4.2 Fair value of commodity (non-ferrous metals) derivatives

(in millions of euros)	December 31, 2013		December 31, 2012	
	Nominal	Fair value	Nominal	Fair value
Swaps – Purchases	50	1	61	2
Swaps – Sales	(1)	-	-	-
Total assets	49	1	61	2
Swaps – Purchases	74	(4)	29	(1)
Swaps – Sales	-	-	(1)	-
Total liabilities	74	(4)	28	(1)
Net impact	-	(3)	-	1

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.

8.1.4.3 Fair value of interest rate derivatives

(in millions of euros)	December 31, 2013		December 31, 2012	
	Nominal	Fair value	Nominal	Fair value
Interest rate swaps:				
EIB loans	169	(7)	225	(14)
Total liabilities	169	(7)	225	(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.

8.1.5 Other financial assets and liabilities

8.1.5.1 Other non-current financial assets and liabilities

This primarily includes guarantee deposits and available-for-sale financial assets.

Guarantee deposits are measured at fair value, with changes in fair value recognized in income.

Available-for-sale financial assets include investments in non-consolidated companies and are initially recognized at fair value 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.

8.1.5.2 Other current financial assets and liabilities

Other current financial assets and liabilities include accounts and notes receivable and payable.

Accounts and notes receivable and payable 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 payable is deemed to be their nominal amount, since payment periods are generally less than three months.

Accounts and notes receivable are detailed in Note 4.2, page 236.

8.2 Other financial income and expenses

Financial income and expenses comprise interest income, interest expense (cost of net debt), and other financial income and expenses.

8.2.1 Cost of net debt

Interest expense corresponds to interest recognized on debt, while interest income corresponds to interest earned on cash and cash equivalents.

<i>(in millions of euros)</i>	2013	2012
Interest expense ⁽¹⁾	(108)	(117)
Interest income	8	14
Cost of net debt	(100)	(103)

⁽¹⁾ Including 5 million euros of finance costs in 2013 on undrawn credit lines (6 million euros in 2012).

The cost of debt was virtually stable in 2013. The decrease in interest expense following the June 2013 redemption of the 311 million euros bond issued in 2005 was offset by a fall in interest earned on cash and cash equivalents due to very low market interest rates.

8.2.2 Other financial income and expenses

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”;
- the cost of credit insurance and write-downs taken in respect of credit risk and losses on bad debts in the event of client default;
- the net interest cost arising on provisions for pensions and other employee benefits, which include the impact of unwinding the discount on the obligations to take into account the passage of time, and financial income related to the expected return on plan assets.

(in millions of euros)	2013	2012
Net interest cost on provisions for pensions and other employee benefits ⁽¹⁾	(27)	(33)
Currency gains (losses)	(15)	(7)
Gains (losses) on commodity derivatives (trading and ineffective portion)	(1)	-
Gains (losses) on interest rate derivatives (ineffective portion)	-	4
Other	(4)	(3)
Other financial income and expenses	(47)	(39)

(1) The amount of other financial income and expenses shown for December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes in the expected return on plan assets resulting from the retrospective application of the amended IAS 19 (see Note 1.1.1.1, page 224).

8.3 Risk management policy

A detailed description of the Group's risk management policy is set out in Chapter 2, pages 50 to 61.

8.3.1 Market risks

8.3.1.1 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 "Foreign currency risk", page 58.

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 generally 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's net exposure to foreign currency risk based on notional amounts arises on the following main currencies (excluding entities' functional currencies):

(in millions of euros)	December 31, 2013				December 31, 2012
	USD	JPY	EUR	Total	Total
Accounts and notes receivable	147	25	373	545	508
Other financial assets	462	166	91	719	933
Accounts and notes payable	(140)	(30)	(479)	(649)	(564)
Long-term debt	(87)	(29)	(301)	(417)	(362)
Gross exposure	382	132	(316)	198	515
Forward sales	(1,284)	(224)	(65)	(1,573)	(922)
Forward purchases	1,018	107	8	1,133	335
Net exposure	116	15	(373)	(242)	(72)

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, 2013, a 7 million euro loss was recognized in other comprehensive income in respect of derivatives used as hedging instruments. An unrealized loss of 1 million euros recognized in other comprehensive income at December 31, 2012 and arising on currency hedges was reclassified in full to operating income in 2013.

The Group set up a cross currency swap in yen for 237 million euros on inception of its 250 million euro syndicated loan taken out to finance Japanese group Niles. This derivative is not eligible for hedge accounting within the meaning of IAS 39. The Group unwound part of the cross currency swap in an amount of 35 million euros on December 5, 2013. The fair value of this swap was 43 million euros at December 31, 2013.

At December 31, 2012, the breakdown by currency of the net exposure in the statement of financial position for a negative amount of 72 million euros is as follows:

- a positive amount of 93 million euros relating to the US dollar;
- a positive amount of 5 million euros relating to the yen;
- a negative amount of 170 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 1.38 US dollars, 144.72 yen and 27.43 Czech koruna to 1 euro at December 31, 2013 (1.32 US dollars, 113.61 yen and 25.15 Czech koruna, respectively, at December 31, 2012).

An increase of 10% in the value of the euro against these currencies at December 31, 2013 and December 31, 2012 would have had the following pre-tax impacts:

2013

<i>(in millions of euros)</i>	Income gain (loss)	Equity gain (loss)
Exposure US dollar	(3)	(9)
Exposure yen	(2)	(1)
Exposure euro	(9)	(3)
TOTAL	(14)	(13)

2012

<i>(in millions of euros)</i>	Income gain (loss)	Equity gain (loss)
Exposure US dollar	(9)	-
Exposure yen	-	-
Exposure euro	(14)	(6)
TOTAL	(23)	(6)

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, 2013 would have the opposite effect to the one shown above.

8.3.1.2 Commodity risk

A detailed description of the Group's commodity risk management policy is set out in Chapter 2, section 2.1.4 "Commodity risk", page 58.

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, 2013 and December 31, 2012 break down as follows:

<i>(in tons)</i>	December 31, 2013	December 31, 2012
Aluminum	49,548	22,664
Secondary aluminum	10,500	7,721
Copper	7,537	6,461
Zinc	1,082	2,681
TOTAL	68,667	39,527

To take advantage of record low prices for aluminum and secondary aluminum, the Group entered into hedges for these two metals covering a longer period of up to one year.

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized loss of 3 million euros related to existing hedges was recognized directly in other comprehensive income for 2013 in accordance with IAS 39.

An unrealized gain of 1 million euros recognized in other comprehensive income in 2012 and arising on commodity hedges purchased in first-half 2013 was reclassified in full to operating income in 2013.

Analysis of the sensitivity of net equity to metal price risk

The table below shows the pre-tax impact on equity and income of a 10% variation in metal futures prices at December 31, 2013 and 2012.

(in millions of euros)	December 31, 2013		December 31, 2012	
	Income gain (loss)	Equity gain (loss)	Income gain (loss)	Equity gain (loss)
Impact of a 10% rise in metal futures prices	-	10	-	7
Impact of a 10% fall in metal futures prices	-	(10)	-	(7)

For the purposes of the sensitivity analysis, it is assumed that all other variables remain unchanged over the period.

8.3.1.3 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 "Interest rate risk", page 59.

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, 2013, the impact on other comprehensive income of changes in the fair value of this swap was a positive 7 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:

2013

(in millions of euros)	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	58	303	1,073	440	16	11	1,147	754	1,901
Loans	-	-	-	(1)	-	-	-	(1)	(1)
Cash and cash equivalents	-	(1,510)	-	-	-	-	-	(1,510)	(1,510)
Net position before hedging	58	(1,207)	1,073	439	16	11	1,147	(757)	390
Derivative instruments	56	(56)	113	(113)	-	-	169	(169)	-
Net position after hedging	114	(1,263)	1,186	326	16	11	1,316	(926)	390

2012

(in millions of euros)	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
	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

Analysis of sensitivity to interest rate risk

At December 31, 2013, 71% of long-term debt is at fixed rates (77% at December 31, 2012).

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 pre-tax 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:

2013

<i>(in millions of euros)</i>	Income gain (loss)	Equity gain (loss)
Impact of a 1% rise in interest rates	9	5

2012

<i>(in millions of euros)</i>	Income gain (loss)	Equity gain (loss)
Impact of a 1% rise in interest rates	9	9

Similarly, at December 31, 2013, a sudden 1% fall in interest rates would have the opposite impacts for the same amount.

8.3.1.4 Equity risk

A detailed description of the Group's equity risk management policy is set out in Chapter 2, section 2.1.4 "Equity risk", page 59.

Assets financing pension plans are detailed in Note 5.3.5, page 246.

The Group's cash and cash equivalents are set out in Note 8.1.3.2, page 266.

8.3.2 Liquidity risk

A detailed description of the Group's liquidity risk management policy is set out in Chapter 2, section 2.1.4 "Liquidity risk", page 56.

The Group has to ensure that it maintains very broad access to liquidity in order to meet its commitments and investment requirements. It therefore borrows long-term funds on banking and capital markets.

At December 31, 2013, Valeo had 1.5 billion euros in cash and cash equivalents (1.3 billion euros at December 31, 2012). Cash comprises bank deposits for 695 million euros and cash equivalents (mainly money market funds) for 815 million euros.

Other sources of liquidity were as follows:

- confirmed bank credit lines totaling 1.1 billion euros with an average maturity of 2.7 years, under which no amounts had been drawn at December 31, 2013. These bilateral credit lines were taken out with nine leading banks with an average rating of A from Standard & Poor's and A2 from Moody's;

- 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 financing program for a maximum of 2 billion euros, on which 1 billion euros had been drawn at December 31, 2013.

Valeo made several bond issues under its Euro Medium Term Note financing program:

- 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%.

In order to extend the average maturity of its debt and take advantage of record low market interest rates, on January 15, 2014 Valeo issued a 700 million euro bond under this Euro Medium Term Note program. This bond is redeemable in January 2024 and pays a coupon of 3.25%.

The new bond issue allowed the Group, by means of an exchange transaction, to buy back and cancel 354 million euros worth of outstanding 2017 bonds and 227 million euros worth of outstanding 2018 bonds, bringing the Group's average debt maturity to six years.

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. In this case, EBITDA is defined as the Group's operating margin, before depreciation, amortization and impairment. It therefore excludes other income and expenses, except for restructuring costs in excess of 50 million euros. At December 31, 2013, the ratio calculated over 12 months was 0.27.

The two bonds 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).

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 date of issue of these consolidated financial statements, the Group expects to comply with all debt covenants.

On April 26, 2013, Standard & Poor's Rating Services confirmed its "BBB/A-2" long-term and short-term corporate credit ratings for Valeo with a stable outlook.

On January 2, 2014, 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.

Residual contractual maturities of non-derivative financial instruments

The future cash flows presented below, comprising both interest payments and reimbursements, are not discounted. The forward interest rate curve at December 31, 2013 was used for variable-rate interest.

At December 31, 2013

(in millions of euros)	Carrying amount	Contractual cash flows						Total
		2014	2015	2016	2017	2018	2019 and beyond	
Bonds	993	53	53	53	553	524	-	1,236
EIB loans	228	63	80	79	20	20	-	262
Syndicated loan	249	4	5	253	-	-	-	262
Other long-term debt	160	58	42	17	6	10	27	160
Accounts and notes payable	2,441	2,441	-	-	-	-	-	2,441
Short-term debt	246	246	-	-	-	-	-	246

Residual contractual maturities of derivative financial instruments

The European Central Bank (ECB) closing rates and forward rates at December 31, 2013 were used to value foreign exchange derivatives. The London Metal Exchange

(LME) forward rates at December 31, 2013 were used for commodity derivatives, while the forward interest rate curve at December 31, 2013 was used for interest rate swaps.

At December 31, 2013

(in millions of euros)	Carrying amount	Contractual cash flows						Total
		2014	2015	2016	2017	2018	2019 and beyond	
Forward foreign currency contracts used as hedges:								
• Assets	6	6	-	-	-	-	-	6
• Liabilities	(10)	(9)	(1)	-	-	-	-	(10)
Currency swaps used as hedges:								
• Assets	72	30	2	44	-	-	-	76
• Liabilities	(7)	(6)	(1)	-	-	-	-	(7)
Commodity derivatives:								
• Assets	1	1	-	-	-	-	-	1
• Liabilities	(4)	(4)	-	-	-	-	-	(4)
Interest rate swaps:								
• Assets	-	-	-	-	-	-	-	-
• Liabilities	(7)	(5)	(3)	(1)	-	-	-	(9)

8.3.3 Credit risk

A detailed description of the Group's credit risk management policy is set out in Chapter 2, section 2.1.4 "Customer credit risk", page 60.

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.

Customer 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 2013, with the European market declining and markets in the rest of the world on an uptrend. Valeo continues to closely monitor credit risk. The average days' sales outstanding stood at 45 days at December 31, 2013, compared to 49 days at December 31, 2012. At December 31, 2013, Valeo's largest customer accounted for 15% of the Group's accounts and notes receivable (16% at December 31, 2012).

The table below presents an aged analysis of accounts and notes receivable at the end of the reporting period:

(in millions of euros)	December 31, 2013	December 31, 2012
Not yet due	1,455	1,519
Less than 1 month past due	44	67
More than 1 month but less than 1 year past due	35	34
More than 1 year past due	5	7
Portion of accounts and notes receivable reclassified in assets held for sale ⁽¹⁾	(3)	(90)
Accounts and notes receivable, gross	1,536	1,537

⁽¹⁾ The assets and liabilities relating to the Access Mechanisms business were reclassified within assets and liabilities held for sale at December 31, 2012. At December 31, 2013, only the Indian entity of the Access Mechanisms business was still classified within assets and liabilities held for sale, since the sale of this business had not yet been finalized at the reporting date (see Note 2.2.1.1, page 229).

Past due receivables were written down in an amount of 15 million euros in 2013 (22 million euros in 2012, including 2 million euros relating to the Access Mechanisms business).

8.4 Subsequent events

In order to extend the average maturity of its debt and take advantage of record low market interest rates, on January 15, 2014 Valeo issued a 700 million euro bond as part of its Euro Medium Term Note program. This bond is redeemable in January 2024 and pays a coupon of 3.25%.

The new bond issue allowed the Group, by means of an exchange transaction, to buy back and cancel 354 million euros worth of outstanding 2017 bonds and 227 million euros worth of outstanding 2018 bonds, bringing the Group's average debt maturity to six years.

8.5 Off-balance sheet commitments relating to Group financing

Off-balance sheet commitments (covenants) relating to Group financing are detailed in Note 8.3.2 on liquidity risk, page 274.

Note 9 Associates and joint ventures

9.1 Investments in associates

9.1.1 Share in net earnings of associates

(in millions of euros)	2013	2012
Ichikoh	5	6
Faw Valeo Climate Control Systems (China)	4	4
Detroit Thermal Systems	-	5
Other	(2)	(1)
Share in net earnings of associates	7	14

The amount reported for Detroit Thermal Systems in 2012 mainly includes 6 million euros relating to the acquisition of the climate control business from Automotive Components Holdings (see Note 2.2.2.2, page 231).

9.1.2 Investments in associates

Changes in the "Investments in associates" caption can be analyzed as follows:

(in millions of euros)	2013	2012
INVESTMENTS IN ASSOCIATES AT JANUARY 1	107	104
Share in net earnings of associates	7	14
Dividend payments	(7)	-
Impact of changes in scope of consolidation ⁽¹⁾	4	(2)
Translation adjustment ⁽²⁾	(12)	(10)
Other	4	1
INVESTMENTS IN ASSOCIATES AT DECEMBER 31	103	107

(1) The amount of investments in associates shown for December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes made following the acquisition of a controlling interest in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.2.2.1, page 231).

(2) Reflecting mainly the impact of changes in the 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)	
	2013	2012	2013	2012
Ichikoh ⁽¹⁾	31.6	31.6	61	62
FAW Valeo Climate Control	36.5	36.5	30	34
Detroit Thermal Systems	49.0	49.0	12	9
Other	-	-	-	2
Investments in associates	-	-	103	107

(1) The amount of investments in associates shown for December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes made following the acquisition of a controlling interest in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.2.2.1, page 231).

Ichikoh Industries Ltd. is listed on the Tokyo Stock Exchange. The market value of Valeo's interest in Ichikoh was 35 million euros at December 31, 2013 and 38 million euros at

December 31, 2012. The carrying amount of the investment in the Group's consolidated financial statements 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)	2013	2012
Sales	811	973
Net income for the year	22	39

(in millions of euros)	December 31, 2013	December 31, 2012
Total assets	674	659
Total liabilities	475	467

These data are presented based on a 100% holding and according to local GAAP.

9.1.3 Transactions with associates (Related parties)

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)	2013	2012
Sales of goods and services	20	19
Purchases of goods and services	(37)	(10)
Interest and dividends received	7	-

(in millions of euros)	December 31, 2013	December 31, 2012
Accounts and notes receivable	4	3
Accounts and notes payable	13	18
Net debt (cash)	11	7

9.2 Joint ventures

9.2.1 Information on 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):

<i>(in millions of euros)</i>	2013	2012
Sales	551	482
Operating expenses	(522)	(467)

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
Non-current assets	134	116
Current assets	240	234
Non-current liabilities	52	50
Current liabilities	258	246

9.2.2 Transactions with joint ventures (Related parties)

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.

<i>(in millions of euros)</i>	2013	2012
Sales of goods and services	50	30
Purchases of goods and services	(59)	(29)
Interest and dividends received	19	17

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
Accounts and notes receivable	34	27
Accounts and notes payable	19	6
Net debt (cash)	(21)	(17)

Note 10 Income taxes

10.1 Income taxes

Income tax expense includes current income taxes and deferred taxes of consolidated companies.

Taxes relating to items recognized directly in other comprehensive income are also recognized in other comprehensive income and not in income.

10.1.1 Breakdown of income tax expense

<i>(in millions of euros)</i>	2013	2012
Current taxes	(169)	(132)
Deferred taxes	50	(14)
Income taxes	(119)	(146)

The Group recognized income tax expense of 119 million euros in 2013, corresponding to an effective tax rate of 20.5%. This includes a positive impact of 9 points relating to the partial recognition of deferred tax assets arising on the tax consolidation group in the United States.

No deferred tax assets had been recognized in the past few years in respect of the Group's tax consolidation group in the United States. The tax situation of this scope improved significantly in 2013 and the five-year fiscal outlook is brighter. A deferred tax asset of 70 million US dollars (53 million euros) was therefore recognized on this tax consolidation in 2013 in respect of previously unrecognized tax loss carryforwards.

10.1.2 Tax proof

(in millions of euros)	2013	2012
Net income before income taxes excluding share in net earnings of associates⁽¹⁾	581	530
Standard tax rate in France ⁽²⁾	(34.4%)	(34.4%)
Theoretical income tax expense⁽¹⁾	(200)	(182)
Impact of:		
• unrecognized deferred tax assets and unused tax losses (current year) ⁽¹⁾	(26)	(50)
• recognition of previously unrecognized deferred tax assets	61	5
• other tax rates	45	49
• utilization of prior-year tax losses	4	-
• permanent differences between accounting income and taxable income	9	29
• tax credits	2	18
• <i>Cotisation sur la Valeur Ajoutée des Entreprises</i> (CVAE)	(14)	(15)
Group income tax expense	(119)	(146)

(1) The amounts shown for 2012 differ from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes in the expected return on plan assets resulting from the retrospective application of the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1, page 224).

(2) The temporary additional 10.7% levy applied in France 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.

In 2013, the unrecognized deferred tax assets and tax losses for the period not utilized by the Group's main countries relate essentially to France for 20 million euros (24 million euros in 2012). As indicated above, deferred tax assets totaling

53 million euros were recognized in the US in 2013, whereas 18 million euros of deferred tax assets were not recognized in 2012, since the probability of recovery was deemed too low.

The positive 45 million euro impact relating to different tax rates than the standard tax rate is broken down by major country in the table below:

Country	Tax rate	2013	2012
China	25.0%	12	11
Poland	19.0%	12	12
South Korea	24.2%	9	8
Thailand	20.0%	7	6
Czech Republic	19.0%	4	9
Other	-	1	3
TOTAL		45	49

In France, an expense of 3 million euros was recognized in "Income tax expense" corresponding to the additional 3% tax on dividend payouts in France.

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 2013 therefore includes a net expense of 14 million euros in respect of CVAE (15 million euros in 2012).

10.2 Deferred taxes

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.

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).

Deferred taxes broken down by temporary differences are shown below:

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
Loss carryforwards	1,046	1,052
Capitalized development expenditure	(154)	(122)
Pensions and other employee benefits	180	246
Other provisions	62	87
Inventories	40	23
Provisions for restructuring costs	10	13
Tooling	4	1
Non-current assets	41	3
Other	107	108
Total deferred taxes, gross	1,336	1,411
Unrecognized deferred tax assets	(1,116)	(1,217)
Total deferred taxes	220	194
<i>o/w:</i>		
• Deferred tax assets	246	220
• Deferred tax liabilities	(26)	(26)

No net deferred tax assets were recognized on tax loss carryforwards or temporary differences arising on the tax consolidation group in France, corresponding to an amount of 539 million euros at December 31, 2013. A portion of

deferred tax assets (53 million euros) was recognized in connection with the US tax consolidation group in 2013, due to an improved economic outlook. Residual unrecognized net deferred tax assets total 383 million euros.

At December 31, 2013, 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 2014 through 2018	74	18
Tax losses available for carryforward in 2019 and thereafter	1,126	428
Tax losses available for carryforward indefinitely	1,531	514
Current tax loss carryforwards	2,731	960
Unrecognized deferred tax assets on temporary differences		156
TOTAL		1,116

Note 11 Stockholders' equity and earnings per share

11.1 Stockholders' equity

11.1.1 Share capital

At December 31, 2013, Valeo's share capital totaled 238 million euros, divided into 79,462,540 shares of common stock (of which 1,819,722 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 (3,111,546 shares at December 31, 2013).

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 agreement. 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, 2013, 3,500 shares and 19,535,815 euros had been allocated to this liquidity agreement compared with 60,000 shares and 15,312,092 euros at December 31, 2012. On the date the liquidity agreement was signed, 220,000 Valeo shares and 6,600,000 euros were allocated for its implementation.

11.1.2 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.

11.1.3 Translation adjustment

Movements in the translation adjustment (attributable to the Group) in the year resulted in an unrealized loss of 165 million euros (unrealized loss of 47 million euros at December 31, 2012), mainly reflecting the fall in value of the yen (95 million euros) and to a lesser extent, the Brazilian real and Turkish lira (35 million euros and 19 million euros, respectively) in 2013.

11.1.4 Retained earnings

Retained earnings include attributable income for the year of 439 million euros prior to appropriation.

11.1.5 Dividends per share

The balance of the parent company's distributable retained earnings (prior to appropriation of 2013 net income) is 1,826 million euros in 2013 (1,714 million euros in 2012).

A dividend of 1.50 euros per share was paid in 2013, representing a total payout of 115 million euros. The dividend paid in 2012 was 1.40 euros per share, representing a total payout of 106 million euros.

11.1.6 Treasury stock

At December 31, 2013, Valeo owns 1,819,722 of its own shares, representing 2.3% of share capital (December 31, 2012: 3,358,873 shares, representing 4.2% of share capital).

11.1.7 Non-controlling interests

Changes in non-controlling interests can be analyzed as follows:

<i>(in millions of euros)</i>	2013	2012
Non-controlling interests at January 1	143	144
Equity in net earnings	30	25
Dividends paid	(14)	(18)
Capital increase	-	1
Translation adjustment	(7)	2
Actuarial gains (losses) on defined benefit plans	-	(1)
Changes in scope of consolidation	1	(10)
Non-controlling interests at December 31	153	143

Changes in the scope of consolidation in 2012 were mainly due to the acquisition of shares in Valeo Automotive Air Conditioning Hubei Co. Ltd (see Note 2.2.2.3, page 232) for 21 million euros, partially offset by the strengthening of

the alliance with Ichikoh in the lighting business in China (see Note 2.2.2.1, page 231), representing an amount of 12 million euros.

11.2 Earnings per share

11.2.1 Basic 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.

	2013	2012
Net income attributable to owners of the Company <i>(in millions of euros)</i>	439	371
Weighted average number of ordinary shares outstanding <i>(in thousands of shares)</i>	76,873	75,540
Basic earnings per share <i>(in euros)</i>	5.71	4.91

11.2.2 Diluted earnings per share

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.

	2013	2012
Net income attributable to owners of the Company <i>(in millions of euros)</i>	439	371
Weighted average number of shares outstanding <i>(in thousands of shares)</i>	76,873	75,540
Stock options <i>(in thousands of options)</i>	-	34
Weighted average number of shares used for the calculation of diluted earnings per share <i>(in thousands of shares)</i>	76,873	75,574
Diluted earnings per share <i>(in euros)</i>	5.71	4.91

Note 12 Breakdown of cash flows

12.1 Expenses (income) with no cash effect

<i>(in millions of euros)</i>	2013	2012
Depreciation, amortization and impairment of non-current assets	561	544
Net additions to (reversals from) provisions	(42)	(38)
Losses (gains) on sales of non-current assets	13	8
Expenses related to share-based payment	9	9
Losses (gains) on remeasurement of previously-held interest	-	(30)
Impairment of assets and liabilities held for sale	28	46
TOTAL	569	539

In 2013, impairment losses taken against assets and liabilities held for sale mainly relate to the 28 million euro impairment loss recognized on the Access Mechanisms business (44 million euros in 2012, see Note 2.2.1.1, page 229).

12.2 Changes in working capital

Changes in the main components of working capital between 2013 and 2012 are shown in the table below:

<i>(in millions of euros)</i>	2013	2012
Inventories	(108)	(66)
Accounts and notes receivable	(85)	101
Accounts and notes payable	337	(18)
Other receivables and payables	88	(66)
TOTAL	232	(49)

Accounts and notes receivable falling due after December 31, 2013 for which substantially all risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position are detailed in Note 4.2, page 236.

At December 31, 2012, other receivables included 152 million euros relating to research tax credits in France for 2010, 2011 and 2012. At December 31, 2013, only the 52 million euro research tax credit receivable in France for 2013 is shown in this caption, since the research tax credit receivables relating to the previous years were transferred on June 28, 2013 (the 2010 research tax credit receivable) and December 4, 2013 (the 2011 and 2012 research tax credit receivable). The cost of these transfers for the Group, recognized in cost of net debt for 2013, was slightly less than 4 million euros.

12.3 Acquisitions and sales of equity interests with gain or loss of control

The main transaction affecting the scope of consolidation in 2013 was the sale of the Access Mechanisms business (see Note 2.2.1.1, page 229), generating a net inflow of 170 million euros.

Changes in the scope of consolidation had a negative impact of 19 million euros in 2012, of which 10 million euros related to the strengthening of the alliance between Valeo and Ichikoh in the Lighting business in China (see Note 2.2.2.1, page 231).

12.4 Issuance and repayment of long-term debt

In 2013, repayments of long-term debt chiefly relate to the redemption of the 311 million euro bond issue on June 24, 2013 and the partial repayment of the EIB loans in an amount of 56 million euros on August 5, 2013 (see Note 8.1.2.1, page 263).

In 2012, issuance of long-term debt mainly related to the new 500 million euro 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.

12.5 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 2.2.2.3, page 232) resulted in a cash outflow of 52 million euros in 2012. The creation of Detroit Thermal Systems (see Note 2.2.2.2, page 231) reduced cash by 4 million euros in the same period.

Note 13 Subsequent events

To Valeo's knowledge, no events have occurred since December 31, 2013 that could have a material impact on the Group's business, financial position or assets and liabilities, with the exception of those discussed in Notes 2.2.3 and 8.4, pages 232 and 277.

Note 14 List of consolidated companies

Company	December 31, 2013		December 31, 2012	
	% voting rights	% interest	% voting rights	% interest
EUROPE				
France				
Valeo (parent company)				
DAV	100	100	100	100
Equipement 1	100	100	100	100
Equipement 11	100	100	100	100
Equipement 2	100	100	100	100
Niles Europe ⁽⁴⁾	-	-	100	100
SC2N	100	100	100	100
Société de Participations Valeo	100	100	100	100
Valeo Bayen	100	100	100	100
Valeo Embrayages	100	100	100	100
Valeo Equipements Electriques Moteur	100	100	100	100
Valeo Études Électroniques	100	100	100	100
Valeo Finance	100	100	100	100
Valeo Compresseurs	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	100	100
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

(1) Companies accounted for by the equity method.

(2) Companies consolidated on a proportionate basis.

(3) See Note 2.2.2.1, page 231.

(4) Mergers and liquidations.

(5) See Note 2.2.1.1, page 229.

(6) See Note 2.2.1.2, page 230.

Company	December 31, 2013		December 31, 2012	
	% voting rights	% interest	% voting rights	% interest
Italy				
Valeo Service Italia, SpA	99.9	99.9	99.9	99.9
Valeo, SpA	100	100	100	100
CAM Italy SpA ⁽⁵⁾	-	-	100	100
Germany				
Valeo Auto-Electric GmbH	100	100	100	100
Valeo GmbH ⁽⁴⁾	-	-	100	100
Valeo Grundvermögen Verwaltung GmbH ⁽⁴⁾	-	-	100	100
Valeo GmbH (formerly Valeo Holding Deutschland GmbH)	100	100	100	100
Valeo Klimasysteme GmbH	100	100	100	100
Valeo Klimasysteme Verwaltung SAS & Co. KG ⁽⁴⁾	-	-	100	100
Valeo Schalter und Sensoren GmbH	100	100	100	100
Valeo Service Deutschland GmbH	100	100	100	100
Valeo Sicherheitssysteme GmbH ⁽⁵⁾	-	-	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⁾	85.0	89.7	85.0	89.7
Belgium				
Valeo Service Belgique	100	100	100	100
Valeo Vision Belgique	100	100	100	100
Luxembourg				
Coreval	100	100	100	100
Norway				
Valeo Powertrain Energy Conversion AS ⁽⁶⁾	100	100	-	-
Netherlands				
Valeo Holding Netherlands BV	100	100	100	100
Valeo International Holding BV	100	100	100	100
CAM Holding Europe BV ⁽⁵⁾	-	-	100	100
Valeo Service Benelux BV	100	100	100	100
Czech Republic				
Valeo Autoklimatizace ks	100	100	100	100
Valeo Compressor Europe Sro.	100	100	100	100
Valeo Vymeniky Tepla ks	100	100	100	100

(1) Companies accounted for by the equity method.

(2) Companies consolidated on a proportionate basis.

(3) See Note 2.2.2.1, page 231.

(4) Mergers and liquidations.

(5) See Note 2.2.1.1, page 229.

(6) See Note 2.2.1.2, page 230.

Company	December 31, 2013		December 31, 2012	
	% voting rights	% interest	% voting rights	% interest
Slovakia				
Valeo Slovakia S.r.o. ⁽⁵⁾	-	-	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
Romania				
Valeo Lighting Injection SA	100	100	100	100
Valeo Sisteme Termice SRL	100	100	100	100
Russia				
Valeo Climate Control Tomilino LLC	100	100	100	100
Valeo Service Limited Liability Company	100	100	100	100
Turkey				
Valeo Otomotiv Dagitim AS ⁽⁴⁾	-	-	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 S.A.	100	100	100	100
Morocco				
Cablinal Maroc, SA	100	100	100	100
Valeo Vision Maroc	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 North America, Inc. (formerly Valeo Electrical Systems, Inc.)	100	100	100	100
Valeo Engine Cooling, Inc. ⁽⁴⁾	-	-	100	100
Valeo Front End Module, Inc. ⁽⁴⁾	-	-	100	100
Valeo Investment Holdings, Inc.	100	100	100	100
Valeo Radar Systems, Inc.	100	100	100	100
Valeo Switches and Detection Systems, Inc. ⁽⁴⁾	-	-	100	100
Valeo Sylvania, LLC ⁽²⁾	50	50	50	50
Valeo Inc. ⁽⁴⁾	-	-	100	100
Detroit Thermal Systems LLC ⁽¹⁾	49	49	49	49
Detroit Thermal Systems Leverage Lender LLC ⁽¹⁾	49	49	-	-

(1) Companies accounted for by the equity method.

(2) Companies consolidated on a proportionate basis.

(3) See Note 2.2.2.1, page 231.

(4) Mergers and liquidations.

(5) See Note 2.2.1.1, page 229.

(6) See Note 2.2.1.2, page 230.

Company	December 31, 2013		December 31, 2012	
	% voting rights	% interest	% voting rights	% interest
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
Valeo Sistemas Electricos Servicios, S de RL de CV	100	100	100	100
Valeo Sistemas Electricos, SA de CV	100	100	100	100
Valeo Sistemas Electronicos, S de RL de CV	100	100	100	100
Valeo Sylvania Iluminacion, S de RL de CV ⁽²⁾	50	50	50	50
Valeo Sylvania Services, S de RL de CV ⁽²⁾	50	50	50	50
Valeo Termico Servicios, S de RL de CV	100	100	100	100
Valeo Transmisiones Servicios de Mexico S de RL de CV	100	100	100	100
SOUTH AMERICA				
Brazil				
Valeo Sistemas Automotivos Ltda	100	100	100	100
Argentina				
Cibie Argentina, SA	100	100	100	100
Emelar Sociedad Anonima	100	100	100	100
Valeo Embragues Argentina, SA	100	100	100	100
Valeo Termico Argentina, SA	100	100	100	100
ASIA				
Thailand				
Valeo Compressor (Thailand) Co. Ltd	100	98.5	100	98.5
Valeo Compressor Clutch (Thailand) Co. Ltd	100	99.4	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
Valeo Niles (Thailand) Co. Ltd	100	100	100	100
South Korea				
Valeo Automotive Korea	100	100	100	100
Valeo Compressor Korea Co. Ltd ⁽⁴⁾	-	-	100	100
Valeo Electrical Systems Korea, Ltd	100	100	100	100
Valeo Pyeong HWA Co. 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 Metals Co. Ltd ⁽¹⁾	49	49	49	49
Indonesia				
PT Valeo AC Indonesia	100	100	100	100
Taiwan				
Niles CTE Electronic Co. Ltd	51	51	51	51
Japan				
Ichikoh Industries Ltd ⁽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 ⁽⁴⁾	-	-	100	100

(1) Companies accounted for by the equity method.

(2) Companies consolidated on a proportionate basis.

(3) See Note 2.2.2.1, page 231.

(4) Mergers and liquidations.

(5) See Note 2.2.1.1, page 229.

(6) See Note 2.2.1.2, page 230.

Company	December 31, 2013		December 31, 2012	
	% voting rights	% interest	% voting rights	% interest
Japan				
Jonan Industrial Co. Ltd ⁽⁴⁾	-	-	100	100
Akita Niles Co. Ltd ⁽⁴⁾	-	-	100	100
Nitto Manufacturing Co. Ltd	87.2	87.2	87.2	87.2
Niles Personnel Service Co. Ltd ⁽⁴⁾	-	-	100	100
AMI CO. Ltd ⁽⁴⁾	-	-	100	100
China				
Faw-Valeo Climate Control Systems Co. Ltd ⁽¹⁾	36.5	36.5	36.5	36.5
Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd ⁽³⁾	85	89.7	85	89.7
Guangzhou Valeo Engine Cooling Co. Ltd	100	100	100	100
Huada Automotive Air Conditioner Co. Ltd ⁽²⁾	45	45	45	45
Hubei Valeo Autolighting Co. Ltd ⁽³⁾	85	89.7	85	89.7
Nanjing Valeo Clutch Co. Ltd ⁽²⁾	75	55	75	55
Shanghai Valeo Automotive Electrical Systems Co. Ltd ⁽²⁾	50	50	50	50
Shenyang Valeo Pyeong-Hwa Transmission Systems Co. Ltd	100	50	-	-
Tianjin Valeo Xinyue Auto Parts Co. Ltd	60	60	-	-
Taizhou Valeo-Wenling Automotive Systems Co. Ltd	100	100	100	100
Valeo Auto Parts Trading (Shanghai) Co. Ltd	100	100	100	100
Valeo Automotive Air Conditioning Hubei Co. Ltd	100	100	100	100
Valeo Automotive Security Systems (Wuxi) Co. Ltd ⁽⁵⁾	-	-	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	85	89.7
Valeo Management (Beijing) Co. Ltd	100	100	100	100
Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd	55	55	55	55
Valeo Management (Shanghai) Co. Ltd	100	100	100	100
Fuzhou Niles Electronic Co. Ltd	51	51	51	51
Guangzhou Niles Electronics 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	85	89.7
Wuhu Valeo Automotive Lighting Systems ⁽³⁾	80	71.8	80	71.8
India				
Amalgamations Valeo Clutch Private Ltd ⁽²⁾	50	50	50	50
Minda Valeo Security Systems Private Ltd ⁽²⁾	50	50	50	50
Valeo India Private Ltd	100	100	100	100
Valeo Friction Materials India Ltd	60	60	60	60
Valeo Lighting Systems (India) Private Ltd	100	100	100	100
Valeo Service India Auto Parts Private Ltd	60	60	60	60

(1) Companies accounted for by the equity method.

(2) Companies consolidated on a proportionate basis.

(3) See Note 2.2.2.1, page 231.

(4) Mergers and liquidations.

(5) See Note 2.2.1.1, page 229.

(6) See Note 2.2.1.2, page 230.

5.4.7 Statutory Auditors' report on the consolidated financial statements

Year ended December 31, 2013

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.

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, 2013, 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, 2013 and of the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to Note 1.1.1 to the consolidated financial statements, which describes the new standards, amendments and interpretations which have been applied by your company as from January 1, 2013.

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 matters:

- Note 5.3 to the consolidated financial statements specifies the methods of valuing provisions for pensions and other employee benefits. Our work consisted in reviewing the actuarial data and assumptions used as well as the calculations made and verifying that the notes to the consolidated financial statements provide appropriate information;
- Note 6.4 to the consolidated financial statements sets out the methods implemented by your company to test goodwill, to assess whether there is any indication of impairment of the fixed assets and, where applicable, to 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;
- Note 7.1 to the consolidated financial statements describes the methods of 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;
- Note 10.2 to the consolidated financial statements specifies the methods of recognizing and valuing deferred tax assets. Our work consisted in assessing the hypotheses underlying the probability of future recovery of such assets and verifying that the notes to the consolidated financial statements provide appropriate information.

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 20, 2014
The Statutory Auditors (*French original signed by*)

MAZARS

David Chaudat

Lionel Gotlib

ERNST & YOUNG et Autres

Jean-François Ginies

Gilles Puissochet

5.4.8 Cross-reference table for the notes to the 2013/2012 financial statements

	2013	2012
Accounting policies	Note 1	Note 1
Accounting standards applied	1.1	1.1
Basis of preparation	1.2	1.2
Restatement of prior-year financial information	1.3	1.21
Scope of consolidation	Note 2	Notes 1/2/6
Accounting policies relating to the scope of consolidation	2.1	Note 1
Consolidation methods	2.1.1	1.3
Foreign currency translation	2.1.2	1.4
Business combinations	2.1.3	1.10
Transactions involving non-controlling interests	2.1.4	1.10
Assets and liabilities held for sale and discontinued operations	2.1.5	1.20
Changes in the scope of consolidation	2.2	Note 2
Transactions carried out in 2013	2.2.1	5.8
Transactions carried out in 2012	2.2.2	2.1
Subsequent events	2.2.3	6.8
Off-balance sheet commitments relating to the scope of consolidation	2.3	6.3.1
Segment reporting	Note 3	Note 3
Key segment performance indicators	3.1	3.1
Reconciliation with Group data	3.2	3.2
Reporting by geographic area	3.3	3.3
Breakdown of sales by major customer	3.4	3.4
Operating data	Note 4	Notes 1/4/5
Sales	4.1	1.5/4.1
Accounts and notes receivable	4.2	1.14.4/5.7
Gross margin and cost of sales	4.3	1.6/4.2
Inventories	4.4	1.15/5.6
Operating margin and Research and Development expenditure	4.5	1.6/1.11.1/4.3/5.2
Operating income and other income and expenses	4.6	1.6/4.5
Personnel expenses and employee benefits	Note 5	Notes 1/4/5/6
Headcount	5.1	4.4
Employee benefits	5.2	1.17/4.4
Provisions for pensions and other employee benefits	5.3	1.17.2/5.10
Share-based payment	5.4	1.16/5.9.1
Executive compensation (Related party transactions)	5.5	6.6.1
French statutory training entitlement (Off-balance sheet commitments)	5.6	6.5

	2013	2012
Intangible assets and property, plant and equipment	Note 6	Notes 1/4/5/6
Goodwill	6.1	1.10/5.1
Other intangible assets	6.2	1.11/5.2
Property, plant and equipment	6.3	1.12/5.3
Impairment losses on non-current assets	6.4	1.13/4.5.2
Off-balance sheet commitments relating to non-current assets and leases	6.5	6.3.3
Other provisions and contingent liabilities	Note 7	Notes 1/5/6
Other provisions	7.1	1.18/5.11
Contingent liabilities	7.2	1.18/6.4
Financing and financial instruments	Note 8	Notes 1/4/5/6
Financial assets and liabilities	8.1	1.14/6.1/5.12
Fair value of financial assets and liabilities	8.1.1	6.1.1
Gross debt	8.1.2	1.14/5.12
Net debt	8.1.3	1.14/5.12
Derivative financial instruments	8.1.4	1.14/6.1.2
Other financial assets and liabilities	8.1.5	1.14
Financial income and expenses	8.2	1.7/4.6/4.7
Cost of net debt	8.2.1	1.7/4.6
Other financial income and expenses	8.2.2	1.7/4.7
Risk management policy	8.3	6.2
Subsequent events	8.4	6.8
Off-balance sheet commitments relating to Group financing	8.5	6.3.2
Associates and joint ventures	Note 9	Notes 4/5/6
Investments in associates	9.1	4.8/5.4/6.6.2
Share in net earnings of associates	9.1.1	4.8
Investments in associates	9.1.2	5.4
Transactions with associates (related parties)	9.1.3	6.6.2
Joint ventures	9.2	6.6.3/6.7
Information on joint ventures	9.2.1	6.7
Transactions with joint ventures (related parties)	9.2.2	6.6.3
Income taxes	Note 10	Notes 1/4/5
Income taxes	10.1	1.8/4.9
Deferred taxes	10.2	1.8/5.5
Stockholders' equity and earnings per share	Note 11	Notes 1/4/5
Stockholders' equity	11.1	5.9
Earnings per share	11.2	1.9/4.10
Breakdown of cash flows	Note 12	5.13
Subsequent events	Note 13	6.8
List of consolidated companies	Note 14	Note 7

5.5 Analysis of Valeo's results AFR

Following the creation of subsidiaries for its industrial activities in 2002, Valeo is now solely the Group's holding and cash management company.

Valeo reported a net operating loss of 18 million euros in 2013, compared with a net operating loss of 1 million euros in 2012. The rise in the operating loss in 2013 chiefly results from net expenses on stock option and free share plans, which totaled 22 million euros in the year versus 8 million euros in 2012. This was mainly due to strong gains in the Valeo share price in 2013 (up by 114%), which meant that the accrual for shares to be delivered to beneficiaries under share plans in the future had to be increased.

Net financial income came in at 159 million euros for 2013, down 13 million euros on 2012 (172 million euros). The figure for 2013 includes net reversals of impairment and provisions for investments in subsidiaries and affiliates in an amount of 30 million euros (108 million euros in 2012). Net interest income totaled 47 million euros in 2013 and 53 million euros in 2012. Dividends were up sharply in the year at 75 million euros, from 5 million euros in 2012, and include 70 million euros in dividends from Valeo International Holding BV.

The Company reported non-recurring income of 16 million euros in the year, compared to income of 21 million euros in 2012. Non-recurring items in both years reflect insurance indemnities collected and a fall in the number of disputes with former employees.

Income tax in 2013 represents a net benefit of 23 million euros (13 million euros in 2012). Valeo also reported net income in respect of tax consolidation amounting to 26 million euros in 2013 versus 14 million euros in 2012. In September 2013,

Valeo paid 3 million euros in respect of the additional tax on the 2013 dividend payouts in France.

Net income came in at 180 million euros for 2013 compared to 205 million euros in 2012.

Valeo recognized no sumptuary expenses that were not deductible for tax purposes in 2013.

No overheads were added back to income for tax purposes in 2013.

At December 31, 2013, Valeo's stockholders' equity stood at 3,577 million euros, up 65 million euros on December 31, 2012. The rise in equity reflects net income for 2013 less the 115 million euros dividend paid by Valeo in 2013 in respect of its 2012 earnings.

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, 2013, trade payables less accrued payables totaled 0.5 million euros, including 0.2 million euros payable by end-December 2013 and 0.3 million euros payable in January 2014. At December 31, 2012, trade payables totaled 1 million euros, including 0.5 million euros payable by end-December 2012, 0.4 million euros payable in January 2013 and 0.1 million euros payable thereafter.

5.6 2013 parent company financial statements 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, 2012, set out on pages 272 to 290 and 291 of the Registration Document registered with the French financial markets authority (*Autorité des marchés financiers* - AMF) on March 28, 2013 under number D.13-0246;
- 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 AMF on March 29, 2012 under number D.12-0237.

5.6.1 Income statement

(in millions of euros)	Notes	2013	2012
Provision reversals and expense transfers	2	-	10
Other operating income	3	33	35
TOTAL OPERATING INCOME		33	45
Other purchases and external charges		(22)	(26)
Taxes other than on income		(2)	(1)
Wages and salaries	4	(2)	(10)
Social security charges		(1)	(1)
Depreciation, amortization and provisions		(24)	(8)
Total operating expenses		(51)	(46)
OPERATING LOSS		(18)	(1)
Net financial income	5	159	172
INCOME BEFORE TAX AND NON-RECURRING ITEMS		141	171
Non-recurring income	6	16	21
Income tax	7	23	13
NET INCOME FOR THE YEAR		180	205

The Notes are an integral part of these financial statements.

5.6.2 Balance sheet

		December 31, 2013			December 31, 2012
(in millions of euros)	Notes	Gross	Depr., amort., & impairment losses	Net	Net
ASSETS					
Property, plant and equipment		5	(4)	1	1
Long-term financial assets	8	4,499	(694)	3,805	3,656
TOTAL NON-CURRENT ASSETS		4,504	(698)	3,806	3,657
Operating receivables	9	86	-	86	166
Other receivables		-	-	-	1
Financial receivables	12.4	1,887	-	1,887	1,979
Cash and cash equivalents	12.5	977	-	977	883
Prepaid expenses		8	-	8	12
TOTAL CURRENT ASSETS		2,958	-	2,958	3,041
TOTAL ASSETS		7,462	(698)	6,764	6,698

(in millions of euros)	Notes	December 31, 2013	December 31, 2012
EQUITY AND LIABILITIES			
Share capital		238	238
Additional paid-in capital		1,434	1,434
Legal reserve		25	25
Untaxed reserves		4	4
Other reserves		263	263
Retained earnings		1,433	1,343
Net income for the year		180	205
STOCKHOLDERS' EQUITY	10	3,577	3,512
Provisions for contingencies and charges	11	103	68
Long-term debt – long-term portion	12.2	1,437	1,497
Current portion of long-term debt	12.2	101	419
Short-term debt	12.3	1,354	1,053
Operating payables	13	4	7
Other payables	13	180	132
Deferred income	13	8	10
TOTAL LIABILITIES		3,084	3,118
TOTAL EQUITY AND LIABILITIES		6,764	6,698

The Notes are an integral part of these financial statements.

5.6.3 Statement of cash flows

<i>(in millions of euros)</i>	<i>Notes</i>	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		180	205
Expenses (income) with no cash effect			
• (gains) losses on sales of non-current assets		-	-
• depreciation and amortization/deferred charges		3	4
• net additions to/(reversals from) provisions		(15)	(119)
GROSS OPERATING CASH FLOWS		168	90
Changes in working capital			
• operating receivables		81	(26)
• operating payables		(3)	(34)
• other receivables and payables		32	25
NET CASH FROM OPERATING ACTIVITIES		278	55
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of long-term financial assets	8.1	(4)	(1)
Loans and advances to subsidiaries and affiliates	8.1	(91)	(21)
Disposals of long-term financial assets		-	-
NET CASH USED IN INVESTING ACTIVITIES		(95)	(22)
Net cash generated before financing activities		183	33
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	10.1	(115)	(106)
Change in share capital:			
• issuance of shares paid up in cash	10.1	-	5
• capital reduction carried out in cash		-	-
Change in long-term debt:			
• issuance of long-term debt	12.2	-	500
• repayment of long-term debt	12.2	(367)	(314)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		(482)	85
NET CHANGE IN CASH AND CASH EQUIVALENTS		(299)	118
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12.1	1,809	1,691
CASH AND CASH EQUIVALENTS AT END OF YEAR	12.1	1,510	1,809

The Notes are an integral part of these financial statements.

5.6.4 Notes to the parent company financial statements

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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 2013 financial statements are consistent with those used to prepare the financial statements for the year ended December 31, 2012.

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 2014-2018 are based on an average estimated rise of 3.5% in global automotive production per annum. At the end of the period covered by the business plan, Asia and the Middle East should represent 52% of global automotive production, Europe and Africa 25%, North America 18% and South America 5%.

The estimates and assumptions used are revised on an ongoing basis. In view of the uncertainties inherent in any assessment, the final amounts reported in 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 stockholders' equity, 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 plans.

Note 2 Provision reversals and expense transfers

<i>(in millions of euros)</i>	2013	2012
Provision reversals	-	6
Expense transfers	-	4
Provision reversals and expense transfers	-	10

The 6 million euro reversal from provisions in 2012 related to the delivery of shares to French beneficiaries under the June 24, 2010 free share plan.

Expense transfers in 2012 related to issuance costs for new borrowings which are recognized over the maturity of the debt.

Note 3 Other operating income

<i>(in millions of euros)</i>	2013	2012
Trademark license fees	26	27
Other	7	8
Other operating income	33	35

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 26 million euros in the year, broadly similar to 2012 (27 million euros).

The amount recorded under "Other" corresponds to rebillings or accrued rebillings to subsidiaries.

Note 4 Wages and salaries

<i>(in millions of euros)</i>	2013	2012
Employee compensation	(2)	(2)
Other personnel expenses	-	(8)
Wages and salaries	(2)	(10)

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 300). No share plans vested in 2013.

Note 5 Net financial income

<i>(in millions of euros)</i>	2013	2012
Dividends	75	5
Interest income	151	158
Interest expense	(104)	(105)
Net additions to/reversals from provisions for impairment and for investments in subsidiaries and affiliates	30	108
Net additions to/reversals from provisions for impairment of treasury shares	-	5
Other	7	1
Net financial income	159	172

Dividend income in 2013 chiefly relates to the 70 million euros dividend from Group subsidiary Valeo International Holding BV.

In 2013, the measurement of the portfolio of investments in subsidiaries and affiliates led to net reversals of 30 million euros from impairment provisions and from provisions for contingencies relating to subsidiaries. These mainly concerned

Valeo International Holding BV, which was boosted by a significant improvement in earnings for its US subsidiaries, and Valeo Vision, which confirmed the recovery it began in 2012. Additions to provisions in 2013 mainly concerned subsidiaries Valeo Embrayages and Valeo Systèmes de Contrôle Moteur.

Note 6 Non-recurring income

Non-recurring income totaling 16 million euros in 2013 mainly reflects insurance indemnities collected in the year and a drop in the number of disputes with former employees.

In 2012, non-recurring income totaling 21 million euros also related mainly to insurance income.

Note 7 Income tax

7.1 Income tax

<i>(in millions of euros)</i>	2013	2012
Group relief, net	26	14
Additional tax on dividend payouts	(3)	-
Net additions to/reversals from provisions for tax risks	-	4
Tax dispute	-	(5)
Income tax	23	13

Group relief arising on tax consolidation for a net amount of 26 million euros in 2013 reflects the tax benefit received from subsidiaries, including a reversal of 3 million euros from the provision for repayment of tax losses to subsidiaries in the event of a return to profit. An expense of 3 million euros was recognized in respect of the additional tax on dividend payouts in France.

Group relief arising on tax consolidation for a net amount of 14 million euros in 2012 reflects the tax benefit received from subsidiaries in an amount of 7 million euros, 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.

The "Tax dispute" line representing an expense of 5 million euros in 2012 related to an amount paid in connection with a business sold in 2007. A 4 million euro provision that had been recognized to cover this risk was reversed in 2012 on settlement of the dispute.

7.2 Tax group and taxable income

Valeo has elected for tax consolidation. The tax group 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, 2013, the amount of tax savings arising from tax losses transferred to Valeo by

its subsidiaries and which are likely to be repaid came to 941 million euros (863 million euros at December 31, 2012). 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, 2013, this provision amounted to 4 million euros, compared with 7 million euros one year earlier (see Note 11.3, page 305).

7.3 Deferred tax position

	December 31, 2013		December 31, 2012	
	Tax basis	Corresponding tax	Tax basis	Corresponding tax
<i>(in millions of euros)</i>				
Timing differences between the recognition of income and expenses for accounting and tax purposes	64	22	71	24
Contribution premium	(50)	(17)	(50)	(17)
Provision for repayment of tax losses to subsidiaries in the event of a return to profit	(2,732)	(941)	(2,506)	(863)
Tax loss carryforwards	1,430	492	1,350	465
TOTAL	(1,288)	(444)	(1,135)	(391)

Note 8 Long-term financial assets

8.1 Movements

	Investments in subsidiaries and affiliates	Loans and advances to subsidiaries and affiliates	Other investment securities	Long-term financial assets
<i>(in millions of euros)</i>				
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
Acquisitions and increase in the share capital of subsidiaries	4	-	-	4
Disposals	-	-	-	-
Changes in impairment losses and other movements	54	91	-	145
NET CARRYING AMOUNT AT DECEMBER 31, 2013	1,813	1,990	2	3,805

The Group carried out a 4 million euro share capital increase in two of its subsidiaries in 2013.

No securities were purchased or sold in the year.

Changes in the securities portfolio led the Company to recognize net reversals from impairment provisions for investments in subsidiaries and affiliates totaling 54 million euros.

The 2 million euros invested in the Automotive Suppliers' Modernization Fund (*Fonds de Modernisation des Equipements Automobile – FMEA*) is shown in the "Other investment securities" column.

8.2 Analysis by type

(in millions of euros)	December 31, 2013			December 31, 2012
	Gross	Impairment	Net	Net
Investments in subsidiaries and affiliates	2,507	(694)	1,813	1,755
Loans and advances to subsidiaries and affiliates	1,990	-	1,990	1,899
Other investment securities	2	-	2	2
Long-term financial assets	4,499	(694)	3,805	3,656

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

(in millions of euros)	December 31, 2013	December 31, 2012
Prepaid and recoverable taxes	75	156
Other operating receivables	11	10
Operating receivables	86	166
<i>Of which due beyond 1 year</i>	<i>75</i>	<i>148</i>

At December 31, 2013, prepaid and recoverable taxes include the research tax credit for 2013 amounting to 52 million euros and the tax benefit of 23 million euros resulting from the 2013 tax consolidation (see Note 7.1, page 301).

During the year, Valeo transferred its research tax credit receivables for 2010, 2011 and 2012 to a bank without recourse for a total amount of 152 million euros.

Note 10 Stockholders' equity

10.1 Movements

(in millions of euros)	Share capital	Additional paid-in capital	Reserves and other	Stockholders' equity
STOCKHOLDERS' EQUITY 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
STOCKHOLDERS' EQUITY AT DECEMBER 31, 2012	238	1,434	1,840	3,512
Dividends paid	-	-	(115)	(115)
Capital increase	-	-	-	-
Net income for the year	-	-	180	180
STOCKHOLDERS' EQUITY AT DECEMBER 31, 2013	238	1,434	1,905	3,577

10.2 Share capital

At December 31, 2013, 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 (3,111,546 shares at December 31, 2013).

At December 31, 2013, there were no stock subscription options outstanding.

The terms and conditions of the shareholder-approved employee stock option and free share plans operated by the Valeo Group at December 31, 2013 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, 2013	Expiration date
2006	1,309,250	-	32.63	192,202	2014
2007	250,000	-	36.97	75,000	2015
2007	1,677,000	-	36.82	398,718	2015
2008	426,750	-	31.41	111,855	2016
2010	1,000,000	611,365	24.07	633,753	2018
2011	292,840	210,370	42.41	249,340	2019
2012	367,160	265,230	40.78	342,860	2020
TOTAL	5,323,000	1,086,965	-	2,003,728	-

(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 shares 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 issued at December 31, 2013	Year of vesting ⁽²⁾
2010	400,000	178,769	119,669	2012/2014
2011	326,860	126,480	283,058	2014/2016
2012	213,140	117,220	200,297	2015/2017
2013	473,814	223,314	460,388	2016/2018
TOTAL	1,413,814	645,783	1,063,412	

(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 1,826 million euros at December 31, 2013 (1,714 million euros at end-2012), before appropriation of income for the year and after deduction of the net value of treasury shares held at December 31, 2013 (50 million euros versus 97 million euros at end-2012).

Note 11 Provisions for contingencies and charges

11.1 Movements

<i>(in millions of euros)</i>	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, 2011	2	83	85	36
Utilizations	-	(11)	(11)	
Reversals	-	(20)	(20)	
Additions	-	14	14	
PROVISIONS AT DECEMBER 31, 2012	2	66	68	32
Utilizations	-	(3)	(3)	
Reversals	-	(13)	(13)	
Additions	-	51	51	
PROVISIONS AT DECEMBER 31, 2013	2	101	103	32

11.2 Provisions for pensions and other employee benefits

At December 31, 2013, the Company's obligation for pensions and other employee benefits solely corresponds to the requirement to pay supplementary pension benefits to former employees.

The projected benefit obligation includes supplementary pension benefits that have definitively vested for retired employees.

The amount of this obligation was calculated on an actuarial basis, using an annual discount rate of 3.30% at December 31, 2013 and 3.00% at December 31, 2012.

11.3 Other provisions for contingencies and charges

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
Unrealized foreign exchange losses	-	1
Repayment of tax losses to subsidiaries in the event of a return to profit (see Note 7.2, page 302)	4	7
Other contingencies relating to subsidiaries	25	1
Risks arising on stock purchase option and free share plans	31	9
Miscellaneous contingencies and disputes	41	48
Other provisions for contingencies and charges	101	66

Provisions for other contingencies relating to subsidiaries, representing 25 million euros at December 2013, are intended to cover the negative net equity of certain subsidiaries.

The provision for risks arising on stock purchase option and free share plans rose sharply in 2013 as a result of strong Valeo share price gains (up by 114%), which meant that the accrual for shares to be delivered in the future to beneficiaries under these plans had to be increased.

The 41 million euros recorded under provisions for miscellaneous contingencies and disputes includes 27 million euros set aside in respect of the reimbursement of 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 was set aside for the full amount received in April 2008.

Provisions for employee disputes corresponding in particular 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:

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
Long-term portion of long-term debt (Note 12.2, page 306)	1,437	1,497
Current portion of long-term debt (Note 12.2, page 306)	101	419
Total long-term debt	1,538	1,916
Short-term debt (Note 12.3, page 307)	1,354	1,053
Financial receivables (Note 12.4, page 307)	(1,887)	(1,979)
Cash and cash equivalents (Note 12.5, page 307)	(977)	(883)
Short-term cash position	(1,510)	(1,809)
Net debt	28	107

12.2 Analysis of long-term debt

<i>(in millions of euros)</i>	December 31, 2013				December 31, 2012
	Less than 1 year	1 to 5 years	More than 5 years	Total	Total
Bonds	-	1,000	-	1,000	1,311
Syndicated loans	-	250	-	250	250
European Investment Bank loans	56	187	-	243	303
Accrued interest	45	-	-	45	52
Total long-term debt	101	1,437	-	1,538	1,916

The decrease in long-term debt in 2013 chiefly reflects the redemption of the 311 million euro bond issue on June 24, 2013 and the repayment of the first installment on the European Investment Bank (EIB) loans in an amount of 56 million euros on August 5, 2013.

At December 31, 2013, long-term debt chiefly includes:

- 500 million euros in 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 in 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 in connection with the financing of Niles. This 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/yen cross currency swap for 237 million euros was set up on inception of the loan for the same maturity. The Group unwound part of the cross currency swap in an amount of 35 million euros on December 5, 2013;
- a first 225 million euro loan (on which an amount of 169 million euros was outstanding at December 31, 2013 following repayment of the first installment) taken out with the EIB on August 5, 2009 for a seven-year term, repayable in four equal annual installments as from 2013. 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 CO₂ 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 74 million euros.

12.3 Analysis of short-term debt

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
Borrowings from subsidiaries	1,243	1,019
Commercial paper	109	30
Bank overdrafts	2	4
Short-term debt	1,354	1,053

12.4 Analysis of financial receivables

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
Loans to subsidiaries	1,749	1,968
Other financial receivables	138	11
Financial receivables	1,887	1,979

Financial receivables consist primarily of loans granted to subsidiaries.

Other financial receivables include a dividend receivable from Valeo International Holding BV (70 million euros)

and the fair value of financial instruments hedging foreign currency loans granted to subsidiaries (67 million euros versus 11 million euros at December 31, 2012).

12.5 Cash and cash equivalents

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
Marketable securities	854	864
Cash	123	19
Cash and cash equivalents	977	883

At December 31, 2013, 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 1,819,722 treasury shares with a net carrying amount of 50 million euros. In 2013, the Company purchased 1,074,235 of its own shares and sold 2,613,386 such shares. At December 31, 2012, the Company held 3,358,873 of its own shares with a net carrying amount of 97 million euros.

12.6 Credit lines

At December 31, 2013, the Company had several confirmed bank credit lines with an average maturity of 2.7 years, representing an aggregate amount of 1.1 billion euros. None of these credit lines had been drawn down during 2013.

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 billion euros had been drawn down at December 31, 2013.

In order to extend the average maturity of its debt and take advantage of record low market interest rates, on January 15, 2014 Valeo issued a 700 million euro bond under its Euro Medium Term Note program. This bond is redeemable in January 2024 and pays a coupon of 3.25% (see Note 19, page 313).

On April 26, 2013, Standard & Poor's Rating Services confirmed its "BBB/A-2" long-term and short-term corporate credit ratings for Valeo with a stable outlook.

On January 2, 2014, 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.

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. In this case, EBITDA is defined as 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, 2013, the ratio calculated over 12 months was 0.27. The syndicated loan and the EIB loans are also subject to this net debt to EBITDA covenant.

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).

The Company's bank credit lines and long-term debt include "cross-default" clauses. This means that if a given amount of debt is likely to be called for early repayment, other debt amounts may 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.

Note 13 Operating and other payables

<i>(in millions of euros)</i>	December 31, 2013	December 31, 2012
Trade payables	1	5
Accrued taxes and payroll costs	3	2
Operating payables	4	7
Other payables	180	132
Deferred income	8	10
<i>Of which due beyond one year</i>	<i>153</i>	<i>128</i>

"Other payables" primarily include 178 million euros in research tax credits for 2010 (25 million euros), 2011 (48 million euros), 2012 (53 million euros) and 2013 (52 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 2013 and 2012:

<i>(in millions of euros)</i>	2013	2012
Income statement		
Net financial income	204	145
Balance sheet		
Loans and advances to subsidiaries and affiliates	1,990	1,899
Financial receivables	1,749	1,968
Operating and other receivables	33	15
Debt	1,243	1,019
Operating and other payables	178	128
Off-balance sheet commitments at December 31		
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 12 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, 2013, Valeo's net position in the main foreign currencies was as follows:

(in millions of euros)	December 31, 2013					December 31, 2012
	USD	GBP	JPY	Other	Total	Total
Forward sales with subsidiaries	(210)	(1)	(47)	(36)	(294)	(185)
Forward purchases with subsidiaries	86	6	5	2	99	97
Net position with subsidiaries	(124)	5	(42)	(34)	(195)	(88)
Forward sales with external counterparties	(1,284)	(28)	(224)	(16)	(1,552)	(925)
Forward purchases with external counterparties	1,016	8	107	37	1,168	346
Net position with external counterparties	(268)	(20)	(117)	21	(384)	(579)
Total net position	(392)	(15)	(159)	(13)	(579)	(667)

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 202 million euros (after it was partly unwound in an amount of 35 million euros in December 2013) taken out to hedge the 250 million euro loan contracted in 2011 in connection with the financing of Niles. The net position in pounds sterling reflects hedges of loans granted to Group subsidiaries.

The positive market value of currency instruments included in the net position with external counterparties was 61 million euros at December 31, 2013 (7 million euros at end-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. 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, 2013 were as follows:

<i>(in millions of euros)</i>	2013			2012
	With subsidiaries	With external counterparties	Total	Total
Forward sales	-	(96)	(96)	(62)
Forward purchases	96	-	96	62
Total net position	96	(96)	-	-

The market value of instruments hedging metals prices included in the net position with external counterparties represented an unrealized loss of 3 million euros at December 31, 2013 (unrealized gain of 1 million euros at end-2012).

15.3 Interest rate risk hedging

Valeo uses interest rate swaps to convert interest 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, 2013, 77% of long-term debt was at fixed rates, versus 80% at December 31, 2012, after hedging.

<i>(in millions of euros)</i>	Due within 1 year		Due in 1 to 5 years		Due beyond 5 years		Total nominal amount		
	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	45	1,410	1,000	437	-	-	1,045	1,847	2,892
Financial receivables	-	(1,887)	-	-	-	-	-	(1,887)	(1,887)
Cash and cash equivalents	-	(977)	-	-	-	-	-	(977)	(977)
Net position before hedging	45	(1,454)	1,000	437	-	-	1,045	(1,017)	28
Derivative instruments	56	(56)	113	(113)	-	-	169	(169)	-
Net position after hedging	101	(1,510)	1,113	324	-	-	1,214	(1,186)	28

At December 31, 2013, net short-term cash was 977 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 was swapped for a fixed rate (see Note 12.2, page 306).

Note 16 Off-balance sheet commitments

(in millions of euros)	December 31, 2013			December 31, 2012		
	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Commitments given	3	221	224	3	202	205

“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, 2013, the related commitment amounted to 163 million euros (170 million euros at end-2012). It is a first-call guarantee with an indefinite term and covers Valeo Electrical Systems Inc.'s commitments concerning pensions and other employee benefits.

Other commitments relate to guarantees granted by Valeo in connection with divestments and mainly include the vendor warranty granted on the sale of the Access Mechanisms business on May 24, 2013.

Note 17 Additional information

	2013	2012
Headcount at December 31	2	2
Compensation paid to corporate officers (in thousands of euros)	1,983	1,964
Directors' fees (in thousands of euros)	490	476

Note 18 List of subsidiaries and affiliates

At December 31

Company <i>(in millions of euros)</i>	Share capital	Other equity ⁽¹⁾	% interest	Carrying amount of shares		Outstanding loans and advances granted	Guarantees and endorsements given	Sales	Net income	Dividends
				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	(154)	100	838	838	532	-	-	(14)	-
Valeo International Holding BV Amsterdam – Netherlands	129	650	100	435	336	-	-	-	133	70
Valeo Systèmes Thermiques Le Mesnil Saint-Denis – France	37	147	47	216	216	291	-	414	3	-
Valeo Systèmes de Contrôle Moteur Cergy Saint Christophe – France	150	(173)	100	317	-	220	-	361	(54)	-
Valeo Embrayages Amiens – France	140	(50)	100	140	90	-	-	189	(17)	-
Valeo Matériaux de Friction Limoges – France	60	18	100	60	60	-	-	66	2	-
Valeo Vision Bobigny – France	10	57	90	377	157	-	-	507	(3)	-
Valeo Service Saint Denis – France	13	15	100	38	38	-	-	305	1	-
Valeo Auto-Electric GmbH Bietigheim – Germany	-	226	5	28	23	-	-	5	-	-
Valeo Otomotiv Sistemleri Endustrisi AS ⁽³⁾ Bursa – Turkey	3	65	100	22	22	16	-	217	20	-
Valeo Pyeong Hwa Co. Ltd. ⁽³⁾ Daegu – South Korea										
Valeo Pyeong Hwa International Co. Ltd Seoul – South Korea	14	151	50	15	15	-	-	335	27	3
Valeo Service Benelux BV Helmond – Netherlands	4	5	100	8	8	-	-	33	2	2
Amalgamations Valeo Clutch Private Ltd ^{(2) (3)} Chennai – India	4	4	50	6	6	-	-	37	-	-
B – OTHER SUBSIDIARIES AND AFFILIATES										
Subsidiaries not listed in A:										
● French subsidiaries (aggregate)	-	-	-	3	-	-	-	-	-	-
● Foreign subsidiaries (aggregate)	-	-	-	4	4	-	-	-	-	-
Affiliates not listed in A:										
● French affiliates (aggregate)	-	-	-	-	-	-	-	-	-	-
TOTAL	-	-	-	2,507	1,813	-	-	-	-	75

(1) Including net income for 2013 before appropriation.

(2) Last financial year ended March 31, 2013.

(3) Translated at closing exchange rates and at average exchange rates for 2013.

Note 19 Subsequent events

In order to extend the average maturity of its debt and take advantage of record low market interest rates, on January 15, 2014 Valeo issued a 700 million euro bond as part of its Euro Medium Term Note program. This bond is redeemable in January 2024 and pays a coupon of 3.25%.

The new bond issue allowed the Group, by means of an exchange transaction, to buy back and cancel 354 million euros worth of outstanding 2017 bonds and 227 million euros worth of outstanding 2018 bonds, bringing the Group's average debt maturity to six years.

5.6.5 Statutory Auditors' report on the financial statements

Year ended December 31, 2013

This is a free translation into English of the statutory auditors' report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users.

The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to the shareholders.

This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2013, on:

- the audit of the accompanying financial statements of Valeo.
- the justification of our assessments;
- the specific verification and information required by law.

These financial statements have been approved by the Board of Directors. Our role 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, 2013 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 of the "Accounting principles" note 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 paragraph. 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 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 11, 2014
The Statutory Auditors (*French original signed by*)

MAZARS

David Chaudat

Lionel Gotlib

ERNST & YOUNG et Autres

Jean-François Ginies

Gilles Puissochet

5.7 Statutory Auditors' special report on related party agreements and commitments **AFR**

Year ended December 31, 2013

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.

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 concerning the implementation, during the year, of the agreements and commitments already approved by the General Meeting of Shareholders.

We performed those procedures which we considered necessary to comply with professional guidance issued by the 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 Shareholders' Meeting

We are required to inform you, on the basis of the information provided to us, that during the year, there is no authorized agreements or commitments which should be submitted for approval by the General meeting of Shareholders in accordance with Article L.225-38 of the French Commercial Code.

Agreements and commitments already approved by General Shareholders' Meeting

Agreements and commitments approved in previous years

a) which continued to be implemented during the year

In accordance with Article R.225-30 of the French Commercial Code, we have been informed that the execution of the following agreements and commitments, which were already approved by the General Shareholders' Meeting during the past years, continued during the ended year.

Brand licensing agreement with Valeo Service

Involved: Mr. Jacques Aschenbroich – Common Director until April 15, 2013

The Brand licensing agreement between Valeo and the Group's operating subsidiary, Valeo Service, grants Valeo Service and the Valeo Service operating subsidiaries the use of the Valeo Group brands and logos. This agreement has been approved by the Board of Directors on November 17, 2011, then renewed on October 18, 2012, amended by the Board of Directors on January 22, 2013, and presented in our reports on related party agreements and commitments dated June 4, 2012 and June 6, 2013.

This service is paid according to Valeo Service's and Valeo Service operating subsidiaries' revenue. During the ended year, 10,107,000 euros were charged by Valeo to Valeo Service.

Since April 15, 2013, Valeo and Valeo Service do not have any Director in common. Thus, the brand licensing agreement mentioned hereinabove is not subject to the Article L.225-38 of the French Commercial Code anymore.

b) 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 Mr Jacques Aschenbroich, Chief Executive Officer

Life insurance

The commitment authorized by the Board of Directors on April 9, 2009 granting Mr Jacques Aschenbroich life insurance covering death, disability or any consequences of any accidents during business travel continued in 2013. Valeo paid a premium of 2,300 euros including VAT for the period from April 30, 2013 to April 30, 2014.

Pension plan

The commitment authorized by the Board of Directors on October 20, 2009 to register Mr 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-year length of service continued in 2013. 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 Mr 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 & Governance Committee and presented in the Statutory Auditors' special report to the Annual Shareholders' Meeting on June 8, 2011.

The severance payment to which Mr Jacques Aschenbroich would be entitled if he were to leave his position is described in the Company's 2013 management report.

Non-competition payments

The agreement granting Mr Jacques Aschenbroich a non-competition payment if he were to leave the Company, authorized by the Board of Directors on February 24, 2010 and approved by the Annual Shareholders' Meeting on June 3, 2010, continued in 2013.

The non-competition payment to which Mr Jacques Aschenbroich would be entitled if he left his position is described in the Company's 2013 management report.

Courbevoie and Paris-La Défense, March 11, 2014

The Statutory Auditors
(French original signed by)

MAZARS

David Chaudat

Lionel Gotlib

ERNST & YOUNG et Autres

Jean-François Ginies

Gilles Puissochet

5.8 Other financial and accounting information AFR

5.8.1 Five-year financial summary

	2009	2010	2011	2012	2013
1 – SHARE CAPITAL AT DECEMBER 31					
Share capital (<i>in millions of euros</i>)	235	236	238	238	238
Number of ordinary shares outstanding	78,209,617	78,628,798	79,269,596	79,462,540	79,462,540
Maximum number of new shares to be issued:					
• on exercise of equity warrants	-	-	-	-	-
• on exercise of stock subscription options	1,598,323	952,792	242,830	-	-
• on conversion of bonds into new shares	10,105,439	-	-	-	-
2 – RESULTS OF OPERATIONS FOR THE YEAR (<i>in millions of euros</i>)					
Sales	-	-	-	-	-
Income before tax, depreciation, amortization and impairment losses	191	130	90	76	145
Income tax	19	9	19	13	23
Employee profit-sharing	-	-	-	-	-
Net income/(loss) for the year	(30)	126	163	205	180
Net dividend	-	91	106	115	132
3 – PER SHARE DATA (<i>in euros</i>)					
Net income after tax, but before depreciation, amortization and impairment losses	2.55	1.85	1.26	0.99	2.11
Net income/(loss) for the year	(0.39)	1.60	2.05	2.58	2.26
Net dividend	-	1.20	1.40	1.50	1.70
4 – HEADCOUNT					
Headcount at December 31	2	2	2	2	2
Wages and salaries	6	3	2	10 ⁽¹⁾	2
Social security charges	2	1	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 300).

5.8.2 List of subsidiaries, affiliates and marketable securities

	Number of shares	Net carrying amount (in millions of euros)
Société de Participations Valeo	6,136,601	838
Valeo International Holding BV	2,845,120	336
Valeo Systèmes Thermiques	1,151,133	216
Valeo Systèmes de Contrôle Moteur	15,000,000	-
Valeo Embrayages	9,335,883	90
Valeo Matériaux de Friction	4,002,550	60
Valeo Vision	620,572	157
Valeo Service	860,000	38
Valeo Auto-Electric GmbH	1,305	23
Valeo Otomotiv Sistemleri Endustrisi AS	6,610,059	22
Valeo Pyeong Hwa Co. Ltd/Valeo Pyeong Hwa International Co. Ltd	1,642,698	15
Valeo Service Benelux BV	400	8
Amalgamations Valeo Clutch Private Ltd	35,252,500	6
Other investments with a net carrying amount below 2 million euros		4
Investments in subsidiaries and affiliates		1,813
FMEA	2,228	2
Other investment securities	-	2
CAAM Tresco Corporate	1,244	290
SGAM Monétaire Plus	842	20
CIC Union Cash	83	42
BNP Paribas Deposit	4,466	452
Money market funds	-	804
Treasury stock	1,819,722	50
TOTAL		2,669

5.9 Financial glossary

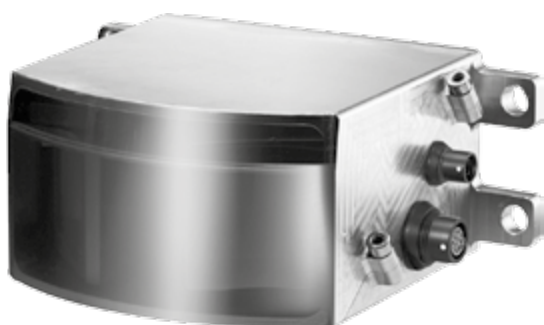
Capital employed	"Capital employed" used to determine return on capital employed (ROCE) and capital turnover comprises the following items: • net property, plant and equipment and intangible assets; • working capital requirement, including inventories, accounts and notes receivable and other receivables, 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 (excluding changes in the sale of trade receivables) 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 and the changes in 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 cancellations) during the period, based on Valeo's best reasonable estimates in terms of volumes, selling prices and project lifespans. Order intake for the Access Mechanisms business was not included in order intake data for 2011, 2012 and 2013. <i>Unaudited indicator.</i>
Net attributable income excluding non-recurring items	This corresponds to net attributable income adjusted for "other income and expenses" net of tax. In 2012, it also excluded negative goodwill relating to Detroit Thermal Systems recorded in "share in net earnings of associates".
Return on assets (ROA)	Operating income/capital employed including goodwill.
Return on capital employed (ROCE)	Operating margin/capital employed excluding goodwill.
Capital turnover	Sales/capital employed excluding goodwill.

6

SHARE CAPITAL AND OWNERSHIP STRUCTURE

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AFR Information from the Annual Financial Report is clearly identified in the table of contents by the symbol.



LASER SCANNER

In automated driving mode, the laser scanner detects any obstacles (objects or pedestrians) and complex infrastructure in the car's surroundings. Combined with ultrasonic sensors and cameras, the scanner's unique technology is used with Valet Park4U® to detect any static or moving obstacles.

6.1 Stock market data

	2013	2012	2011	2010
Market capitalization at year-end <i>(in billions of euros)</i>	6.39	2.99	2.43	3.34
Number of shares	79,462,540	79,462,540	79,269,596	78,628,798
Highest share price <i>(in euros)</i>	81.15	43.31	49.88	45.70
Lowest share price <i>(in euros)</i>	37.25	29.80	27.46	20.07
Average share price <i>(in euros)</i>	55.22	36.30	39.00	29.04
Share price at year-end <i>(in euros)</i>	80.43	37.64	30.71	42.47

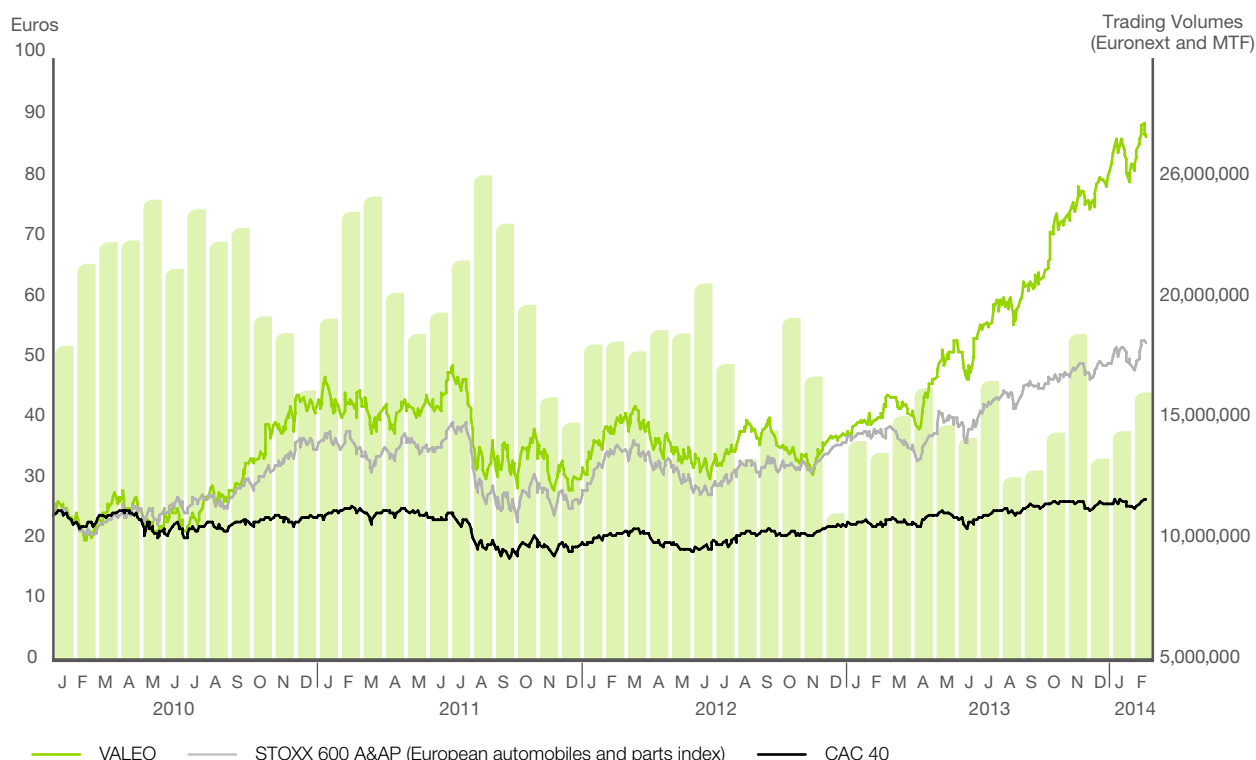
6.1.1 Share performance over 18 months

Date	Price <i>(in euros)</i>			Trading volume <i>(no. of shares)</i>		Volume on Euronext ⁽²⁾ <i>(in millions of euros)</i>
	High	Low	Closing (average)	Volume on Euronext	Volume on MTF ⁽¹⁾	
September 2012	41.200	36.000	38.212	8,140,712	3,928,257	312.06
October 2012	36.915	32.700	34.878	10,949,793	6,956,223	383.51
November 2012	36.540	31.140	33.803	9,302,990	5,547,882	314.07
December 2012	38.275	36.100	37.358	4,783,114	2,952,142	178.69
January 2013	40.525	37.250	39.230	6,877,361	4,620,289	270.19
February 2013	43.500	38.915	40.966	6,856,157	4,028,782	282.37
March 2013	45.430	41.770	43.468	7,824,563	4,975,665	339.07
April 2013	44.900	38.775	41.521	9,880,118	4,369,457	410.39
May 2013	52.430	43.700	48.916	8,829,562	3,487,809	432.26
June 2013	54.120	46.800	50.684	8,101,938	3,552,224	409.03
July 2013	61.000	47.830	55.041	9,300,034	5,326,810	511.39
August 2013	61.000	55.600	59.304	5,768,811	3,843,220	360.94
September 2013	64.430	57.770	61.936	6,323,023	3,643,280	391.35
October 2013	75.000	62.610	68.377	7,337,064	4,603,051	502.82
November 2013	79.720	71.250	75.369	11,297,658	5,771,159	867.09
December 2013	81.150	75.070	77.861	6,304,748	4,277,686	485.17
January 2014	87.030	78.670	82.990	7,054,079	4,957,937	585.06
February 2014	101.850	80.100	90.210	8,596,820	5,432,168	786.99

(1) MTF: includes the ChiX, Turquoise, Bats and Equiduct platforms.

(2) Source: Euronext monthly volume statistics.

6.1.2 Share price and monthly trading volumes



6.2 Investor relations

Through the Group Investor Relations department, Valeo aims to provide clear, accurate and transparent information in real time to its diverse financial community, comprising

bond and equities investors, current and prospective, private and institutional shareholders, as well as financial advisors and analysts.

6.2.1 Individual shareholder relations

Based on the Company's estimates, individual shareholders control approximately 6% of Valeo's share capital.

Valeo communicates with these shareholders using the following tools and materials:

- the toll-free line (0800 814 045, available in France only) available since 1998. In 2013, this service dealt with roughly 140 calls, chiefly 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 regulatory information, in particular the Registration Document and the Half-year 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);

- four e-newsletters aimed at individual shareholders were published in 2013;

6 SHARE CAPITAL AND OWNERSHIP STRUCTURE

Investor relations

- two half-yearly issues of the shareholders' letter were published in 2013;
- a shareholders' guide was published and made available to shareholders on the Group's website and at the Shareholders' Meeting in 2013;
- 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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6.2.2 Institutional investor relations

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 how it plans to achieve them.

Valeo places great importance on holding frequent meetings with investors and analysts. These meetings are organized in major global financial centers (Europe, North America and Asia). They take various forms, including one-on-one meetings, group events, conference calls and subject-specific or general investor conferences. In all, some 1,000 institutional investors participated in these events during 2013, either individually or in small groups, with most participants meeting the Group's Management.

Contact

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Financial Relations Director

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Provisional financial communication calendar

- First-quarter 2014 sales: April 23, 2014
- First-half 2014 results: July 25, 2014
- Third-quarter 2014 sales: October 21, 2014
- 2014 results: second half of February 2015

6.3 Dividends

Dividends per share over the past three years were as follows:

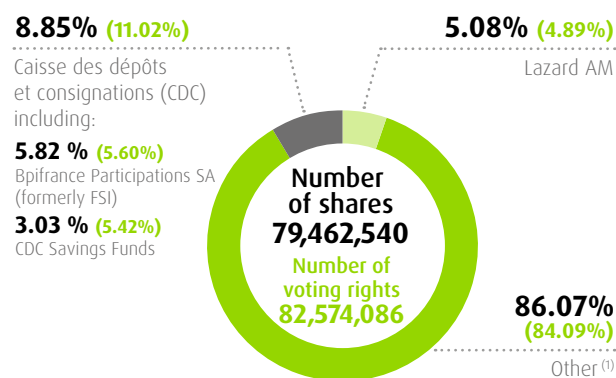
Year	Dividend per share (in euros)	Tax allowance (in euros)	Total (in millions of euros)
2010	1.20	Eligible for either the 40% tax allowance provided for in Article 158-3-2° of the French Tax Code or the 19% flat rate withholding tax provided for in Article 117 <i>quater</i> of said code	91
2011	1.40	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 <i>quater</i> of said code	106
2012	1.50	Eligible for the 40% tax allowance provided for in Article 158-3-2 of the French Tax Code	115

At the Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2013, Valeo's Board of Directors will recommend the payment of a dividend amounting to 1.70 euros for each share eligible for dividends, 13% higher than for the year ended December 31, 2012.

6.4 Share ownership

6.4.1 Ownership structure

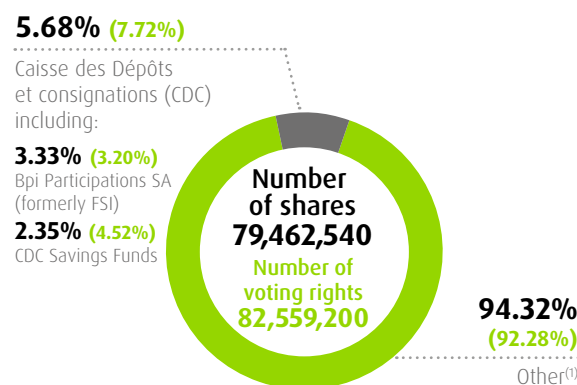
Ownership structure at December 31, 2013



% of share capital (% of voting rights)

(1) Including 1,819,722 treasury shares (2.29% of the share capital).

Ownership structure at March 20, 2014



% of share capital (% of voting rights)

(1) Including 1,638,732 treasury shares (2.06% of the share capital).

Bpifrance Participations SA sold 2.5% of its interest on March 12, 2014.

6.4.2 Direct or indirect shareholdings in the Company brought to the Company's attention (Articles L.233-7 and L.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 (2011, 2012 and 2013), and at February 20, 2014 and March 20, 2014. The Company's share capital at December 31, 2013 was divided into 79,462,540 shares, representing 82,574,086 voting rights, including 1,819,722 shares held as treasury shares.

	December 31, 2011				December 31, 2012			
	Number of shares	%	Number of voting rights ⁽¹⁾	%	Number of shares	%	Number of voting rights ⁽¹⁾	%
Fonds stratégique d'investissement	4,620,567	5.83	4,620,567	5.69	4,620,567	5.82	4,620,567	5.58
Caisse des dépôts et consignations	2,410,992	3.04	4,478,293	5.52	2,410,992	3.03	4,478,293	5.41
BlackRock Inc.	3,939,621	4.97	3,939,621	4.85				
Lazard Asset Management					4,035,616	5.08	4,035,616	4.87
Employee share ownership ⁽²⁾	85,900	0.11	171,800	0.21	124,122	0.16	209,972	0.25
Treasury shares ⁽³⁾	4,241,206	5.35	-	-	3,358,873	4.23	-	-
Other	63,971,310	80.70	67,985,463	83.73	64,912,370	81.69	69,498,505	83.89
TOTAL	79,269,596	100	81,195,744	100	79,462,540	100	82,842,953	100

	December 31, 2013			
	Number of shares	%	Number of voting rights ⁽¹⁾	%
Caisse des dépôts et consignations, of which:	7,031,559	8.85	9,098,860	11.02
<i>Bpifrance Participations SA</i>	4,620,567	5.82	4,620,567	5.60
<i>CDC Savings Funds</i>	2,410,992	3.03	4,478,293	5.42
Lazard Asset Management	4,035,616	5.08	4,035,616	4.89
Employee share ownership ⁽²⁾	126,928	0.16	212,778	0.25
Treasury shares ⁽³⁾	1,819,722	2.29	-	-
Other	66,448,715	83.62	69,226,832	83.84
TOTAL	79,462,540	100	82,574,086	100

	February 20, 2014				March 20, 2014			
	Number of shares	%	Number of voting rights ⁽¹⁾	%	Number of shares	%	Number of voting rights ⁽¹⁾	%
Caisse des dépôts et consignations, of which:	7,031,559	8.85	9,098,860	11.02	4,511,584	5.68	6,378,885	7.72
<i>Bpifrance Participations SA</i>	4,620,567	5.82	4,620,567	5.60	2,644,283	3.33	2,644,283	3.20
<i>CDC Savings Funds</i>	2,410,992	3.03	4,478,293	5.42	1,867,301	2.35	3,734,602	4.52
Employee share ownership ⁽²⁾	126,928	0.16	212,778	0.26	126,928	0.16	212,778	0.26
Treasury shares ⁽³⁾	1,759,862	2.21	-	-	1,638,732	2.06	-	-
Other	70,544,191	88.78	73,254,945	88.72	73,185,296	92.10	75,967,537	92.02
TOTAL	79,462,540	100	82,566,583	100	79,462,540	100	82,559,200	100

(1) Registered shares held by the same shareholder for four or more years carry double voting rights (see Chapter 7, section 7.1.11, page 344).

(2) For more information on employee share ownership see section 6.4.5, page 328.

(3) For more information on treasury shares see section 6.5.2, page 330.

Shareholders representing more than 5% of the share capital or voting rights

To the best of the Company's knowledge, there were no shareholders with direct or indirect holdings of 5% or more of the Company's share capital or voting rights at **December 31, 2013** other than:

- Caisse des dépôts et consignations and Bpifrance Participations SA (formerly Fonds stratégique d'investissement – FSI), a wholly-owned subsidiary of BPI Groupe SA, itself a 50%-50% joint venture between Caisse des dépôts et consignations and EPIC BPI Groupe; and
- Lazard Asset Management.

To the best of the Company's knowledge, there were no shareholders other than Caisse des dépôts et consignations and Bpifrance Participations SA (formerly FSI), a wholly-owned subsidiary of BPI Groupe SA, itself a 50%-50% joint venture between Caisse des dépôts et consignations and EPIC BPI Groupe, with direct or indirect holdings of 5% or more of the Company's share capital or voting rights at **February 20, 2014**.

To the best of the Company's knowledge, at February 20, 2014, **Caisse des dépôts et consignations** held directly 2,410,992 shares in the Company, i.e., 3.03% of the share capital, and 4,478,293 voting rights, i.e., 5.42% of the total voting rights, and it held indirectly via Bpifrance Participations SA (formerly FSI) 4,620,567 shares, i.e., 5.82% of the capital and 5.60% of the voting rights. Caisse des dépôts et consignations' direct and indirect holdings through Bpifrance Participations SA now represent 8.85% of the Company's share capital and 11.02% of the voting rights. To the best of the Company's knowledge, at February 20, 2014, **EPIC-BPI Groupe** held indirectly via Bpifrance Participations SA (formerly FSI) 4,620,567 shares, i.e., 5.82% of the capital and 5.60% of the voting rights. Bpifrance Participations SA is a wholly-owned subsidiary of BPI Groupe SA which is itself a 50%-50% joint venture between Caisse des dépôts et consignations and EPIC BPI-Groupe.

Crossing of disclosure thresholds

In a letter received on July 18, 2013, BPI Groupe (formerly EPIC OSEO), an industrial and commercial public body (*établissement public à caractère industriel et commercial* – EPIC), hereafter **EPIC BPI-Groupe**, reported that it had increased its interest in the Company's share capital and voting rights above the 5% disclosure threshold on July 12, 2013, via the intermediary of Bpifrance Participations SA, which it indirectly controls through BPI-Groupe SA, and

held indirectly at that date 4,620,567 Valeo shares, and a corresponding share of the voting rights, i.e., 5.81% of the share capital and 5.58% of the voting rights. EPIC BPI-Groupe does not hold, directly, any other of the Company's shares or voting rights.

The disclosure threshold was crossed as a result of the creation of the French public investment bank (Banque Publique d'Investissement – BPI), in the context of which the following transactions were carried out:

- on July 12, 2013, the French State contributed its entire equity interest in FSI, since renamed "Bpifrance Participations", i.e., 49% of the share capital of FSI, to BPI-Groupe SA;
- on July 12, 2013, Caisse des dépôts et consignations contributed its entire equity interest in FSI, since renamed "Bpifrance Participations", i.e., 51% of the share capital of FSI, to BPI-Groupe SA.

In view of these share contributions (and other transactions carried out at the same time as part of the creation of BPI), BPI-Groupe SA is now held jointly by (i) Caisse des dépôts et consignations and (ii) the French State and EPIC BPI-Groupe, with each holding a 50% stake, and is jointly controlled by Caisse des dépôts et consignations and EPIC BPI-Groupe. The shares in BPI-Groupe SA temporarily held by the French State were reclassified to EPIC BPI-Groupe.

In a letter received on July 18, 2013, **Caisse des dépôts et consignations** reported that it held, directly and indirectly via the intermediary of Bpifrance Participations SA, which it controls through BPI-Groupe SA, 7,031,559 Valeo shares representing 9,098,860 voting rights, i.e., 8.85% of the share capital and 10.99% of the voting rights. Caisse des dépôts et consignations (Savings Funds) reported holding directly 2,410,992 Valeo shares representing 4,478,293 voting rights, i.e., 3.03% of the Company's share capital and 5.41% of the voting rights. Bpifrance Participations SA holds 4,620,567 Valeo shares representing a corresponding number of voting rights, i.e., 5.81% of the Company's share capital and 5.58% of the voting rights.

This shareholding was the result of the above-described creation of the French public investment bank.

In a letter received on February 6, 2014, followed by a letter received on February 7, 2014, **Lazard Asset Management LLC⁽¹⁾**, 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 January 31, 2014, and held, on behalf of said funds and clients, 2,112,357 shares in the Company, and a corresponding share of the voting rights, i.e., 2.66% of the share capital and 2.56% of the voting rights. This reduction was the result of the disposal of the Company's shares on the market.

(1) Acting independently in application of Article L.233-9 of the French Commercial Code and Articles 223-12 and 223-12-1 of the AMF's General Regulations.

Crossing of disclosure thresholds as from February 20, 2014

In a letter received on March 17, 2014, **Caisse des dépôts et consignations** reported that it had reduced its interest in the Company's voting rights below the 10% disclosure threshold on March 12, 2014, directly and indirectly via Bpifrance Participations SA, which it controls through BPI Groupe SA, and that it held 4,511,584 Valeo shares representing 6,378,885 voting rights, i.e., 5.68% of the Company's share capital and 7.73% of the voting rights. Caisse des dépôts et consignations (Savings Funds) reported that its direct holdings now represent 1,867,301 Valeo shares representing 3,734,602 voting rights, i.e., 2.35% of the Company's share capital and 4.52% of the voting rights. Bpifrance Participations SA holds 2,644,283 Valeo shares representing a corresponding number of voting rights, i.e., 3.33% of the Company's share capital and 3.20% of the voting rights.

In a letter received on March 17, 2014, **EPIC BPI-Groupe**, reported that it had reduced its interest in the Company's share capital and voting rights below the 5% disclosure threshold on March 12, 2014, indirectly via Bpifrance Participations SA, controlled by BPI Groupe SA, and that it held, indirectly, 2,644,283 Valeo shares representing a corresponding number of voting rights, i.e., 3.33% of the Company's share capital and 3.20% of the voting rights. BPI Groupe SA is a 50%-50% joint venture between Caisse des dépôts et consignations and EPIC BPI-Groupe.

The disclosures of thresholds crossed on March 12, 2014 described above result from a sale of Valeo shares on the market under an accelerated book building procedure.

Bpifrance Participations SA reported that it intended to remain a shareholder of Valeo over the medium term and that from April 21, 2014, it would benefit from double voting rights and would consequently hold over 5% of Valeo's voting rights. It also declared that the disposal of its interest did not entail any change in Bpifrance Participation SA's representation on Valeo's Board of Directors.

6.4.3 Directors' interests

At December 31, 2013, 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 69 to 81.

6.4.4 Transactions carried out by executive managers and corporate officers in the Company's shares

On August 12, 2013, Jérôme Contamine, a director, acquired 1,000 shares in the Company at a unit price of 59 euros and on August 23, 2013 Sophie Dutordoir, a director, acquired 500 shares in the Company at a unit price of 60 euros in accordance with the Company's articles of association.

6.4.5 Employee share ownership

At December 31, 2013, Valeo employees held a total of 126,928 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, 2012, they held 124,122 shares, or 0.16% of the share capital.

In addition, during its meeting on March 27, 2013 the Board of Directors decided to award 473,814 free shares or performance shares to the Group's employees, with some of these shares being reserved for the Chief Executive Officer, members of the Operations Committee and the Liaison Committee, and some fast-tracked employees.

6.5 Share buyback program AFR

6.5.1 Current share buyback program adopted by the Shareholders' Meeting of June 6, 2013

In accordance with Articles L.225-209 *et seq.* of the French Commercial Code, the Ordinary and Extraordinary Shareholders' Meeting of June 6, 2013, in its eighth resolution, granted the Board of Directors (with power to subdelegate) an authorization to carry out transactions in the shares issued by the Company, for the purpose of:

- the implementation of any Company stock purchase option plan under the terms of Articles L.225-177 *et seq.* of the French Commercial Code or other similar plan; or
- the allotment of free shares under the terms of Articles L.225-197-1 *et seq.* of the French Commercial Code; or
- the allotment or sale of shares to employees as part of their involvement in the performance of the Company or pursuant to a company or group employee savings plan (or similar plan) in accordance with applicable law, in particular Articles L.3332-1 *et seq.* of the French Labor Code (*Code du travail*); or
- as a general matter, to comply with its obligations in respect of stock option plans or other distributions of shares to employees or corporate officers of the issuer or of a related company; or
- the delivery of shares upon the exercise of rights attached to securities giving access to the capital (*valeurs mobilières donnant accès au capital*) by redemption, conversion, exchange, presentation of a warrant or any other means; or
- the cancellation of all or part of the shares so acquired; or
- the delivery of shares (as exchange consideration, as payment or other) in connection with acquisitions, mergers, spin-offs or contributions; or
- market-making in the secondary market or maintenance of the liquidity of the Valeo share through an investment services provider pursuant to a liquidity agreement compliant with the code of ethics recognized by the French financial markets authority (*Autorité des Marchés Financiers* – AMF); and

- to allow for the implementation of any market practice that may subsequently be permitted by the AMF, and more generally, to carry out any transaction in compliance with the applicable laws and regulations.

The Company may purchase a number of shares such that, at the date of each buyback, the total number of shares purchased by the Company since the beginning of the buyback program (including the shares that are the subject of said buyback) does not exceed 10% of the shares which constitute the Company's share capital at that date, it being specified that the number of shares purchased with a view to their retention for future delivery in connection with a merger, spin-off or contribution may not exceed 5% of the share 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 556 million euros, fees and commissions included.

This authorization was given for an 18-month period as of the Shareholders' Meeting of June 6, 2013 and superseded the unused portion of previous delegations given to the Board of Directors to carry out transactions in shares issued by the Company.

A description of the 2013 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 2013, 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 4, 2012 (see section 6.5.2, page 330).

6.5.2 Treasury shares

At December 31, 2013 the Company held, directly or indirectly, 1,819,722 treasury shares (2.29% of the share capital) with a unit value based on the purchase price of 27.434 euros and a par value of 3 euros. At December 31, 2012, Valeo held 3,358,873 treasury shares (4.23% of the share capital).

The shares purchased in 2013 were used exclusively in respect of the liquidity agreement.

The share purchases were made in accordance with authorizations granted by the Shareholders' Meetings of June 4, 2012 and June 6, 2013 to the Board of Directors to buy back Company shares. The eighth resolution of the Shareholders' Meeting of June 4, 2012 authorized the Board of Directors (with the power to subdelegate) to purchase, or order the purchase of, the Company's shares for the following purposes:

- to implement any Company stock purchase option plan under the terms of Articles L.225-177 *et seq.* of the French Commercial Code or other similar plan; or
- to allot free shares under the terms of Articles L.225-197-1 *et seq.* of the French Commercial Code; or
- to allot or sell shares to employees as part of their involvement in the performance of the Company or pursuant to a company or group employee savings plan (or similar plan) in accordance with applicable law, in particular Articles L.3332-1 *et seq.* of the French Labor Code; or
- as a general matter, to comply with its obligations in respect of stock option plans or other distributions of shares to employees or corporate officers of the issuer or of a related company; or
- to deliver shares upon the exercise of rights attached to securities giving access to the capital by redemption, conversion, exchange, presentation of a warrant or any other means; or
- to cancel all or part of the shares so acquired; or
- to deliver shares (as exchange consideration, as payment or other) in connection with acquisitions, mergers, spin-offs or contributions; or
- market-making in the secondary market or maintenance of the liquidity of the Valeo share through an investment services provider pursuant to a liquidity agreement compliant with the code of ethics recognized by the AMF.

This plan is also intended to allow for the implementation of any market practice that may subsequently be permitted by the AMF, and more generally, to carry out any transaction in compliance with the applicable laws and regulations.

The eighth resolution of the Shareholders' Meeting of June 6, 2013 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 to stock purchase option and performance share plans

At December 31, 2013 the number of treasury shares to be allocated to stock purchase option and performance share plans stood at 1,816,222 compared with 3,298,873 at December 31, 2012.

Shares for use under a liquidity agreement

Treasury shares held at December 31, 2013 and earmarked for use under a liquidity agreement that complies with the code of ethics of the French Association of Investment Firms (*Association Française des Entreprises d'Investissement - AFEI*) signed with an investment services provider on April 22, 2004, amounted to 3,500 shares and 19,535,814.77 euros in cash compared with 60,000 shares and 15,312,092.23 euros in cash at December 31, 2012. 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 1,074,235 shares at an average price of 48.75 euros and sold 1,130,735 shares at an average First-In-First-Out price of 48.00 euros. Trading and transaction fees incurred under the liquidity agreement entered into with an investment services provider that complies with the code of ethics of the AFEI totaled 140,000 euros, reflecting a negotiated decrease in fees compared to 2012. These shares were not reallocated to other purposes provided for under the share buyback program.

6.5.3 Share buyback program submitted to the Annual Shareholders' Meeting of May 21, 2014

The Ordinary and Extraordinary Shareholders' Meeting that will be called on May 21, 2014 will be asked to repeal the eighth resolution approved by the Annual Shareholders' Meeting of June 6, 2013 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, 2014, Valeo directly or indirectly held 1,759,862 shares, representing 2.21% of the Company's share capital.

Breakdown of shares owned by Valeo by purpose

At January 31, 2014:

- 1,757,362 shares are to be allocated to stock purchase option plans;
- 2,500 shares are to be allocated under the liquidity agreement signed on April 22, 2004 with CA Cheuvreux and subsequently amended first by an additional clause on June 24, 2005, and again by an additional clause with Kepler Capital Markets on April 30, 2013. This agreement 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 May 21, 2014, Valeo plans to buy back, directly or indirectly, its own shares, for the following purposes:

- to implement any Company stock purchase option plan under the terms of Articles L.225-177 *et seq.* of the French Commercial Code or other similar plan; or
- to allot free shares under the terms of Articles L.225-197-1 *et seq.* of the French Commercial Code; or

- to allot or sell shares to employees as part of their involvement in the performance of the Company or pursuant to a company or group employee savings plan (or similar plan) in accordance with applicable law, in particular Articles L.3332-1 *et seq.* of the French Labor Code; or
- as a general matter, to comply with its obligations in respect of stock option plans or other distributions of shares to employees or corporate officers of the issuer or of a related company; or
- to deliver shares upon the exercise of rights attached to securities giving access to the capital by redemption, conversion, exchange, presentation of a warrant or any other means; or
- to cancel all or part of the shares so acquired; or
- to deliver shares (as exchange consideration, as payment or other) in connection with acquisitions, mergers, spin-offs or contributions; or
- market-making in the secondary market or maintenance of the liquidity of the Valeo share through an investment services provider pursuant to a liquidity agreement compliant with the code of ethics recognized by the AMF; or
- to allow for the implementation of any market practice that may subsequently be permitted by the AMF, and more generally, to carry out any transaction in compliance with the applicable laws and regulations.

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, 2014).

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 at the given date.

Given the number of shares the Company currently owns, i.e., 1,759,862 shares at January 31, 2014 (2.21% 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 May 21, 2014, a total of 6,186,392 shares (7.79% of the Company's registered capital at January 31, 2014) 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 150 euros per share. This price could be adjusted in the event of a change in the par value of the share, capital increase by capitalization of reserves, allotment of free shares, a stock split or reverse stock split, distribution of reserves, or any other assets, redemption of the capital, or any other transaction affecting shareholders' equity, so as to take account of the impact of these transactions on the value of the share.

The maximum amount that can be spent under the new share buyback program will be fixed at 1,191 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 May 21, 2014, the new share buyback program would be authorized for an 18-month period as of the meeting, i.e., until November 20, 2015.

6.5.4 Cancellation of treasury shares

In the thirteenth resolution of the Ordinary and Extraordinary Shareholders' Meeting of June 6, 2013, the Company's shareholders gave the Board of Directors a 26-month authorization to reduce the Company's capital by canceling

treasury shares. Under this authorization, the number of shares canceled in any given 24-month period may not exceed 10% of the Company's share capital.

6.6 Additional disclosures

6.6.1 Changes in share capital

At December 31, 2013, 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.

At December 31, 2013, there were no longer any plans in place pursuant to which shares could be issued upon

exercise of stock subscription 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, 2011 are as follows:

Year	Type of operation	Changes (in millions of euros)			Number of shares	Total number of shares
		Nominal	Premium	Total		
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
2013	Issuance of shares on exercise of stock subscription options	0	0	0	0	79,462,540

6.6.2 Authorized, unissued capital AFR

Summary table of powers currently delegated by the Shareholders' Meeting to the Board of Directors with respect to raising new equity and the use made of such delegations during the year

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 <u>with</u> pre-emptive rights		
Issuance of shares and/or share equivalents (A) Shareholders' Meeting of June 6, 2013 – 9 th resolution Expiring on August 6, 2015 (26 months)	40 million euros (A) + (B) + (C) + (D) + (E) + (F) combined ceiling = 101 million euros	None
Capital increase by capitalization of reserves, profits or additional paid-in capital (B) Shareholders' Meeting of June 6, 2013 – 11 th resolution Expiring on August 6, 2015 (26 months)	30 million euros Included in combined ceiling	None
2. Authorization to increase capital <u>without</u> pre-emptive rights		
Issuance of shares and/or share equivalents (C) Shareholders' Meeting of June 6, 2013 – 10 th resolution Expiring on August 6, 2015 (26 months)	23 million euros Included in combined ceiling	None
Issuance of shares to members of the employee share ownership plan (D) Shareholders' Meeting of June 6, 2013 – 14 th resolution Expiring on August 6, 2015 (26 months)	5 million euros Included in combined ceiling	None
3. Authorization to increase capital <u>with or without</u> pre-emptive rights		
Overallocation option as part of capital increase <u>with or without</u> pre-emptive rights (E) Shareholders' Meeting of June 6, 2013 – 12 th resolution Expiring on August 6, 2015 (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 <u>with</u> pre-emptive rights: 40 million euros ● Ceiling <u>without</u> pre-emptive rights: 23 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 4, 2012 – 11 th resolution Expiring on August 4, 2014 (26 months)	<u>Maximum number of shares (existing or to be issued) allocated:</u> 920,000 Included in combined ceiling	Board of Directors' meeting of March 27, 2013 Allotment of 473,814 free shares

6.6.3 Other securities giving access to the capital

Stock purchase option plans and allotment of free shares

Stock purchase option plans in force at December 31, 2013

Shareholders' Meetings			Plan characteristics				Options granted				
Date of Share-holders' Meeting	No. of options	Term	Date ⁽¹⁾	Exercise price (€)	No. of grantees	No. of options	O/w granted to corporate officers	O/w granted to exec. corporate officers	O/w granted to exec. managers excl. corporate officers	O/w granted to the top 10 grantees ⁽²⁾	Condi-tional options
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)
			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						6,160,000	500,000	665,600	1,109,700	819,000	1,261,215

(1) Date of Board of Directors' meeting.

(2) Including directors who are not corporate officers.

(i) Stock options subject to the holding period described on Chapter 3, section 3.2.5, page 91.

(ii) O/w 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 - a 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 criteria met = cancellation 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 criteria met = cancellation 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 - a 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 criteria met = cancellation 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 criteria met = cancellation of conditional rights.

Exercise date and conditions		Number of stock purchase option plans							
Start	Expiration date	Options outstanding at Dec. 31, 2012	Exercised in 2013 (year)	Exercised at Dec. 31, 2013 (cumulative)	Canceled in 2013 (year)	Canceled at Dec. 31, 2013 (cumulative)	Options outstanding at Dec. 31, 2013	No. of shares that can be purchased	Residual grantees
50% - 2 years; 100% - 3 years	11/16/2013	192,360	158,865	377,570	33,495	272,430	0	0	0
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	493,360	296,908	691,798	4,250	425,250	192,202	192,202	246
50% - 2 years; 100% - 3 years	03/06/2015	250,000	175,000	175,000	0	0	75,000	75,000	1
100% - 3 years	11/14/2015	967,653	549,932	747,529	19,003	530,753	398,718	398,718	402
100% - 3 years	03/19/2016	254,592	139,987	213,895	2,750	101,000	111,855	111,855	182
100% - 2 years	06/23/2018	802,350	158,347	225,485	10,250	140,762	633,753	633,753	405
100% - 3 years	06/07/2019	266,760	1,000	1,000	16,420	42,500	249,340	249,340	223
100% - 3 years	03/26/2020	359,360	1,200	1,200	15,300	23,100	342,860	342,860	256
		3,586,435	1,481,239	2,620,477	101,468	1,535,795	2,003,728	2,003,728	

Free share plans in force at December 31, 2013

Shareholders' Meetings		Plan characteristics			Shares granted				
Date of Shareholders' Meeting	No. of shares	Date ⁽¹⁾	No. of grantees	No. of shares	O/w granted to corporate officers	O/w granted to exec. 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	-	50,000 ^(iv)	55,500 ^(iv)	47,500 ^(iv)	178,769 ^(iv)
			44,333	133,000	-	3 ^(iv)	39 ^(iv)	30 ^(iv)	90 ^(iv)
06/08/2011	540,000	06/08/2011	276	186,860	-	15,600 ^(v)	34,000 ^(v)	31,000 ^(v)	126,480 ^(v)
			46,666	140,000	-	-	39 ^(v)	30 ^(v)	87 ^(v)
		03/27/2012	283	173,140	-	11,400 ^(vi)	32,800 ^(vi)	29,800 ^(vi)	117,220 ^(vi)
			13,333	40,000	-	-	39 ^(vi)	30 ^(vi)	60 ^(vi)
06/04/2012	920,000	03/27/2013	301	303,814	-	25,634 ^(vii)	74,400 ^(vii)	65,000 ^(vii)	223,314 ^(vii)
			56,666	170,000	-	-	-	-	-
TOTAL FREE SHARE GRANTS				1,413,814	0	102,637	196,817	173,390	646,020

(1) Date of Board of Directors' 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; half conditional on 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 half conditional on 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 - a 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 criteria met = cancellation 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 criteria met = cancellation 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 - a 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 criteria met = cancellation 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 criteria met = cancellation of conditional rights.

(vii) O/w 100% (CEO and Operations Committee) is conditional, with three criteria: 1 - a pre-tax return on assets (ROA) ratio over the 2013, 2014 and 2015 period equal to or greater than 12.5%; 2 - an operating margin ratio equal to or greater than 5.8% in 2013, such that the average over the three years of the reference period (2013, 2014 and 2015) of the ratio between the actual return achieved and the target return that will be set by the Board of Directors at the beginning of each reference year, and that will be at least equal to the guidance for the year under review, is equal to or greater than one; 3 - a return on capital employed (ROCE) ratio equal to or greater than 23% in 2013, such that the average over the three years of the reference period (2013, 2014 and 2015) of the ratio between the actual return achieved and the target return that will be set by the Board of Directors at the beginning of each reference year, and that will be at least equal to the guidance for the year under review, is equal to or greater than one - three criteria met = 100% of rights; two criteria met = 60% of rights; one criterion met = 30% of rights; 0 criteria met = cancellation of 100% of rights. Including 100% (Liaison Committee) and 50% (other directors) conditional on two criteria [2 and 3]; two criteria met = 100% of rights; one criterion met = 50% of rights; 0 criteria met = cancellation of conditional rights.

Date and conditions	Number of shares						Number of shares remaining to be transferred	Residual grantees
	Remaining to be transferred at Dec. 31, 2012	Transferred in 2013 (year)	Transferred at Dec. 31, 2013 (cumulative)	Canceled in 2013 (year)	Canceled at Dec. 31, 2013 (cumulative)	Remaining to be transferred at Dec. 31, 2013		
Start								
● France: 2 years ● Other countries: 4 years	58,650	-	179,150	6,805	36,005	51,845	51,845	262
● France – Spain – Italy: 2 years ● Other countries: 4 years	67,824	-	45,876	-	19,300	67,824	67,824	22,608
● France: 3 years ● Other countries: 5 years	166,600	740	2,740	7,740	26,000	158,120	158,120	223
● France – Spain – Italy: 3 years ● Other countries: 5 years	124,938	-	-	-	15,062	124,938	124,938	41,646
● France: 3 years ● Other countries: 5 years	168,684	672	672	7,696	12,152	160,316	160,316	256
● France: 3 years	40,000	-	-	19	19	39,981	39,981	13,327
● France: 3 years ● Other countries: 5 years	-	-	-	5,480	5,480	298,334	298,334	291
● France – Spain – Italy: 3 years ● Other countries: 5 years	-	-	-	7,946	7,946	162,054	162,054	54,018
	626,696	1,412	228,438	35,686	121,964	1,063,412	1,063,412	

6.6.4 Other securities

The Company has participated in a Euro Medium Term Note program since October 2002, last renewed on April 23, 2013, for an amount of 2 billion euros. Under this program Valeo issued:

- 500 million euros' worth of seven-year bonds on May 12, 2011, paying a fixed coupon of 4.875%, repaid in the amount of 227 million euros in January 2014;

- 500 million euros' worth of five-year bonds on January 19, 2012, paying a fixed coupon of 5.75%, repaid in the amount of 354 million euros in January 2014;
- 700 million euros' worth of ten-year bonds on January 22, 2014, paying a fixed coupon of 3.25%.

6.6.5 Other information on the capital

Change in control

To the best of the Company's knowledge, there are no shareholder pacts or agreements in force that could lead to a change in control of the Company.

Capital under option

At the date of this Registration Document, no capital of any member of the Group was under option or agreed conditionally or unconditionally to be put under option.

Disclosure thresholds

In accordance with Article L.233-7 of the French Commercial Code, any individual or legal entity, acting alone or in concert, that holds a number of shares representing over 5%, 10%, 15%, 20%, 25%, 30%, 33.33%, 50%, 66.66%, 90% or 95% of the Company's capital or voting rights, is required to disclose to the Company and the AMF by letter that the related disclosure threshold has been exceeded. Said disclosure must be within five trading days from the date the threshold is exceeded and must also state the total number of shares and voting rights held by the shareholders concerned. The disclosures are subsequently published by the AMF. This disclosure obligation also applies when an interest in the Company's capital and/or voting rights is reduced to below the above-mentioned thresholds. If any shareholder fails to comply with these disclosure requirements, the shares in excess of the relevant threshold will be stripped of voting rights at all Shareholders' Meetings held within the two-year period from the date when the omission is remedied.

Since the Shareholders' Meeting of March 31, 2003, Article 9 of the Valeo articles of association states that, in addition to the applicable statutory disclosure thresholds, any individual or legal entity, acting alone or in concert, that raises or reduces its interest in the Company's capital or

voting rights, directly or indirectly, to above or below 2% respectively (or any multiple thereof), is required to disclose to the Company by registered letter with return receipt requested that the relevant disclosure threshold has been crossed. Said disclosure must be made within 15 days from the date when the threshold is crossed and the shareholder concerned must state their own identity as well as that of any parties acting in concert with the shareholder. In accordance with the seventh paragraph of Article L.228-1 of the French Commercial Code, this disclosure requirement also applies to shares held through an intermediary.

Non-compliance with the above obligations is subject to the penalties set out in Article L.233-14 of the French Commercial Code, at the request of one or several shareholders together holding at least 2% of the Company's capital or voting rights, as recorded in the minutes of the Shareholders' Meeting.

Shareholder identification

Registered and bearer shares are recorded in shareholders' accounts in accordance with applicable laws and regulations.

However, a bank, broker or other intermediary may register on behalf of shareholders who are domiciled outside France in accordance with Article 102 of the French Civil Code (*Code civil*). This registration may be made in the form of a joint account or several individual accounts, each corresponding to one shareholder. Any such intermediary must inform the Company or the intermediary managing the Company's account that it is holding the shares on behalf of another party.

The Company is entitled to identify all holders of shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at Shareholders' Meetings, in accordance with the procedure provided for in Article L.228-2 *et seq.* of the French Commercial Code.

In order to identify holders of bearer shares, in accordance with the applicable laws and regulations, the Company is entitled to request, at any time, from the central depository responsible for its security issues account, in exchange for a fee, the name – or, in the case of corporate shareholders, the company name – nationality, year of birth – or, in the case of corporate shareholders, the year of incorporation – and address of holders of bearer shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at Shareholders' Meetings, together with details of the number of shares held by each such shareholder and of any restrictions applicable to the securities concerned.

Based on the list provided by the above-mentioned organization, where the Company considers that shares may be held on behalf of third parties, it may request, in accordance with the same conditions, either through the organization or directly from the parties mentioned on the list, the same information concerning the holders of the shares. If one of the parties mentioned on the list is a bank, broker or other intermediary, it must disclose the identity of the shareholders for whom it is acting. The information is provided directly to the financial intermediary managing the Company's share account, which shall pass on said information either to the Company or the above-mentioned central depository, as applicable.

For registered shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares, any intermediary holding the securities on behalf

of a third party must disclose the identity of the person or entity for whom it is acting as well as the number of shares held by each of them, upon simple request by the Company or its representative, which may be made at any time.

The Company may also request from any corporate shareholder holding over 2.5% of the Company's capital or voting rights, information concerning the identity of persons or companies holding either directly or indirectly over one-third of the corporate shareholder's capital or voting rights.

If an individual or corporate shareholder is asked to provide information in accordance with the above conditions and fails to provide it by the applicable deadline, or provides incomplete or incorrect information, the shares or other securities redeemable, exchangeable, convertible or otherwise exercisable for shares recorded in the shareholder's account shall be stripped of voting rights for all Shareholders' Meetings until the identification request has been fulfilled, and the payment of any corresponding dividends shall also be deferred until that date.

In addition, if an individual or company registered in the Company's shareholders' account deliberately ignores their obligations, the Company or one or more shareholders holding at least 5% of the Company's capital may petition the court of the place in which the Company's registered office is located to obtain an order to totally or partially strip the shares concerned of their voting rights and the corresponding dividend, for a maximum period of five years.

6.6.6. Information likely to have an impact in the event of a public tender offer AFR

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

As specified in Chapter 2, section 2.1.4, "Liquidity risk", page 56, the balance of 146 million euros of the 500 million euros in bonds issued as part of the Euro Medium Term Note (EMTN) program expiring on January 19, 2017, the balance of

273 million euros of the 500 million euros in bonds expiring on May 11, 2018, and the 700 million euros in bonds expiring on January 22, 2024, 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 3.3.1, page 100, Jacques Aschenbroich, the Chief Executive Officer, is eligible for termination benefits 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 benefits). 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 benefits.

Agreements that could restrict the transfer of shares and the exercise of voting rights

Relations with Bpifrance Participations SA (formerly FSI)

The Board of Directors' meeting of October 20, 2009 decided to co-opt Michel de Fabiani, whose name was put forward by Fonds stratégique d'investissement (FSI, since renamed Bpifrance Participations SA), as a director, replacing Erich Spitz. On this occasion, and after considering the specific current ownership structure of Valeo, Bpifrance Participations SA, which is a 50%-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 that it would support the resolutions approved by the Board of Directors and that the Bpifrance Participations SA would not increase its holding beyond 15% of the share capital without the consent of Valeo's Board. Bpifrance Participations SA 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 Bpifrance Participations SA's equity holding in Valeo and preserving the Group's interest.

7

ADDITIONAL INFORMATION

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ESKIN LITE
Intuitive driving solutions for the central console featuring a sleek design inspired by the popular shaping used in major consumer goods such as tablets and smartphones. Thanks to its ergonomic "eskin Lite" demonstrator, Valeo confirms its expertise in in-vehicle human machine interfaces.

7.1 Principal provisions of the law and the articles of association

7.1.1 Company name and headquarters

The name of the Company is Valeo and its headquarters are located at 43, rue Bayen, 75017 Paris, France, tel.: +33 (0)1 40 55 20 20.

7.1.2 Legal structure and governing law

Valeo is a joint stock company (*société anonyme*) with a Board of Directors. It is governed by French law, notably the provisions of Book II of the French Commercial Code (*Code de commerce*) and various provisions of the regulatory section of the French Commercial Code.

7.1.3 Corporate governance

With a view to increasing the transparency of information disclosed to the public, the Company has set up a number of procedures to ensure that it complies with best corporate governance practices. Further information is provided in the report of the Chairman of the Board of Directors on the composition of the Board, the application of the principle

of equal representation of women and men, the conditions in which the Board's work is prepared and organized, and the internal control and risk management procedures put in place by the Valeo Group (Chapter 3, section 3.2, pages 66 to 94 and section 3.4, pages 108 to 112).

7.1.4 Date of incorporation and term

The Company was incorporated on February 10, 1923 and its term was extended for a further 99 years on February 10, 1972.

7.1.5 Corporate purpose

The Company's corporate purpose is as follows (Article 3 of the articles of association):

- the research, manufacturing, sale, trade and supply of all products, equipment and services for the industrial and retail sectors, that may be manufactured and developed by factories of the Company or of companies of its Group or that may be of interest to their customers; and
- more generally, engaging in any transactions whatsoever, including industrial, commercial, financial, real estate and other property transactions, sales, acquisitions, capital contributions, etc., directly or indirectly related to the corporate purpose or contributing to its extension or development.

7.1.6 Registration details

The Company is registered at the Paris Trade and Companies Registry under the number 552 030 967 RCS Paris.

7.1.7 Fiscal year

The Company's fiscal year covers a twelve-month period from January 1 to December 31.

7.1.8 Dividends

Each share entitles its holder to a proportion of income equal to the proportion of capital represented by the share.

Distributable income is composed of net income for the year less any prior year losses and amounts appropriated to the legal reserve, plus any income carried forward. Furthermore, shareholders in an Annual Shareholders' Meeting may decide to distribute amounts taken from available reserves and/or retained earnings. In this case, the related resolution approved by the Annual Shareholders' Meeting must clearly specify the reserve account from which the distributed amounts are to be taken.

Shareholders may resolve to pay out a dividend only after approving the financial statements for the year and noting that amounts are available for distribution. The dividend

payment terms are defined by the Annual Shareholders' Meeting or, by default, the Board of Directors.

The Board of Directors may decide to pay an interim dividend for the current year or the year-ended before the financial statements are approved, subject to the conditions set down by law, 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.

7.1.9 Liquidation surpluses

Liquidation surpluses are allocated between the shareholders in proportion to their interests in the Company's capital.

7.1.10 Shareholders' Meetings

Ordinary and Extraordinary Shareholders' Meetings are called and conduct business in accordance with the conditions set down by law.

In accordance with Article R.225-85 of the French Commercial Code, shareholders may participate in Shareholders' Meetings subject to submitting evidence of ownership of their shares. Share ownership is evidenced by an entry in Valeo's share register in the name of the shareholder (or of the intermediary acting on their behalf) or in the register of bearer shares held by an accredited intermediary. Such entries must be recorded by 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.

7.1.11 Double voting rights

Each shareholder has a number of votes corresponding to the number of shares held or represented by proxy.

However, since the Shareholders' Meeting of June 16, 1992, Article 23 of the Company's articles of association provides that double voting rights are attached to all fully paid shares that have been registered in the name of the same holder for at least four years. In the case of a capital increase paid up by capitalizing reserves, income or share premiums, the new registered 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.

7.1.12 Changes in share capital and rights attached to shares

Any changes in the Company's share capital or voting rights attached to shares are subject to the applicable law as the articles of association do not contain any specific provisions in relation to such operations.

7.2 Information on subsidiaries and affiliates

The overall legal and operational structure of the Group is described in Chapter 1, section 1.3.2, page 20.

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 27.

A list of consolidated companies (including their location) is given in the notes to the consolidated financial statements, Chapter 5, section 5.4.6, Note 14, pages 286 to 287. 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 5.6.4, Note 18, page 312.

MAIN INDUSTRIAL AND COMMERCIAL ENTITIES

Direct and indirect interests by country (% interest at December 31, 2013)

European Union				Europe outside the EU	Africa
France	Germany, Belgium United Kingdom Ireland, Netherlands	Italy Spain	Hungary, Poland Czech Republic Romania, Slovakia	Turkey Russia	Tunisia South Africa Egypt
VALEO EMBRAYAGES	VALEO SCHALTER UND SENSOREN GmbH	VALEO SpA (Italy)	VALEO AUTO-ELECTRIC HUNGARY LLC	VALEO OTOMOTIV SISTEMLERI ENDUSTRISI A.S. (Turkey)	VALEO EMBRAYAGES TUNISIE SA
100	100	100	100	100	100
VALEO MATÉRIAUX DE FRICTION	VALEO WISCHERSYSTEME GmbH	VALEO SERVICE ITALIA SpA	VALEO ELECTRIC AND ELECTRONIC SYSTEMS Sp.zo.o. (Poland)	VALEO CLIMATE CONTROL TOMILINO LLC (Russia)	DAV TUNISIE
100	100	100	100	100	100
VALEO ÉQUIPEMENTS ÉLECTRIQUES MOTEUR	VALEO KLIMASYSTEME GmbH	VALEO ESPAÑA SA	VALEO SERVICE EASTERN EUROPE Sp.zo.o. (Poland)	VALEO SERVICE LLC (Russia)	VALEO SYSTEMS SOUTH AFRICA (Proprietary) Limited
100	100	100	100	100	51
VALEO SYSTÈMES D'ESSUYAGE	VALEO SERVICE DEUTSCHLAND GmbH	VALEO ILUMINACIÓN SA (Spain)	VALEO AUTOSYSTEMY Sp.zo.o. (Poland)		VALEO INTERBRANCH AUTOMOTIVE SOFTWARE EGYPT
100	100	100	100		100
VALEO VISION	VALEO VISION BELGIQUE	VALEO SISTEMAS ELECTRICOS S.L. (Spain)	VALEO VYMENIKY TEPLA k.s. (Czech Republic)		VALEO VISION MAROC SA
100	100	100	100		100
DAV	VALEO SERVICE BELGIQUE	VALEO CLIMATIZACIÓN SA (Spain)	VALEO AUTOKLIMATIZACE k.s. (Czech Republic)		
100	100	100	100		
SC2N	VALEO SERVICE UK LIMITED	VALEO SERVICE ESPAÑA SA	VALEO COMPRESSOR EUROPE S.r.o (Czech Republic)		
100	100	100	100		
VALEO COMPRESSEURS	VALEO ENGINE COOLING UK Ltd	VALEO TÉRMICO, SA (Spain)	VALEO LIGHTING INJECTION SA (Romania)		
100	100	100	100		
VALEO SERVICE	VALEO AIR MANAGEMENT UK Limited		VALEO SISTEME TERMICE S.r.l. (Romania)		
100	100		100		
VALEO SYSTÈMES THERMIQUES	CONNAUGHT ELECTRONICS LIMITED (Ireland)		VALEO POWERTRAIN ENERGY CONVERSION AS (Norway)		
100	100		100		
VALEO SYSTÈMES DE CONTRÔLE MOTEUR	VALEO SERVICE BENELUX BV (Netherlands)				
100	100				
VALEO ÉTUDES ÉLECTRONIQUES					
100					

Industrial
Commercial



North America		South America	Asia		
United States	Mexico	Brazil Argentina	China	South Korea Japan, Thailand Indonesia, Taiwan	India
VALEO NORTH AMERICA, INC.	VALEO SISTEMAS ELECTRICOS SA de CV	VALEO SISTEMAS AUTOMOTIVOS Ltda (Brazil)	TAIZHOU VALEO-WENLING AUTOMOTIVE SYSTEMS COMPANY Ltd	VALEO ELECTRICAL SYSTEMS KOREA Ltd	VALEO FRICTION MATERIALS INDIA LIMITED
100	100	100	100	100	60
VALEO RADAR SYSTEMS, INC.	DELMEX DE JUAREZ S. de R.L. de CV	VALEO EMBRAGUES ARGENTINA SA	HUBEI VALEO AUTO LIGHTING COMPANY Ltd	VALEO PYEONG HWA Co. Ltd (Korea)	AMALGAMATIONS VALEO CLUTCH PRIVATE LIMITED
100	100	100	89.7	50	50
VALEO CLIMATE CONTROL CORP.	VALEO SISTEMAS ELECTRONICOS S. de R.L. de CV	EMELAR Sociedad Anónima (Argentina)	VALEO AUTOMOTIVE AIR CONDITIONING HUBEI Co. Ltd	VALEO PYEONG HWA INTERNATIONAL Ltd (Korea)	MINDA VALEO SECURITY SYSTEMS PRIVATE LIMITED
100	100	100	100	50	50
VALEO SYLVANIA LLC	VALEO CLIMATE CONTROL DE MEXICO SA de CV	CIBIE ARGENTINA S.A.	FAW-VALEO CLIMATE CONTROL SYSTEMS Co. Ltd	VALEO PYEONG HWA METALS Co. Ltd (Korea)	VALEO INDIA PRIVATE Ltd.
50	100	100	36.5	49	100
DETROIT THERMAL SYSTEMS LLC	VALEO SYLVANIA ILUMINACIÓN S. de RL de CV		NANJING VALEO CLUTCH Co. Ltd	VALEO SAMSUNG THERMAL SYSTEMS Co. Ltd (Korea)	VALEO LIGHTING SYSTEMS INDIA PRIVATE LIMITED
49	50		55	50	100
DTS LEVERAGE LENDER LLC			VALEO SHANGHAI AUTOMOTIVE ELECTRIC MOTORS & WIPER SYSTEMS Co. Ltd	VALEO AUTOMOTIVE KOREA Co. Ltd	VALEO SERVICE INDIA AUTO PARTS PRIVATE LIMITED
49			55	100	60
			SHANGHAI VALEO AUTOMOTIVE ELECTRICAL SYSTEMS COMPANY Ltd	VALEO UNISIA TRANSMISSIONS K.K. (Japan)	
			50	66	
			HUADA AUTOMOTIVE AIR CONDITIONER (HUNAN) Co. Ltd	VALEO JAPAN Co. Ltd	
			45	100	
			VALEO LIGHTING HUBEI TECHNICAL CENTER Co. Ltd	ICHIKOH INDUSTRIES LIMITED (Japan)	
			89.7	31.6	
			VALEO INTERIOR CONTROLS (SHENZHEN) Co. Ltd	NITTO MANUFACTURING Co. Ltd (Japan)	
			100	87.2	
			VALEO COMPRESSOR (CHANGCHUN) Co. Ltd	VALEO THERMAL SYSTEMS SALES (THAILAND) Co. Ltd	
			100	74.9	
			VALEO ENGINE COOLING (FOSHAN) Co. Ltd	VALEO SIAM THERMAL SYSTEMS Co. Ltd (Thailand)	
			100	74.9	
			FOSHAN ICHIKOH VALEO AUTO LIGHTING SYSTEMS Co. Ltd	VALEO COMPRESSOR (THAILAND) COMPANY LIMITED	
			89.7	98.5	
			VALEO AUTO PARTS TRADING (SHANGHAI) Co.Ltd	VALEO COMPRESSOR CLUTCH Co. Ltd (Thailand)	
			100	99.4	
			VALEO AUTOMOTIVE TRANSMISSIONS SYSTEMS (NANJING) Co. Ltd	VALEO NILES (THAILAND) Co. Ltd	
			100	100	
			GUANGZHOU NILES TRADING Co. Ltd	PT VALEO AC INDONESIA	
			100	100	
			GUANGZHOU VALEO ENGINE COOLING Co. Ltd	NILES CTE ELECTRONIC Co. Ltd (TAIWAN)	
			100	51	
			FUZHOU NILES ELECTRONIC Co. Ltd		
			51		
			WUHU VALEO AUTOMOTIVE LIGHTING SYSTEMS Co. Ltd		
			71.8		
			SHENYANG VALEO AUTOLIGHTING Co. Ltd		
			89.7		
			SHENYANG VALEO PYEONG-HWA TRANSMISSIONS SYSTEMS Co. Ltd		
			50		
			TIANJIN VALEO XINYUE AUTO PARTS Co. Ltd		
			60		

7.3 Material contracts

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.

In 2013

Following the agreement signed with the Japanese group U-Shin on November 30, 2012, the sale of the Group's Access Mechanisms business was completed on May 24, 2013 with effect from April 30, 2013. This excluded the India-based joint venture.

On June 18, 2013, Valeo and Osram GmbH agreed on an option contract by which, if the reciprocal options are exercised by Osram or Valeo in early 2014, Valeo would be committed to acquire Osram's 50% interest in the companies' joint operations in North America: Valeo Sylvania LLC (Visibility Systems Business Group).

On September 4, 2013, Valeo and Safran signed a partnership agreement to conduct research in driving aid and autonomous vehicles. In launching this research program, which is dedicated to human-machine-environment interfaces and automation, the partners aim to pool their skills and expertise to speed up the development of innovative products in the domain of assisted driving and create new markets.

On September 30, 2013, Valeo announced the acquisition of the entire share capital of Eltek Electric Vehicles, a Norwegian company fully dedicated to designing, developing, manufacturing through subcontracting agreements, assembling and marketing worldwide, high efficiency on-board chargers for passenger cars and commercial vehicles. This acquisition will enable Valeo to accelerate and expand the development of its offer for hybrid and electric vehicles and consolidate its offering with high efficiency invertors developed alongside a number of top original equipment manufacturers.

On November 11, 2013, Valeo and leading automotive electronics manufacturer Fujitsu Ten signed a technological partnership contract with the aim of jointly developing sensing technology to detect obstacles in the car's path by combining a radar and a camera.

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) to acquire the air-conditioning systems business of Automotive Components Holdings (ACH). This company will produce air-conditioning systems and components for automobiles.

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 CO₂ emissions and stepping up its expansion in Asia and emerging markets.

7.4 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. Together with 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.

Accordingly, in respect of the period March 28, 2013 to March 20, 2014, the following documents are on display:

Full-year and half-year financial reports, quarterly financial information, share buy-back programs and other information (www.valeo.com)

February 20, 2014	● Press release: second-half and full-year results 2013
February 4, 2014	● Share buy-back monthly information – January 2014
January 17, 2014	● Half-year review of the liquidity agreement as at December 31, 2013
January 9, 2014	● Share buy-back monthly information – December 2013
December 4, 2013	● Share buy-back monthly information – November 2013
November 12, 2013	● Share buy-back monthly information – October 2013
October 17, 2013	● Press release: third-quarter 2013 sales
October 2, 2013	● Share buy-back monthly information – September 2013
September 3, 2013	● Share buy-back monthly information – August 2013
September 3, 2013	● Share buy-back monthly information – July 2013
July 30, 2013	● 2013 half-year financial report
July 30, 2013	● Press release: first-half 2013 results
July 5, 2013	● Half-year review of the liquidity agreement
July 4, 2013	● Share buy-back monthly information – June 2013
June 4, 2013	● Share buy-back monthly information – May 2013
May 14, 2013	● Share buy-back monthly information – April 2013
April 24, 2013	● Press release: first-quarter 2013 sales
April 4, 2013	● Share buy-back monthly information – March 2013
March 28, 2013	● 2013 Annual Report
March 28, 2013	● 2012 Registration Document

Major holding notifications (published on the AMF's website www.amf-france.org)

March 19, 2014	● Caisse des dépôts et consignations reported that it had reduced its interest in the Company's voting rights below the 10% disclosure threshold and that it held 5.68% of the share capital and 7.73% of the voting rights directly and indirectly, via Bpifrance Participations SA
March 19, 2014	● EPIC BPI-Groupe reported that it had reduced its interest in the Company's share capital and voting rights below the 5% disclosure threshold via Bpifrance Participations SA, which is controlled by BPI Group SA
February 10, 2014	● Lazard Asset Management LLC, acting on behalf of funds and clients it manages, reported that it had reduced its interest in the Company's share capital and voting rights below the 5% disclosure threshold, and that it held, on behalf of said funds and clients, 2.66% of the capital and 2.56% of the voting rights
July 19, 2013	● Caisse des dépôts et consignations declared that it held, directly and indirectly – through Bpifrance Participations SA – 8.85% of Valeo's share capital and 10.99% of its voting rights
July 19, 2013	● BPI Group declared that it had indirectly – through Bpifrance Participations SA – crossed over the threshold of 5% of Valeo's share capital and voting rights

Information relating to the total number of voting rights and shares forming Valeo's share capital (www.valeo.com)

Information covering the period from March 28, 2013 to February 20, 2014, updated monthly and available on Valeo's website under Investors & Shareholders/Regulated Information.

<http://www.valeo.com/en/investors/regulated-information/>

Information published by Valeo in the French official bulletin of legal notices (*Bulletin des annonces légales obligatoires* – BALO), available in French on the BALO website (www.journal-officiel.gouv.fr/balo)

June 17, 2013	● Approval of the 2012 financial statements by the Shareholders' Meeting of June 6, 2013
April 29, 2013	● Notice of Shareholders' Meeting of June 6, 2013
March 29, 2013	● Initial notice of Shareholders' Meeting of June 6, 2013

Information published by Valeo in financial media

February 20, 2014	● Press release announcing second-half and full-year results 2013 published on Hugin/InPublic
October 17, 2013	● Press release announcing quarterly sales published on Hugin/InPublic
July 30, 2013	● Press release announcing first-half results published on Hugin/InPublic
April 24, 2013	● Press release announcing quarterly sales published on Hugin/InPublic

Press releases published on Valeo's website (www.valeo.com)

March 2014

- March 19, 2014 ● Valeo takes note of the decision of Bpifrance Participations SA (ex-FSI) to sell part of its investment in Valeo

February 2014

- February 20, 2014 ● Valeo: second-half and full-year results 2013

January 2014

- January 22, 2014 ● Valeo confirms the closing of the acquisition of Osram's stake in Valeo Sylvania
- January 15, 2014 ● Valeo announces the successful outcome of its 700 million euro bond issue with maturity in 2024 and of the offer to repurchase 581 million euros' worth of notes with maturity in 2017 and 2018
- January 8, 2014 ● Valeo to seek to lengthen and smooth its debt maturity profile
- January 6, 2014 ● Valeo to take part in the CES trade show in Las Vegas for the first time in 2014
- January 6, 2014 ● Valeo acquires Osram's stake in Valeo Sylvania

November 2013

- November 14, 2013 ● Valeo and automotive electronics manufacturer Fujitsu Ten signed a technological partnership contract on November 11, 2013

October 2013

- October 17, 2013 ● Valeo: third-quarter 2013 sales
- October 1, 2013 ● Valeo announces that Axel Joachim Maschka has been appointed Senior Vice President, Sales & Business Development, effective January 1, 2014

September 2013

- September 30, 2013 ● Valeo announces the acquisition of Eltek Electric Vehicles
- September 26, 2013 ● Valeo Japan Co. Ltd, a subsidiary of Valeo SA, has entered into a plea agreement with the DoJ
- September 11, 2013 ● Valeo launches global contest: the Valeo Innovation Challenge
- September 10, 2013 ● Valeo presents its innovations at the Frankfurt Motor Show
- September 4, 2013 ● Valeo and Safran signed a partnership agreement to conduct research in driving aid and autonomous vehicles

August 2013

- August 30, 2013 ● Valeo's Efficient Generation (EG) Alternator has been granted the Eco Innovation label by the European Commission

July 2013

- July 30, 2013 ● Valeo: first-half 2013 results
- July 5, 2013 ● Valeo confident about the Chinese market

June 2013

- June 18, 2013 ● Valeo and Osram agreed on reciprocal options allowing Valeo to eventually acquire 100% of their joint operations in North America
- June 6, 2013 ● Valeo: 2013 Annual Shareholders' Meeting

May 2013

- May 23, 2013 ● Closing of Access Mechanisms
- May 15, 2013 ● Valeo has announced the appointment of Jean-François Tarabbia as Senior Vice President, Research & Development and Product Marketing

April 2013

- April 29, 2013 ● Publication of the meeting notice for Valeo's 2013 Annual General Shareholders' Meeting
- April 24, 2013 ● Valeo: first-quarter 2013 sales
- April 20, 2013 ● Valeo presents its innovations at Auto Shanghai 2013 in China
- April 16, 2013 ● Valeo's air intake module wins a PACE award and a PACE innovation partnership award at the 2013 automotive news PACE awards ceremony
- April 2, 2013 ● Valeo: 2012 Registration Document filed

7.5 Information related to the Statutory Auditors

7.5.1 Statutory Auditors and alternate Statutory Auditors

Statutory Auditors

- **Ernst & Young et Autres**, represented by Jean-François Ginies and Gilles Puissochet – 1/2, 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.

7.5.2 Fees paid to the Statutory Auditors **AFR**

(in millions of euros)	Ernst & Young				Mazars			
	Amount (excl. taxes)		%		Amount (excl. taxes)		%	
	2013	2012	2013	2012	2013	2012	2013	2012
AUDIT								
Issuer	0.0	0.0			0.0	0.0		
Consolidated subsidiaries	3.9	4.2			2.6	2.4		
Statutory audit and contractual audits	3.9	4.2	91%	91%	2.6	2.4	96%	86%
Issuer	0.0	0.0			0.0	0.0		
Consolidated subsidiaries	0.3	0.4			0.1	0.4		
Audit-related services	0.3	0.4	7%	9%	0.1	0.4	4%	14%
SUB-TOTAL – AUDIT	4.2	4.6	98%	100%	2.7	2.8	100%	100%
OTHER SERVICES PROVIDED BY MEMBERS OF THE AUDITORS' NETWORKS TO CONSOLIDATED SUBSIDIARIES								
Legal and tax advisory services	0.1	0.0			0.0	0.0		
Other	0.0	0.0			0.0	0.0		
SUB-TOTAL – OTHER SERVICES	0.1	0.0	2%	0%	0.0	0.0	0%	0%
TOTAL	4.3	4.6	100%	100%	2.7	2.8	100%	100%

7.6 Person responsible for the Registration Document **AFR**

7.6.1 Name of the person responsible for the Registration Document containing the Annual Financial Report_____

Jacques Aschenbroich, Chief Executive Officer of Valeo.

7.6.2 Declaration by the person responsible for the Registration Document containing the Annual Financial Report_____

"I hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Registration Document is, to the best of my knowledge, in accordance with the facts and contains no omissions likely to affect its import.

I further declare that, to the best of my knowledge, the accounts have been prepared in accordance with applicable accounting standards and that they give a true and fair view of the assets, liabilities, financial position, and results of the Company and of all the companies included in the consolidation scope, and that the information provided in the management report and listed in the cross-reference table in Appendix 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 Statutory Auditors' report on the consolidated financial statements for the year ended December 31, 2013, presented in this Registration Document, can be found in Chapter 5, section 5.4.7 of this document and contains an emphasis of matter of a technical nature."

Paris, March 28, 2014

Jacques Aschenbroich
Chief Executive Officer

8

CROSS-REFERENCE TABLES

8.1	CROSS-REFERENCE TABLE FOR THE REGISTRATION DOCUMENT	356	8.3	CROSS-REFERENCE TABLE FOR THE MANAGEMENT REPORT AS PROVIDED FOR BY ARTICLES L.225-100 <i>ET SEQ.</i> OF THE FRENCH COMMERCIAL CODE	361
8.2	CROSS-REFERENCE TABLE FOR THE ANNUAL FINANCIAL REPORT	360			



AQUABLADE®

Innovative wiper system for optimal visibility: washer fluid is delivered directly ahead of the wiper thanks to thin perforated channels built along the length of the blade. Valeo has reduced the unit's weight by 2 kg and its CO₂ emissions by 0.2 g.

8.1 Cross-reference table for the Registration Document

This cross-reference table lists the main headings provided for by European Regulation No. 809/2004 of April 29, 2004 (the "Regulation") and gives reference to the sections and, when appropriate, the chapters in this document where information can be found regarding each of these headings. It also refers to the Registration Document sections and chapters of the fiscal year ended December 31, 2012,

registered with the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 28, 2013, under number D.13-0246 ("2012 RD") and, where necessary, to the Registration Document sections and chapters for the fiscal year ended December 31, 2011, registered with the AMF on March 29, 2012 under number D.12-0237 ("2011 RD").

No.	Headings appearing in Appendix 1 of the Regulation	Chapters/sections	Pages
1.	Persons responsible		
1.1	Names and functions of persons responsible	7.6.1	354
1.2	Declaration by persons responsible	7.6.2	354
2.	Statutory Auditors		
2.1	Name and address of the Statutory Auditors	7.5.1	352
2.2	Information on the resignation of the Statutory Auditors	N/A	
3.	Selected financial information		
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Safe Harbor Statement

Statements contained in this Registration Document, which are not historical fact, constitute “Forward-Looking Statements”. Even though Valeo’s management feels that the Forward-Looking Statements are reasonable, investors are put on notice that actual results may differ materially due to numerous important factors, risks and uncertainties to which Valeo is exposed. Such factors include, among others, the Company’s ability to generate cost savings or manufacturing efficiencies to offset or exceed contractually or competitively required price reductions. The risks and uncertainties to which Valeo is exposed mainly comprise the risks resulting from the investigations currently being carried out by the anti-trust authorities as they have been identified in this Registration Document, risks which relate to being a supplier in the automotive industry and to the development of new products and risks due to certain global and regional economic conditions. Also included are environmental and industrial risks as well as risks and uncertainties described or identified in the public documents submitted by Valeo to the AMF, including those set out in the “Risk Factors” section of this Registration Document.

The Company assumes no responsibility for any estimates made by analysts and any other information prepared by third parties which may be used in this Registration Document. Valeo does not intend or assume any obligation to review or to confirm the estimates of analysts or to update any Forward-Looking Statements to reflect events or circumstances which occur after the date of this Registration Document.

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