

2005

Registration document



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2005 Registration document

Group profile

Fully focused on the design, production and sale of components, systems and modules for automobiles and trucks, both on the original equipment market and the aftermarket, Valeo is an independent and international industrial group.

It is one of the world's leading automotive suppliers.

The Group employs 70,400 people representing 95 nationalities in 134 production sites, 68 Research & Development centers and 9 distribution platforms in 26 countries.

Valeo applies its profitable growth strategy in line with a policy of sustainable development.



The "document de référence" (Registration document), of which this document is a free translation from the original, was filed with the Autorité des Marchés Financiers (AMF) on April 3, 2006, pursuant to article 212-13 of the AMF's General Regulations. It may only be used in connection with a financial transaction if it is accompanied by a memorandum approved by the AMF.

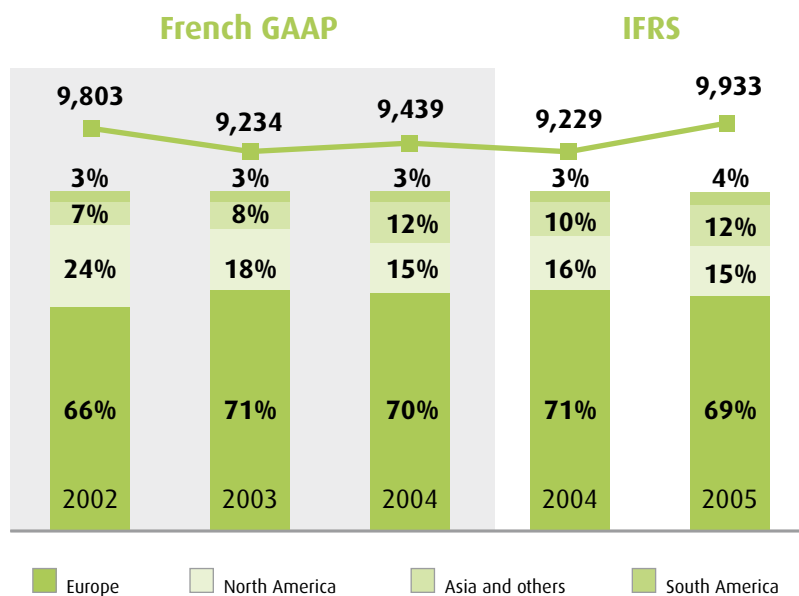
In accordance with article 28 of European Regulation No. 809/2004 dated April 29, 2004, the reader is asked to refer to previous "documents de référence" containing the following specific information:

1. The management report, consolidated financial statements, parent company financial statements, Statutory Auditors' reports on the consolidated financial statements and parent company financial statements for the year ended December 31, 2004, and the Statutory Auditors' special report on regulated agreements relating to 2004, included in the Registration document filed with the Autorité des Marchés Financiers on March 29, 2005 under No. D. 05-0290.
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, 2003, and the Statutory Auditors' special report on regulated agreements relating to 2003, included in the Registration document filed with the Autorité des Marchés Financiers on March 9, 2004 under No. D. 04-0231.

Key figures

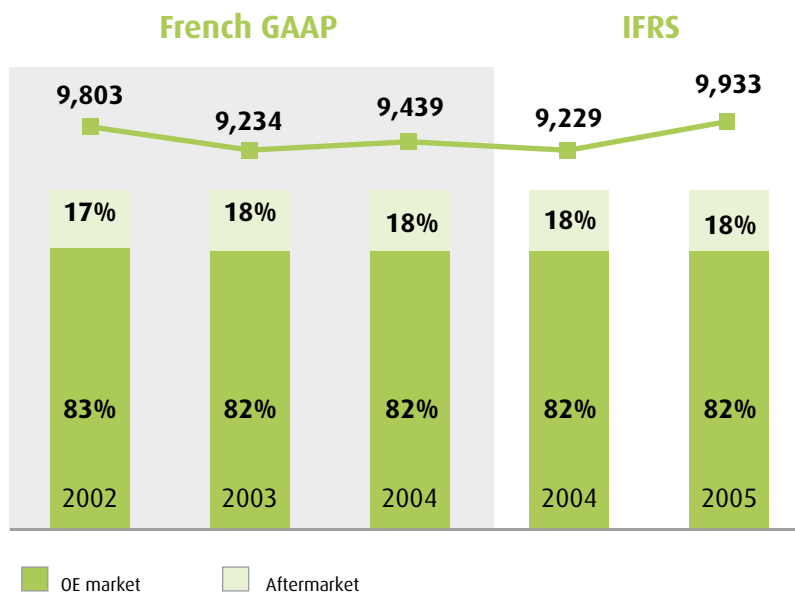
SALES BY REGION

In million euros and as a % of sales



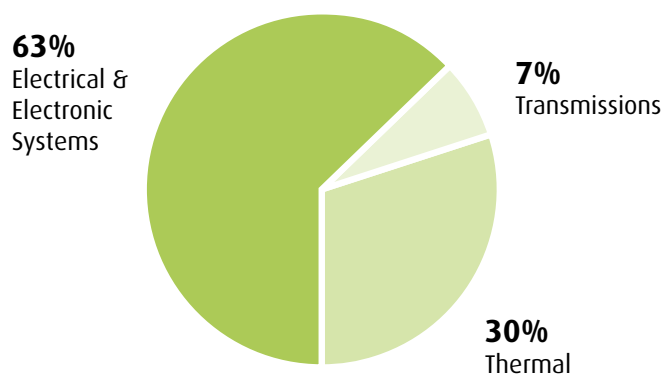
SALES BY MARKET

In million euros and as a % of sales



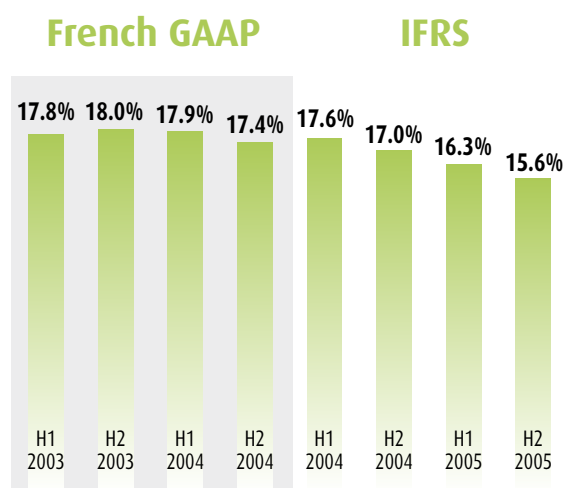
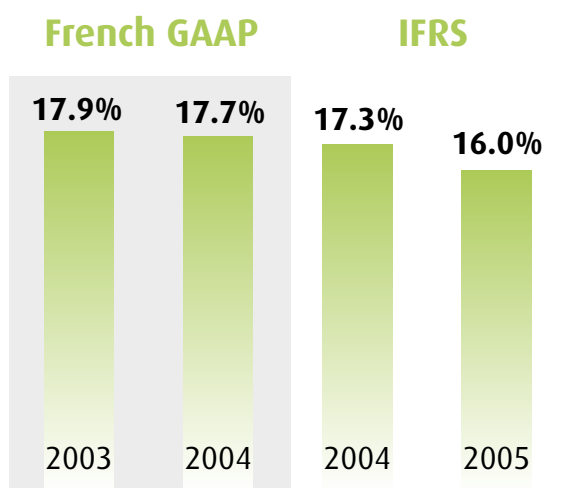
SALES BY BUSINESS

As a % of sales



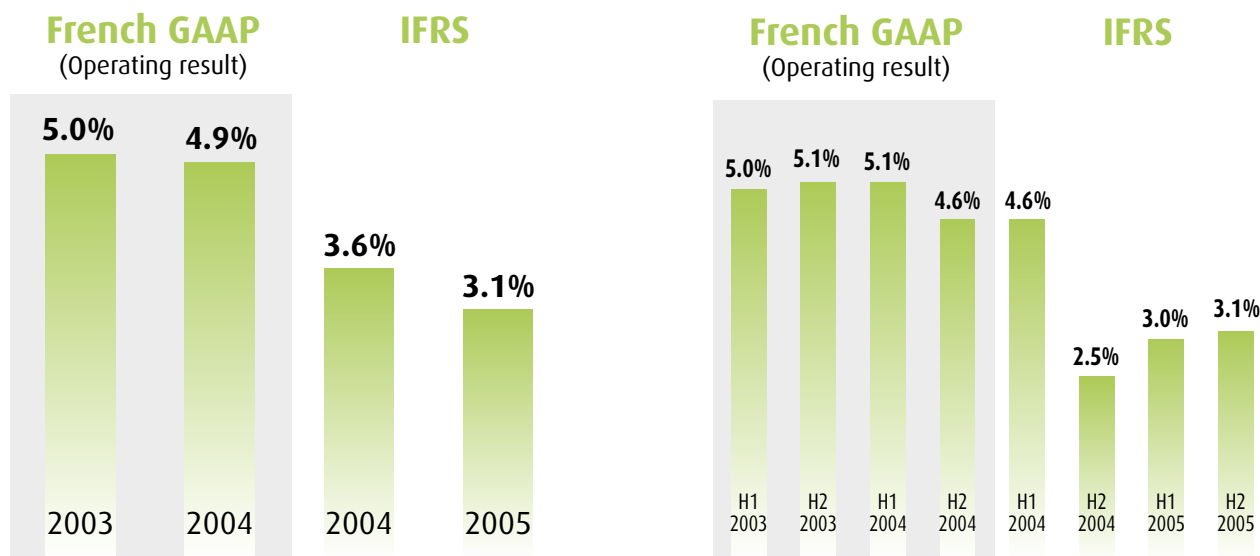
GROSS MARGIN

As a % of sales



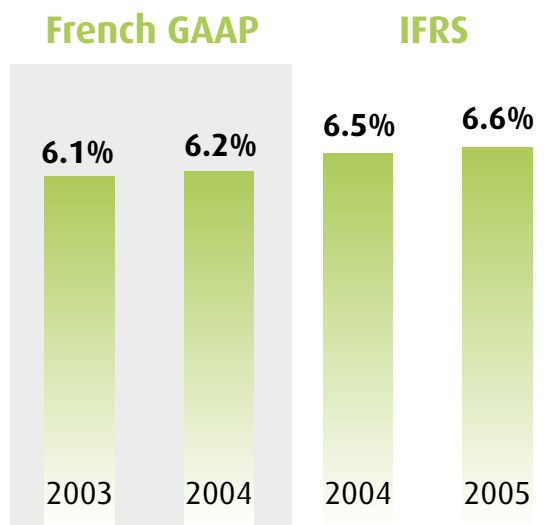
OPERATING INCOME

As a % of sales (French GAAP)/total operating revenues (IFRS)



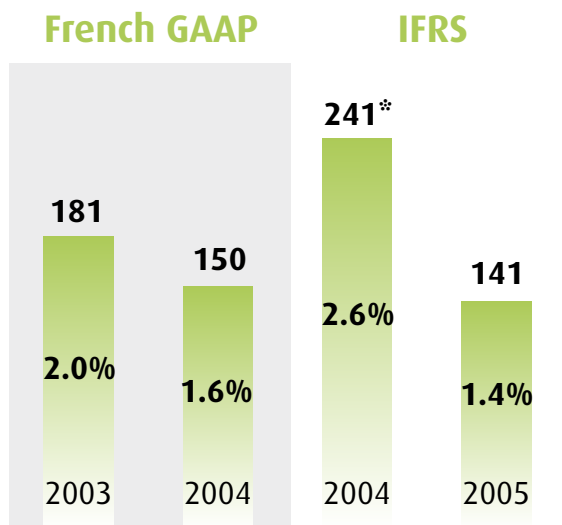
RESEARCH & DEVELOPMENT

As a % of sales (French GAAP)/total operating revenues (IFRS)



NET INCOME

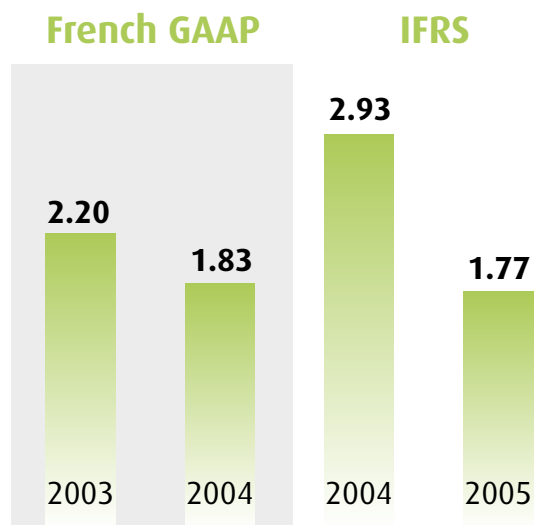
In million euros and as a % of sales (French GAAP)/total operating revenues (IFRS)



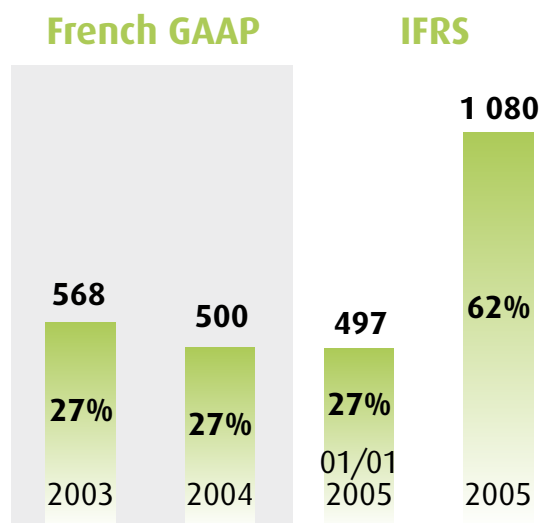
* Including an exceptional tax gain of 83 million euros

NET INCOME PER SHARE

In euros

**NET FINANCIAL DEBT**

In million euros and as a % of equity



1 ACTIVITIES

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History

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

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

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

1987

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

1988

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

1989

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

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

1990s

The Group implemented a powerful strategy based on:

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

The Group's **external growth** continued throughout the decade:

1995

- Acquisition of Siemens' thermal business in Germany.

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

1998

Acquisition of the Electrical Systems activity of ITT Industries.

1999

- Acquisition of a division of Mando (electrical systems in South Korea).

2000

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

The first years of the new millennium

In March 2001, Thierry Morin was appointed Chairman of the Board of Directors of Valeo. The Group launched a program to streamline its business and give itself greater room for maneuver:

- industrial rationalization with production reorganized across fewer sites, and a greater portion of sites in low-cost regions;
- selective disposals of non-strategic businesses;
- accelerated integration of recently acquired businesses, notably the redeployment of the US facility at Rochester acquired from ITT;
- partnership approach with a select number of suppliers;
- intensification of R&D efforts coupled with improved productivity;
- a revitalized marketing approach based on the concept of Domains, which facilitate transversal synergies;

- creation of technological partnerships with experts in various fields, including International Rectifier, Iteris, Raytheon and Ricardo, to introduce new technologies into the automotive industry and accelerate the development of new products.

This program resulted in the gradual improvement of Valeo's margins between 2001 and 2003, and boosted confidence among the Group's customers.

In 2004

Following this rationalization campaign, Valeo embarked on a new phase of development as part of its strategic project "**Valeo 2010**". The Group is positioning itself to emerge as a global leader in its businesses according to future developments in the automotive equipment industry.

- **The first thrust** of its development is the expansion of its technological offering in order to provide solutions that incorporate systems and services from three Domains: Driving Assistance, Powertrain Efficiency and Comfort Enhancement. Further synergies have been generated between industrial Branches in terms of R&D and the marketing of innovative new products.
- **The second thrust** of development is in terms of marketing, both through regional growth and by boosting the Group's presence in the aftermarket.

In geographical terms, the Group will increase its presence in North America and Asia: close relations with all automakers and the development of world platforms are strategic advantages.

With the creation of Valeo Service, the Group now benefits from an effective organizational structure that will enable it to win a greater share of the aftermarket worldwide.

- **The third thrust** of development is the enhancement of operational excellence through the optimization of production facilities and the supply chain. The objective is to offer total quality to all customers on all markets.
- **The fourth thrust** of development is organizational.

In 2005

The Group significantly developed its organization, notably by increasing the role of the three innovation Domains, grouping together the industrial Branches under an Operations Department, and strengthening functional teams, particularly within the Industrial Department.

The Group

1. Description and organization

Valeo is an industrial group fully focused on the design, production and sale of components, systems and modules for automobiles and trucks, both on the original equipment and the aftermarket.

The Group's unique sector of activity is "Automotive Supply".

On December 31, 2005, the Group employed 70,400 people of 95 different nationalities at 134 production sites, 68 Research & Development centers and nine distribution platforms.

1.1. Organization: Original Equipment

The Group is organized into more than one hundred decentralized and autonomous Divisions, and it is at Division level that resources are allocated and performance is evaluated. The Divisions enjoy the backing of Valeo's functional networks and Branches, which oversee the coherence of the Group's Product Families; they also exploit synergies with the innovation Domains, and are coordinated by National Directorates.

Valeo's industrial Divisions are responsible for running business relating to Original equipment production and sales from the various Product Families to which they belong, for specific geographical areas.

1.2. Organization: Aftermarket

The industrial Divisions are also responsible for the production and for part of the distribution of Aftermarket products on behalf of the Valeo Service structure, which handles the sale of products and services relating to the aftermarket. Valeo Service has two Branches corresponding to the two major distribution channels: automakers and their networks, and independent distributors, including buying groups. Valeo Service provides shared marketing and logistics services for both Branches.

1.3. Domains

Since the Valeo 2010 strategic plan was launched in 2004, the Group has adopted a transversal approach for developing new solutions. It promotes innovations involving several Product Families. The Domains are responsible for the Research & Development and Marketing of innovations. Their work centers on three strategic areas, in line with customers' fundamental requirements: respecting the environment (Powertrain Efficiency Domain), safety (Driving Assistance Domain) and comfort (Comfort Enhancement Domain). Each Domain has its own budget. When the innovations designed and developed by the Domains reach the marketing stage, they are transferred to one or several Divisions which take charge of commercial negotiations, final developments and production.

1.4. Product Families

There are 12 Product Families (in alphabetical order):

- Climate Control;
- Compressors;
- Electrical Systems;
- Electronics & Connective Systems;
- Engine Cooling;
- Engine Management Systems;
- Lighting Systems;
- Motors & Actuators;
- Security Systems;
- Switches & Detection Systems;
- Transmissions;
- Wiper Systems.

Previously grouped into 3 Activities on the basis of key technologies, the Product Families were placed under the responsibility of a single department in May 2005: the Operations Department. This department was created to accelerate the deployment of best practices and the implementation of synergies between Product Families. It carries out operational control of the performance of individual Divisions.

1.5. Functional networks

The main functional networks are:

- Technical networks, under the responsibility of the Group's Technical Senior Vice-President since May 2005: Quality, Purchasing, Industrial, Programs and Projects, Logistics, Information Systems, Real Estate;
- International Affairs, organized on a customer follow-up basis with one Customer Director for each major automaker, and on a geographical basis with a National Director for each of the Group's key operating zones (North America, Japan-Korea-Southern Asia, China, Brazil, Germany, Spain-Portugal, Italy);
- Research & Development, responsible for the functional management of R&D centers for the individual Product Families and the operational management of Domains and Product Marketing;
- Human Resources, also responsible for Ethics within the Group;
- Risks, Insurance, Environment, Health and Safety, which coordinates all activity in these areas;
- All financial, legal and strategic functions:
 - The Financial Control network guarantees the reliability of financial reporting and certain physical indicators. It shares responsibility for implementing action plans with the operational management teams,
 - Central treasury teams define and implement risk management rules in accordance with external financing and market risks linked to variations in interest rates, currency and raw materials,
 - Decisions regarding transfers, acquisitions and joint ventures are coordinated centrally by a specialized team, supported, where necessary, by expertise from individual Product Families and Divisions;
- The centralized Communication functions define communication plans and coordinate internal and external communication networks within the Product Families and Divisions.

2. Domains and Product Families

The purpose of the Domains is to foster innovation in order to offer the market comprehensive solutions relating to safety, the environment and comfort (see paragraph 1.3 above). The Domains work in synergy with the various Product Families in order to offer innovative solutions bringing together the Group's different fields of expertise.

2.1. Driving Assistance

The Driving Assistance Domain designs and produces solutions for monitoring the vehicle perimeter, providing the driver and other road users with information about the vehicle's immediate environment and initiating corrective actions. Three Product Families contribute in particular to developing innovations for this Domain: Switches & Detection Systems, Lighting Systems and Wiper Systems.

2.1.1. Switches & Detection Systems

The Switches & Detection Systems Product Family designs and manufactures products to improve the driver's control of the vehicle's immediate environment. Characterized by efficiency and ease of use, the technologies and systems developed allow drivers to "keep their eyes on the road and their hands on the wheel", for maximum safety and driving comfort.

The Driving Assistance Domain features the following products from the Switches & Detection Systems Product Family:

- **Ultrasonic Park Assist Systems**, which facilitate parking maneuvers, in particular for tighter spaces. Valeo produced its fifty millionth ultrasonic sensor in 2005;
- **Lane Departure Warning Systems**, which alert drivers if they stray over lane lines without activating their turn indicator;
- **Blind Spot Detection Systems**, which detect the presence of a vehicle in the driver's blind spot.

Switches & Detection Systems also develops and manufactures the following product ranges:

Switches:

- Top column modules;
- Window lift, seat control and console switches.

Engine sensors:

- Oil level sensors;
- Air and water temperature sensors;
- Particle filter sensors;
- Position sensors.

Steering and top column sensors:

- Steering angle sensors;
- Torque sensors.

2.1.2. Lighting Systems

The role of the Lighting Systems Product Family is to improve driver visibility and clearly indicate vehicle position and changes in vehicle direction or speed, in all weather conditions. Headlamps and rear lamps are also key design features, playing an increasingly important role in automakers' efforts to differentiate the styling of their new models.

In 2005, Lighting Systems contributed the following innovative systems to the Driving Assistance Domain:

- **Bending light solutions**, which optimize night-time visibility in curves, thanks to directional light beams (fixed or mobile);
- **XLED™ headlamps**, offering brighter and wider road illumination under all driving conditions;
- **Optiveo XtraVue™ night vision system**, using infrared technology to give drivers three-times better night vision, without dazzle;
- **LED front and rear lighting technologies**, which offer high performance and innovative styling possibilities for front and rear vehicle lighting.

The Lighting Systems range also covers:

- Main and auxiliary headlamps (halogen and xenon);
- Fog lamps;
- Headlamp levelling actuators;
- Electronic control units for wiring harnesses;
- Headlamp cleaning systems;
- Rear lamps (tungsten, LED or with adaptive rear brake lights).

2.1.3. Wiper Systems

A key player in the Driving Assistance Domain, the Wiper Systems Product Family offers all types of front and rear wiper systems, for both OE and the aftermarket, giving drivers perfect visibility in all weather conditions. These solutions combine the latest innovations in terms of technology and design.

In 2005, Wiper Systems continued to develop new products including:

- **Ultra-flat wiper blades**, offering excellent wiping quality with optimized aerodynamics and aero-acoustics;
- **Heated wash systems**;
- **Reversing front wiper motors**, improving wiping quality and saving space;
- **High-performance jets**.

The Wiper Systems Product Family includes:

- Arms;
- Blades;
- Linkages;
- Motors;
- Wash systems;
- Front and rear wiper modules with additional functions (stop lamp, window latch, etc.).

2.2. Powertrain Efficiency

This Domain develops systems for enhancing vehicle performance and driving pleasure while minimizing fuel consumption and pollutant emissions. Five Product Families contribute in particular to developments in this Domain: Engine Management Systems, Electrical Systems, Engine Cooling, Transmissions and Motors & Actuators.

2.2.1. Engine Management Systems

This Product Family was created following Valeo's acquisition of Johnson Controls' Engine Electronics Division (JCEED) in January 2005.

By improving specific engine performances, electronic control systems help reduce the environmental impact of vehicles while increasing driving pleasure.

The following innovations play an active role in enriching the Powertrain Efficiency Domain range:

- **Electrical exhaust gas recirculation valves**, for a more precise control of the fuel mixture;
- **Camless engine**, a smart valve actuation solution which allows for a reduction in fuel consumption of around 20% in combined cycles and a comparable reduction in pollutant emissions.

Other key products in the Engine Management Systems Product Family are:

- Comprehensive engine management systems for gasoline and gas engines;
- Engine control units;
- Electric motor drives;
- Ignition components;
- Emission control components and systems;
- Injectors;
- Sensors.

2.2.2. Electrical Systems

The role of the Electrical Systems Product Family involves the generation and management of electrical energy, from engine start-up to powertrain operation, for enhanced comfort and reduced fuel consumption and pollutant emissions.

A notable example of its contribution to the Powertrain Efficiency Domain in 2005 was the improvement of the StARS system:

- **The StARS μ -hybrid system** allows the engine to be switched to standby when the vehicle is at a standstill and then restarted quickly and silently when the driver releases the brake.

Other products in the Electrical Systems Product Family include:

- Starter motors;
- Alternators;
- Electrical energy management systems;
- Remanufactured alternators, starter motors and compressors for the aftermarket;
- Electromagnetic retarders for trucks and buses.

2.2.3. Engine Cooling

This Product Family develops and manufactures components and modules for a full range of engine and transmission cooling functions, with a view to reducing pollution and enhancing passenger comfort.

In 2005, the Engine Cooling teams focused on the following innovations in particular:

- In view of the Euro 5 and Euro 6 standards, Engine Cooling has developed solutions and products adapted to suit architectural developments for gasoline or diesel vehicles, such as a new **generation of EGR coolers and charge air coolers using water**, which are integrated directly into the intake system;
- Engine Cooling has also introduced new technologies for **high performance compact radiators and condensers with integrated reservoir**;
- In accordance with European regulations prohibiting the use of R134A coolant gas for vehicles going into production from 2011, the Product Family has developed **a new range of exchangers which comply with CO₂ coolant specifications** (substitute for R134A) which are currently undergoing testing with several customers.

Further Engine Cooling products include:

- Powertrain cooling systems;
- Radiators;
- Condensers;
- Evaporators;
- Heater cores;
- Charge air coolers and exhaust gas recirculation coolers;
- Oil coolers;
- Fan/Motor systems;
- Engine cooling modules and front-end modules.

2.2.4. Compressors

The role of this Product Family, developed in 2005 following the acquisition of the remaining 50% share in the Zexel Valeo Climate Control joint venture, is to develop and produce compressors for improving AC system performance and enhancing driving comfort.

- **The R744 Compressor** is a key component in the next generation of air-conditioning systems which will use a natural and environmentally friendly CO₂-based coolant.

2.2.5. Transmissions

This Product Family works on behalf of the Powertrain Efficiency Domain to develop and produce systems that transfer engine power to the transmissions of passenger cars and industrial vehicles. The solutions it offers incorporate innovative systems that dampen noise, vibrations and harshness. This Product Family is present in all major markets in both the original equipment and aftermarket segments.

The Transmissions Product Family contributes to the Powertrain Efficiency Domain through innovations such as:

- **The dual mass flywheel**, which improves driving comfort and minimizes noise and vibrations when engaging and disengaging the clutch, making gear changes tiresome;
- **G5 clutch facings**, the first range of "green" clutch facings, which anticipate developments to European environmental legislation and enable Valeo production sites to considerably reduce atmospheric emissions and improve working conditions.

Other products produced by the Transmissions Product Family include:

- Cover assemblies;
- Discs;
- Clutch facings;

- Release bearings;
- Hydraulic clutch actuators;
- Flexible flywheels;
- Systems for automated manual transmissions;
- Torque converters;
- Lock-ups.

2.2.6. Motors & Actuators

The Motors & Actuators Product Family develops and produces engine cooling fan systems and electric motors of over 50 watts in response to the demand for increasing powered systems in vehicles. It provides solutions for other Valeo Product Families, automaker customers and other Valeo partners.

In 2005, the main innovations by the Motors & Actuators Product Family for the Powertrain Efficiency Domain were:

- **High-power cooling motors** (700 watts);
- **Multifunctional compact brushless motors**, for multiple applications such as electro-mechanical brakes, differential controls and automatic gearboxes.

This Product Family also designs and produces:

- Cooling motors;
- Seat adjustment, window lift and sunroof motors;
- Steering column and seat belt adjustment motors;
- ABS and differential control motors.

2.3. Comfort Enhancement

The Comfort Enhancement Domain aims to make vehicles more convenient and comfortable to use, and covers all vehicle usage phases: from vehicle approach, access and safety, to the comfort and well-being of the driver and passengers. The five Product Families which work in synergy to develop solutions for this Domain are Security Systems, Switches & Detection Systems, Climate Control, Motors & Actuators and Electronics & Connective Systems.

2.3.1. Security Systems

This Product Family develops and manufactures systems that guarantee authorized, secure and comfortable access to vehicles in all circumstances, while ensuring maximum protection against theft.

It also offers ergonomic solutions for the Comfort Enhancement Domain.

In 2005, Security Systems launched two new technologies:

- **Powered opening and closure system**, which uses a modular electronic drive unit to open and close trunks and liftgates automatically;
- **Immobilizer-radio-frequency receiver**, which houses the transponder aerial, immobilization function and the radio-frequency receiver in a small space.

Security Systems also develops and produces the following ranges:

- Keyless access and ignition systems;
- Powered opening/closure systems (for sliding doors and liftgates);
- Radio-frequency remote controls and receivers;
- Transponder-based immobilizer systems;
- Steering column locks (mechanical and electrical);
- Handles;
- Keys and locks;
- Latches.

2.3.2. Switches & Detection Systems

This Product Family, which contributes to the Driving Assistance Domain (see paragraph 2.1.2), also develops solutions for Comfort Enhancement:

- **e-media** is a multifunctional control interface that reduces the number of switches on the centre console, thus improving driver ergonomics;
- **"Fixed cushion" steering wheel controls** is a system which brings all controls for comfort enhancement and driving assistance within easy reach, on the edge of a fixed central cushion, thus improving cockpit ergonomics and reinforcing the effectiveness of the driver airbag.

2.3.3. Climate Control

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

In 2005, the Climate Control Product Family presented a number of major innovations, including:

- **The Climseat air-conditioning module**, an ultra-slim module integrated into the seat. Connected to the air-conditioning system, the module provides air-conditioning, ventilation and heating for the driver and passenger seats. This system works particularly well with leather seating;
- **Low consumption air-conditioning system**, a software module for optimizing the performance of new generation air-conditioning systems and reducing energy consumption;
- **Air quality sensor**, which improves the comfort of all vehicle occupants by protecting them against pollutants and unpleasant odors;
- **Photocatalytic filter**, which automatically destroys atmospheric pollution and micro-organisms entering the vehicle, guaranteeing ongoing protection against pollutant gases and odors;
- **R744 A/C System**, an air-conditioning system using R744 (CO₂) gas, instead of current refrigerants, thus anticipating European regulations which will impose the use of environmentally friendly refrigerants from 2011 for all new vehicles;
- **Bio Clip™**, developed for the aftermarket in collaboration with Valeo Service, is a cabin air purification system, involving a small cartridge which is inserted into the cabin filter. Using natural substances, it purifies the air-conditioning system by destroying bacteria responsible for unpleasant odors. This world-first product has been on sale since 2005.

The Climate Control Product Family continued to develop its range in 2005 around five product lines:

- Heating, ventilation and air-conditioning modules;
- Cabin comfort controls (control panels);

- Decentralized comfort modules and systems (rear air-conditioning unit, booster, additional comfort modules);
- Air quality products (air filtration and purification systems);
- Air-conditioning loops and components for hybrid cars (systems for thermal management of hybrid vehicle batteries).

2.3.4. Motors & Actuators

The main innovations developed in 2005 by the Motors & Actuators Product Family (see also paragraph 2.2.6 above) for the Comfort Enhancement Domain are:

- **Anti-pinch motors** for opening windows and sunroofs;
- **Motors and actuators for electrical parking brakes.**

2.3.5. Electronics & Connective Systems

This Product Family contributes to the Comfort Enhancement Domain by developing and producing electrical and electronic distribution systems and related components. Innovations developed include **solutions for optimizing battery management**, including compact current sensors and power switches.

The range covered by this Product Family includes:

- Modular electrical wiring harnesses;
- Body controllers;
- Under-hood engine controllers;
- Electronic distribution boxes for under-hood applications;
- New electrical energy management systems and components.

This Product Family also provides support for the Driving Assistance and Powertrain Efficiency Domains.

3. Aftermarket products and services

Valeo Service consists of two Branches whose roles are to supply original equipment spares to automakers and universal market spares to the independent aftermarket (see paragraph 1.2 Organization: Aftermarket). It offers Aftermarket customers a wide range of products and services designed to increase the effectiveness of repair specialists. The offering responds to increased customer demands, going beyond simply supplying parts to include ever more comprehensive and optimized services and technical skills (catalogues, training, diagnostic and sales tools).

In 2005, Valeo Service focused its efforts on **improving customer satisfaction** through the following objectives:

- **Logistics excellence through improved service levels** thanks to the implementation of a request management schedule;
- **Total quality for products and services:** activities focused on all areas of customer service with order entry, training programs and remote technical assistance. Valeo Service also carried out actions against product counterfeiting and continues the campaign centered around the Valeo label, guaranteeing the origin and quality of Valeo products.

The following services have been added to the range:

- Online publication of an electronic catalogue covering all the ranges;
- Optimization of the support service for the Valeo Clim Service network;
- Continual updating of both paper and multimedia catalogues;
- Reinforcement of the diagnostic tool range;
- Geographical expansion of the eXponentia training program, which keeps repair professionals continually up-to-date with ever more numerous and complex developments in current vehicle technologies;
- Development of innovative logistics solutions, such as direct delivery to plants and platforms and pooled sourcing management.

Valeo Service also extended its range of products and services in 2005 to include:

- **increased fleet cover** for all product lines thanks to in-house developments at Valeo;
- **development of new aftermarket products** such as the Bio Clip™ air purification product, window lift systems, or the Beep & Park park assist system;
- **adaptation of new OE technologies for the aftermarket** such as Xenon and bending light technology.

Valeo Service produces 12 product lines, including 176 ranges designed to cover the markets for light, commercial and industrial vehicles and trucks. It is organized as follows:

- **Wiper Systems:** blades, arms, linkages and front and rear wiper motors, positioned according to brand (Valeo Marchal, PJ, SWF);

- **Transmissions:** clutches, 4-part kit with rigid flywheel, 3-part kit with hydraulic release bearings;
- **Lighting and Signalling:** main headlamps, Xenon headlamps, auxiliary headlamps, (including Xenon long-range and fog lamps), daytime running lights, rear direction indicators, lamps, work lamps;
- **Climate Control:** products belonging to the Air Quality range (Clim Filter cabin filters, Bio Clip™, ClimPur), compressors, condensers, filter driers, heaters and blowers, diagnostic and maintenance tools, regulation parts;
- **Engine Cooling:** heat exchangers, water pumps, thermocontacts, thermostats, cooling fluids, particle filter exchangers;
- **Electrical Systems:** starter motors and alternators (new and remanufactured);
- **Electronics:** park assist systems (Beep & Park), electronic accessories;
- **Security Systems:** steering column locks, locks, latches, fuel caps;
- **Switches & Detection Systems:** steering column controls and switches, door handles, actuators, window lifts, electrical accessories;
- **Braking:** brake pads, discs and shoes, rear brake kits, hydraulic components, brake fluid;
- **Ignition:** pencil ignition coils, ignition rails, integrated ignition modules, spark and glow plugs and a wide range of spare parts for ignition systems.

In addition to these product lines, a range of Michelin license wiper blades was launched in 2005.

4. Functions

4.1. Human Resources

The Valeo HR function adopts a proactive approach to accompany the Group's global growth, by developing universal guidelines which take into account specific local features and the market context.

With an overall HR policy based on empowering its 70,400 employees (at Dec. 31, 2005) working in 26 different countries, the Group strives to provide all staff with the same training opportunities so that they can enhance their efficiency, operational performance and development potential.

Valeo operates in a particularly competitive market: involving all employees and updating and developing their skills are essential to the Group's progress. Valeo is particularly attentive to all factors that contribute to motivating employees in their work and sustaining dynamic collaboration between the teams.

The Group offers each of its employees genuine career prospects. Internal mobility is a key factor in developing Valeo's own top quality future leaders.

In 2005, Valeo recruited 14,850 employees throughout the world, including 2,030 Engineers and Managers, bringing new skills to the Group.

4.1.1. Competence Management

In 2005, Valeo pursued its competence management project initiated in 2004 in order to define a set of key competences required for success at Valeo. Two categories have been defined: twelve standard competences (common to all engineers and managers, including adaptability, problem-solving, communication, team work, etc.) as well as function-specific professional competences: human resources, research and development, marketing, etc. The new standards enable Valeo to compare the competence profile acquired by each person against the target competence profile for an existing or future position. Particularly useful for internal and external recruitment and the development and analysis of training requirements, these standards facilitate decision-making and enhance objectivity: for example in assessing a candidate's suitability for a post, preparing an employee effectively for the next step in his or her career, or fine-tuning mobility between functions. Currently in the early stages of deployment, this system will gradually be extended and adapted to all Group employees.

4.1.2. Training

Training plays a major role in the successful integration of new entities and organizational changes. It enables individuals to acquire the fundamental principles of Valeo culture: in-house terminology, working methods and shared working tools.

Moreover, in the spirit of the recent training reforms in France, Valeo encourages each employee to take a proactive role in developing their professional skills. During a career appraisal (compulsory in France and extended to all countries in which the Group operates), each employee is given an opportunity to hold a discussion with their line manager. Above and beyond essential training activity for their current position, the objective is to gain a long-term vision, clarify the employee's career goals and their potential to satisfy Group requirements. This exchange enables the definition of steps and resources to be implemented, including the French individual training entitlement (*Droit Individuel à la Formation*).

To provide a more effective and personalized solution, Valeo encourages training which combines different learning methods: conventional classroom training, skills appraisals, coaching, role play and computer-assisted self-training. For the latter category, ValeoC@mpus, the Group's online university, is open to all personnel. Employees are able to access training at their own pace, with assistance from HR staff or tutors. Training covers a wide variety of areas including languages, office systems, management, personal efficiency, as well as the Valeo culture, products and technical processes. In 2005, some 13,000 employees received around 60,000 hours of online training. Several functional departments

have adopted this training method and are developing their own modules. The Programs and Projects, R&D and Intellectual Property departments have all created online courses, which can be accessed at any time by any member of their networks, irrespective of the country in which they work.

4.1.3. Code of Ethics

Valeo joined the UN Global Compact Program in 2003 and fully supports its principles of social and corporate responsibility. In 2005, Valeo continued its efforts in this area by further reinforcing its Code of Ethics. Regulations included in the Code must be respected by all Group employees, even where commitments exceed the requirements of local legislation in certain areas, such as child labor.

The Code of Ethics has been translated into the 19 languages used by the Group and can be accessed by all individuals working at Valeo, whether Group employees or not, who are required to follow all the regulations, without exception.

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

4.1.4. Relations with Schools and Universities

Valeo has continued and strengthened its relations with higher education establishments, in particular by developing partnerships and forums with foreign universities and schools, lending the Group a further international dimension. Valeo has signed an agreement with the University of Krakow in Poland. The Group also takes part in a number of forums: ENSAM in Morocco, a Franco-German forum in Strasbourg, and at the universities of Wuhan in China, Zaragoza in Spain, Cassino in Italy, Košice in Slovakia and the Yes-Expo in Detroit.

In France, Valeo has intensified relations with a number of partner schools and universities, such as Supélec, UTC, the École des Mines in Nantes, ESIGELEC, ENSIETA in Brest, and ECE, and has concluded new agreements with the École des Mines in Douai.

In 2005, Valeo also contributed to launching the "Innovation Management" chair at the École Polytechnique, which is sponsored by Valeo and three partners: Renault, Arcelor and Dassault Systems.

4.1.5. Industrial Relations

Valeo is firmly committed to a forward-looking employment and skills management policy.

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

Employee representatives are regularly informed and consulted on these operations.

The Group's social indicators can be consulted in the "Social indicators" section in Appendix 2 of the Management Report.

4.1.6. Integration Management

Two major acquisitions were completed in 2005:

- The acquisition of Johnson Controls' Engine Electronics Division (JCEED), which reinforced the Powertrain Efficiency Domain with the creation of a new Product Family: Valeo Engine Management Systems;
- Valeo acquired the remaining capital of the Zexel Climate Control and Compressors activities, thereby enhancing the Climate Control and Valeo Compressors Product Families. A new Product Family was created for the compressors activity, with headquarters in Tokyo, a first in the Valeo organization for this type of entity.

Widespread training, as well as transfers within the Group of numerous functions, have made it possible to integrate the new teams in the best possible conditions.

4.2. Risk Management, Insurance, Environment, Health and Safety

4.2.1. Risk Management and Insurance

In line with the Group's long-term vision, Valeo's risk management policy is founded on the basis of rigorous procedures and management systems for improving performance.

The Valeo approach, applied systematically at all Valeo sites, involves two key aspects: respecting obligations imposed by national legislation as well as those defined by Group policy (which exceed the requirements of national regulations in many areas), as well as identifying risks and evaluating their impact, setting objectives and implementing action plans.

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. In addition to the procedures in this Manual, application guidelines are provided, outlining the practical application of procedures. The Group also produces an **Insurance Manual**, updated on an annual basis, providing comprehensive information on risk coverage and managing insurance programs.

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

Site action plans are communicated twice yearly at the Group level, providing the Risk, Insurance and Environment Department with precise and comprehensive information for evaluating the performance of individual sites. Each site is graded on an annual basis.

4.2.2. Environment

Environmental protection demands a number of initiatives which are, by definition, long-term. Valeo has been applying such initiatives for nearly 15 years.

The objective is of course to prevent environmental pollution, but also to protect the environment by reducing consumption of energy and raw materials, achieving maximum recyclability of all products, and offering an industrial environment that is both safe and pleasant to work in.

- Valeo innovations systematically incorporate an environmental dimension into their design. This applies to a product throughout its lifetime: from design to production and use, right up to the management of the product at the end of its life. Since 1998, a group of experts in environmental matters and research and development from different Valeo Product Families have been working together to reduce the environmental impact of processes and products over their entire lifecycle. This research group meets regularly to discuss specific topics such as the elimination of banned and restricted substances and the use of recycled plastic, for example.

- Valeo has also created a reference database of substances that are banned or restricted in the automotive industry. Updated in 2005, this database details the regulations applicable in the different countries where Valeo operates and the requirements of its automaker customers concerning over 600 substances used in the composition of parts and in manufacturing and repair processes. One of Valeo's key projects for 2005 in this area was to continue the gradual elimination of any procedures using trichloroethylene.
- To fulfill its progress objectives, Valeo bases its environmental policy on performance as well as the implementation of a management system which leads to regularly renewed certification. This is the case with **ISO 14001 certification**, the international standard in terms of environmental management systems. **At the end of 2005, 117 of the Group's sites had ISO 14001 certification.** The aim is for all Valeo sites to be certified. Newly acquired sites are immediately integrated into this certification system.
- The **generic plant** is also a concept developed by Valeo, based on the work of the HQE (High Quality Environment) association, the US Green Building and World Bank recommendations. All new plant construction and refurbishment projects are carried out according to very detailed specifications. These cover site selection, plant architecture and construction, employee working conditions, plant operation, application of regulations, Valeo risk prevention standards, optimized energy consumption, and the reduction of emissions and waste. All building and renovation specifications involving safety, health and the environment are outlined in the Valeo Factory Design Guide.

4.2.3. Health and Safety

As regards health and safety in the workplace, Valeo has begun a process for obtaining certification in accordance with the OHSAS 18001 international standard. Launched in mid-May 2005, the project aims to obtain certification for all Group sites. **18 sites had already been granted full certification by the end of December 2005, compared to three at the end of 2004.**

Like the ISO system, this health and safety management system is based on continuous improvement.

The Group's environmental indicators can be consulted in the "Environmental Indicators" section in Appendix 1 of the Management Report.

4.3. Industrial Functions

Operational excellence is a key challenge at Valeo. The controlled development of the Group's business relies on implementing this fundamental principle on a daily basis: obtaining cost-effective total quality first-time, whether this involves methods, production, projects or purchasing.

The new Technical Department, which brings together the Quality, Purchasing, Industrial, Programs and Projects, Logistics, Information Systems and Real Estate Departments, was set up in 2005 to assist the Group in pursuing its plan of reducing costs and optimizing quality, as well as fostering cooperation between these five functions. Its objective is to ensure that the 5 Axes are applied in a strict and disciplined manner.

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

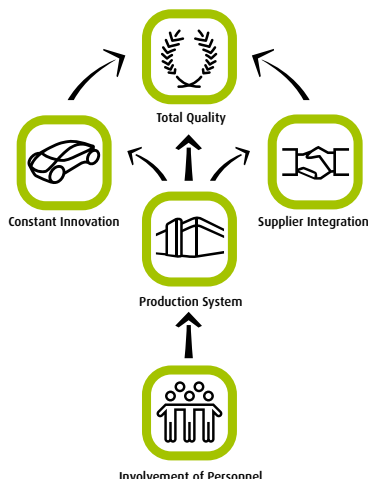
Valeo Production System (VPS): the VPS is designed to improve the productivity and quality of products and systems. It is a "pull-flow" system based on the flexibility of production resources, the elimination of all non-productive operations and stopping production at the first non-quality incident.

Constant Innovation: to design innovative, easy-to-manufacture, high-quality and cost-effective products while reducing development time, Valeo has set up an organization based on project teams and the simultaneous engineering of products and processes.

Supplier Integration: enables Valeo to take advantage of suppliers' ability to innovate, develop productivity plans with them and improve quality. Valeo sets up close and mutually beneficial relationships with a limited number of world-class suppliers and sustains these relationships in the long term.

Total Quality: in order to meet customer demands in terms of product and service quality, Total Quality is required throughout the Group and from its suppliers.

THE 5 AXES



FOR CUSTOMER SATISFACTION



The 5 Axes were revised in 2005 and several additions were made to the previous version, which dated back to 2000. Tools devised by the networks in the interim have now been included in the 5 Axes, in particular:

- **the Quick Response Quality Control (QRQC) approach:** any problem is immediately identified and analyzed on the spot by the parties involved. Corrective action is defined and implemented within 24 hours. This approach applies to all domains: production, quality, purchasing, logistics and risk management. The latest strategy, launched in 2005, is to apply the QRQC approach to projects. The idea is to detect potential problems before projects have even been launched;
- **the “pull-flow” industrial method** allows Valeo to reduce stocks, improve the productivity of the direct workforce and optimize deployment of resources and investments, in line with actual customer demand;
- **the notion of “Kosu”:** a measure of the resources required to manufacture a part, Kosu can be used to indicate cost performance and for schedule monitoring.

Internal audits are used to evaluate the results of the 5 Axes approach. For over ten years now, the Group has used its own standards to analyze and improve the application of each of the 5 Axes. In 2005, **a new reference standard, the V5000**, was launched and translated into the 19 Group languages for deployment at all Valeo sites from the start of 2006. The standard includes ten obligatory objectives that must be achieved. The standard should ensure that all Valeo sites focus on the same key priorities.

4.3.1. Purchasing

The role of Valeo’s Purchasing network is to reduce supply costs through increased sourcing in competitive-cost countries, implement rigorous selection processes for new suppliers, apply the total quality approach to suppliers and sub-contractors and establish close partnerships with top suppliers. The Group’s goal is to use its purchasing strategy to gain a competitive edge.

- The Purchasing network covers all activities linked to supplier integration and numbers nearly 1,600 individuals. Suppliers are divided into purchasing families for products and services from raw materials to electronic, mechanical and plastic components, etc. The twelve Valeo Product Families each have their own purchasing networks and there is a separate purchasing team for every Valeo site. The different Product Families are coordinated by Group Lead Buyers (based at the sites, these buyers coordinate and harmonize the purchasing policies of the different Valeo Divisions for which a given supplier works) and Group Commodity Leaders, who are responsible for strategy and the supplier base for each purchasing family.
- Valeo continues to deploy resources to help its suppliers improve their own quality processes. The Group’s QRQC approach continues to be implemented to assist suppliers in achieving zero defects. In 2005, around 280 suppliers were trained in QRQC practices.
- Supplier Relationship Management (SRM) is an essential tool in the relationship between Valeo and its suppliers. SRM is a secure extranet resource. Modules such as the Incident Management System and Supplier QCD Feedback (reporting back to suppliers on their performance in terms of quality, cost and delivery) can be accessed on the extranet, enabling Valeo and its suppliers to work closely together and share standardized processes, for example, in order to identify and process quality incidents rapidly.

- By working with fewer suppliers, Valeo is better able to support them in their quality strategies. The Group has thus retained the best suppliers in terms of quality, technology and productivity. Despite supplier influx from acquisitions during the period, the Group reduced the number of its suppliers by 370 in 2005.
- In 2005 Valeo continued its **Convergence** program with a twofold objective: drastically reducing costs and improving the quality of supplier-manufactured products. The system uses a specific monitoring tool, the Scorecard which provides a visual indication of quality performance and cost reductions implemented. It also provides three-year visibility of developments and potential areas of productivity, as well as indicating where such areas have not yet been identified. Each supplier scorecard is monitored by a Group Lead Buyer (see above). In 2005, the Convergence program involved around 270 Valeo suppliers, representing 58% of Group purchasing. The program is complementary to the VIP program launched in 1999.
- **Valeo Integrated Partners (VIP) program**, which involved 99 suppliers in 2005, including suppliers from competitive-cost countries. In exchange for a commitment to continuously improve operational performance, Valeo offers these partners greater volumes and business opportunities. With the launch of its new Code of Ethics, Valeo further tightened the requirements imposed on its suppliers in terms of labor rights and environmental protection.
- Innovating and designing products using different materials and new architectures can also help reduce costs. Presentations to identify supplier innovations are organized on a regular basis. In 2005, 45 Valeo suppliers carried out technological presentations.
- **Valeo has increased purchasing in low-cost countries.** These purchases represented 26% of total production purchases in 2005, an achievement largely due to Valeo's **APO** (Asian Purchasing Office) in Shanghai.

4.3.2. The Valeo Production System and logistics

The role of the Valeo Production System (VPS) is to improve product quality while at the same time reducing production costs. At the heart of this strategy lie the optimization of the industrial footprint and the deployment of a Total Quality culture.

- In 2005, Valeo continued to implement both its plan to standardize processes and equipment, using the Kosu approach to measure the resources required to manufacture a part, and also its investment optimization strategies. These operational standards make it possible to capitalize on experience, cut product development lead times, stabilize new production lines quickly while avoiding start-up problems, and cut costs at every stage of the process.

All activities are now carried out using standards that supervisors must ensure are respected and improved. On the shop floor, performance is monitored in real time through a concrete analysis of what really happens on the production line. Problems are identified, immediately processed and turned into opportunities for improvement. Each operation is assessed for its contribution to the added-value of products, and operations lacking in this respect are eliminated.

- The involvement of employees in the process of optimizing investments was also crucial this year. This approach has enabled the Group to define new standards, while emphasizing flexibility and versatility.
- The ergonomic design of workstations continued to be improved. Each workstation is organized around the needs of operators, who have made significant contributions to improving their comfort and safety at work. This approach is also part of Valeo's Occupational Health and Safety policy (see also paragraph 4.2.3 Health & Safety). It helps reduce the number of accidents at the Group's production sites.
- The specific features of the aftermarket are also taken into account at Valeo. This market imposes certain constraints on industrial operations. Products are mainly manufactured using the same production machines as for original equipment parts. If necessary, simplified lines designed for small volumes with low levels of automation can meet the requirements of this market. Servicing and maintenance of these specific machines are already in place.
- In order to optimize logistics, each Valeo plant is organized according to product flow. Responsiveness and flexibility with regard to customers' requirements are fundamental. In particular, Valeo employs pull-flow methods to reduce stocks and simultaneously improve customer service levels.

4.3.3. Quality

Quality is a key demand from consumers and automakers. The cornerstone of Valeo's 5 Axes methodology, it is an integral part of the Group's culture.

Total Quality is not just a question of methodology; it is above all a state of mind. It therefore requires the involvement of everyone at all times and in all circumstances. At Valeo, this approach is the responsibility of all 70,400 Group employees.

- The role of the Quality network is to ensure that everyone is aware of and understands their individual responsibilities. It also consists of evaluating problems and requirements in terms of training support, and of training, supporting and validating lessons learned and sharing them to avoid any recurrence.

- The Valeo Quality network functions on the basis of a decentralized network and involves each of the 5 Axes.

The Quality System Manager validates internal procedures, checks that they are applied properly, and updates them to ensure that they are in line with both internal and external quality standards.

The Project Quality Manager ensures that the quality methodology is duly applied to projects and checks that projects are covered for their entire duration, in accordance with Valeo standards.

The Supplier Quality Manager manages the quality of components delivered, from the project phase right through the product's lifecycle and assists supplier progress through the implementation of improvement plans.

The Production Quality Manager ensures that quality-specific tools are properly implemented within the manufacturing process and coordinates the deployment of control plans as well as work instructions.

The Customer Quality Manager acts as the "voice of the customer" for all quality incidents to ensure the customer's total satisfaction.

- Valeo has also implemented a program of resident engineers, to provide optimal customer support. Engineers are no longer simply assigned to a given customer, they actually go and work at the customer's premises. As soon as a problem is detected, the engineer communicates it to the appropriate people at Valeo, so that actions can be defined immediately to protect the customer. At the end of 2005, the Group had 52 resident engineers, including 38 in Europe, 9 in North America and 3 in South America. The program was also deployed in China in 2005, where 2 resident engineers are now working alongside customers.

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

The **San Gen Shugi** approach, inspired by Japanese best practices and based on a concrete analysis of what actually happens on the shop floor. San Gen Shugi is based on reality: Gen-ba (where and when a problem arises) Gen-butsu (using the actual parts involved, whether good or bad versus the standard), Gen-jitsu (using measurable facts). This attitude is founded on both individual responsibility and teamwork.

The **QRQC approach** (Quick Response Quality Control) is also essential. When a problem occurs it is immediately identified and analyzed by the parties involved. Corrective action is defined immediately and implemented within 24 hours. In the event of a quality incident, meetings are held on the spot, to identify the root cause and eliminate it for good. These meetings involve employees from various functions as required: production, logistics and maintenance, etc.

- In the automotive industry, non-quality of products is expressed in ppm (the number of defective parts per million parts produced). In five years, Valeo has reduced the number of defective parts by a factor of 9. The ppm figure for 2005 was a 36% improvement on 2004, and reached 32 ppm by the end of 2005. 48 Valeo sites were below the 10 ppm mark at the end of 2005.
- In 2005, Valeo launched an extensive Quality campaign, translated into the 19 languages used by the Group. The objective is to develop the quality approach throughout the Group and help all sites to achieve 0 ppm for total customer satisfaction. This campaign is currently being deployed at all Group sites throughout the world.

4.3.4. Programs and Projects

Valeo set up a **Programs and Projects** Department in late 2005 in order to promote project management best practices, enabling the launch of reliable products, free of quality problems and with guaranteed lifetimes. The role of this function is therefore to ensure that all Group projects are launched successfully, in terms of quality, deadlines and cost, by implementing rigorous methods and applying them to the Group's entire Project network.

- The Projects function covers all areas for developing new applications, from standard products to advanced development projects. Directors, project managers and all members of their teams work on development projects for the full spectrum of automakers. Project teams consist of buyers, sales staff and employees specializing in R&D, quality and processes. The Valeo project portfolio includes around 1,480 projects, covering a wide variety of products from simple sensors to highly sophisticated systems or complex integrated modules.
- The methodologies implemented by the Projects function are taken from the 5 Axes approach. There are four project categories at Valeo: P3 (creativity), P2 (generic standards), P1 (customer application) and P0 (changes during the production phase). They are outlined in a document called the **Constant Innovation Policy**. This policy sets out in detail the innovation process at Valeo. It also covers Group best practices and details the organization of teams, resource management guidelines and the development of systems and modules. **Lean Investment** techniques are also used to minimize production costs and maximize team outputs. The QRQC approach has been adapted to the Projects function and its deployment is currently underway.

4.4. Research and Development

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

Innovation is, more than ever before, at the heart of the Group's development strategy. Valeo engineers seek to anticipate automakers' demand for solutions that offer real added-value for drivers: increased comfort, performance and respect for the environment. In 2005, Valeo's R&D budget represented 6.6% of sales, and over 650 new patents were filed.

- Faced with an ever more demanding market in terms of innovation but also in terms of time-to-market for innovative technologies, Valeo has developed the processes necessary for reducing design lead times for new products. Thus, the Group works upstream to improve the in-house efficiency of projects, ensuring the appropriateness of actions scheduled and checking that existing competences correspond to those required (see also paragraph 4.3.4 Programs and Projects). Major efforts are made to reduce the cost of research and development, in order to satisfy market expectations.
- Since an innovation's success is closely linked to its effectiveness and close conformance to drivers' expectations, Valeo deploys a wide range of tools, market research, forecasts and testing. Surveys are carried out to gain a better understanding of driver requirements and tests evaluate how new products are perceived. These tools enable Valeo to measure the extent to which innovations are accepted. The ultimate goal is to quickly develop and implement innovations which are useful to the driver and generate growth for Valeo.
- **The Domain-based approach** was continued and expanded with the acquisition in 2005 of Johnson Controls' Engine Electronics Division (JCEED) and the remaining capital of the Zexel climate control and compressors activities, which reinforced the Valeo Domains. (For a more detailed description of the Domain-based approach, see paragraph 1.3 Domains and paragraph 2 Domains and Product Families).

- To reinforce its technological offering, Valeo also forges **partnerships with top specialists** who are leaders in their field. In 2005, these efforts focused predominantly on ongoing partnerships from previous years, such as the association with Raytheon, the radar technologies specialist; Ricardo, the automotive engineering consultancy; International Rectifier focusing on power electronic modules; Jabil Circuit, concerning the production of printed circuit boards; and Iteris, for lane departure warning systems. In 2005, Valeo signed a partnership with IBM for developing on-board software.
- Valeo also partners a variety of universities and academic institutions, such as France's École des Mines, which develops on-board cameras and pedestrian detection within the Driving Assistance Domain. The Group also works on simulation techniques and fluid mechanics with Stanford University in the United States.
- **Valeo has R&D centers throughout the world.** There were 68 Research and Development centers at the end of 2005, including a number of high-level centers opened in emerging countries. Thus, Valeo now has R&D sites in Casablanca (Morocco), Prague (Czech Republic), Mexico City (Mexico) and Wuhan (China). Teams working at these centers contribute to projects for both the local market and Group-wide projects.

4.5. International Affairs

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

4.5.1. Automaker customers

The Group aims to supply all automakers. Valeo's top five OEM customers, representing a total of 63% of Group sales, are (in alphabetical order) DaimlerChrysler, General Motors, PSA Peugeot-Citroën, Renault-Nissan and Volkswagen.

The Group's biggest customer represents just over 15% of Valeo's sales.

Its main original equipment customers are (in alphabetical order):

- BMW;
- DaimlerChrysler;
- Fiat (including Iveco);
- Ford Motor Company;
- General Motors;
- Honda;
- Hyundai;
- Man;
- Mitsubishi;
- Navistar;
- Paccar;
- Porsche;
- PSA Peugeot-Citroën;
- Renault-Nissan;
- Scania;
- Toyota;
- Volkswagen Group;
- Volvo Trucks.

4.5.2. Operational structure of International Affairs

International Affairs consists of three networks:

- **National Directorates**, which act as ambassadors for Valeo in given geographical areas. There are seven National Directorates, based in China, Germany, Italy, Japan, North America, Poland and Spain. Their role is to promote the Valeo brand in these regions, establish close relationships with the key customers in the regions and resolve locally any legal or social problems, where necessary;

- **Group Customer Directors**, who are the Sales Directors responsible for major automaker customers. These eight Directors each represent Valeo in dealings with a given manufacturer and coordinate relations with the customer on a Group-wide basis, for all Product Families;
- **Sales and Business Development network**, consisting of twelve Sales Directors, each one linked to a different Product Family. This network defines the commercial strategy to be implemented and is responsible for day-to-day customer relations.
- To underline Valeo's role with regard to automaker customers and showcase the Group's innovations at an early stage in the vehicle development process, Valeo organizes technical presentations at the customer's premises and also "Ride & Drive" events. These operations give Valeo an opportunity to demonstrate its latest innovations grouped together into the various Domains and give guests the chance to test them for themselves at the wheel of Valeo's specially-equipped demonstration vehicles. The events bring together different stakeholders in a private setting at the automaker's premises, including Activity and Platform Managers, and Research & Development, Product Marketing and Purchasing Directors. Valeo is also present at the major international auto shows, with the goal of developing commercial relations with its customers.
- Valeo has developed a number of tools to ensure that commercial relations with its customers foster a context of profitable growth and generate new business. The Customer Development Plan, for example, is a tool for promoting the Group's commercial strategy. Customer satisfaction surveys are also carried out on a regular basis.
- Valeo has also developed an entire training offer dedicated to improving the effectiveness of its sales force: the Valeo Sales Academy. In 2005, the Group's sales forces in China were trained using Valeo Sales Academy modules.

Geographical presence

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

In 2005, Valeo continued the deployment of its sites in Asia, as part of its policy of globalization and accompanying its automaker customers. Valeo now has production facilities in each of the world's major vehicle assembly regions as well as new sites based in countries offering the most competitive production costs.

VALEO PRESENCE BY GEOGRAPHICAL REGION AT 31/12/05

	Production sites	R & D centers	Distribution platforms	Headcount
Western Europe	59	43	6	33,400
Belgium, France, Germany, Italy, Portugal, Spain, Sweden, UK				
Eastern Europe	16	1	2	9,300
Czech Republic, Hungary, Poland, Romania, Slovakia, Turkey				
North America	16	14		7,800
Mexico, USA				
South America	11		1	3,400
Argentina, Brazil				
Asia	22	9		7,100
China, India, Japan, South Korea, Thailand				
Africa	10	1		9,400
Morocco, South Africa, Tunisia				
	134	68	9	70,400

Somes sites are currently extending their operational capacity.

At December 31, 2005, the Group's property portfolio, including land and installations, represented a net book value of €626 million. It consists mostly of production sites, most of which are freehold.

The Group's equipment mainly comprises technical installations, hardware and tooling. At December 31, 2005, its net book value came to €1,089 million (see note 5.3 on page 103).

Environmental restrictions are imposed by legal regulations on all the Group's establishments (see Environment, page 18, Environmental risks, page 39, and Environmental indicators, page 42).

Competitive context

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

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

- In several product lines, Valeo competes against the four largest international automotive suppliers (in alphabetical order): Robert Bosch, Delphi, Denso and Visteon;
- For certain product lines, such as transmissions, thermal systems and lighting systems, the leading suppliers include companies that are smaller or more geographically concentrated, such as Behr, Hella and Luk;
- The following Product Families are among the world leaders in each segment (in sales): Transmissions, Climate Control, Engine Cooling, Wiper Systems, Lighting Systems, and Electrical Systems. In addition, several products in Switches & Detection Systems, Electronics & Connective Systems and Security Systems are leaders in Europe or other regions (source: Valeo).

Key events in 2005

1. Commercial success

Valeo won several new businesses in 2005, which have helped achieve the goal of increasing the number of Valeo products per vehicle. OE orders came to 1.1 times sales.

- The LaneVue™ lane departure warning system was launched on two Nissan Infiniti models in the US, representing a world first.
- In April 2005, automakers PSA Peugeot-Citroën and Toyota launched their co-developed supermini (Peugeot 107, Citroën C1, and Toyota Aygo), equipped with 14 Valeo products.
- The German automakers Audi, BMW, Opel and Volkswagen decided to equip some of their models with a Valeo-produced bending light system.
- At the first public presentation of the new Renault Clio III, at the Frankfurt International Auto Show, Valeo announced its partnership with Renault. The Clio III features 28 Valeo products.
- 2005 was a good year for new orders from the major European automakers for emission control products. Valeo Engine Management Systems signed several contracts involving parts and systems for controlling pollutant emissions from diesel engines, compliant with the Euro IV and Euro V standards.
- Valeo's four-zone air-conditioning system was selected by Mercedes for its new top-end GL model, after the successful launch of the new Mercedes M Class and R Class crossover, also equipped with Valeo's air-conditioning system. This model was unveiled to the US public at the Detroit Auto Show in January 2006.
- Valeo Engine Cooling signed a major contract with BMW for the development and production of engine cooling modules. The order included radiators, condensers, oil coolers and fan/motor systems. Another significant contract was signed by the same Product Family with PSA Peugeot-Citroën, for the supply of radiators, condensers, charge air coolers and fan/motor systems

to equip the replacements for the Peugeot 307 and 407, and the Citroën C5 and C4. The Front End Division consolidated its position at Nissan, with a deal for the production of a front-end module for a new vehicle for the Japanese market.

- Security Systems signed a licensing agreement with Shurlok, in South Africa, for the manufacture of remote controls for a Japanese automaker.

2. Technological innovations

Throughout 2005, Valeo consolidated its position as a major driver of automotive progress and demonstrated its ability to introduce innovations through its three Domains.

2.1. The Domains

The Domains were established to promote innovation using technology and synergies between Product Families, leading to the marketing of global solutions in the areas of safety (Driving Assistance), the environment (Powertrain Efficiency), and well-being (Comfort Enhancement).

2.1.1. Driving Assistance

- **The LaneVue™ lane departure warning system** was developed by Valeo in partnership with Iteris. It comprises a miniature video sensor which uses algorithms to monitor the lane markings ahead of the vehicle. If the driver leaves the lane without activating the turn indicator, the system alerts the driver so that he or she can take corrective action.
- **Valeo actively promoted its V360 demonstrator**, a vehicle equipped with a range of innovative driving assistance systems. This vehicle demonstrates the successful integration of different technologies designed to inform, alert, assist and control. These actions are controlled by systems using various technologies, including radar, cameras, LEDs, infra-red vision, ultrasound, and control and power electronics.
- **In 2005, Valeo introduced a new stylistic feature with Microoptics™ technology.** Based on high performance LED and light guide technology, this system provides a homogeneous lighting over a surface. When applied to rear or headlamps, it adds a distinctive and original nighttime signature to a vehicle.

2.1.2. Powertrain Efficiency

In 2005, innovations in the reduction of fuel consumption and pollutant emissions focused on two technologies:

- **The StARS micro-hybrid** is the first step towards hybridization. The system is based on a reversible best-driven 14V starter-alternator which acts as both starter motor and alternator. It consists of a reversible machine and electronics, which puts the engine on standby when the vehicle is at a standstill, and starts the engine quickly and silently when the driver releases the brake.
- **The Smart Valve Actuation (SVA) system** replaces the conventional mechanical operation of engine valves using cam belt, camshaft and hydraulic cam followers. It reduces fuel consumption and pollutant emissions by around 20%.

2.1.3. Comfort Enhancement

- **The Bio Clip™** was launched in 2005. It consists of an antibacterial diffuser which improves cabin air quality. The system adapts to all kinds of vehicle. It is attached to the cabin air filter and provides clean air for 12 months. Bio Clip™ uses a continually diffused natural anti-microbial agent (a plant molecule) to destroy the microorganisms that spread through the air-conditioning circuit, producing noxious odors.
- The Domain's **innovative offer** also includes the **Ipso™ Power Closure** system. This is a smart, compact and invisible system for automatically opening and closing the trunk or tailgate. The system is operated either through a remote control fitted directly to the handle of the trunk or tailgate, or from the driver's seat.

Other contributions made by Valeo's Product Families to the three Domains are covered in more detail elsewhere (see Chapter 2, Domains and Product Families, The Group).

2.2. Recognition of Valeo's R&D

- The LaneVue™ lane departure warning system won two awards in 2005, including the **2005 PACE Awards (Premier Automobile suppliers' Contributions to Excellence)** in the Product Innovation category, in April. The PACE Awards are an annual event sponsored by Automotive News, Cap Gemini and the Transportation Research Center. They recognize the product and process innovations of automotive suppliers. LaneVue™ also received the **2005 Nissan Global Innovation Award** in July.
- Citroën has won awards for two major innovations resulting from Valeo's research. It won the Auto & Environment jury prize from MAAF Assurances for StARS, the starter-alternator designed, developed and produced by Valeo, and featured on the C3. At the Geneva International Auto Show, Citroën was recognized by the press group AutoEurope for the AFIL lane departure warning system, co-developed with Valeo and available as an option on the Citroën C4 and C5.
- The power line communication system won the **Silver Award** at the **International Grands Prix for Technical Innovation** during the EquipAuto trade show.

2.3. Partnerships

- Valeo continued its partnership policy in 2005 with leaders in various fields, in order to speed up the introduction of new automotive technologies.
In May 2005, Valeo joined forces with IBM to develop on-board software functions in a new Division. This Division was created to optimize the Group's management of the growing importance of on-board electronics and software and to meet AUTOSAR standards. It has been operational since July 2005 and employs over 80 programming specialists.
- Valeo has signed a three-year sponsorship deal with French rally driver Luc Alphand for the cross-country World Cup Rally championships and the Le Mans Endurance Series. This partnership is designed to allow Valeo to promote its image as an innovative company that becomes major challenges. There is also a technical aspect to the partnership, as Valeo develops lighting systems, wiper systems and air-conditioning systems for the racing and assistance vehicles in the Mitsubishi Motor Sports and Luc Alphand Aventures teams.

3. Strategic operations

Guided by its strategic objectives and its financial position, Valeo has implemented a policy of targeted acquisitions designed to reinforce its three Domains and increase its organic growth potential.

- In January 2005, Valeo acquired for €316 million the Engine Electronics Division of Johnson Controls (JCEED), which designs and produces complete engine management systems, electronic control units and power electronics modules for electric actuators, as well as engine components.
- An agreement was signed with the Iranian company Armco in February, for the creation of an engine cooling joint venture working under Valeo licence. Valeo owns 51% of the joint venture and Armco 49%. It makes engine cooling systems for the fast-growing Iranian market. This new company has a production site at Saveh, near Tehran, with a workforce of nearly 120.
- In line with its strategy of disposing of non-core businesses, Valeo announced in August that it was selling 50% of its stake in the Argentinean company Il Tevere S.A.

2005 also saw a number of other operations which increased the Group's presence in Asia, especially in China:

- Valeo announced in March that it was acquiring Bosch's stake in Valeo's cooling businesses in Asia (Zexel Valeo Climate Control and Valeo Zexel China Climate Control), for €103.5 million. This gave Valeo control of all the share capital of its climate control activities and compressor production.
- Following this transaction, Valeo increased its stake in two Thai companies specialized in automotive air-conditioning in June – Siam Zexel Co., Ltd. and Zexel Sales Thailand Co., Ltd. – by 35.9% and 14.3% respectively, bringing its stake in both to 74.9%.

- In April, Valeo concluded a new joint venture with FAWER, the automotive supply branch of FAW, one of the main Chinese automakers. Valeo will own 60% of the new entity, which will develop and produce compressors for air-conditioning systems for the Chinese market and for export. The plant is located in Changchun, the capital of the northeastern province of Jilin.
- Valeo increased its stake in Ichikoh – the Japanese manufacturer of automotive lighting systems and mirrors – from 22.7% to 28.2%.
- In September, Valeo announced the creation of a joint venture with Hangshen Electronics, a Chinese Tier One automotive supplier, for the production of ultrasonic park assist systems. The joint venture, 75% owned by Valeo, is located in Shenzhen.
- In December, Valeo announced the signing of an agreement for the acquisition of 50% of Threestar, the largest radiator manufacturer in South Korea. The remaining 50% of the new entity, called Valeo Samsung Thermal Systems, are held by Samsung Climate Control Group.

Valeo implemented the following programs in order to optimize its financial structure in 2006:

- In May and June, Valeo bought back 6,250,000 shares, i.e. around 7.5% of the share capital, via a share buyback operation and a simplified tender offer at a price of €40. This operation was designed to increase the yield for shareholders and to optimize the Group's balance sheet without drawing on its financial resources. The offer was a success, with around 80% of the share capital not owned by Valeo being bought back. The acquired shares were cancelled.
- In order to optimize its financial resources and to capitalize on favorable market conditions, the Group issued an eight-year bond for €600 million in June 2005, under the Euro Medium Term Notes (EMTN) program. This bond, with a fixed coupon of 3.75% and a yield of 80 basis points below the eight-year swap rate, was very popular with investors both in France and abroad.

4. Operational excellence

4.1. Optimizing industrial facilities

In line with its strategy, Valeo continued to optimize its industrial facilities during 2005.

- The Orense (Electronics & Connective Systems), Alcala de Henares (Transmissions) and Mostoles (Security Systems) sites in Spain were closed, as well as the Melfi plant in Italy (Electronics & Connective Systems). In Rochester in the United States, a deal was signed with the IUE-CWA Local 509 union for the reduction of headcount until closure of the Wiper Systems plant on July 31, 2008.
- Six sites were opened: Kosice (Security Systems) in Slovakia, Annaka (Climate Control) and Shonan (Front-End Modules) in Japan, Pitesti (Electronics & Connective Systems) and Timisoara (Lighting Systems) in Romania, and Wuxi (Security Systems) in China.
- Three French sites were acquired in 2005 with Johnson Control's Engine Electronics Division, now Valeo Engine Management Systems – Sablé, Sainte-Florine and Brioude – and one site was acquired at Chonburi in Thailand, (Climate Control, formerly Zexel).

The position of Group Technical Senior Vice-President was created to encompass Quality, Purchasing, Industry, Programs and Projects, Logistics, Information Systems and Real Estate, enabling the Group to pursue the cost-reduction and quality-optimization plan launched three years ago and to encourage synergies between these functions.

4.2. Supplier Integration

In 2005, Valeo continued its policy of selecting and integrating suppliers as far upstream as possible, to make them preferred partners in the long term, and to help reduce costs while ensuring that Valeo quality standards are applied by all suppliers.

The Group continued to reduce its supplier base. Excluding acquisitions, the number of suppliers dropped by 370. Including acquisitions, they totaled around 2,700 at end December 2005, while purchasing volume stood at around €5 billion. Valeo also pressed ahead with Convergence, a program designed to engineer a dramatic cost reduction while improving the quality of products produced by

suppliers. This program currently includes almost 270 suppliers, or 12% of the total, representing 58% of the purchasing volume. The VIP (Valeo Integrated Partners) program continued, with 99 new VIP contracts signed by the end of the year.

The Group also continued to increase the share of supplies originating from low-cost countries, which grew from 22% at end 2004 to 26% at end 2005.

4.3. Awards

The quality of Valeo's products and services was recognized by its customers and institutional partners, testifying to the Group's operational excellence.

- For the third year running, Shanghai Valeo Automotive Electrical Systems was named Supplier of the Year by Shanghai General Motors.
- Valeo Engine Cooling's passenger car OE business and its Spain Division received a Quality trophy from PSA Peugeot-Citroën.
- Volkswagen named the Front End Division in Uitenhage South Africa its 2005 Supplier of the Year.
- Valeo's Engine Cooling sites at Jamestown and Greensburg in the United States received the Gold World Excellence Award from Ford and the Chrysler Group Gold Award, respectively, for their industrial performance and the quality and competitiveness of their products.
- The Engine Cooling sites at Laval and Reims in France and Skawina in Poland received a Europe Regional Quality Award from Nissan.
- Valeo Climate Control's Nogent-le-Rotrou plant in France won the Industrial Excellence Award sponsored by the *Usine Nouvelle* and *Wirtschaftswoche* weeklies, the INSEAD Business School in France and the WHU University in Germany. This prize is awarded to French and German production units recording the best performance in terms of industrial efficiency and customer relations. VCC's Control Panel Division was also the first Valeo Division to receive CMM (Capability Maturity Model) Level 3 certification for its software development from the Software Engineering Institute (SEI) of Carnegie Mellon University in Pittsburgh, Pennsylvania (USA).
- For the aftermarket, Valeo Unisia Transmissions, the Japanese Division of the Transmissions Product Family, received the Best Performance Award from Nissan Service Parts for the second year running.
- The Transmissions Division at Nanjing in China received the Best Supplier Award from the Chinese automaker Chery, as well as the Strategic Partner Award and Best Product Quality Award from Chinese truck manufacturer CNHTC.
- The Transmissions Division at Bursa in Turkey was named Best Supplier of the Year by Ford Otosan Turkey, and the France Auto Division at Amiens won the Toyota Achievement Award in the Quality category.
- The Switches & Detection Systems Product Family received the 2005 Top Com Grand Prix and the Bronze Award of the ITVA (Integrated Television and Video Association) for its Park Assist communication campaign.
- For the environment, the Switches & Detection Systems site at Veszprem in Hungary was named "most environmentally friendly supplier" by Audi.

Recent events

As far as Valeo is aware, no major changes in the Group's financial or commercial situation have occurred since December 31, 2005.

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1. Accounting methods

As required by EU regulation No. 1606/2002 of July 19, 2002, the consolidated financial statements (as well as the 2004 data for comparison) have been drawn up in accordance with IFRS accounting guidelines as adopted by the European Union. In general, IFRS standards in force at December 31, 2005 have been applied retrospectively, as if Valeo had always applied these standards, apart from a few obligatory or optional exceptions set out in IFRS 1 and described in note 1.1 of the consolidated financial statements.

In addition, Valeo has decided to only apply standards IAS 32 and IAS 39 on financial instruments as of January 1, 2005, charging the corresponding impact to the opening shareholders' equity. Standard IFRS 5, regarding non-current assets destined for disposal, was applied prospectively from January 1, 2005. Finally, Valeo has chosen to apply in anticipation, at January 1, 2004 and January 1, 2005 respectively, the amendments to IAS standards 19 and 39 relating to the recording in consolidated reserves of actuarial gains and losses on pensions with defined benefits and to the application of hedge accounting to future intragroup transactions.

2. Income statement

Consolidated **total operating** revenues increased by 8%, from €9,293 million in 2004 (under IFRS standards) to €10,033 million in 2005. Acquisitions (mainly Johnson Controls Engine Electronics and the remainder of the capital in Zexel Valeo Climate Control) had a positive impact of 7% on total operating revenues, while changes in exchange rates contributed a 1.7% rise. On a constant reporting entity and exchange rate basis, total operating revenues fell 0.7% over the period, in line with the Group's automotive production benchmark⁽¹⁾.

Of the annual sales of €9,933 million, €8,163 million were generated in the original equipment market (82% of the total) and €1,770 million in the aftermarket (18% of the total). This compares to €7,590 million in the original equipment market (82%) and €1,639 million in the aftermarket (18%) for 2004.

Europe represents 69% of total sales consolidated by sales region in 2005 compared to 71% in 2004. Sales generated in this region amounted to €6,812 million, up 4.1% compared to 2004. Excluding changes in exchange rates and the reporting entity, sales fell by 1.6%, while production of small cars in the region was down 0.4% (source: JD Power).

In **North America**, Group sales totaled €1,443 million, 1% less than in 2004. On a like-for-like basis, it fell 3.3%, while production

(1) Production of small cars in Europe, North America, South America and Asia, estimated by JD Power and weighted by the contribution of each of these regions to consolidated sales.

of small cars remained stable overall (source: JD Power). This region accounted for 15% of consolidated sales (16% in 2004).

In **Asia and the Middle East**, Group sales amounted to €1,171 million (up 36% compared to 2004). On a constant reporting entity and exchange rate basis, growth in Asia totaled 4.6%, while local automotive production rose by 3.5%. Growth in China (+11.0%) and Korea (+2.4%), in particular, easily offset the 1.6% decline in Japan (source: JD Power). Asia and the Middle East contributed 12% of Group sales, compared to 9% in 2004.

The Group achieved sales of €429 million in **South America**, up 34% since 2004. On a like-for-like basis, the increase is 14.3%, in line with local automotive production (source: JD Power). This region represents 4% of consolidated sales (3% in 2004).

The **consolidated gross margin** was €1,587 million, down 0.7% year on year. This represents 16% of sales, compared to 17.3% of sales in 2004. Around half of the fall in gross margin was due to the continuing rise in the cost of raw materials (steel, non-ferrous metals and plastics) over the period. Productivity gains made up for around half of other negative factors (low production volumes, consolidation of companies acquired in the period, poor performance of the Wiper Systems Branch).

Research and development expenses rose 9.6% to €661 million (6.6% of total operating revenues) compared to €603 million (6.5%) in 2004. Net of other operating revenues (mainly customer

contributions to development expenses), these expenses represented 5.6% of total operating revenues, down 0.2 points from 2004.

The three Domains⁽²⁾ accounted for 92% of R&D spending, at €608 million (+12% compared to 2004), spread between Driving Assistance (€175 million, +6.7%), Powertrain Efficiency (€208 million, +16.9%) and Comfort Enhancement (€225 million, +13.1%).

Selling and administrative expenses totaled €195 million (+4.8% year on year) and €464 million (+4.5%), respectively. In terms of total operating revenues, their contribution fell by 0.1 and 0.2 point, respectively, compared to the previous year.

Taking into account **other operating revenues**, which amounted to €100 million (€64 million in 2004), the operating margin⁽³⁾ was €367 million, down 14.5% compared to 2004 (€429 million). The operating margin represented 3.7% of total operating revenues, compared to 4.6% in 2004.

The remaining **other income and expenses** resulted in a net expense of €60 million (including €41 million for restructuring costs and impairment of assets, and €23 million awarded in settlement of industrial property litigation), compared to a net expense of €96 million in 2004 (including restructuring costs and impairment of assets totalling €72 million).

Consequently, consolidated **operating income** came to €307 million in 2005 (3.1% of total operating revenues) compared to €333 million (3.6%) in 2004.

The **net cost of financial debt** went from €33 million in 2004 to €54 million in 2005. In accordance with IAS 32, applied as of January 1, 2005, notional interest of €8 million on the 2003 OCEANE bond issue was recorded. The remaining increase was due to the funding of acquisitions over the period as well as shareholder dividends.

Taking into account **other financial income and expenses** which amounted to a net expense of €52 million (€39 million in 2004), pre-tax profits totaled €201 million, a year-on-year decline of 23%.

The **tax burden** was €60 million (an effective rate of taxation of 29.9%), compared to €17 million (including a tax rebate of €83 million) in 2004, an effective rate of 6.5%.

After accounting for the share in profits of **associated companies** (€6 million) and **minority interests** (€6 million), profits to be distributed to Company shareholders stand at €141 million, compared to €241 million a year earlier.

Undiluted **earnings per share** for the period, based on the profits due to Company shareholders, work out at €1.77 compared to €2.93 in 2004. Diluted earnings per share total €1.76, compared to €2.93 a year earlier.

3. Main investments over the past three years

3.1. Year 2005

In 2005, investments in tangible assets reached €441 million, or 4.4% of total operating revenues. Investments in intangible assets (mainly capitalized spending on development) totaled €145 million, representing 1.4% of total operating revenues. External growth over the period accounted for €466 million. Valeo implemented targeted strategic operations aimed at boosting the technological offer of its Domains and increasing the potential for internal growth of its

product lines. In particular, the acquisition of Johnson Controls Engine Electronics, effective from March 1, at the final price of €316 million, considerably increased the potential of the Group's Powertrain Efficiency Domain. In addition, the acquisition, effective from April 1, of the remaining shares held by Bosch in the climate control and engine cooling businesses in Asia, enhances the growth potential of the Group's activities in this field in the promising Asian markets, and strengthens its expertise in climate control compressors, one of the main components of the climate control system. In 2005, the Group also increased its shareholding in Ichikoh, one of Japan's leading players in lighting systems, from 22.7% to 28.2%.

(2) The role of the Domains is to encourage innovation through crossover between technologies and product lines, in order to offer the market global solutions based on the themes of safety (Driving Assistance Domain), the environment (Powertrain Efficiency Domain) and comfort (Comfort Enhancement Domain).

(3) Extra-accounting aggregate defined as the operating result before other income and expenses.

3.2. Year 2004

In 2004, Valeo spent a total of €415 million, or 4.5% of the year's total operating revenues, on acquiring tangible assets, while investments in intangible assets (mainly capitalized spending on development) totaled €120 million (1.3% of total operating revenues). Changes in the consolidation scope led to a net expenditure of €73 million. In

line with its strategic objectives of consolidating its presence in Asia, Valeo notably took control of Shanghai Valeo Automotive Electrical Systems in China and also increased its shareholdings in its motors and clutches operations in this country.

3.3. Year 2003⁽⁴⁾

In 2003, Group investments in tangible and intangible assets totaled €460 million, representing 5.0% of consolidated sales. Changes in the consolidation scope yielded net income of €42 million, which Valeo spent mainly on increasing its shareholding in Hubei Valeo Auto Lighting (lighting business in China) and in Zexel Valeo

Climate Control (climate control systems and compressors in Asia, Europe and North America). In 2003, the Group also disposed of its plastic injection business and its operations in rear lamp and safety accessories for heavy trucks, trailers and buses in France.

4. Change in stockholders' equity

4.1. Stockholders' equity

At December 31, 2005, the stockholders' equity for the whole Group amounted to €1,749 million, compared to €1,874 million at January 1, 2005. This decrease of €125 million is due notably to the following:

- deductions: distribution to shareholders – payment of €91 million in dividends for 2004 and buyback of treasury shares at €252 million – and actuarial differences of €50 million;
- increases: net income of €147 million for the year and a net translation adjustment of €135 million due to the general increase in the values of currencies against the euro.

(4) French accounting standards.

4.2. Share capital

4.2.1. Change in share capital

The **share capital** went from 83,709,024 shares with a par value of €3 each at December 31, 2004 to 77,510,357 shares with a par value of €3 each at December 31, 2005. The share capital was reduced by a total of 6,250,000 shares on June 20, 2005 following the launch of the simplified bid (3,927,603 shares) and the buyback of 2,322,397 shares. Inversely, the share capital was increased during the period by a total of 51,333 shares following the take-up of share subscription options.

Following the above mentioned bid which saw Valeo buying back its own shares for more than the market price, the ratio of the allocation of subscription options and of purchase options stood at 1.01 shares per option, in line with article 174-9-A of the decree dated March 23, 1967.

In accordance with article 242-11 of the decree dated March 23, 1967 and the contract governing the 2003 OCEANE bond issue, the conversion or exchange ratio of OCEANE bonds was brought to 1.013 shares per OCEANE bond.

At December 31, 2005, the number of shares that could be issued on exercise of stock options awarded to the Group's employees and corporate officers amounted to 4,577,768.

4.2.2. Treasury shares

At year-end, Valeo held 807,704 of its own shares (1.04% of the share capital) with a unit value calculated at the time of purchase of €32.39. At December 31, 2004, Valeo held 1,037,804 of its own shares (1.24% of the share capital).

The number of treasury shares held at December 31, 2005 represents a total of 617,704 shares allocated to covering the stock option scheme and 190,000 shares allocated to the application of a liquidity contract, as required by the AFEI (French Association of Investment Companies) code of ethics signed with an investment services provider on April 22, 2004.

220,000 Valeo shares and a sum of €6,600,000 were allocated to the application of the liquidity contract on the date the contract was signed. At December 31, 2005, 190,000 shares and €8,690,051 were allocated to the application of the liquidity contract.

Over the period, Valeo acquired, through an investment services provider, 1,441,633 shares at an average price of €33.43, and sold 1,671,733 shares at an average price of €33.46. The trading fees as well as the fees relating to the liquidity contract with the investment services provider totaled €271,615, compared to €218,181 in 2004.

Market operations were carried out in line with the sixth resolution adopted by shareholders at their meeting on May 3, 2005. They were applied through a liquidity contract with an investment services provider, with the aim of encouraging the liquidity of transactions and the regularity of share listings.

4.2.3. Employee shareholding

Under the terms of the Group's savings plans, either directly or through two investment funds, employees held 1,418,375 shares at December 31, 2005, representing 1.83% of the share capital. At December 31, 2004, they held 1,575,296 shares, which was 1.88% of the share capital.

4.3. Distribution of dividends

Over the past three years, the distribution of dividends per share has been as follows:

Year	Gross dividend per share (in euros)	Net dividend per share (in euros)	Tax credit - 50% (in euros)	Total in M€ (excl. tax credit)
2002	1.5	1	Tax credit 0.5*	81
2003	1.57	1.05	Tax credit 0.525*	86
2004	na	1.1	Amounts are eligible for a 50% tax credit as per article 158-3-2° of the CGI	91

* For shareholders eligible for a 50% tax credit.

In addition, in 2005, Valeo bought back shares from its shareholders. The part of the operation relating to the share buyback offer, concerning 2,322,397 shares, resulted in the distribution of dividends

(eligible for the 50% credit provided for by article 158-3-2° of the CGI) of €30.02 per share repurchased, within the limit of the gains made by the shareholder.

5. Provisions for other liabilities

The balance sheet at December 31, 2005 showed total provisions for other liabilities of €1,479 million (including €1,088 million for the long-term part), compared to €1,290 million (including 993 million for the long-term part) at the close of the previous year.

The total **provisions for employee and restructuring costs** rose by €15 million compared to 2004, and amounted to €180 million.

Provisions for pensions and other employee benefits stood at €874 million at year-end, a rise of €26 million compared to 2004. This provision was reduced by €125 million due to the change in

medical insurance plans in the United States, and it was increased by the charge to shareholders' equity of recognized actuarial differences (€50 million) as detailed in paragraph 5.10.2 of the notes to the consolidated accounts.

Provisions for other liabilities increased from €277 million at December 31, 2004 to €425 million at December 31, 2005. The difference of €148 million includes €125 million related to changes in the consolidation scope.

6. Cash flow and debt

Cash flow from operating activities totaled €820 million (including €778 million before changes in working capital⁽⁵⁾ compared to €829 million in 2004 (including €812 million before changes in working capital).

Excluding the impact of changes in the consolidation scope, investment operations used net cash of €548 million (€145 million in intangible assets and €441 million in tangible assets), compared to €516 million in 2004 (€122 million in intangible assets and €413 million in tangible assets). Acquisition operations used net cash of €466 million, compared to €73 million in 2004.

Financing operations required net cash of €297 million (including €387 million from long-term sources) compared to a net spending of €170 million in 2004 (including the payment of €101 million in dividend withholding tax).

Available cash flow⁽⁶⁾ for the year totaled €240 million, compared to 292 million in 2004, which includes a one-off tax rebate of €83 million.

Net debt (debt, current net financial liabilities, short term loans plus overdrafts, less cash and cash equivalent) reached €1,080 million at year-end, compared to €497 million at January 1, 2005. This gives a consolidated gearing ratio of 62% at December 31, 2005, compared to 27% at January 1, 2005.

(5) Calculated before the cost of net debt and income tax (equivalent to EBITDA or earnings before interest, taxes and appreciation).

(6) Extra-accounting aggregate: cash flow less taxes less change in working capital requirement less financial expenses plus subsidies less gross tangible and intangible investments.

7. Commitments

The main commitments were as follows.

(in millions of euros)	2005	2004
Rental contracts	79	74
Guarantees, deposits	30	33
Irrevocable undertakings to purchase assets	57	58
Other undertakings	66	49
TOTAL	232	214

The simple rental contracts currently in force require the Group to pay minimum future rents of €79 million (amount not updated in accordance with regulations).

An explanation of these undertakings can be found in paragraph 6.3 of the notes to the consolidated statements.

8. Remuneration of corporate officers and Directors

8.1. Corporate officers

The remuneration paid by Valeo to Mr Thierry Morin, Chairman and CEO, is decided by the Board of Directors after considering a proposal by the Remuneration Committee. In 2005, the gross fixed remuneration for the year paid by Valeo to Mr Morin amounted to €1,302,395 (compared to €1,440,652 in 2004). This is composed of a gross remuneration of €1,284,000 (€1,272,760 in 2004) and €18,395 for benefits in kind (€17,892 in 2004). Mr Morin received no variable remuneration in 2005 (€150,000 in 2004).

Thierry Morin also earned director's fees of €35,000 as Director of Valeo, the same amount as in 2004.

The gross remuneration received by Mr Morin from companies controlled by Valeo (as defined in article L. 233-16 of the Commercial Code) totaled €118,758 euros (€116,922 in 2004), made up of director's fees of €45,750 (the same as in 2004) and contributions of €73,008 to a pension fund (€71,172 in 2004). No benefits in kind were awarded to Mr Morin by the above-mentioned companies for 2005.

Mr Morin continues to benefit from the complementary pension scheme set up for the Directors who were formerly members of the Management Board, as agreed by the Supervisory Committee on October 17, 2002. This scheme complements existing plans (Social Security, Arrco, Agirc, etc.) to enable beneficiaries to acquire a pension equal to 2% of their final salary per year of service with the Group. The total pension cannot exceed 60% of the final salary. To be implemented, this complementary scheme requires a minimum of 15 years' service in the Valeo Group at the time of retirement, and Valeo, or one of its subsidiaries, must be the beneficiary's last employer before the pension is cashed in.

Given the unauthorized periods (as defined by stock market regulations), the Board did not award stock options or free shares to Mr Morin for 2005 during the course of the year. The award was deferred until March 2006, and comprised 150,000 stock options and 50,000 free shares.

In 2005, Mr Morin did not exercise any options awarded in previous years.

Finally, should Mr Morin leave the Group, either on the decision of the Board of Directors (except for gross misconduct committed while carrying out his duties) or of his own volition, in the event of

diverging views on the strategy pursued by the Board following a takeover bid, the amount of compensation for departure would be set at three times his most recent annual salary, excluding bonus.

8.2. Directors

Directors receive directors' fees, which are paid half-yearly. These fees are not paid, however, if they attend fewer than half the Board meetings or, if applicable, meetings of committees formed within the Board of which they are a member, over the six-month period.

Director's fees are paid to members of the Board of Directors as follows: €20,000 for each Director and an additional €15,000 for those participating in an aforementioned committee.

Total directors' fees paid to Board members in 2005 were €301,250 (€405,000 in 2004), as follows:

	(Euros)
Thierry Morin	35,000
Carlo De Benedetti	10,000
Pierre-Alain De Smedt	18,750
François Grappotte	35,000
Philippe Guédon	35,000
Erich Spitz	35,000
Alain Minc	35,000
Véronique Morali	35,000
Jean-Bernard Lafonta	35,000
Yves-André Istel	27,500

In 2005, no Board member apart from Thierry Morin (see page 10) received any other remuneration or benefit. Directors were not awarded share subscription or purchase options or free shares, and none of them exercised options allocated in previous years.

9. Risks and uncertainties

9.1. Industrial and environmental risks

9.1.1. Dependence on the automotive sector

The Group's sales depend on the level of automotive production, especially in Europe and North America. Production itself is affected by a number of factors, especially vehicle stock levels, consumer confidence, employment trends, disposable income and interest rates. The volume of production is also influenced by government programs, especially those designed to encourage

vehicle acquisition, business deals, new regulations and social issues, such as strikes and walkouts.

Valeo's four main customers account for almost 60% of its OE sales. In decreasing order of sales, these are Renault-Nissan, PSA Peugeot-Citroën, DaimlerChrysler and Volkswagen, each of which account for between 10% and 20% of total sales.

Supply contracts take the form of open orders for all or part of the equipment needs of a vehicle model, with no volume guarantee.

They are granted directly for the vehicle's individual functions and generally last for the model's lifespan. Valeo's sales and results can therefore be impacted by a model's market failure and/or the Group's non-selection for the new generation. The risks are very well spread, however, insofar as Valeo offers a wide range of products and services, fitted or otherwise implemented on a very large number of different vehicles.

9.2. Market risks

The Group is exposed to market risks (foreign exchange, prices and rates) commensurate with the internationalization of its business, and uses financial derivatives to manage and reduce this exposure to exchange rate fluctuations, prices for some raw materials and interest rates. Risks linked to exchange rates, base metal prices and interest rates, to which the Group's companies are exposed, are normally managed centrally by the Valeo parent company.

9.2.1. Foreign exchange risks

The Group's entities may be exposed to a transaction risk when buying or selling in a different currency from their operating currency. Hedging of business transactions and the subsidiaries' current and future investments is generally limited to periods of less than six months. The subsidiaries have positions which they hedge mostly with the parent company, which then hedges the Group's net positions with external counterparties. Given the closing net currency position, foreign exchange fluctuations would only have a weak impact on the Group's accounts.

Investment in foreign subsidiaries can also provoke an exchange risk posed by the variations of the foreign currency against the operating currency. The Group's policy is to cover this risk on an individual basis. No such derivatives were recorded in the Group's balance sheet at closing.

9.2.2. Metals risk

The Group's industrial activity requires the use of metals, particularly non-ferrous metals, and it covers future base metals purchases for a period generally less than six months. The metals covered – aluminum, secondary aluminum, copper, zinc and tin – are listed on the official markets. Hedging techniques give priority to instruments with no physical delivery of the underlying assets. At December 31,

9.1.2. Environmental risks

In the various countries in which it operates, the Group's business is subject to different and evolving environmental regulations, constantly raising the standard of environmental protection. Valeo's environmental policy is described in the activity report, and is designed to control and limit environmental risks as far as possible.

2005, the balance sheet records a latent credit of €22 million for cashflow coverage.

9.2.3. Interest rate risks

The Group uses interest rate swaps to exchange the rate of its debt for a variable or fixed rate, either when the loan is taken out or during its lifetime.

At closing, 83% of long-term debt was at a fixed rate (up from 50% in 2004), and the Group's financing rate comes to 4.6% (5.4% in 2004).

For the fixed-rate debt, an interest rate reduction of 1% alters the fair value of the net position by around €58 million.

9.2.4. Equity risks

At December 31, 2005, the Group's balance sheet recorded cash and cash equivalents of €949 million, up from €869 million at December 31, 2004. Cash equivalents include investment securities of €454 million represented by money market mutual funds invested in securities which mature fast and involve no capital risk in line with the Group's cash management policy. In accordance with current accounting regulations, these instruments are assessed at their market value, close to their book value.

IAS 32 requires that Valeo's own shares are accounted for as soon as they are acquired and subtracted from shareholders' equity. Changes in value are not recorded. When these shares are sold, shareholders' equity is adjusted in the amount of the fair value of these shares. Application of IAS 32 at January 1, 2005 led to a reduction of shareholders' equity of €32 million, corresponding to 1,037,804 shares at their fair acquisition value. The disposal of 230,100 Valeo shares during the financial year increased shareholders' equity by €8 million at December 31, 2005 from its level at January 1, 2005.

9.3. Legal risks

9.3.1. Risks linked to intellectual property (patents)

As far as possible, and when necessary, Valeo's industrial expertise and the innovations generated by the Group's research are covered by patents designed to protect intellectual property. Valeo therefore files a large number of patents in its sector, which constitute an effective weapon in the fight against counterfeiting.

The Group also holds third-party patent licenses as part of its normal operations.

9.3.2. Responsibility linked to products and services sold

Valeo is exposed to warranty claims or liability actions by customers, based on the products and services it sells. Valeo may also be subject to liability actions for damage caused by defective products or services sold by the Group. To protect itself from this risk, Valeo has taken out an insurance policy that covers the financial consequences of these claims. It cannot be stated with certainty, however, that this insurance policy would constitute sufficient protection to cover the financial consequences of these claims in their entirety.

9.4. Other risks

9.4.1. Counterparty risks

Capital market operations designed to manage financial and cash risk engender counterparty risks. The Group sets counterparty limits, taking particular account of their agency ratings, and in such a way as to avoid concentrating market operations on too few financial establishments.

At December 31, 2005, the debt ratio was well within the limits beyond which the covenants require early refunding of the loans and the suspension of credit lines.

The Euro Medium Term Notes include an option allowing the bondholders to request early repayment or the buyback of their bonds if any change in control of Valeo were to result in the bond rating falling below investment grade.

9.4.2. Liquidity risks

As well as maximizing the operating flows financing its growth and the payment of dividends to shareholders, the Group is careful to maintain broad access to liquidities in order to honor its commitments and meet investment needs. The Group therefore increased its long-term borrowings in 2005, issuing €600 million in Euro Medium Term Notes, due in 2013, and taking out two syndicated loans for a total of €225 million, due in 2012. Valeo also has several confirmed bank credit facilities with an average maturity of four years, and amounting to a total of €1.3 billion of unused credit facilities at December 31, 2005. A total of €1.2 billion in commercial papers is also available under short-term financing programs.

9.4.3. Credit risks

Valeo is exposed to credit risks, especially the risk of default by its automotive customers. The sector's defaulters in 2005—especially the bankruptcy of Rover and Delphi's chapter 11 filing—gave rise to a provision of €6 million for the loss of trade receivables in the accounts for this financial year.

Valeo works with all automakers in the sector. At December 31, 2005, its leading automaker customer accounted for less than 20% of accounts receivable. Around 6% of accounts receivable was represented by the two North American automakers, Ford and General Motors. In response to the worsening conditions in the automotive sector of the last few months, the Group has increased control of customer risks and payment deadlines, which may occasionally be subject to bilateral renegotiations with customers.

On the aftermarket, representing 7% of sales, where the customer base is broad and diverse, customers are constantly monitored and the default risk is covered by a credit-insurance policy. At

December 31, 2005, these customers accounted for just over 6% of Valeo's customers.

10. Lawsuits

All known lawsuits involving Valeo or Group companies were examined on the closing of the accounts and the estimated risks provided for accordingly.

11. Outlook

The Group expects a slight fall in the reference automotive production level in 2006 and continuing instability in the raw materials market. It is therefore aiming for sales growth above its reference markets

and improved profitability in its invested capital, by continuing to optimize purchasing and industrial organization, raising quality standards and maintaining strict asset management.

12. Events after the year end

To Valeo's knowledge, no events have occurred since December 31, 2005 that would significantly affect the Group's business, financial situation, results or assets.

13. Parent company financial statements

Following the creation of subsidiaries for industrial activities in 2002, Valeo SA is now the Group's holding and cash management company.

Valeo's financial result stands at €66 million, compared to €65 million in 2004. Including dividends received from the subsidiaries, this figure comes to €67 million, compared to €74 million in the previous financial year.

Net exceptional income stood at €1 million, compared to €76 million in 2004, and included capital gains of €80 million, generated by the merger between the Valeo Climatisation and Valeo Thermique Moteur companies.

Corporate income tax yields a tax credit of €28 million, compared to a tax credit of €91 million in 2004, which included a €73 million tax rebate.

Valeo's net income comes to €88 million, compared to €225 million in 2004.

Valeo shareholders' equity comes to €3,240 million at December 31, 2005, compared to €3,494 million at December 31, 2004. The change is mainly the effect of the dividend payout and the capital reduction of June 20, 2005 resulting from the simplified tender offer and the share buyback.

During the financial year, Valeo acquired 15,000,000 shares in Valeo Engine Control Systems (formerly Johnson Controls Engine Electronics) for €316 million, which represents 100% of the share capital of this company.

2005 Environmental Indicators – Introduction

1. Environmental indicators

Valeo's environmental policy underpins the Group's strategic approach to risk management, and is brought into play at all stages of each product life cycle, from design and manufacturing, to use and end of life. It is a policy rooted in the twin goals of respecting regulatory requirements and Group standards while limiting any environmental

impacts caused by Valeo's products or on-site operations. These goals have been set for all companies across the Valeo Group.

The following indicators illustrate the Group's environmental performance for 2005.

2. Scope of environmental indicators

The environmental data published in this report concern all Valeo production and distribution sites worldwide, except for the Group's minority interests.

"Advanced supplier sites", which are generally located at customer automakers, are also included in the scope of environmental indicators. These represent a total of 13 sites.

Companies that are 50% controlled by Valeo are taken into account on the basis of 50%. Companies over which Valeo exercises more than 50% control are included on a 100% basis.

Four additional sites have been incorporated into this report compared with 2004, and four have been removed.

Sites dedicated exclusively to research and development activity, or to office work, as well as sites that were acquired, divested or closed during the year have not been included.

A total of 137 sites are included in the scope of environmental indicators for 2005 – 127 production sites, of which 13 "advanced supplier sites" and 10 distribution sites.

The sales figures have been taken from Group financial data.

This report was produced in compliance with the recommendations of the Global Reporting Initiative (GRI).

3. Presentation of environmental indicators

In the majority of cases, indicators are expressed in terms of both quantity of products consumed or emitted per million euros and total quantity. Quantity per million euros is calculated by dividing the total quantity by the total sales from the sites that responded. Comparative data have been provided for 2003 and 2004.

The extent to which the indicators are representative is expressed by dividing the sales from each site that responded by the total sales figure of all the sites included in the report.

4. Compliance of operations with applicable laws and regulations and Group standards

Valeo's risk management policy is set out in a «Risk Management Manual» as well as in application guidelines intended for each Group site. The related procedures are focused on ensuring that operations comply with Group standards and the laws and regulations in force in each country.

A major feature of this policy is the Valeo audit program, introduced in 1991. This entails regular audits carried out by external consultants, at the request of the Risk, Insurance and Environment Department, in order to ensure that the Group's risk management policy has

been applied. During each audit, the sites' level of performance and progress is appraised in relation to the following:

- the environment;
- worker health and safety;
- safety of buildings and installations;
- security of equipment and data.

Action plans are subsequently established, based on observations resulting from the audit and prioritization of risks. A status report on the action plans is provided every six months to the Risk, Insurance and Environment Department.

5. Internal environmental management organization

The Risk, Insurance and Environment Department works hand-in-hand with all Group departments, helped by coordinators assigned within each Branch.

These coordinators provide technical support to Health, Safety, Security and Environment (HSEE) managers at each site and report their findings to the Risk Management Committee.

The HSEE managers provide expert advice to each site manager. They are responsible for ensuring that procedures are correctly applied at each site, and perform internal audits to verify compliance with both regulations and Valeo's standards.

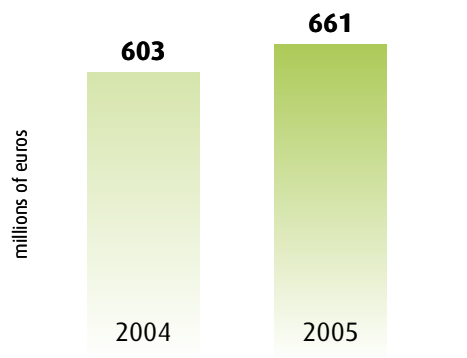
6. Accident prevention and management

The Risk Management Manual contains a specific directive covering prevention of emergency situations as well as situation-specific emergency plans.

Comments on 2005 environmental indicators

1. R&D expenditure

R&D FIGURES COMPILED IN ACCORDANCE WITH IFRS

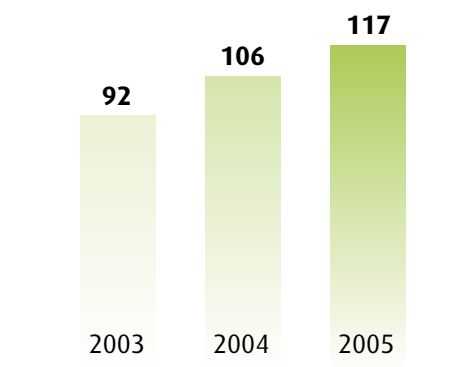


IFRS standard.

2. Sites certified ISO 14001 and sites audited by independent experts

2.1. ISO 14001

NUMBER OF ISO 14001 SITES

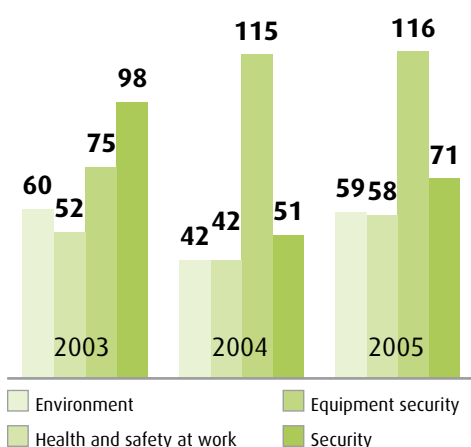


The number of ISO 14001 certified sites continued to increase, with 117 sites certified in 2005.

Valeo's sites that were certified several years ago had their certification renewed in 2005.

2.2. External audits

SITES AUDITED BY INDEPENDENT AUDITORS

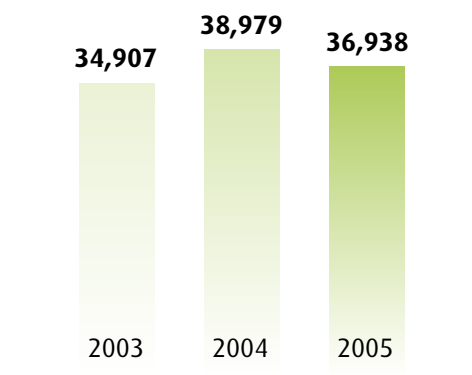


Having each site audited by independent experts at least every three years has been an integral part of the Group's management system for over 10 years. These audits enable progress at the sites to be monitored and give Group Management a good overview of risks relating to environmental issues, health and safety in the workplace, and the safety and security of persons and equipment.

Significant resources were allocated to auditing the Group's newly consolidated sites in 2005.

3. Environmental training

TOTAL NUMBER OF HOURS OF ENVIRONMENTAL TRAINING

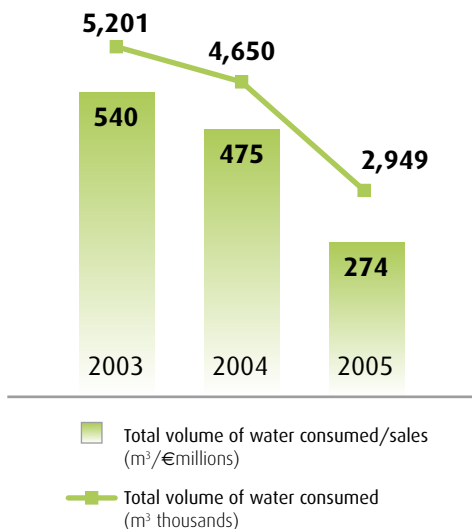


The number of hours of environmental training was relatively stable between 2004 and 2005 in proportion to the number of employees. Environmental training is increasingly integrated into day-to-day management.

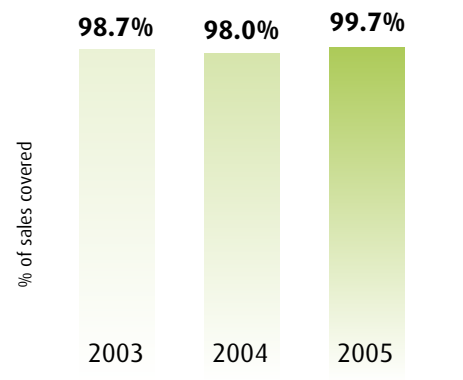
Safety awareness days were held in all countries in which Valeo operates. These days take place every two years and are dedicated to workplace health and safety.

4. Changes in water consumption

WATER CONSUMPTION



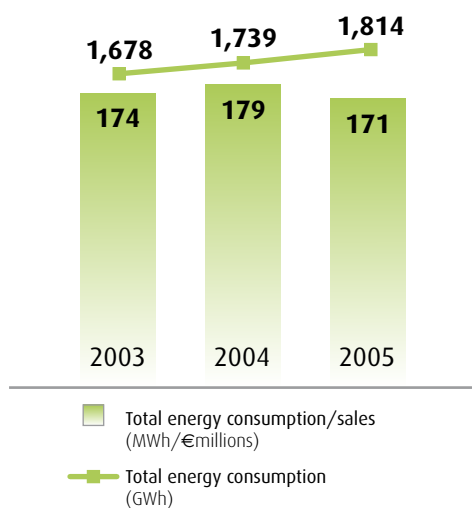
REPRESENTATIVENESS - WATER



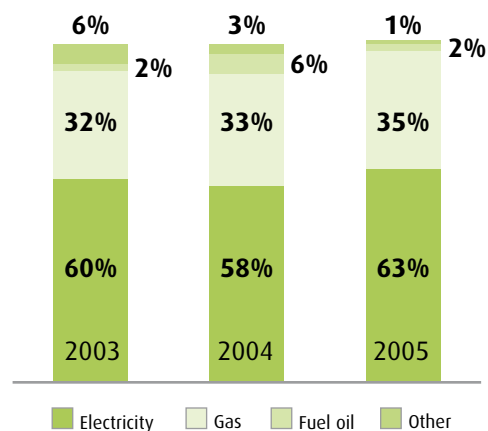
The Group has curbed its water consumption by 43% over the last two years as a result of efforts by most of the sites to cease using open-loop cooling systems, thereby reducing water withdrawal from natural surroundings.

5. Breakdown of energy consumption

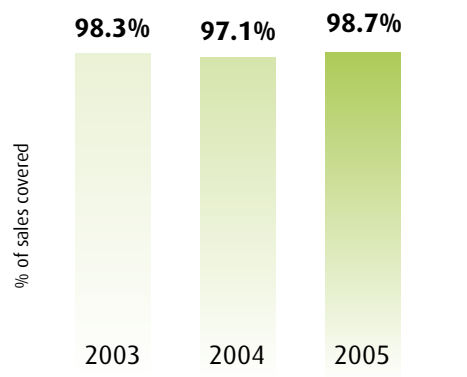
ENERGY CONSUMPTION



BREAKDOWN OF ENERGY CONSUMPTION



REPRESENTATIVENESS - ENERGY

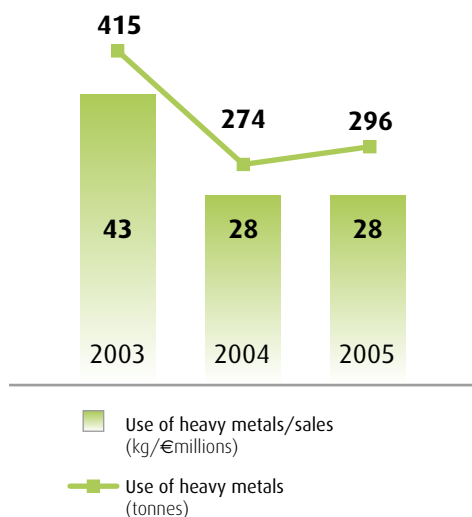


The Group's energy consumption dropped slightly in proportion to sales between 2004 and 2005. The increase in consumption in absolute terms is linked to changes in the Group's scope of consolidation.

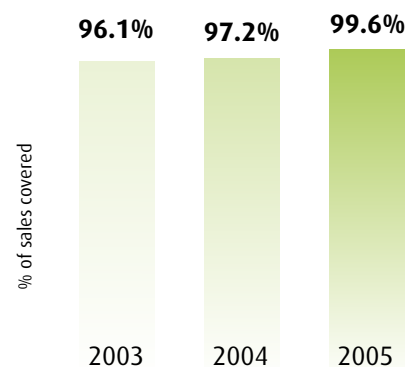
The annual consumption figures confirm the Group's preference for gas as a thermal energy source, which it uses primarily to heat premises.

6. Heavy metal consumption

USE OF HEAVY METALS



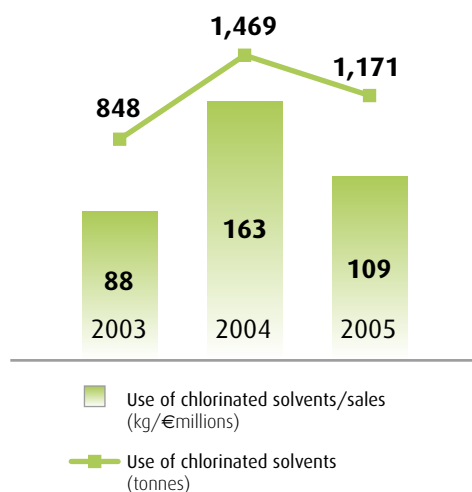
REPRESENTATIVENESS - HEAVY METALS



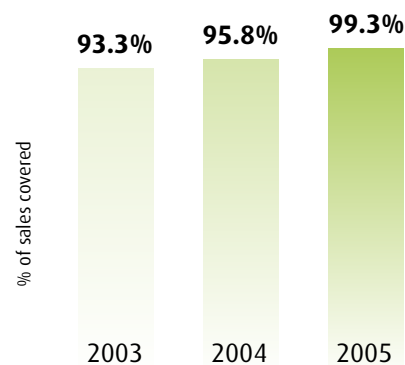
Heavy metal consumption was stable in proportion to sales between 2004 and 2005. The minor increase in consumption in absolute terms reflects changes in the Group's scope of consolidation.

7. Consumption of chlorinated solvents

USE OF CHLORINATED SOLVENTS



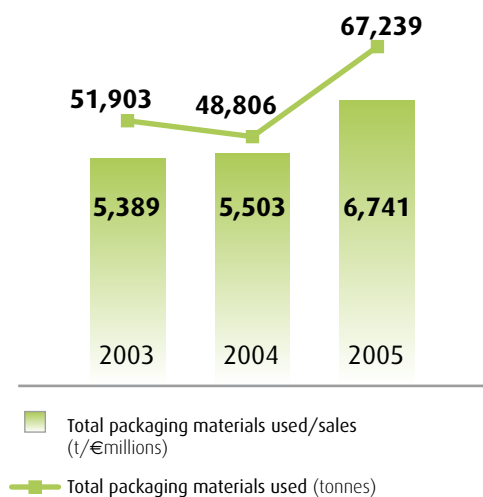
REPRESENTATIVENESS - CHLORINATED SOLVENTS



There was a major drop in Valeo's consumption of chlorinated solvents between 2004 and 2005, due to the development of new processes. The Group continued its gradual phasing out of processes that use trichloroethylene (TCE).

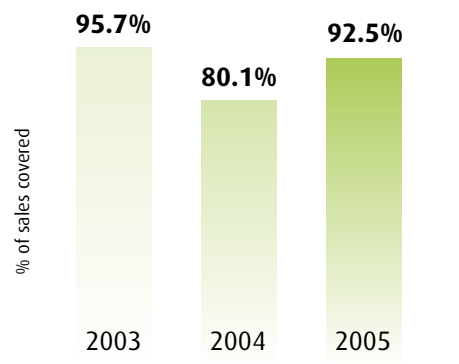
8. Use of packaging materials

PACKAGING MATERIALS USED

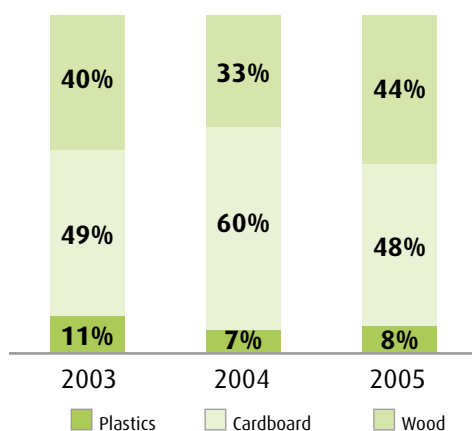


Having stabilized between 2003 and 2004, the use of packaging materials increased between 2004 and 2005. This increase resulted from the improved reliability of data on intermediate packaging used on-site.

REPRESENTATIVENESS - PACKAGING



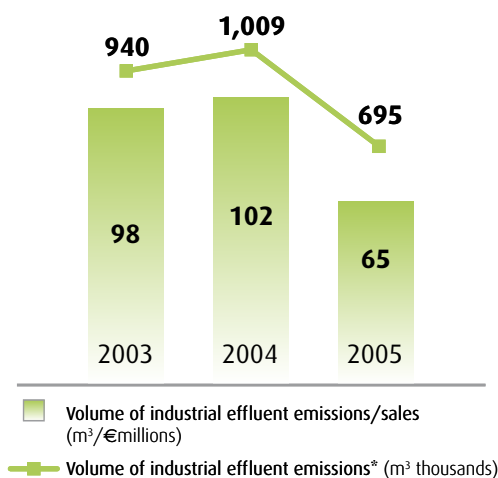
BREAKDOWN OF PACKAGING MATERIALS USED IN %



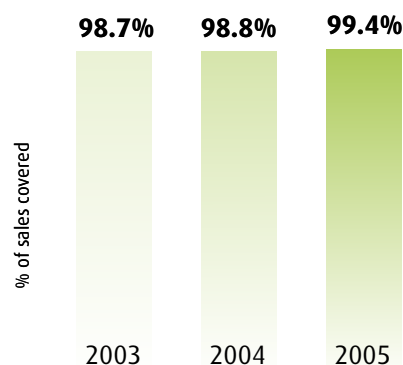
9. Industrial effluent and heavy metals

9.1. Volume of industrial effluent

INDUSTRIAL EFFLUENT



REPRESENTATIVENESS - INDUSTRIAL EFFLUENT

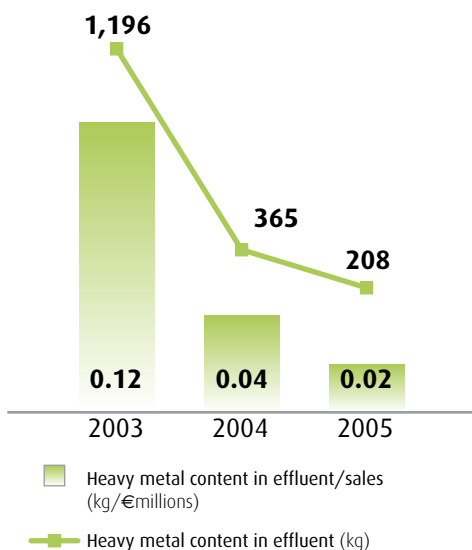


As in previous years, records were not kept of industrial effluent transferred to external treatment plants as the waste water produced by treating this effluent is not released directly into the environment by the site.

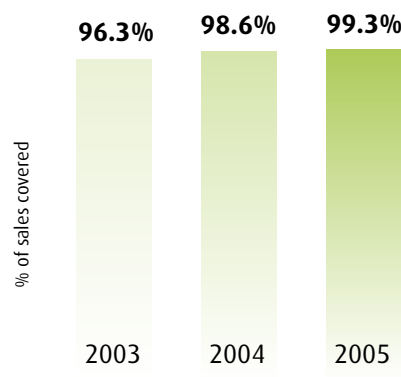
A considerable decrease in the volume of industrial effluent emissions was noted, mainly due to changes in the Group's processes.

9.2. Heavy metal content in effluent

HEAVY METAL CONTENT IN EFFLUENT



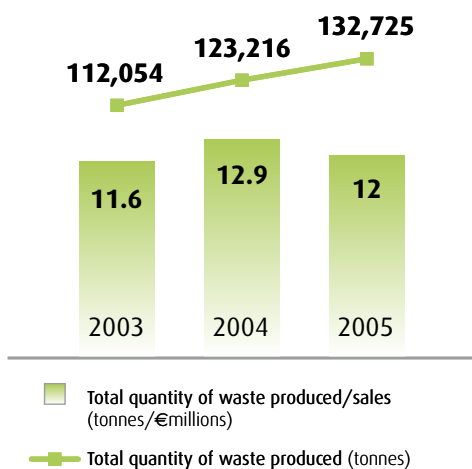
REPRESENTATIVENESS - HEAVY METAL CONTENT IN EFFLUENT



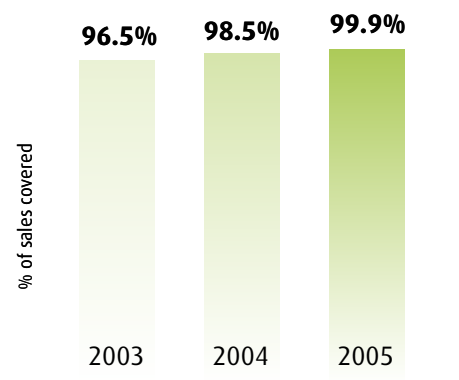
The reduction in the heavy metal content in effluent is a direct result of Valeo's policy of phasing out the use of heavy metals and reducing the volume of industrial effluent emissions.

10. Waste

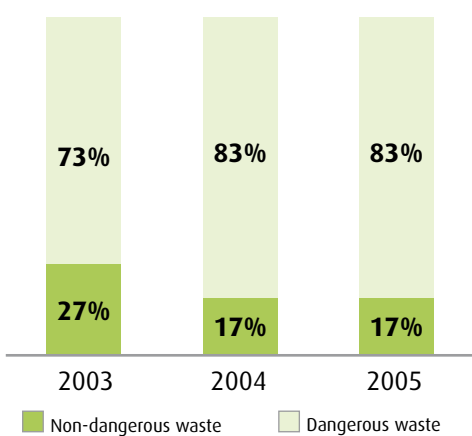
WASTE PRODUCED



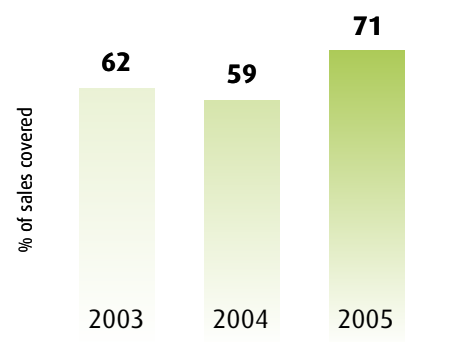
REPRESENTATIVENESS - WASTE

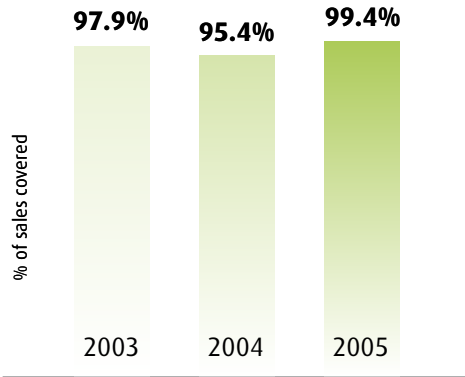


TYPE OF WASTE



WASTE RE-USE RATE



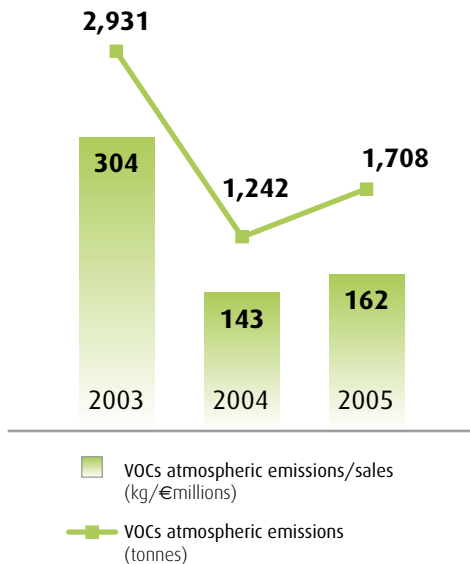
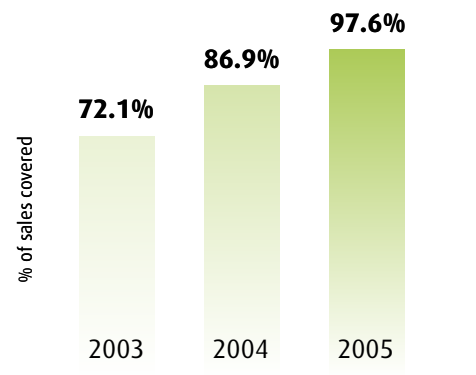
REPRESENTATIVENESS-WASTE RE-USE

The total volume of waste produced by the sites dropped slightly in proportion to sales, with the increase in absolute terms being due to changes in the Group's scope of consolidation.

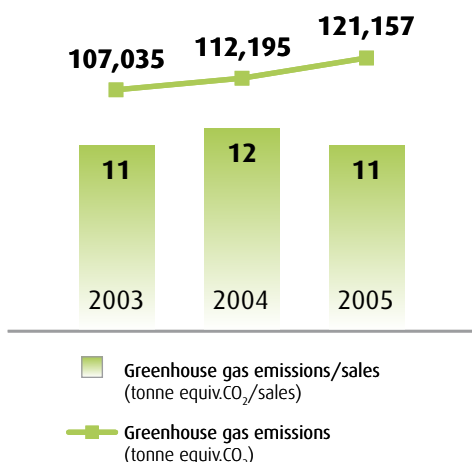
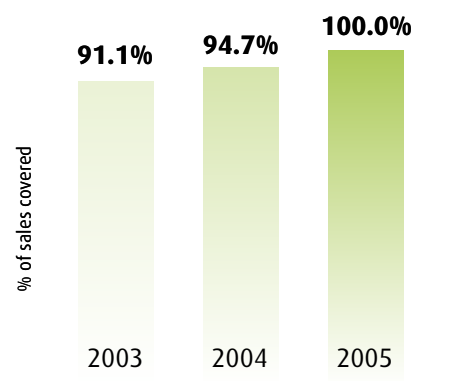
The waste re-use rate has climbed noticeably.

The proportion of dangerous to non-dangerous waste remained stable over the period.

As in previous years, the waste production data do not include materials recovered and re-used during manufacturing processes.

11. Atmospheric emissions**11.1. Volatile Organic Compounds (VOCs)****VOCs ATMOSPHERIC EMISSIONS****REPRESENTATIVENESS – VOCs**

The measurement and reduction of VOC emissions form part of the Group's objectives. The level of representativeness increased from 72.1% in 2003 to 97.6% in 2005.

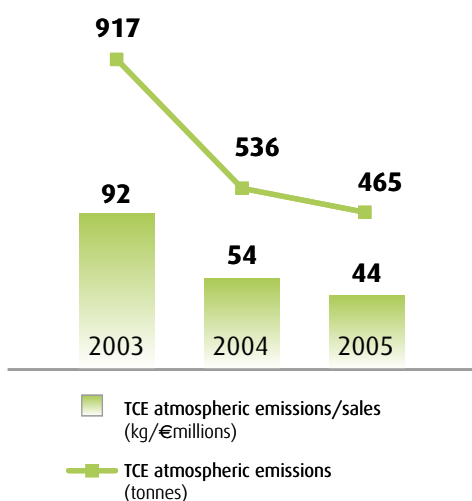
11.2. CO₂GREENHOUSE EQUIVALENT CO₂REPRESENTATIVENESS - CO₂

CO₂ emissions were calculated on the basis of energy consumption using the emission coefficients of the Intergovernmental Panel on Climate Change and are therefore closely linked to the Group's use of fossil fuels.

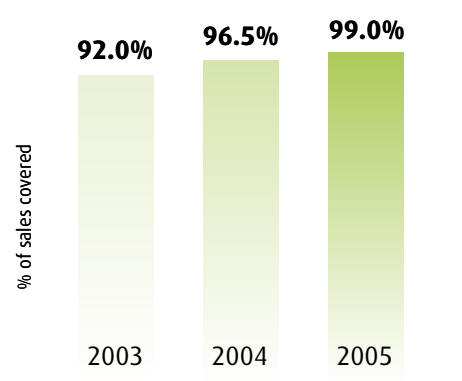
The quantity of CO₂ emitted per million euros of sales remained stable at approximately 11 tons per million euros.

11.3. Trichloroethylene (TCE)

TCE ATMOSPHERIC EMISSIONS



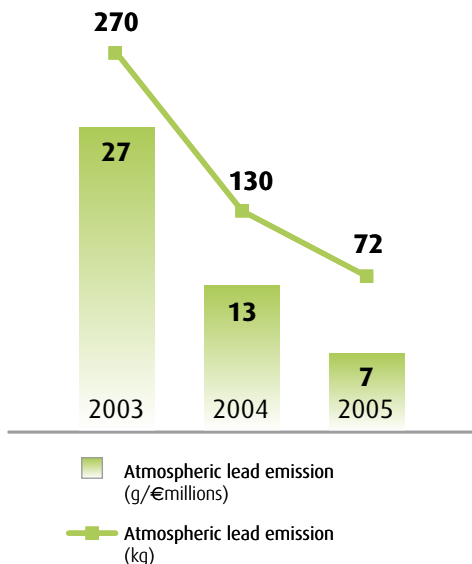
REPRESENTATIVENESS - TCE ATMOSPHERIC EMISSIONS



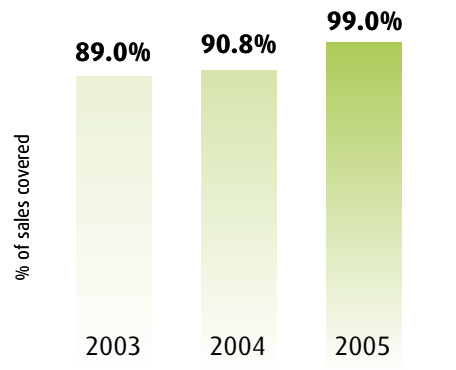
The Group is still heavily focused on reducing TCE emissions, a goal that it continued to pursue in 2005.

11.4. Lead

ATMOSPHERIC LEAD EMISSIONS



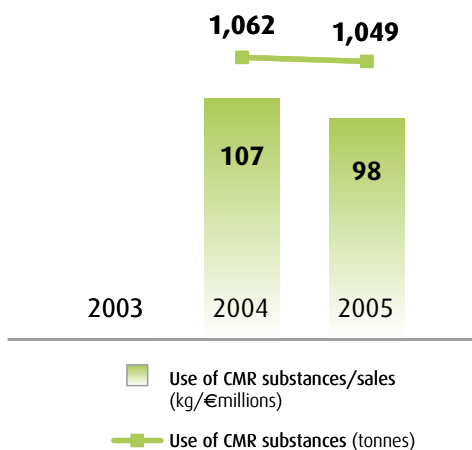
REPRESENTATIVENESS - ATMOSPHERIC LEAD EMISSION



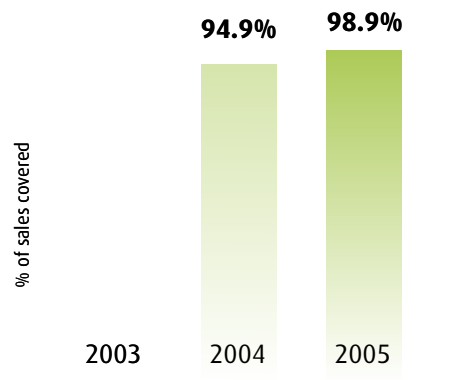
The level of representativeness improved in 2005, while atmospheric lead emissions continued to fall, in line with the Group's plan to eliminate heavy metals.

12. Use of carcinogenic, mutagenic and reprotoxic (CMR) substances

USE OF CMR SUBSTANCES



REPRESENTATIVENESS - USE OF CMR SUBSTANCES



In 2005, Valeo continued its drive to identify CMR substances used in its processes, and improved the rate of representativeness in this area.

In parallel, the quantities used per million euros of sales decreased. TCE remains the main CMR substance used by the Group. The continued decline in its usage in 2006 should have a significant impact on the CMR indicator.

Odor pollution

Odor pollution at Valeo principally concerns friction materials manufacturing sites and is produced by material curing operations. Systems have been set up to eliminate the emission of odor-polluting particles into the surrounding atmosphere.

Noise pollution

Valeo's operations do not use any particularly noisy processes. Certain roof air extraction units may cause some noise pollution, but no complaints have been lodged in this respect.

Use of special floor coverings

Valeo places great importance on limiting ground pollution.

- A Group directive makes protective storage of dangerous products obligatory and under no circumstances are raw materials and finished products stored at ground level. Impermeable coverings ensure complete protection. The Group also prohibits the use of underground tanks.
- Significant space is accorded to greenery on Group sites. On average, 35% of a site's surface area is given over to buildings, 15% to roads and the remaining 50% to greenery.

The greenery is adapted to the site's environment and when new buildings are constructed or sites rehabilitated, existing greenery is preserved on site wherever possible.

Measures to prevent harm to the biological balance, natural surroundings and protected fauna and flora

Based on the work of the HQE (High Quality Environment) association, the US Green Building Council and the recommendations of the World Bank, Valeo has developed the "generic plant" concept, whereby all site construction and renovation projects are subject to very precise specifications.

The criteria relating to sustainable development include:

- the choice of site;
- plant architecture and construction;
- employee working conditions;
- plant operation;
- application of regulations;
- Valeo risk prevention standards;
- optimized energy consumption;
- reduced emissions and waste.

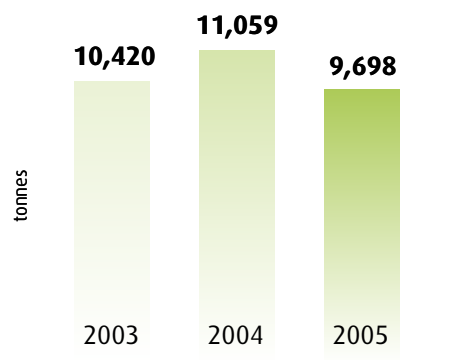
The plants at Veszprem in Hungary, Skawina in Poland, Zbrak in the Czech Republic, Atsugi-Shi in Japan and Bouznika in Morocco are all examples of the new generic plant concept.

13. Financial data

Scope	2005	
	Value (in €k)	Representativeness (% of sales)
Number of fines and compensation awards	5	100%
Amount of fines and compensation	16	100%
Provisions and guarantees for environmental risks	8,054	94%
Costs incurred in operations to cover the environmental impact of the business	13,861	99%
Investments made (excluding pollution elimination costs) to cover the environmental impact of the business	7,205	98%
Specific pollution elimination costs	1,467	99%

14. Use of recycled plastic

USE OF RECYCLED PLASTIC

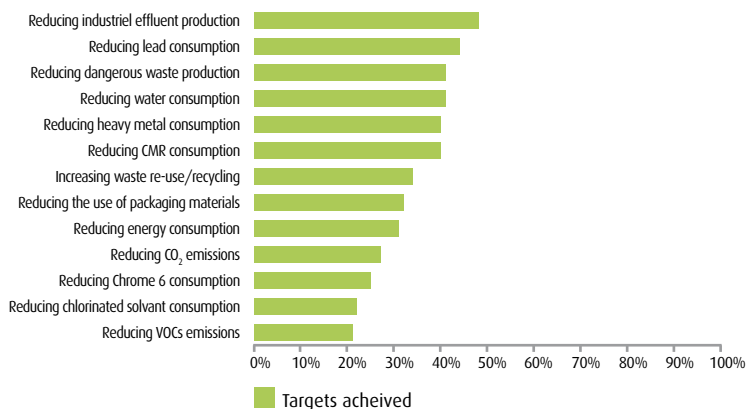


Use of recycled plastic remained more or less the same as previous years at approximately 10,000 tons.

It should be noted that in 2004 there was an error in the tonnage reported due to confusion about the use of recycled grades by one Branch.

15. Achievement of 2005 targets

OBJECTIVES MET



The sites set extremely ambitious objectives in 2004, which explains why they only partially achieved their targets. Overall, the Group made improvements in respect of most of its environmental indicators.

16. 2006 targets

Topic	Total number of Group sites with topic-specific targets	% of Group sites with topic-specific targets
Energy consumption	84	60%
Water consumption	76	54%
Waste re-use	56	40%
Dangerous waste	53	38%
Use of packaging materials	52	37%
Industrial effluent	32	23%
VOCs emissions	30	21%
Greenhouse gas emissions	24	17%
Use of chlorinated solvents	19	14%
Heavy metal consumption	18	13%
Lead consumption	16	11%
Cr6 consumption	11	8%
CMR consumption	7	5%
Use of halogenated solvents	4	3%
PCB	3	2%

Each site sets its own environmental objectives, which are measured in relation to the requirements of ISO 14001 and vary depending on the type of operations conducted at the site, the environmental surroundings and the level of environmental performance already achieved.

As in 2004, the three main objectives that the Valeo sites set themselves concern improving energy and water consumption, and increasing the rate of waste re-usage.

Social indicators

This social indicators report is based on the obligations and recommendations set out in the French New Economic Regulations Law (NRE) of May 15, 2001 and decree No. 2022-221 of February 20, 2002.

The Valeo Group has chosen to base its social indicators on data from all of its companies worldwide. There are some exceptions to this, which are listed on a case-by-case basis.

Valeo continued the step-by-step improvement of its indicators system in 2005 in all 13 of its industrial Branches and holding activities: a total of 194 Divisions in 26 countries.

17. Employment

17.1. Number of employees

17.1.1. Changes in number of employees over three years

	2003	2004	2005
Engineers and managers	10,427	11,249	11,953
Technicians, supervisors and administrative staff	11,028	11,477	11,514
Operators	40,913	40,593	41,499
Registered headcount	62,368	63,319	64,966
Agency temporary staff	3,812	3,957	5,338
TOTAL HEADCOUNT	66,180	67,276	70,304
<i>including</i>			
Permanent staff	53,370	55,540	58,976
Temporary staff	12,810	11,736	11,329

At December 31, 2005, the Group employed 70,304 people worldwide, up 4.5% on 2004 and 6.2% on 2003. This increase is attributable to the inclusion of two new Branches in the Group's scope of consolidation: Valeo Compressors (full acquisition of the two joint ventures Zexel Valeo Climate Control and Valeo Zexel Engine Cooling), and Valeo Engine Management Systems (acquisition of Johnson Controls' Engine Electronics Division).

Overall temporary staffing levels (fixed-term contracts and agency temporary personnel) continued to decrease on the back of the Group's efforts to increase job security. In 2005, temporary personnel represented 16% of the Group's total employees, compared with 17% in 2004 and 19% in 2003.

The percentage of engineers and managers increased slightly in 2005, to 18.4% of headcount compared with 17.8% in 2004 and 16.7% in 2003.

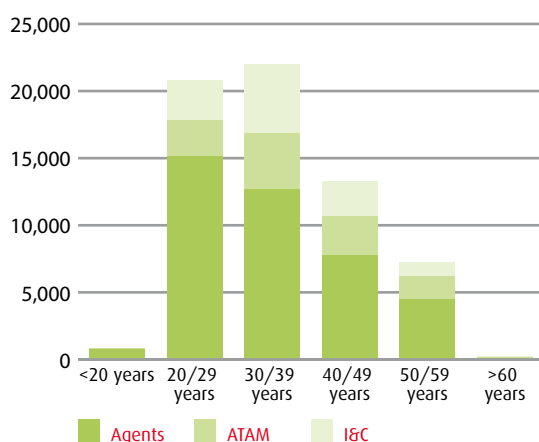
17.1.2. Internationalization of Group headcount

The Group's global expansion has given rise to an increasingly international staff. 71.5% of staff currently work in countries other than France, compared with 47.8% in 1995.

TOTAL HEADCOUNT EXCL. FRANCE

1995	2000	2005
14,125	50,002	50,273

	Western Europe	Eastern Europe	Africa	North America	South America	Asia
Total headcount at December 31, 2005	33,549	9,276	9,224	7,753	3,418	7,085
	47.7%	13.2%	13.1%	11.0%	4.9%	10.1%

17.1.3. Generational turnaround**PERMANENT WORKFORCE BY AGE BRACKET**

At December 31, 2005, the Group's permanent workforce broke down as follows:

- 33.6% under 30;
- 34.1% between 30 and 39;
- 20.6% between 40 and 49; and
- 11.6% over 50.

The high number of new staff recruited each year generates significant generational turnaround.

17.2. Recruitment

Apart from certain highly localized difficulties concerning positions requiring advanced specialization or specific language skills, thanks to its corporate image and experience, the Group did not encounter any particular problems in relation to recruitment during the year.

17.2.1. Permanent contracts**NUMBER OF PERMANENT CONTRACTS**

	2003	2004	2005
Engineers and managers	1,389	1,475	1,772
Technicians, supervisors and administrative staff	798	844	757
Operators	2,277	3,306	4,029
TOTAL	4,464	5,625	6,557

In 2005, Valeo increased the number of new hires on permanent contracts, with 6,557 recruited during the year, representing 11.1% of the Group's permanent headcount, compared with 10.1% in 2004 and 8.4% in 2003.

Engineers and managers accounted for 27% of these new recruits (26% in 2004 and 31% in 2003).

BREAKDOWN OF NEW HIRES ON PERMANENT CONTRACTS BY GEOGRAPHICAL AREA

	Western Europe	Eastern Europe	Africa	North America	South America	Asia
Permanent contracts 2005	1,321	1,328	242	2,019	805	843
	20.1%	20.3%	3.7%	30.8%	12.3%	12.9%

17.2.2. Fixed-term contracts

NUMBER OF FIXED-TERM CONTRACTS

	2003	2004	2005
Engineers and managers	198	241	258
Technicians, supervisors and administrative staff	334	273	380
Operators	9,045	7,924	7,655
TOTAL	9,577	8,438	8,293

8,293 fixed-term contracts were signed during the year, down 1.7% on 2004 and 13% on 2003.

Employees on fixed-term contracts occupied 5,991 posts at December 13, 2005, compared with 7,779 one year earlier.

BREAKDOWN OF NEW HIRES ON FIXED-TERM CONTRACTS BY GEOGRAPHICAL AREA

	Western Europe	Eastern Europe	Africa	North America	South America	Asia
Fixed-term contracts 2005	3,302	1,146	2,771	542	2	530
	39.8%	13.8%	33.4%	6.5%	0.0%	6.4%

17.3. Departures

	2003	2004	2005
Contact terminations	4,500	3,454	3,143
of which redundancies	2,950	1,661	993
Early retirement	495	367	462
Retirement	607	606	420

Valeo terminated 3,143 contracts in 2005, representing 5.3% of the permanent workforce (6.2% in 2004 and 8.4% in 2003).

Redundancies accounted for less than one third of total contract terminations in 2005, compared with one-half in 2004 and two-thirds in 2003.

Early retirement and retirement represented the equivalent of 1.5% of the permanent headcount (1.8% in 2004 and 2.1% in 2003).

BREAKDOWN OF 2005 CONTRACT TERMINATIONS PER GEOGRAPHIC AREA

	Western Europe	Eastern Europe	Africa	North America	South America	Asia
Redundancies	504	21	1	292	27	148
	50.8%	2.1%	0.1%	29.4%	2.7%	14.9%
Dismissals	470	284	433	640	312	11
	21.9%	13.2%	20.1%	29.8%	14.5%	0.5%
Resignations	925	491	1,093	1,259	92	337
	22.0%	11.7%	26.1%	30.0%	2.2%	8.0%
Early retirement	421	0	0	0	0	41
	91.1%	0.0%	0.0%	0.0%	0.0%	8.9%
Retirement	276	8	0	73	1	62
	65.7%	1.9%	0.0%	17.4%	0.2%	14.8%

Information on rightsizing and employment protection plans, transfer, rehiring and assistance measures

Valeo is firmly committed to a forward-looking employment and skills management policy. During restructuring operations, the Group regularly consults with employee representatives and explores all possible avenues in finding alternative employment for staff, including internal transfers, outplacements, initiatives aimed at finding buyers for divested operations and reindustrialization of employment catchment areas.

Rightsizing programs launched in 2005 involved 10 of the 13 industrial Branches, and a total of 1,640 employees.

In respect of programs completed in 2005, 1,248 out of a total of 1,577 employees were transferred, a rate of 79.1%. Internal transfers accounted for 8.4% of this figure and outplacements for 9.6%. Early retirement and retirement made up another 34.4% and resignations stood at 18.8%. Alternative transfer solutions were found for 7.8% of the total number.

18. Organization of the working week

18.1. Working hours/days

Full-time employees

The work of employees within the Group's 194 Divisions is organized in accordance with statutory working time, which varies between 35 and 48 hours per week depending on the country in question.

The most widespread statutory working time is 40 hours per week.

In France, the agreement on the reduction in working time, signed with trade unions on April 20, 2000, sets working time as follows:

Engineers and managers	214 days per year
Technicians, supervisors and administrative staff	35 hrs
Employees without paid overtime hours	37.5 hrs
Operators	35 hrs

Part-time employees

As part-time work is defined as any work schedule lower than the standard working hours of a particular entity, the average working hours for part-time employees vary depending on the country and their socio-professional category between 10 and 38 hours per week.

18.2. Shift patterns

EMPLOYEE BREAKDOWN BY SHIFT PATTERNS IN %

	2003	2004	2005
Day workers	41%	41%	45%
Two 8-hour shifts	32%	32%	27%
Three 8-hour shifts	21%	21%	21%
Night workers	5%	5%	5%
Weekend workers	1%	1%	2%

Most production employees work two or three shifts (93.1% and 94.5% respectively) or nights to optimize plant utilization.

18.3. Overtime

In 2005, 7,248,369 hours of overtime were paid (as compared with 19,930,387 in 2004 and 6,034,700 in 2003). 79% of this was paid to production employees (74% in 2004, 83% in 2003).

18.4. Part-time work

In 2005, 1,214 of the Group's employees worked part-time, representing 1.9% of the permanent workforce, down from 2.5% in 2004 and 2.3% in 2003.

Women accounted for 75.7% of this figure.

Part-time numbers break down as follows: engineers and managers: 7.2%; technicians, supervisors and administrative staff: 19.0%; and operators: 73.8%.

It is to be noted that in certain countries the percentage of part-time employees was much higher than the Group average. This was particularly the case in Germany (9.4%), Belgium (7.8%), Spain (3.2%) and France (2.9%).

18.5. Absenteeism

Absenteeism, expressed as the number of hours absent over the possible number of working hours, totaled 2.8% in 2005 for the Group as a whole, down 0.1 percentage point on 2004, and comprised sickness, work-related accidents, strikes and unauthorized absences. As a result of action plans implemented across the Group, absenteeism fell 3% versus the 2004 figure (2.9%) and 18% versus the 2003 figure (3.4%).

This rate varies from 0.1% in Japan to 5.2% in the Czech Republic. France comes halfway in the ranking with an absentee rate of 3.1%.

19. Equality between men and women in the workplace

19.1. Male-female breakdown

Valeo places great importance on equality between men and women in the workplace, in terms of career development, training possibilities, salaries and rank within the company.

In accordance with the French law adopted on May 9, 2001, Valeo draws up a comparative, male-female status report every year

in each of the Group's French companies. This report is used as a basis for annual negotiations between labor and management on targets for equality in the workplace and on the measures required to achieve these targets.

The male-female breakdown remained stable in 2005, at 63.4%/36.6% compared with 63.1%/36.9% in 2004, despite the Group's expansion in Asia, where there is a large male population.

BREAKDOWN OF WOMEN BY SOCIO-PROFESSIONAL CATEGORY

	2003	2004	2005
Engineers and managers	16.2%	16.0%	17.1%
Technicians, supervisors and administrative staff	30.5%	26.9%	28.3%
Operators	47.2%	45.6%	44.4%

PERCENTAGE OF WOMEN EMPLOYED ON PERMANENT CONTRACTS OVER THREE YEARS

	Engineers and managers		Technicians, supervisors and administrative staff		Operators		Total	
	Women	%	Women	%	Women	%	Women	%
2003	258	18.6%	292	36.6%	965	42.4%	1,515	33.9%
2004	286	19.4%	209	24.8%	1,209	36.6%	1,703	30.3%
2005	369	20.8%	157	20.7%	1,470	36.5%	1,996	30.4%

19.2. Diversity

The Valeo Group has sites in 26 countries and is thus highly diversified.

In 2005 the Group's workforce was comprised of employees of 95 nationalities.

The countries with the most internationalized workforces are: France (65 nationalities), Germany (38 nationalities), Spain

(23 nationalities), the US (20 nationalities), the Czech Republic (16 nationalities), and Japan (15 nationalities).

The most prevalent nationalities in the Group are French, German, Italian, Spanish and Chinese.

The Group's most diversified Division is the German Division of the Switches & Detection Systems Branch, with 24 nationalities out of a workforce of 1,562 employees.

20. Labor relations and collective bargaining agreements

Valeo has developed an active contractual policy in respect of labor relations. A total of 315 agreements were signed in 2005, compared with 232 in 2004 and 194 in 2003, in various areas and in accordance with the terms of conditions stipulated under various national legislations.

Among these agreements, 102 (32.4%) related to working time, 87 (27.6%) to salaries, 34 (10.8%) to profit-sharing and incentive schemes, and 27 (8.6%) to various premiums or bonuses.

In certain countries such as France, Italy, Germany, Tunisia or Japan, a large number of meetings took place with trade unions, which led not only to formal and informal exchanges but to the signature of numerous agreements, including:

Western Europe

- France: 2005 wage agreements, and agreements on lifelong professional training, forward-looking employment and skills management and the organization of working time and leave.
- Italy: agreements on the organization of working time and leave, and performance bonuses.
- Germany: agreements on personal safety equipment, and diversity and social cohesion within the Company.

Eastern Europe

- Czech Republic: collective bargaining agreements, wage agreements.

Africa

- Tunisia: agreements on the organization of working time and leave, personal safety equipment and the transfer of production staff.
- Morocco: wage agreement, agreement on the reduction of working time.

North America

- United States: wage agreements, agreements on employee profit-sharing and incentive schemes, and collective bargaining agreements.
- Mexico: wage agreements and agreements on the organization of working time and leave.

South America

- Brazil: wage agreements, collective bargaining agreements and agreements on employee profit-sharing, incentive schemes and time savings accounts (*épargne-temps*).
- Argentina: wage agreements.

Asia

- Japan: wage agreements, agreements on the payment of premiums and bonuses and on the organization of working time and leave.

The European Works Committee was extended to the new member countries of the European Union on May 1, 2004, and to Slovakia in the second half of 2005. The countries already represented are: Germany, Belgium, Spain, France, Hungary, Italy, Poland, Portugal, the Czech Republic and Sweden. The Committee met four times in 2005.

The countries in which employees are fully or partially covered by a collective bargaining agreement are: France, Spain, Portugal, Italy, Germany, Sweden, the Czech Republic, Hungary, Romania, Tunisia, South Africa, the United States, Mexico, Brazil, Argentina, South Korea, Japan and India.

21. Health and safety in the workplace

The Group's target is for its sites to meet the highest world-class health and safety standards.

Health and safety at work is a clear priority for Valeo. Systematic audits are performed by external consultants to assess and control risks, and Valeo has implemented Group-wide standards.

In order to assess the success of measures implemented, Valeo uses three ratios: the number of days without accidents leading to absence, the "frequency rate" (number of accidents leading to absence per million hours worked) and the "gravity rate" (number of days lost because of work accidents per thousand hours worked).

As regards the number of days without accidents leading to absence, the Japanese Division of the Valeo Transmissions Branch put in the best performance, with a total of 2,101 days at the end of December 2005. It should also be noted that 59 of the Group's Divisions, including 40 industrial Divisions and 19 administrative, research and sales Divisions achieved higher scores than the Group target of 365 days without accident leading to absence.

GROUP

	2003	2004	2005
Frequency rate	9.59	7.21	5.07
Gravity rate	0.27	0.16	0.16

FRANCE

	2003	2004	2005
Frequency rate	16.47	13.02	12.74
Gravity rate	0.49	0.38	0.33

In France the frequency and gravity rates are lower by 56% and 71% respectively than the industry average (source: UIMM – 2002 – latest survey).

In general, the main causes of accidents leading to absence were machines and processes (54.3%) and ergonomics (32.3%). Accident prevention measures (the design of new ergonomic production

lines, awareness-raising among employees, bringing personal safety equipment into general use, etc.) are carried out on an ongoing basis with a view to an even greater reduction in the number of accidents, with the ultimate goal being “0 accidents with or without absence”. 10.1% of training hours in the Group in 2005 were dedicated to safety.

22. Remuneration

22.1. Changes in remuneration, social charges

(in € millions)	2003	2004*	2005
Payroll excluding social charges	1,571	1,698	1,616
Social charges	570	566	515
Total payroll	2,141	2,264	2,131
Charge rate	36.3%	33.3%	31.9%

* Figures restated following the application of the new International Financial Reporting Standard.

(in € millions)	2003	2004*	2005
Personnel costs (including temporary staff)	2,283	2,286	2,296
% of sales	24.7%	24.8%	23.1%

* Figures restated following the application of the new International Financial Reporting Standard.

BREAKDOWN BY GEOGRAPHIC AREA IN 2005

	France	Europe (excl. France)	Outside Europe
Payroll excluding social charges	638.6	546.3	430.9
Social charges	293.5	173.6	48.1
Total payroll	932.1	719.9	479.0
Charge rate	46.0%	31.8%	11.2%

France has the highest headcount, with over 17,500 employees. Overall wages went up 2.4% in 2005, with inflation standing at 1.7%.

13 wage agreements and three refusal reports (*procès-verbal de désaccord*) were signed in the Group's 16 French companies with employee representative bodies and unions.

22.2. Profit-sharing, incentive schemes and employee savings schemes

22.2.1. Profit-sharing

In 2005, €4,403,000 was set aside in a special profit-sharing reserve by five out of the Group's 16 companies in France.

22.2.2. Incentive schemes

€2,468,600 was paid out under incentive schemes to employees from six of the Group's 16 companies in France in 2005.

22.2.3. Employee savings

- **Group savings scheme**

Employees can invest sums of money from profit-sharing and incentive schemes in a Group savings scheme set up on November 13, 2001, under a collective agreement signed by Group Management and four trade union organizations.

Voluntary payments can also be made with top-up payments of between 0% and 75% by Valeo. This scheme only applies to French companies.

At December 31, 2005, 10,472 employees participated in Valeo's Employee Savings Plan (PEG) (up 11.3% on last year), representing 59.6% of the total French headcount, and a total amount of €25.8 million split between 6 investment funds.

- **Employee stock ownership**

At the end of 2004, the Group set up an employee shareholders plan entitled Valeorizon, which was subscribed to by 14% of employees in 16 of the countries in which Valeo has operations.

1.8% of Valeo's capital is now held by its employees, which means that the employees are now one of the main shareholders.

No new employee shareholding schemes were launched in 2005.

23. Training

Trends in training over the last 3 years

The overall cost of training in 2005 was €31,752,527, the equivalent of 2% of payroll excluding social charges.

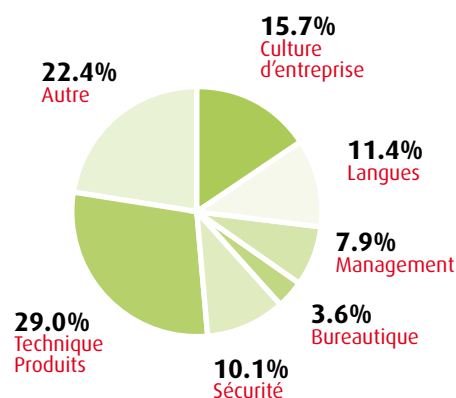
The Group also took on 1,128 interns in 2005, 33% of whom were women.

Work placement schemes and apprenticeships also play an important role, with 1,089 young people taken on in this capacity in 2005, 30% of whom were women.

634 young trainees were received as part of the international employment forum (VIE), 27% of whom were women.

In 2005, 81.1% of employees participated in at least one training course, as part of the Group's skills development policy.

	2003	2004	2005
Number of employees trained	46,664	51,008	52,692
Number of training hours given	1,534,741	1,603,593	1,508,698
Training costs	€32,624,810	€33,381,376	€31,752,527

BREAKDOWN OF HOURS BY TYPE OF TRAINING IN 2005**PERCENTAGE OF EMPLOYEES TRAINED PER SOCIO-PROFESSIONAL CATEGORY**

	2003	2004	2005
Engineers and managers	81.5%	91.1%	87.3%
Technicians, supervisors and administrative staff	86.2%	82.1%	81.8%
Operators	70.1%	77.2%	79.1%
Total	74.8%	80.6%	81.1%

AVERAGE NUMBER OF TRAINING HOURS PER SOCIO-PROFESSIONAL CATEGORY

	2003	2004	2005
Engineers and managers	64	48	48
Technicians, supervisors and administrative staff	41	43	38
Operators	21	23	20
Total	33	31	29

The reduction in training-related costs (down 5% on 2004) and training hours (down 6% on 2004), combined with a 3% rise in the number of employees trained, is illustrative of the drive to optimize classroom training time and the success of the Group's online university Valeo C@mpus. A total of 58,100 training hours (30,000 in 2004, i.e., an increase of 93.7%) were provided to 12,822 employees (5,800 in 2004, up 121.1%) during the year.

2005 also saw the launch of two new internal technical schools, one in the Wiper Systems Branch (VIEWS) and the other specializing in wiring (VECTIS). There are now six such schools, providing training on internal Valeo methods and processes as well as methodology. The training is given by internal trainers, most of whom are Group experts. These six schools also launched a joint catalogue of training sessions, which can be accessed by all Group employees on the intranet.

24. Disabled employees

Valeo has amended its Code of Ethics, further strengthening its commitment to promote the respect of people's dignity and value in the workplace as well as equal rights for workers. Consequently, the Valeo Group participates in measures to promote the employment and training of disabled workers.

At December 31, 2005, 1,141 disabled employees worked for the Group, 12% more than in 2004.

In France there were 652 disabled employees at December 31, 2005 (510 at end 2004), representing 4% of the total headcount. The number of subcontracting and service contracts that have been set up with centers promoting the employment of disabled workers represented almost €3.7 million in 2005.

25. Social and cultural activities

In most of the countries in which it has operations the Group makes financial contributions to sports, educational, cultural or charity organizations. €30.7 million was spent on social benefits programs in 2005, representing 1.9% of total payroll excluding social charges.

This money mainly went towards medical services, vaccination campaigns, cafeterias, day nurseries, holiday camps and sports or leisure associations.

Valeo dedicated €11 million, or 1.7% of total payroll excluding social charges, to social benefits programs in France in 2005 (€12 million in 2004 and €11 million in 2003).

26. Subcontracting

Valeo is particularly vigilant in ensuring that its subsidiaries comply with the fundamental principles of national and international labor law in all their dealings with subcontractors, and that subcontractors apply the provisions of the Valeo Code of Ethics relating to fundamental human rights.

Subcontracting costs amounted to €109.6 million in 2005 (€108.3 million in 2004 and €137.7 in 2003), covering services

such as site security, cleaning, maintenance and IT and administrative support. This figure represented 6.8% of total payroll excluding charges.

Subcontracting costs in France amounted to €49.9 million in 2005, down 24% versus 2004 and 43% versus 2003.

27. The Group's role in youth training and employment

27.1. International outlook

In order to assist with its recruitment requirements, Valeo has entered into a number of partnerships with technical schools, higher education establishments and universities in the regions where it operates, and also participates in numerous forums and open house days in order to present the Group's activities to students and future graduates.

Valeo took part in the ENSAM forum in Morocco, the Franco-German forum in Strasbourg, the international employment forum in Paris (VIE), and open house days or forums in the universities of Wuhan (China), Pforzheim (Germany), Zaragoza (Spain), Cassino (Italy) and Košice in Slovakia.

In the United States Valeo took part in the Yes-Expo Program in Detroit, attended by more than 13,000 students, to promote the Group's technological innovations to the student community.

The University of Krakow in Poland is particularly renowned within the automotive industry, and in 2005 it entered into a special partnership with Valeo with a view to increasing the number of student internships.

27.2. In France

In order to assist with its recruitment needs, Valeo has strengthened its relationships with top-ranking French educational establishments. It also participates in various educational and recruitment forums, as well the Atlantic forum in Nantes, Ouest Avenir in Brest and Women in Leadership in Paris.

3

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Consolidated statements of income

(In millions of euros)	Notes	2005	2004
NET SALES	6.1	9,933	9,229
Other operating revenues		100	64
TOTAL OPERATING REVENUES		10,033	9,293
Cost of sales		(8,346)	(7,631)
GROSS MARGIN ⁽¹⁾		1,587	1,598
% of net sales		16.0%	17.3%
Research and development expenditure		(661)	(603)
Selling expenses		(195)	(186)
Administrative expenses		(464)	(444)
Other income and expenses	4.2	(60)	(96)
OPERATING INCOME		307	333
% of total operating revenues		3.1%	3.6%
Cost of net debt	4.3	(54)	(33)
Other financial income and expenses	4.4	(52)	(39)
INCOME BEFORE INCOME TAXES		201	261
Income taxes	4.5	(60)	(17)
Equity in net earnings of associated companies		6	5
NET INCOME FOR THE PERIOD		147	249
% of total operating revenues		1.5%	2.7%
Minority interests		(6)	(8)
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		141	241
% of total operating revenues		1.4%	2.6%
Basic earnings per share (in euros)	4.6.1	1.77	2.93
Diluted earnings per share (in euros)	4.6.2	1.76	2.93

⁽¹⁾ Gross margin represents net sales (excluding other operating revenues) less cost of sales.

The notes on pages 78 to 129 are an integral part of the consolidated financial statements.

Consolidated balance sheets

(In millions of euros)	Notes	2005	2004
ASSETS			
Goodwill	5.1	1,441	1,158
Other intangible assets	5.2	518	281
Property, plant and equipment	5.3	2,043	1,945
Investments in associates	5.4	116	96
Non-current financial assets	5.5	28	14
Deferred tax assets	5.6	101	82
Non-current assets		4,247	3,576
Inventories	5.7	658	567
Accounts and notes receivable	5.8	1,906	1,726
Other current assets		241	228
Taxes recoverable		51	58
Other current financial assets	6.2.5	23	-
Assets held for sale	5.3	11	-
Cash and cash equivalents	5.11	949	868
Current assets		3,839	3,447
TOTAL ASSETS		8,086	7,023
LIABILITIES AND EQUITY			
Share capital		233	251
Additional paid-in capital		1,385	1,617
Retained earnings		86	(78)
Stockholders' equity		1,704	1,790
Minority interests		45	57
Stockholders' equity including minority interests	5.9	1,749	1,847
Provisions for other liabilities - long term portion	5.10	1,088	993
Long-term debt	5.11	1,303	1,027
Deferred tax liabilities	5.6	9	13
Non-current liabilities		2,400	2,033
Accounts and notes payable		1,926	1,685
Provisions for other liabilities - current portion	5.10	391	297
Taxes payable		82	83
Other liabilities		792	715
Current maturities of long-term debt	5.11	581	188
Other current financial liabilities	6.2.5	8	-
Short-term debt	5.11	157	175
Current liabilities		3,937	3,143
TOTAL LIABILITIES AND EQUITY		8,086	7,023

The notes on pages 78 to 129 are an integral part of the consolidated financial statements.

Consolidated statements of cash flows

(in millions of euros)	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	147	249
Equity in net earnings of associated companies	(6)	(5)
Net dividends received from associated companies	4	3
Other adjustments to reconcile net income to net cash provided by operating activities:		
• depreciation, amortization and provisions for impairment in value	639	593
• net charges to/(reversals from) provisions	(98)	(85)
• unrealized (gains)/losses on financial instruments	4	-
• expenses related to share-based payment	7	7
• gains (losses) on sale of non-current assets	6	11
• customer contribution	(35)	(13)
• other income and deductions with no cash effect	(4)	2
Cost of net debt	54	33
Income taxes (current and deferred)	60	17
EBITDA ⁽¹⁾	778	812
Income taxes paid	(65)	(28)
Changes in working capital:		
• inventories	3	(5)
• accounts and notes receivable	53	21
• accounts and notes payable	30	51
• other receivables and payables	21	(22)
Net cash provided by operating activities	820	829
CASH FLOWS FROM INVESTING ACTIVITIES		
Outflows relating to acquisitions of:		
• intangible assets	(145)	(122)
• property, plant and equipment	(441)	(413)
• investments and other financial non-current assets	(4)	(2)
Inflows relating to disposals of:		
• intangible assets	-	-
• property, plant and equipment	41	19
• investments and other financial non-current assets	1	2
Impact of changes in scope of consolidation	(466)	(73)
Net cash used in investing activities	(1,014)	(589)
Net cash provided/(used) before financing activities	(194)	240

(in millions of euros)

	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to parent company stockholders	(91)	(85)
Equalization tax on dividends	-	(101)
Dividends paid to minority interests in consolidated subsidiaries	(5)	(5)
Net inflows relating to:		
• issuance of share capital	1	33
• sale of treasury shares	8	-
• issuance of long-term debt	826	26
• grants and contributions received	39	26
Net outflows related to capital reductions	(252)	-
Net interest paid	(33)	(28)
Repayment in long-term debt	(196)	(36)
Net cash provided by/(used in) financing activities	297	(170)
Effect of exchange rate changes on cash	28	(1)
NET CHANGE IN CASH AND CASH EQUIVALENTS	131	69
Net cash and cash equivalents at beginning of year	661 ⁽²⁾	624
NET CASH AND CASH EQUIVALENTS AT END OF YEAR	792	693 ⁽²⁾
Of which:		
• Cash and cash equivalents	949	868
• Short-term debt	(157)	(175)

⁽¹⁾ Earnings Before Interest, Taxes, Depreciation and Amortization.

⁽²⁾ The difference between net cash and cash equivalents at December 31, 2004 and at January 1, 2005 is due to the application of IAS 32 as of January 1, 2005 (treasury shares are now deducted from stockholders' equity).

The notes on pages 78 to 129 are an integral part of the consolidated financial statements.

Statement of recognized income and expenses

(In millions of euros)	2005	2004
Exchange differences on translation of foreign operations	135	6
Actuarial gains (losses) on defined benefit plans	(50)	(42)
Cash flow hedges:		
• Gains/(losses) taken to equity	23	-
• Transferred to profit and loss for the period	(8)	-
Net investment hedges:		
• Gains/(losses) taken to equity	(3)	-
Income taxes on items recognized directly through equity	5	1
Income and expense recognized directly through equity	102	(35)
Profit for the period	147	249
Total recognised income and expenses for the period	249	214
Attributable to:		
• Equity holders of the company	239	209
• Minority interests	10	5

The notes on pages 78 to 129 are an integral part of the consolidated financial statements.

Statement of changes in stockholders' equity

Number of ⁽¹⁾ shares (In millions of euros)	Share capital	Additional paid-in capital	Translation adjustment	Retained earnings ⁽²⁾	Stockholders' equity	Minority interests	Stockholders' equity including minority interests
82,133,728	Stockholders' equity at January 1, 2004	246	1,589	(82)	1,753	97	1,850
	Dividends	-	-	(85) ⁽³⁾	(85)	(7)	(92)
	Equalization tax on dividends ⁽⁴⁾	-	-	(101)	(101)	-	(101)
1,575,296	Employee share issue	5	28	-	33	-	33
	Share-based payments	-	-	5 ⁽⁵⁾	5	-	5
	Income and expenses recognized directly through equity	-	-	9	(32)	(3)	(35)
	Net income for the period	-	-	241	241	8	249
	Other movements ⁽⁶⁾	-	-	(24)	(24)	(38)	(62)
83,709,024	Stockholders' equity at December 31, 2004	251	1,617	9	(87)	57	1,847
	OCEANE (bonds convertible into new shares or exchangeable for existing shares)	-	-	47	47	-	47
	Subsidized loans	-	-	2	2	-	2
(1,037,804)	Treasury stock	-	-	(32)	(32)	-	(32)
	Foreign exchange and metal derivatives	-	-	10	10	-	10
(1,037,804)	Total impact of financial instruments ⁽⁷⁾	-	-	27	27	-	27
82,671,220	Stockholders' equity at January 1, 2005	251	1,617	9	(60)	57	1,874
	Dividends	-	-	(91) ⁽³⁾	(91)	(5)	(96)
230,100	Treasury stock	-	-	8	8	-	8
(6,250,000)	Capital reduction ⁽⁸⁾	(19)	(233)	-	(252)	-	(252)
51,333 ⁽⁹⁾	Share-based payments	1	1	7 ⁽⁵⁾	9	-	9
	Income and expenses recognized directly through equity	-	-	131	98	4	102
	Net income for the period	-	-	141	141	6	147
	Other movements ⁽¹⁰⁾	-	-	(26)	(26)	(17)	(43)
76,702,653	Stockholders' equity at December 31, 2005	233	1,385	140	(54)	45	1,749

⁽¹⁾ After deducting shares held in treasury stock as from January 1, 2005 (application date of IAS 32).

⁽²⁾ Excluding translation adjustment.

⁽³⁾ Dividends paid amounted to 1.05 euros per share in 2004 and 1.10 euros per share in 2005.

⁽⁴⁾ This item includes:

- 18 million euros in equalization tax relating to dividends paid in 2004,
- 83 million euros in equalization tax which became due (on dividends paid in 2001 and 2002) further to the corporate income tax rebate obtained in 2004.

⁽⁵⁾ This item corresponds to the contra-entry for the expensing of share based payments (stock options and free share grants) at fair value in the income statement for the period.

⁽⁶⁾ Primarily reflecting the buyout of minority interests in Valeo Climatisation in October 2004 (see note 3.2.1).

⁽⁷⁾ Impact of applying IAS 32 and IAS 39 at January 1, 2005, relating to financial instruments (see note 2.6).

⁽⁸⁾ Capital reduction carried out following the purchase by Valeo of around 7.5% of its own shares, in connection with a public share buyback offer and a simplified public tender offer.

⁽⁹⁾ Impact related to an increase in capital further to the exercise of stock options.

⁽¹⁰⁾ This item includes the impact of minority interest buyouts, including in VZCC (see note 3.1.1), as well as the impact (on the previously held interests) on the calculation of the fair value of identified assets, liabilities and contingent liabilities held in connection with the acquisition of ZVCC shares (see notes 3.1.1).

The notes on pages 78 to 129 are an integral part of the consolidated financial statements.

Notes to consolidated financial statements

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1 - Accounting policies

The consolidated financial statements of the Valeo Group for the year ended December 31, 2005 include the accounts of Valeo, its subsidiaries and the Group's share of associates and jointly controlled entities.

Valeo is an independent Group fully focused on the design, production and sale of components, systems and modules for the automobile sector. It is one of the world's top automotive suppliers.

Valeo is a French legal entity, listed on the Paris Stock Exchange, whose head office is located at 43, rue Bayen, 75017 Paris.

Valeo's consolidated accounts were authorized for issue by the Board of Directors on February 9, 2006.

1.1 - Accounting standards applied

Under European Union regulation 1606/2002 of July 19, 2002, the consolidated financial statements for 2005 (and the comparative financial information for 2004 which is provided with them) have been prepared in conformity with International Financial Reporting Standards (IFRS) as endorsed by the European Union. As the Group's consolidated financial statements were prepared in accordance with French generally accepted accounting principles (French GAAP) up until December 31, 2004, Valeo applied the specific rules and principles relating to first-time adoption as defined in IFRS 1.

IFRSs that are in force at December 31, 2005 were generally applied retrospectively, as though Valeo had always applied them. However, IFRS 1 does explicitly allow a limited number of exemptions to retrospective application:

- mandatory exemptions: for example, IFRS 1 requires estimates under IFRSs at the date of transition to be consistent with estimates made at the same date under previous GAAP (i.e., it prohibits the use of hindsight to correct estimates made under previous GAAP). Also, IFRS 1 requires prospective application of hedge accounting as from the first period of application of IAS 39;
- optional exemptions: Valeo has elected not to restate the following retrospectively:
 - business combinations which occurred before January 1, 2004 (IFRS 3),
 - pensions and other employee benefits (IAS 19), resulting in the recognition through stockholders' equity of all cumulative actuarial gains or losses on January 1, 2004,
 - translation of the accounts of foreign entities (IAS 21), resulting in the elimination of the cumulative translation adjustment at January 1, 2004 (with no impact on total equity),
 - equity instruments granted before November 7, 2002 (date of

publication of the exposure draft of IFRS 2) and those whose rights had fully vested at January 1, 2005.

In addition Valeo has elected to apply IAS 32 and IAS 39 on financial instruments only as from January 1, 2005 with the resulting impact being recorded in equity at that date, as described in note 2.6. In consequence, results presented for the 2004 and 2005 financial years are not fully comparable (main impact on net debt described in note 4.3).

IFRS 5 which relates to non-current assets held for sale and to discontinued operations has been applied on a prospective basis as from January 1, 2005, in accordance with the transitional provisions set out in the standard.

Lastly Valeo has elected for early application, respectively as of January 1, 2004 and of January 1, 2005, of the amendments to IAS 19 and IAS 39 endorsed by the European Union in 2005. These amendments related, respectively, to:

- recognition in reserves of actuarial gains and losses on defined benefit pension plans;
- application of hedge accounting to future inter-company transactions.

1.2 - Basis of preparation

The financial statements are presented in euros and are rounded to the closest million.

In addition they have been prepared in accordance with the principal assumptions of IFRSs:

- true and fair view;
- going concern;
- accrual basis of accounting;
- consistency of preparation;
- materiality and aggregation.

Preparation of the financial statements required Valeo to make estimates and assumptions which could have an impact on the amounts at which assets, liabilities, income and expenses are stated. The estimates, and the assumptions underlying them, have been made on the basis of past experience and of other factors considered to be reasonable in the circumstances. They thus serve as the basis for the judgment made in determining the carrying amounts of assets and liabilities which could not be determined directly from other sources. The definitive amounts that will be stated in Valeo's future financial statements may be different from

the amounts currently estimated. These estimates and assumptions are reviewed on a continuous basis.

1.3 - Consolidation methods

The consolidated financial statements include the accounts of Valeo and companies under its direct and indirect control.

The proportionate consolidation method is used when the contractual arrangements for control of a company specify that it is under the joint control of the two venturers. Companies of this type are called joint ventures. In this case, the Group's share of each asset and liability and each item of income and expense is aggregated, line-by-line, with similar items in its consolidated financial statements.

All significant inter-company transactions are eliminated (for joint ventures the elimination is performed to the extent of the Group's ownership interest in the company), as are gains on inter-company disposals of assets, inter-company profits included in inventories and inter-company dividends.

Companies, in which Valeo has the power to exercise significant influence, are accounted for by the equity method. Valeo is considered to exercise significant influence over companies in which the Group owns more than 20% of the voting rights. This method consists of replacing the book value of the investments by the Group's equity in the underlying net assets, including goodwill.

Companies acquired during the year are consolidated as from the date at which the Group exercises (sole or joint) control or significant influence.

1.4 - Foreign currency translation

A company's functional currency is the currency of the principal economic environment in which it operates.

Transactions carried out in a currency other than the company's functional currency are translated using the rate prevailing at the transaction date or the hedging rate, if any. Monetary assets and liabilities denominated in foreign currency are translated at the year-end exchange rate or the hedging rate, if any. Non-monetary assets and liabilities denominated in foreign currency are generally translated using the exchange rate prevailing at the transaction date, with the possible exception of assets and liabilities which are recognized at fair value and those which form part of a hedging relationship. Differences arising from the translation of foreign currency transactions are included in income. As an exception to this rule, differences relating to loans and borrowings which are in substance an integral part of the net investment in a

foreign subsidiary and are recorded for their amount net of tax in stockholders' equity under translation reserves.

The financial statements of foreign subsidiaries whose functional currency is not the euro are translated into euros as follows:

- assets and liabilities are translated at the year-end exchange rate;
- income statement accounts are translated at the exchange rates applicable at the transaction dates or, in practice, at an approximation of these rates being the average exchange rate for the year, unless major fluctuations in exchange rates occur;
- unrealized gains or losses arising from the translation of the financial statements of foreign subsidiaries are recorded through stockholders' equity.

1.5 - Operating revenues

Operating revenues are comprised of net sales and other operating revenues.

Net sales primarily include sales of finished goods and also include all tooling revenues. Sales of finished goods and tooling revenues are recognized at the date on which the Group transfers substantially all the risks and rewards related to ownership to the buyer and is no longer involved in the management or in the effective control of the goods sold. In cases where the Group retains control of the future risks and rewards related to tooling, any customer contributions are recognized over the duration of the project, over a maximum of 4 years.

Other operating revenues consist of all revenues for which the associated costs are recorded below the gross margin line. They mainly comprise sales of prototypes and contributions received from customers to development costs. Such contributions are deferred as appropriate and are taken to income over the period of sale of the corresponding products, over a maximum of 4 years.

1.6 - Gross margin and operating income

Gross margin is defined as the difference between net sales and cost of sales. Cost of sales primarily corresponds to the cost of goods sold.

Operating income includes all income and expenses other than:

- cost of net debt;
- other financial income and expenses; and
- income taxes;
- equity in net earnings of associated companies.

In order to facilitate interpretation of the Statement of income and of Group performance, non-financial items that are material to the consolidated financial statements are separately presented within operating income under a specific caption entitled "Other income and expenses".

1.7 - Financial income and expenses

Financial income and expenses are comprised, firstly, of the cost of net debt and, secondly, of other financial income and expenses.

The cost of net debt corresponds to interest paid on debt less interest earned on cash and cash equivalents.

Other financial income and expenses notably include:

- foreign exchange gains and losses, including the impact of derivative instruments used as hedges;
- charges to provisions for credit risk;
- the effect of unwinding discount on provisions, including discount on provisions for pensions and other employee benefits; and
- the expected return on pension and other post employment benefit plan assets.

1.8 - Earnings per share

Basic earnings per share are calculated by dividing consolidated net income by the average number of shares outstanding during the year, excluding the average number of shares held in treasury stock.

Diluted earnings per share are calculated by including potentially dilutive instruments such as stock options or convertible bonds, when such instruments have a dilutive effect, which is particularly the case, for stock subscription options when their exercise price is below the market price (average Valeo share price over the year). When funds are received on the exercise of these rights (such as on the subscription of shares), they are deemed to be allocated in priority to the purchase of shares at market price. This calculation method – known as the treasury stock method – serves to determine the "unpurchased" shares to be added to the shares of common stock outstanding for the purposes of computing the dilution. When funds are received at the date of issue of dilutive instruments (such as for convertible bonds), net income is adjusted for the net of tax interest savings which would result from the conversion of the bonds into shares.

1.9 - Business combinations

All identifiable assets acquired, liabilities and contingent liabilities incurred or assumed, are recognized at their fair value at the date of transfer of control to the Group (acquisition date), independently of recognition of any minority interests.

The cost of a business combination is equal to the acquisition price, plus any costs directly attributable to the acquisition. Any excess of the acquisition cost over the fair value of the net assets acquired, liabilities and contingent liabilities incurred or assumed, is recorded in assets as goodwill. Goodwill is not amortized but is rather subject to an impairment test at least once a year.

1.10 - Intangible assets

Innovation can be analyzed as either research or development. Research is planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research findings with a view to creating new products, before the start of commercial production.

Research costs are recognized in expenses in the year they are incurred.

Development expenditure is capitalized where the Group can demonstrate:

- that it has the intention, and the technical and financial resources to complete the development;
- that the intangible asset will generate future economic benefits; and
- that the cost of the intangible asset can be measured reliably.

Capitalized development costs are then amortized over a maximum period of 4 years from the start of volume production. Impairment losses may, as required, be recognized in respect of capitalized development costs.

Other intangible assets are carried at cost less any amortization and impairment losses recognized. They are amortized on a straight-line basis over their expected useful lives.

Intangible assets with indefinite useful lives are subject to an impairment test in accordance with the methodology set out in note 1.12. Intangible assets which are not yet in use at year-end are also subject to such impairment tests.

1.11 - Property, plant and equipment

Property, plant and equipment are carried at cost, excluding interest expense, 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 standardization of all amounts in the Group.

Tooling which is 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 future risks and rewards relating to the specific tooling. It is capitalized in property, plant and equipment when Valeo has such control and is recorded in inventory (until sale) in the opposite case.

When the terms of a lease, entered into by the Group as lessee, transfer substantially all the risks and rewards related to ownership of an asset to the Group, the corresponding asset is recognized in property, plant and equipment in the Group's balance sheet at a cost equal to the lesser of its fair value and the present value of future minimum lease payments. Such assets are subject to depreciation and, if necessary, provisions for impairment. The corresponding obligation is recorded as a liability.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets concerned:

- Buildings 20 years
- Fixtures and fittings 8 years
- Machinery and equipment 4 to 8 years
- Other fixed assets 3 to 8 years

Land is not depreciated.

Capital grants received are recognized in liabilities and are written back to income proportionately to the recognition of depreciation of the corresponding assets.

1.12 - Impairment of assets

At each balance sheet date, the Group assesses whether there is an indication that an asset (other than a financial asset), a cash generating unit (CGU – as defined by IAS 36), or a group of CGUs may be impaired.

CGUs are autonomous management entities at the level of which the resource allocation process is performed and results are reviewed. They generally correspond to production sites or to groups of production sites.

Intangible assets with indefinite useful lives, intangible assets in progress and goodwill are systematically subject to an annual impairment test. If the asset's carrying amount is greater than its

recoverable amount, the asset (or the assets included in the CGU) is written down to its recoverable amount.

The recoverable amount of an asset or a cash generating unit is the higher of its fair value less costs to sell and its value in use. The method applied is the discounted present value of future cash flows expected to derive from an asset or a cash generating unit. The discount rate used is the rate that reflects both the current assessment of the time value of money and risks specific to the asset (or group of assets) for which future cash flows estimates have not been adjusted.

Impairment losses recognized on goodwill balances are never reversed. For other assets, when an indicator shows that the asset may no longer be impaired, the impairment loss previously recognized is reversed in an amount so that the new carrying amount is the lesser of the recoverable amount and the carrying amount that the asset would have had if the impairment had not been recognized in the first place.

1.13 - Financial assets and liabilities

Financial assets include non-consolidated investments, loans, accounts and notes receivable, derivatives and cash and cash equivalents. Financial liabilities include debt, accounts and notes payable, derivatives and short-term bank debt.

Recognition and measurement principles in respect of financial assets and liabilities are defined in IAS 32 and IAS 39. Valeo has elected to apply these standards only with effect from January 1, 2005. The impact of the change in accounting policy was recorded in equity at that date.

1.13.1 - Financial assets at fair value through income

Cash and cash equivalents are comprised of marketable securities such as money-market funds, deposits, and very short-term risk-free securities which can be easily sold or converted into cash as well as cash at bank. Such investments are generally held to be sold within a short timeframe.

1.13.2 - Trading receivables and payables

Trading receivables and payables are initially recognized at fair value. The fair value of accounts receivable and accounts payable is deemed to be their nominal amount in view of the fact that periods to payment are generally less than 3 months. Such trading receivables and payables are subsequently valued at amortized cost.

Accounts receivable can be subject to provisions for impairment in value. If an event of loss is identified during the financial year

subsequent to initial recognition of the receivable, the required provision will be calculated by comparing the estimated future cash flows to the carrying amount in the balance sheet. Provisions are recognized through other financial expenses if they are related to a risk of insolvency of the debtor.

1.13.3 - Non-current financial assets

Non-current financial assets include investments and loans and other long-term financial assets:

- investments are available-for-sale financial assets. They are initially recognized on origination at fair value. Any subsequent change in fair value is recognized through stockholders' equity. In practice, as investments are mainly in unlisted companies, cost is deemed to be the fair value unless a contrary indicator exists;
- long-term loans are held-to-maturity financial assets. They are initially recognized at fair value on origination and are subsequently valued on an amortized cost basis;
- other long-term financial assets are securities with maturities greater than 3 months. These securities are recognized in non-current financial assets at fair value, with changes in fair value being recognized through income. Such securities are easily sold and are risk-free.

1.13.4 - Debt

■ Bonds and other loans

Bonds and loans are valued at amortized cost. The amount of interest recognized in financial expenses is calculated by applying the loan's effective interest rate to its carrying amount. Any difference between the expense calculated using the effective interest rate and the actual interest payment impacts the value at which the loan is recognized.

Hedge accounting is generally applied to financial debt hedged by interest rate swaps. Such loans are revalued to their fair value, which is related to changes in interest rates.

■ OCEANE

Bonds convertible into new shares or exchangeable for new or existing shares (OCEANE) grant bearers an option for conversion into common shares of Valeo. They constitute a hybrid financial instrument which, under IAS 32, must be split into its two components:

- the value of the debt component is calculated by discounting the future contractual cash flows at the market rate applicable at the date of issue of the bond (taking account of credit risk at the date of issue) for a similar instrument with the same characteristics but without a conversion option,

- the value of the equity component is calculated as the difference between the proceeds of the bond issue and the amount of the debt component.

■ Short-term bank 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 3 months and is valued at amortized cost.

1.13.5 Recognition and measurement of derivatives

Derivatives are recognized in the balance sheet at fair value under the other current financial assets and other current financial liabilities captions. The accounting impact of changes in fair value of derivatives differs depending on whether hedge accounting is applied or not.

When hedge accounting is applied:

- for fair value hedges of recognized assets and liabilities, the hedged portion of these items is stated at fair value. Changes in this fair value are recognized through income and compensate, for the effective portion, the symmetrical changes in the fair value of the derivatives;
- for cash flow hedges, the effective portion of the change in the fair value of the derivative is recognized directly through equity and the ineffective portion is taken to other financial income and expenses;
- for hedges of net investments in foreign subsidiaries, the gain or loss arising from the hedge is taken to equity until such time as the investment is wholly or partly sold.

In cases where hedge accounting is not applied, changes in the fair value of derivatives are recognized in the caption other financial income and expenses.

■ Foreign currency derivatives

Changes in the value of derivatives are generally recognized in financial income and offset, as applicable, by changes in the fair value of the underlying receivables and payables. In certain cases, the Group applies hedge accounting for highly probable future flows at the inception of the hedging relationship: changes in the fair value of the derivatives are then recognized through equity for the effective component of the hedge. Amounts that flowed through equity are subsequently taken to operating income when the underlying hedged item affects operating income. Any ineffective portion is recognized in other financial income and expenses.

■ Metals derivatives

The Group applies cash flow hedge accounting. The effective portion of the hedge is reclassified from equity to operating income when the hedged position affects income. The ineffective portion is recognized in other financial income and expenses.

■ Interest rate derivatives

The Group generally applies fair value hedge accounting. Changes in the fair value of debt, related 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.

In certain cases, interest rate derivatives are not designated as hedging instruments in the meaning ascribed to that term by IAS 39. In such cases changes in fair value are recognized in other financial income and expenses for the period.

1.14 - Inventories

Inventories are stated at the lower of cost or net realizable value. Cost includes the cost of raw materials, labour and other direct manufacturing costs on the basis of normal activity levels. These costs are determined by the "First in-First out" (FIFO) method which, due to the rapid inventory turnover rate, approximates the latest cost at the balance sheet date.

A provision for impairment in value is recorded by comparison to net realizable value.

1.15 - Income taxes

Income tax expense includes current income taxes and deferred taxes of consolidated companies. Deferred taxes are accounted for using the liability method on all temporary differences between the tax base and the carrying amount of assets and liabilities in the consolidated financial statements and on all tax loss carry forwards. The main temporary differences relate provisions for pensions and other employee benefits and other temporarily non deductible provisions. Deferred tax assets and liabilities are calculated using enacted, or virtually enacted, tax rates that will be in force at the time of reversal of the temporary differences.

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. This review can, if necessary, lead the Group to no longer recognize deferred tax assets that it had recognized in prior years.

Taxes payable and tax credits receivable on planned dividend distributions by subsidiaries are recorded in the statement of income.

1.16 - Share-based payment

Employee stock option plans and plans for granting free shares and Stock Appreciation Rights (SARs) to employees lead to recognition of a personnel expense. This expense corresponds to the fair value of the instrument issued. It is recognized over the period over which the rights vest. Fair value is estimated on the basis of the Black-Scholes-Merton model.

1.17 - Pensions and other employee benefits

Pensions and other long term employee benefits cover two categories of employee benefits:

- post-employment benefits which include statutory retirement bonuses, supplementary pension benefits and coverage of certain medical costs for retirees and early retirees;
- other long-term benefits payable (during employment), corresponding primarily to long-service bonuses.

These benefits are broken down into:

- defined contribution plans, under which the employer pays fixed contributions on a regular basis and has no legal or constructive obligation to pay further contributions;
- defined benefit plans, under which the employer guarantees a future level of benefits.

The provision for pensions and other employee benefits (including long-term benefits) is equal to the present value of Valeo's future benefit obligation less, where appropriate, the fair value of plan assets in funds allocated to finance such benefits. The calculation of this provision is based on valuations performed by independent actuaries using the projected unit credit method and final salaries. These valuations incorporate both financial assumptions (discount rate, expected rate of return on plan assets, salary increases, rise in medical costs) and demographic assumptions, including rate of employee turnover, retirement age and life expectancy.

The effects of differences between previous actuarial assumptions and what has actually occurred (experience adjustments) and the effect of changes in actuarial assumptions (assumption adjustments) give rise to actuarial gains and losses, as do the effects of changes in actuarial assumptions. Such actuarial gains and losses arising on long-term benefits during employment are fully recognized in the income statement at each balance sheet date. However as regards post-employment benefits, actuarial gains and losses are recognized directly through equity in the financial year in which they arise,

in application of the option provided by IAS 19 as amended in December 2004.

1.18 - Provisions

A provision is recognized when the Group has a legal or constructive obligation resulting from a past event, where it is probable that future outflows of resources embodying economic benefits will be necessary to extinguish the obligation and where the obligation can be estimated reliably. Commitments resulting from restructuring plans are recognized when the detailed plans have been prepared and when commencement of implementation, or an announcement, has created a reasonable expectation among the individuals concerned.

Provision is made for estimated product warranty costs at the time of sale of the products. The corresponding expense is recognized in cost of sales.

When the effect of the time value of money is material, the amount of the provision is discounted using the risk free rate applicable to the corresponding country and maturity. The increase in the provision related to the passage of time (termed "unwinding") is recognized through income in other financial income and expenses.

1.19 - Assets held for sale and discontinued operations

When the Group expects to recover the value of an asset, or a group of assets, through sale rather than through use, such assets are presented separately under an Assets held for sale caption in the balance sheet. Liabilities related to such assets are also presented under a separate caption in balance sheet liabilities. Assets classified as held for sale are valued at the lower of their carrying amount and their estimated sale price less costs to sell. Such assets are thus no longer subject to depreciation and amortization. Any impairment losses and the result of sale of these assets are recognized through Group operating income.

Discontinued operations represent, in accordance with IFRS 5, a separate major line of business of the Group, an operation that forms part of a single coordinated plan to dispose of a line of business or a company acquired solely with a view to resale. Classification as a discontinued operation occurs at the date of sale or at a prior date if the business meets the criteria to be recognized as an asset held for sale. The results of these operations are presented, net of tax, under a separate income statement caption.

1.20 - Segment reporting

According to IAS 14, segment reporting should be provided at two levels – a primary and secondary level. The choice of segments and levels of information depends on the differences in terms of risk and return and the organizational structure of the Group.

The Group risk and return factors are based on the nature of the products or services and the production processes, the type of clients for whom the products or services are destined, the methods used to distribute the products or provide the services and the nature of the regulatory environment. These factors also depend on the countries in which the Group operates and markets its products, raw material costs used in the production cycle and its capacity to innovate to offer its clients products that meet market requirements.

Analysis of these factors demonstrates that they are common to the Group's business as a whole and particular business segments cannot be distinguished as set out in IAS 14.

The Group is organized in a multi-dimensional manner:

- the Group is decentralized into autonomous Divisions in which the allocation of resources and performance measurement are carried out. However, since they amount to around one hundred, they are not considered relevant in respect of IAS 14;
- these Divisions benefit from the support from functional networks and Branches, the latter ensuring the consistency of Group's Products Lines, as well as from the synergies from the Domains of innovation or from National Directorates coordination.

Group organization evolved significantly during 2005 with the strengthening of the role of the three Domains of innovation and the grouping of industrial Branches under a single director.

In respect of IAS 14, analysis of this structure does no longer highlight a specific dimension over another in the Group's business.

Consequently, the previous developments lead to:

- considering the Group as a whole as a single business segment ("Automotive equipment");
- providing, for the second level of segment reporting, information by geographical area completed by information according to the most appropriate dimensions for the understanding of the Group's business.

2 - Effects of first time application of IFRSs

The first phase of the transition to IFRSs consisted of preparing an opening IFRSs balance sheet at January 1, 2004, being the date of first time application of IFRSs. The quantitative impacts of the transition to IFRSs at January 1, 2004, which in line with IFRS 1 "First-time Adoption of International Financial Reporting Standards" were recorded in equity, were disclosed in the Management Report for the year ended December 31, 2004.

The comparative accounts for 2004 were subsequently restated in accordance with IFRSs and a specific IFRSs transition report containing French GAAP/IFRSs reconciliation tables was published at the same time as first-quarter data for 2005. These reconciliations, accompanied by explanatory notes, set out the impact of the transition to IFRSs on:

- changes in consolidated stockholders' equity between January 1 and December 31, 2004;
- the income statement for the year ended December 31, 2004;
- the balance sheet at December 31, 2004;
- equity at January 1, 2005, following first-time adoption (at that date) of the standards relating to financial instruments.

The reconciliation between the statement of cash flows for the year ended December 31, 2004 prepared under French GAAP and the IFRSs statement of cash flows was included in note 7 of the half-year report published in July 2005.

Comparative 2004 data presented below has however been adjusted compared to that previously published in order to take account of Valeo's election (in conformity with the amendment to IAS 19 endorsed by the European Commission on November 8, 2005) to record actuarial gains and losses arising from the valuation of defined benefit pension commitments directly through equity (unfavourable impact, net of deferred tax, of 40 million on stockholders' equity at December 31, 2004).

In addition, finalization of analysis of the impacts related to application of IAS 32 and IAS 39 at January 1, 2005, resulted in a reduction of 2 million euros in stockholders' equity at that date, as described in note 2.6.

2.1 - Reconciliation of changes in stockholders' equity between January 1 and December 31, 2004

The table below shows a reconciliation of movements in consolidated stockholders' equity under French GAAP and under IFRSs:

(In millions of euros)	Notes	January 1, 2004	Dividends	Equalization tax	Capital increase	Other movements	Translation adjustment	2004 net income	December 31, 2004
Stockholders' equity – French GAAP		2,112	(94)	(101)	33	(297)	10	181	1,844
Pensions and other employee benefits	2.3.1	(245)	-	-	-	203	-	-	(42)
Development expenditure	2.3.2	148	-	-	-	(1)	-	29	176
Specific tooling	2.3.3	(53)	-	-	-	(2)	-	3	(52)
Consolidation methods	2.3.4	(35)	2	-	-	2	-	(27)	(58)
Currency translation	2.3.5	(25)	-	-	-	2	(4)	-	(27)
Impairment of assets	2.3.6	(19)	-	-	-	(1)	-	74	54
Business combinations	2.3.7	(16)	-	-	-	(8)	-	-	(24)
Share-based payment	2.3.8	-	-	-	-	5	-	(7)	(2)
Other adjustments	2.3.9	(14)	-	-	-	2	-	(2)	(14)
Deferred taxes	2.3.10	(3)	-	-	-	(3)	-	(2)	(8)
Stockholders' equity – IFRS		1,850	(92)	(101)	33	(98)	6	249	1,847
Of which:									
• minority interests		97	(7)	-	-	(38)	(3)	8	57
• Group share		1,753	(85)	(101)	33	(60)	9	241	1,790

2.2 - Effects of transition to IFRSs on the 2004 statement of income

Adjustments to the statement of income arising from first-time adoption of IFRSs have been split into two categories, each described in a separate set of explanatory notes:

- restatements, which have an impact on consolidated net income; and
- reclassifications, which only impact the way in which items are classified within the statement of income.

(In millions of euros)	2004 French GAAP	IFRS restatements	IFRS reclassifications	Total IFRS impact	2004 IFRS
<i>Notes</i>		2.3	2.4		
NET SALES	9,439	(197)	(13)	(210)	9,229
Other operating revenues ⁽¹⁾	-	15	49	64	64
TOTAL OPERATING REVENUES	9,439	(182)	36	(146)	9,293
Cost of sales	(7,771)	154	(14)	140	(7,631)
GROSS MARGIN ⁽²⁾	1,668	(43)	(27)	(70)	1,598
% of net sales	17.7%				17.3%
Research and development expenditure	(584)	24	(43)	(19)	(603)
Selling expenses	(187)	2	(1)	1	(186)
Administrative expenses	(439)	2	(7)	(5)	(444)
Other income and expenses ⁽¹⁾	-	(18)	(78)	(96)	(96)
OPERATING INCOME	458	(18)	(107)	(125)	333
% of total operating revenues	4.9%				3.6%
<i>Net financial expense ⁽³⁾</i>	<i>(31)</i>	-	31	31	-
Cost of net debt ⁽¹⁾	-	(1)	(32)	(33)	(33)
Other financial income and expenses ⁽¹⁾	-	1	(40)	(39)	(39)
<i>Other income/expense – net ⁽³⁾</i>	<i>(148)</i>	-	148	148	-
INCOME BEFORE INCOME TAXES	279	(18)	-	(18)	261
Income taxes	(15)	(2)	-	(2)	(17)
Equity in net earnings of associated companies	7	(2)	-	(2)	5
<i>Amortization of goodwill ⁽³⁾</i>	<i>(90)</i>	90	-	90	-
NET INCOME FOR THE PERIOD	181	68	-	68	249
% of total operating revenues	1.9%				2.7%
Minority interests	(31)	23	-	23	(8)
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	150	91	-	91	241
% of total operating revenues	1.6%				2.6%
Basic earnings per share (in euros)	1.83				2.93
Diluted earnings per share (in euros)	1.82				2.93

⁽¹⁾ New line in the IFRSs statement of income.

⁽²⁾ Gross margin represents net sales (excluding other operating revenues) less cost of sales.

⁽³⁾ Line not included in the IFRSs statement of income.

2.2.1 - Details of restatements in the statement of income

(In millions of euros)	Development expenditure	Specific tooling	Consolidation methods	Impairment of assets	Share- based payment	Other restatements	Deferred taxes	Total IFRS restatements
Notes	2.3.2	2.3.3	2.3.4	2.3.6	2.3.8	2.3.9	2.3.10	
NET SALES	(2)	1	(199)	-	-	3	-	(197)
Other operating revenues ⁽¹⁾	15	-	-	-	-	-	-	15
TOTAL OPERATING REVENUES	13	1	(199)	-	-	3	-	(182)
Cost of sales	-	2	155	(1)	(2)	-	-	154
GROSS MARGIN ⁽²⁾	(2)	3	(44)	(1)	(2)	3	-	(43)
Research and development expenditure	16	-	10	-	(1)	(1)	-	24
Selling expenses	-	-	2	-	-	-	-	2
Administrative expenses	-	-	7	-	(4)	(1)	-	2
Other income and expenses ⁽¹⁾	-	-	-	(15)	-	(3)	-	(18)
OPERATING INCOME	29	3	(25)	(16)	(7)	(2)	-	(18)
Net financial expense ⁽³⁾	-	-	-	-	-	-	-	-
Cost of net debt ⁽¹⁾	-	-	-	-	-	(1)	-	(1)
Other financial income and expenses ⁽¹⁾	-	-	-	-	-	1	-	1
Other income/expense - net ⁽³⁾	-	-	-	-	-	-	-	-
INCOME BEFORE INCOME TAXES	29	3	(25)	(16)	(7)	(2)	-	(18)
Income taxes	-	-	-	-	-	-	(2)	(2)
Equity in net earnings of associated companies	-	-	(2)	-	-	-	-	(2)
Amortization of goodwill ⁽³⁾	-	-	-	90	-	-	-	90
NET INCOME FOR THE PERIOD	29	3	(27)	74	(7)	(2)	(2)	68
Minority interests	-	-	27	-	-	(1)	(3)	23
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	29	3	-	74	(7)	(3)	(5)	91

⁽¹⁾ New line in the IFRSs statement of income.

⁽²⁾ Gross margin represents net sales (excluding other operating revenues) less cost of sales.

⁽³⁾ Line not included in the IFRSs statement of income.

2.2.2 - Details of reclassifications in the statement of income

(In millions of euros)	Net financial expense	Operating revenues	Pensions	Other income and expenses	Total IFRS reclassifications
Notes	2.4.1	2.4.2	2.4.3	2.4.4	
NET SALES	-	(13)	-	-	(13)
Other operating revenues ⁽¹⁾	-	49	-	-	49
TOTAL OPERATING REVENUES	-	36	-	-	36
Cost of sales	-	8	18	(40)	(14)
GROSS MARGIN ⁽²⁾	-	(5)	18	(40)	(27)
Research and development expenditure	-	(43)	3	(3)	(43)
Selling expenses	-	-	-	(1)	(1)
Administrative expenses	-	(1)	4	(10)	(7)
Other income and expenses ⁽¹⁾	-	-	-	(78)	(78)
OPERATING INCOME	-	-	25	(132)	(107)
Net financial expense ⁽³⁾	31	-	-	-	31
Cost of net debt ⁽¹⁾	(32)	-	-	-	(32)
Other financial income and expenses ⁽¹⁾	1	-	(41)	-	(40)
Other income/expense - net ⁽³⁾	-	-	16	132	148
INCOME BEFORE INCOME TAXES	-	-	-	-	-
Income taxes	-	-	-	-	-
Equity in net earnings of associated companies	-	-	-	-	-
Amortization of goodwill ⁽³⁾	-	-	-	-	-
NET INCOME FOR THE PERIOD	-	-	-	-	-
Minority interests	-	-	-	-	-
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	-	-	-	-	-

⁽¹⁾ New line in the IFRSs statement of income.

⁽²⁾ Gross margin represents net sales (excluding other operating revenues) less cost of sales.

⁽³⁾ Line not included in the IFRSs statement of income.

2.3 - Description of IFRSs restatements

2.3.1 - Pensions and other employee benefits

Application of IAS 19, as described in note 1.17, resulted in an increase in provisions for pensions and other employee benefits of 245 million euros at January 1, 2004, mainly due to the recognition of all actuarial gains and losses at that date (resetting cumulative unrecognized actuarial gains and losses to zero), and of 42 million euros in 2004 following recognition directly through equity of actuarial gains and losses arising in the year.

Valeo had in addition applied, in its 2004 consolidated financial statements prepared under French GAAP, recommendation no. 2003-R.01 issued by the French National Accounting Board CNC (*Conseil national de la comptabilité*) which enabled recognition, as

of January 1, 2004, of all pension and other employee benefits in accordance with the same rules as those set out in IAS 19. Changes resulting from first application of this recommendation were treated as changes in accounting policy, i.e., through recognition of the after-tax impact of the change in opening equity.

2.3.2 - Development expenditure

In accordance with French GAAP as applied by Valeo up to and including 2004, research and development expenditure was expensed as incurred.

Application of IAS 38, as described in note 1.10, led to recognition in intangible assets of development expenditure of 181 million euros (net of depreciation) at January 1, 2004 and of 222 million euros at December 31, 2004.

Deferral of customer contributions to Valeo's development expenditure (under French GAAP such contributions were recognized in the statement of income when billed) had an impact on Group pre-tax income of 30 million euros at January 1, 2004 and of 41 million euros at December 31, 2004.

Impact on the statement of income

(In millions of euros)	2004
Total research and development expenditure – French GAAP	(584)
Capitalization of development expenditure incurred in 2004	94
Amortization and impairment of capitalized expenditure	(53)
Sub-total development expenditure	41
Cancellation of customer contributions received in 2004	(25)
Share of 2004 contributions deferred	13
Sub-total customer contributions	(12)
Total of the «Restatement of development expenditure» column (see note 2.2.1)	29
Impact of reclassification of customer contributions deferred in «Operating revenues»	(13)
Other restatements ⁽¹⁾	8
Other reclassifications ⁽²⁾	(43)
Total research and development expenditure – IFRS	(603)

⁽¹⁾ Relates mainly to changes in consolidation methods (see note 2.3.4).

⁽²⁾ Relates mainly to sales of designs and prototypes (see note 2.4.2).

2.3.3 - Specific tooling

Specific tooling is a complex issue, posing numerous practical difficulties, particularly concerning:

- identifying the owner (automaker or supplier),
- how the automaker's contribution is billed:
 - separately;
 - built into the price of volume-produced parts in the form of explicit amortization (with or without a guarantee);
 - built into the selling price but without being explicitly separated out.

Valeo therefore carried out an economic analysis of contractual relations with automakers to determine which party has control over the future economic benefits and risks relating to specific tooling over its estimated useful life. Based on this analysis, Valeo defined two alternative accounting treatments for specific tooling that comply with IFRSs:

- if Valeo has control over the future economic benefits and risks relating to specific tooling, the tooling is capitalized (in accordance with IAS 16) and depreciated over a period not exceeding 4 years, with the automaker's contribution deferred and released to income over the same period;

The impact on the Group's 2004 income statement of restating development expenditure breaks down as follows:

- if the automaker has control over the future economic benefits and risks, tooling is recorded as inventory (in accordance with IAS 2) until the sale of the tooling to the automaker is recognized. Any resulting loss on the tooling contract (corresponding to the difference between the automaker's contribution and the cost of the tooling) is provided as soon as the loss is known.

The impact of the restatement in respect of specific tooling can be summarized as follows:

Impact on stockholders' equity

(In millions of euros)	January 1, 2004	December 31, 2004
Derecognition of tooling where risks and benefits have been transferred	(19)	(22)
Provision for losses on future sales of tooling	(34)	(30)
Total	(53)	(52)

2.3.4 - Consolidation methods

Under French GAAP, Valeo used the full consolidation method for entities in which it held an equal share of voting rights, where the Group exercised de facto control over operational management of the entity.

In accordance with IAS 27, control is determined solely by reference to the contractual arrangements governing the running of the entity. This means that where joint control is legally established under a contractual arrangement, such entities will now be accounted for using the proportionate consolidation method.

Under this method, the balance sheets and statements of income of jointly-controlled entities are now included in the consolidated financial statements only in proportion to Valeo's ownership interest in the entity concerned. This change in method has resulted in:

- a reduction of 35 million euros in consolidated stockholders' equity at January 1, 2004; and
- a reduction of 199 million euros in net sales and of 25 million euros in operating income for 2004.

This restatement, which has the effect of eliminating minority interests in these entities, has no impact on net income.

2.3.5 - Currency translation

Under IAS 21, goodwill arising on the acquisition of a foreign company must be treated as an asset of that company, and hence must be expressed in the functional currency of the acquired company and not in that of the acquiring company. This treatment is the same as that applied by Valeo under French GAAP except in the case of sub-groups, where no goodwill allocation was made at individual subsidiary level. This allocation has now been made, resulting in a reduction of 21 million euros in stockholders' equity at January 1, 2004.

Valeo has also changed the reporting currency for certain of its entities. This is necessary because under IAS 21, the reporting currency must be the same as the functional currency, defined as the currency of the economic environment in which the main cash inflows and outflows occur. The corresponding impact on stockholders' equity at January 1, 2004 is 4 million euros.

2.3.6 - Impairment of assets

Discontinuation of goodwill amortization had a favourable impact of 90 million euros on net income for 2004 and on stockholders' equity at December 31, 2004.

However, the systematic performance of tests of the recoverable values of the Cash Generating Units to which goodwill is allocated led to the recognition of an impairment loss of 18 million at January 1, 2004 and of 15 million euros in respect of the 2004 financial year. Disclosures concerning recognition of these impairment losses are provided in note 5.1.

In addition, impairment tests were also conducted for property, plant and equipment where there was an indication of impairment based on the Group's operational split into Cash Generating Units (CGUs) as

defined in IAS 36. The impact identified as a result of this approach was not material (1 million euros on equity at January 1, 2004 and for the 2004 financial year).

2.3.7 - Business combinations

Valeo acquired a controlling interest in Zexel on December 1, 2003. In the 2003 financial statements, Valeo provisionally determined the fair value of the assets and liabilities acquired. The final fair value determination carried out for the 2004 French GAAP financial statements (within the standard time period allowed under French GAAP) was also recognized in the IFRSs opening balance sheet, so that a final valuation of goodwill would be used at the date of transition to IFRSs rather than a provisional valuation. The impact on consolidated stockholders' equity at January 1, 2004 was 16 million euros.

In addition, in accordance with IFRSs, no goodwill is recognized on buyouts of minority interests in companies already under Valeo's exclusive control, on the basis that these are treated as transactions affecting components of stockholders' equity. As a result, the difference between the acquisition cost of the shares and the share of net assets acquired was recognized in equity for all acquisitions during 2004 of additional interests in companies already accounted for by Valeo using the full consolidation method. This accounting treatment resulted in a reduction of 24 million euros in IFRSs stockholders' equity at December 31, 2004.

2.3.8 - Share-based payment

In application of IFRS 2, an expense of 5 million euros was recognized in income in 2004 in respect of options granted after November 7, 2002 and not fully vested at January 1, 2005.

An expense of 2 million euros was also recognized in income in 2004 reflecting recognition of a liability in respect of SARs (Share Appreciation Rights) granted in the context of an employee share plan, as these transactions should be settled in cash.

Application of this standard did not have an impact on stockholders' equity at January 1, 2004 and only the effect of the expense concerning the SARs had an impact at December 31, 2004.

2.3.9 - Other adjustments

This heading covers a number of divergences from Valeo's previous accounting practices giving rise to restatements or reclassifications that are individually immaterial.

2.3.10 - Deferred taxes

This heading shows the tax impact of the IFRSs restatements described above. The impact is immaterial, because the IFRSs

restatements relate mainly to countries where the amount of deferred tax assets recognized is already capped.

2.4 - Description of IFRSs reclassifications

2.4.1 - General presentation of the statement of income

The Valeo Group has decided to continue presenting its statement of income by function under IFRSs, as it did under French GAAP.

However, the French GAAP item "Net financial expense" is now split into:

- cost of net debt; and
- other financial income and expenses.

In addition, two lines included in the French GAAP statement of income no longer appear in the IFRSs format:

- "Other income/expense - net" (see note 2.4.4);
- amortization of goodwill (see note 2.3.6).

2.4.2 - Operating revenues

As it is generally disallowed to offset items of income and expense under IFRSs, the amount of both income and expenses increase by a total of 36 million euros.

Sales of prototypes, in respect of which the corresponding cost was classified under "Research and development expenditure", are now classified under "Other operating revenues".

The impact of these reclassifications on the IFRSs statement of income for 2004 breaks down as follows ⁽¹⁾:

(In millions of euros)	Tooling	Prototypes	Miscellaneous	Total
Net sales	19	(33)	1	(13)
Other operating revenues	-	42	7	49
Total operating revenues	19	9	8	36
Cost of sales ⁽²⁾	(19)	28	(1)	8
Research and development expenditure ⁽²⁾	-	(37)	(6)	(43)
Administrative expenses	-	-	(1)	(1)
Operating income	-	-	-	-

⁽¹⁾ The impact of reclassifying customer contributions to development expenditure to "Other operating revenues" is dealt with in the note on the restatement of development expenditure (see note 2.3.2).

⁽²⁾ "Cost of sales" and "Research and development expenditure" are also affected by the following:

- prototype costs, usually recorded in "Cost of sales" previously, must now be reclassified under "Research and development expenditure";
- some sales of prototypes, and the associated costs, were previously recorded in "Research and development expenditure".

2.4.3 - Pensions

In addition to the restatement arising from the recognition in full of its obligations in respect of pensions and other employee benefits (described in note 2.3.1), Valeo has reclassified part of the expense related to these obligations. The expense arising on the "unwinding" of the discount on these pension obligations is now classified in "Other financial income and expenses", as is income arising from the expected return on plan assets.

2.4.4 - Other income and expenses

In the Group's consolidated financial statements prepared under French GAAP "Other income/expense - net" was shown separately from operating income. This item mainly included social and reorganization costs, impairment and costs relating to significant lawsuits and other items.

Under IAS 1, such items are included in operating income, or financial income, where appropriate. Furthermore, separate disclosures are required for items deemed to be material.

Items of a non-financial nature that are material to the Group are disclosed separately on a specific line, "Other income and expenses", in operating income.

2.5 - Principal effects of IFRSs restatements on the statement of cash flows

The majority of the restatements recorded in application of IFRSs have no impact on the net change in cash and cash equivalents. The only two restatements which have been identified as having a material effect on net cash and cash equivalents are:

- the change in consolidation methods in accordance with IAS 27 (see note 2.3.4) which resulted in a reduction in net cash and cash equivalents of 28 million euros at December 31, 2004;
- the netting of treasury stock (previously recognized in marketable securities under French GAAP) against stockholders' equity in application of IAS 32, which resulted in a reduction in cash and cash equivalents of 32 million euros at January 1, 2005.

2.6 - Impact of application of IFRSs in respect of financial instruments as of January 1, 2005

Given the delay by the European Union in approving IAS 32 and IAS 39 on financial instruments in 2004, Valeo has elected to apply these standards only with effect from January 1, 2005. The impact of first-time application of these financial instruments standards on equity, the balance sheet and net debt is presented in the tables below.

2.6.1 - Impact on stockholders' equity

The impact of first-time application of IAS 32 and 39, being a total of 27 million euros, was recognized in stockholders' equity, broken down as follows:

(In millions of euros)	Stockholders' equity including minority interests
As of December 31, 2004	1,847
OCEANE	47
Treasury stock	(32)
Foreign currency and metals derivatives	10
Subsidized loans	2
Total impact of financial instruments	27
As of January 1, 2005	1,874

■ OCEANE

On August 4, 2003, Valeo carried out a 463 million euros issue of bonds convertible into new shares or exchangeable for existing shares ("OCEANE" bonds). Under French GAAP, this issue was classified in "Long-term debt".

Because this issue gives bondholders an option to convert their bonds into an equity instrument, it constitutes a compound financial instrument which, under IAS 32, must be separated into a debt component and an equity component:

- the debt component represents the future contractual cash flows discounted at the market rate prevailing at the date of issue for a bond with the same maturity that does not have an equity component;

- the equity component represents the value of the option to convert the bonds into shares, and is measured as the difference between the proceeds of the issue and the debt component as remeasured under IFRSs.

For the purpose of the transition to IFRSs, Valeo performed a retrospective calculation of the debt and equity components of these bonds at the issue date, based on which the value of the equity component to be recognized at January 1, 2005 was calculated at 47 million euros.

This restatement will have an impact on the Group's cost of net debt in future financial years due to the amortization of the equity component over the period to its maturity on January 1, 2011. The impact on net financial expense for the year ended December 31, 2005 is 8 million euros.

■ Treasury stock

Valeo owns a portion of its own shares, in particular for covering requirements of employee stock option plans.

Under French GAAP, treasury stock was classified in marketable securities and thus formed part of cash and cash equivalents. In addition, a provision was recognized in financial expenses for any unrealized losses on such treasury stock.

Under IAS 32, treasury stock is netted, as from the date of acquisition, against stockholders' equity and changes in value of treasury stock are not recorded. When treasury stock is sold, the operation is recorded as an increase in stockholders' equity in the amount of the fair value at that date. There is thus no impact in Group's income.

At December 31, 2004, the Group owned 1,037,804 treasury shares with a carrying amount of 32 million euros. The impact of transition to IFRSs at January 1, 2005 is thus a reduction in stockholders' equity in an identical amount.

■ Foreign currency and metals derivatives

The Group uses derivative financial instruments to manage and reduce its exposure to foreign currency risks and risks of changes in the price of base metals.

Unlike in French standards, all such derivative financial instruments must be recognized in the balance sheet at fair value, whether they form part of a qualifying hedging relationship (in accordance with IAS 39) or not. The accounting impact of changes in the fair value of these derivatives can be summarized as follows:

- hedging relationship (for the effective portion):
 - impact through income for fair value hedges,
 - impact through equity for cash flow hedges;
- items not forming part of a qualifying hedging relationship and the ineffective portion of a hedging relationship: impact in income.

Foreign currency derivatives

At January 1, 2005, all foreign currency derivatives are valued at market value and recognized in the balance sheet. As from this date, changes in the values of such derivatives are generally recognized in financial income and expense and offset, as applicable, by the change in the value of the underlying payables and receivables.

In certain cases, in respect of material positions concerning future cash flows, the Group applies hedge accounting: the change in the value of the derivatives is recognized in stockholders' equity for the effective portion of the hedge and is subsequently taken to operating income when the underlying hedged item affects operating income.

Metals derivatives

The Group hedges its future purchases of base metals (aluminum, processed aluminum, copper, zinc, tin). In the balance sheet at January 1, 2005, all metals derivatives are recognized at fair value. Changes in the fair value of the derivatives are initially recognized in stockholders' equity (only the ineffective portion of the hedge is recognized through income). The effective portion of the hedge is subsequently reclassified into operating income when the underlying hedged position affects income.

■ Miscellaneous

Long-term debt includes a 500 million euros bond which, in 2004, was subject to variable rate swaps for its entire amount. The swaps relating to the bond were recognized in the opening balance sheet at January 1, 2005. The Group applies fair value hedge accounting: the bond hedged by these swaps is stated at fair value; changes in fair value are recognized in financial income and expenses and are offset by the symmetrical changes in value of the interest rate swaps for the effective portion.

Recognition of subsidized loans at fair value resulted in a reduction of 2 million euros in their amount, which was recognized through stockholders' equity.

Up until December 31, 2004, assets and liabilities denominated in foreign currencies could be translated at the hedge rate that was allocated to them. In the opening balance sheet, all receivables and payables are valued at the December 31, 2004 year-end exchange rate, the corresponding impact being a reduction in opening stockholders' equity of 2 million euros.

Lastly, the derivative used to hedge payments to be made under the SARs ("Share Appreciation Rights" – see note 2.3.8) was recognized in stockholders' equity for an amount of 2 millions euros.

2.6.2 - Impact on the consolidated balance sheet

	December 31, 2004 IFRS	Impact of IAS 32 and 39				January 1, 2005 IFRS
		OCEANE	Treasury stock	Currency and metals derivatives	Miscellaneous	
(In millions of euros)						
ASSETS						
Goodwill	1,158	-	-	-	-	1,158
Other intangible assets (net)	281	-	-	-	-	281
Property, plant and equipment (net)	1,945	-	-	-	-	1,945
Investments in companies at equity	96	-	-	-	-	96
Non-current financial assets	14	-	-	(1)	-	13
Deferred tax assets	82	-	-	-	-	82
Non-current assets	3,576	-	-	(1)	-	3,575
Inventories	567	-	-	-	-	567
Accounts and notes receivable	1,726	-	-	-	(3)	1,723
Other current assets	228	(5)	-	-	2	225
Taxes recoverable	58	-	-	-	-	58
Other current financial assets	-	-	-	11	-	11
Cash and cash equivalents	868	-	(32)	-	-	836
Current assets	3,447	(5)	(32)	11	(1)	3,420
TOTAL ASSETS	7,023	(5)	(32)	10	(1)	6,995
LIABILITIES AND EQUITY						
Share capital	251	-	-	-	-	251
Additional paid-in capital	1,617	-	-	-	-	1,617
Retained earnings	(78)	47	(32)	10	2	(51)
Stockholders' equity	1,790	47	(32)	10	2	1,817
Minority interests	57	-	-	-	-	57
Stockholders' equity including minority interests	1,847	47	(32)	10	2	1,874
Provisions for contingencies and charges - long term portion	993	-	-	-	-	993
Long-term debt	1,027	(52)	-	-	(3)	972
Deferred tax liabilities	13	-	-	-	1	14
Non-current liabilities	2,033	(52)	-	-	(2)	1,979
Accounts and notes payable	1,685	-	-	-	(1)	1,684
Provisions for contingencies and charges - current portion	297	-	-	-	-	297
Taxes payable	83	-	-	-	-	83
Other liabilities	715	-	-	-	-	715
Current maturities of long-term debt	188	-	-	-	-	188
Other current financial liabilities	-	-	-	-	-	-
Short-term debt	175	-	-	-	-	175
Current liabilities	3,143	-	-	-	(1)	3,142
TOTAL LIABILITIES AND EQUITY	7,023	(5)	(32)	10	(1)	6,995

2.6.3 - Impact on net debt

IFRSs restatements recognized in 2004 (see note 2.3) and those resulting from the application of IAS 32 and 39 at January 1, 2005 (see note 2.6.1) do not have a major impact on the Group's net debt:

(In millions of euros)	Notes	Net debt
As of December 31, 2004 – French GAAP		500
Finance lease		10
Change in consolidation methods	2.3.4	10
As of December 31, 2004 – IFRS		520
OCEANE		(52)
Treasury stock		32
Subsidized loans		(3)
As of January 1, 2005 – IFRS		497

3 - Changes in the scope of consolidation

3.1 - 2005 transactions

3.1.1 - Acquisitions

■ Johnson Controls Inc's Engine Electronics business

Valeo acquired the Engine Electronics Division of Johnson Controls Inc. This business, which is now wholly-owned by Valeo, has been fully consolidated since March 1, 2005, and contributed 365 million euros to Group sales for the year. It employs some 2,000 people in France. If this acquisition had taken place on January 1, 2005, it would have contributed 434 million euros to Group sales.

■ Zexel Valeo Climate Control (ZVCC) and Valeo Zexel China Climate Control (VZCCC)

Valeo increased its interest in Japan-based Zexel Valeo Climate Control (ZVCC) from 50% to 100% by purchasing all of the shares in the company held by Bosch Automotive Systems Corp. ZVCC, which was previously proportionally consolidated, has been fully consolidated since April 1, 2005. This further investment contribution to Group sales for the year totaled 255 million euros. If this further investment had taken place on January 1, 2005, it would have contributed 340 million euros to Group sales.

As part of the same transaction, Valeo also purchased from Bosch Automotive Systems Corp. the shares it did not already hold in Valeo Zexel China Climate Control (VZCCC), raising its interest in this company from 60% to 100%. This latter acquisition did not have any impact on Group sales, as VZCCC was already fully consolidated.

■ Valeo Embragues Argentina

The Group raised its stake in Valeo Embragues Argentina from 68% to 100%. As this company was already fully consolidated, the transaction did not affect Group sales.

■ Ichikoh

Valeo raised its interest in Ichikoh from 22.7% to 28.2%. Ichikoh is accounted for by the equity method.

■ Valeo Raytheon Systems Inc.

The Group continued to invest in Raytheon Systems Inc., increasing its stake from 66.6% at December 31, 2004 to 73.1% at December 31, 2005. Valeo owns Raytheon Systems Inc. jointly with the Raytheon Group, and accounts for its interest by the proportional consolidation method because of the characteristics of the partnership agreement. This transaction did not impact Group sales.

■ Siam Zexel Co. and Zexel Sales Thailand Co.

Valeo raised its interest in the two Thailand based companies – Siam Zexel Co. and Zexel Sales Thailand Co. – by respectively 35.9 % and 14.3%, increasing its stake to 74.9% in each of these companies. They have been fully consolidated since October 1, 2005 and contributed 13 million euros to Group sales. If this acquisition had taken place on January 1, 2005, it would have contributed 55 million euros to Group sales.

■ Valeo Armco Engine Cooling Co.

Valeo acquired an interest of 51% in the joint venture Valeo Armco Engine Cooling Co., with the remaining 49% of capital held by the Armco group. This joint venture, which has been proportionally consolidated, will manufacture engine cooling systems. The acquisition had no impact on 2005 sales.

■ Shenzhen Valeo Hangsheng Automotive Switches & Detection Systems Company Ltd

Valeo acquired a 75% stake in Shenzhen Valeo Hangsheng Automotive Switches & Detection Systems Company LTD, with the remaining 25% of capital held by the Chinese company Hangsheng Electronics. This fully consolidated company will manufacture ultrasound parking guidance systems. The acquisition had no impact on 2005 sales.

■ Threestar (transaction in progress)

On December 23, 2005, Valeo signed an agreement with a view to purchasing 50% of Threestar, the leading Korean manufacturer of automobile radiators. The entity thus created will be called Valeo Samsung Thermal Systems as the remaining 50% of the capital will be owned by the Samsung Climate Control Group.

The profitability of all of these acquisitions is close to that of the group average.

3.1.2 - Disposals

Il Tevere, an associate company that had been accounted for by the equity method, was sold in the second half of 2005.

3.2 - 2004 transactions

3.2.1 - Acquisitions

■ Shanghai Valeo Automotive Electrical Systems

In January 2004, Valeo acquired a controlling interest in Shanghai Valeo Automotive Electrical Systems, by raising its stake in the company from 30% to 50%. Shanghai Valeo Automotive Electrical Systems contributed 29 million euros and 31 million euros, respectively, to consolidated sales in 2004 and 2005.

■ Valeo Shanghai Automotive Electric Motors

In April 2004, Valeo acquired an additional 5% interest in China-based Valeo Shanghai Automotive Electric Motors, increasing its total stake in the company to 55%. The acquisition of this additional stake did not have any impact on consolidated sales.

■ Ichikoh

Valeo increased its stake in Ichikoh (accounted for by the equity method) from 21.6% at December 31, 2003 to 22.7% at December 31, 2004.

■ Valeo Raytheon Systems Inc.

Valeo raised its interest in Valeo Raytheon Systems Inc. from 58.1% at December 31, 2003 to 66.6% at December 31, 2004. This transaction did not impact Group sales.

■ Valeo Climatisation

In October 2004, Valeo increased its interest in Valeo Climatisation (the company that controls the Group's Climate Control operations) from 93% to 100% by buying out the remaining minority interests in the company for an amount of 63 million euros. This transaction did not impact consolidated sales.

■ Valeo Furukawa Wiring Systems

In September 2004, Valeo set up a new company called Valeo Furukawa Wiring Systems, in partnership with the Japanese group Furukawa Electric. The creation of this new outfit, which is proportionally consolidated, did not have a material impact on the Group's 2004 or 2005 accounts.

■ Valeo Zexel Engine Cooling

Zexel Valeo Climate Control sold 40% of the shares in Valeo Zexel Engine Cooling to Valeo Bayen, raising the Group's stake in this company from 80% to 100% in December 2004. This transaction did not impact consolidated sales.

■ Nanjing Valeo Clutch

In July 2004, Valeo raised its interest in China-based, Nanjing Valeo Clutch from 50% to 55%, via a capital increase and a restructuring of the partnership. This transaction, which was approved by the relevant local authorities in 2005, did not have a material impact on consolidated sales.

3.2.2 - Disposal

In the first half of 2004 the Group sold its stake in Argentina-based TCA which was accounted for by the equity method.

3.3 - Impact of changes in scope of consolidation and exchange rates on sales

Group sales amounted to 9,933 million euros in 2005 versus 9,229 million euros in 2004, an increase of 7.6% on the comparable prior-year period.

Changes in Group structure and changes in exchange rates had positive impacts of 6.8% and 1.7% respectively. Based on a comparable structure and at constant exchange rates, consolidated sales dipped 0.9% compared with the same period of the previous year.

3.4 - Impact of changes in scope of consolidation on the consolidated balance sheet

The following table reconciles the value, at the date of acquisition, of the assets, liabilities and contingent liabilities acquired or assumed in connection with the above transactions to the corresponding cash flows:

■ Assets, liabilities and contingent liabilities acquired

(In millions of euros)

	2005	2004
Other intangible assets	193	1
Property, plant and equipment	152	5
Investments in associates	8	(1)
Non-current financial assets	1	-
Deferred tax assets	4	-
Inventories	68	3
Accounts and notes receivable	185	6
Other current assets	42	-
Stockholders' equity	26	24
Long-term debt	(54)	(2)
Deferred tax liabilities	(1)	-
Accounts and notes payable	(164)	(7)
Other liabilities	(78)	1
Provisions for other liabilities	(150)	(3)
Net assets	232	27
Minority interests	17	38
Net assets acquired	249	65
Goodwill	217	8
Total acquisition cost	466	73
Of which:		
• Acquisition price paid in cash	466	77
• Cash and cash equivalents of subsidiaries acquired	-	(4)

The impact of the changes in the scope of consolidation on Group cash (466 million euros) is mainly due to the two following transactions:

- acquisition of the Engine Electronics business of Johnson Controls Inc. for a total cost of 321 million euros; and

- acquisition of the remainder of the shares of ZVCC (Zexel Valeo Climate Control) and VZCCC (Valeo Zexel China Climate Control) for a total cost of 104 million euros.

3.5 - Net assets acquired and goodwill on the main acquisitions

In accordance with IFRS 3, Valeo carried out a valuation at fair value of the identifiable assets, liabilities and contingent liabilities acquired in the context of its purchases of controlling interests during the year.

Net assets acquired and provisional goodwill (at the respective dates of acquisition) of the two main acquisitions in the year, the Engine Electronics business of Johnson Controls Inc. and Zexel Valeo Climate Control are set out below:

	Johnson Controls Inc's Engine Electronics business	Zexel Valeo Climate Control (ZVCC)
Cash paid	316	84
Direct costs related to the acquisition	5	-
Total acquisition cost	321	84
Historical net assets acquired	79	(1)
Revaluation of:		
• intangible assets	137	51
• property, plant and equipment	(3)	-
• inventories	(2)	-
• provisions for other liabilities	(45)	(22)
Fair value of net assets acquired	166	28
Goodwill	155	56

The fair values of intangible assets acquired are as follows:

	Johnson Controls Inc's Engine Electronics business	Zexel Valeo Climate Control (ZVCC)
Customer relationships	100	35
Technologies	37	16
Revaluation of intangible assets	137	51

Fair values of provisions for other liabilities principally concern third party litigation and claims.

Goodwill in respect of the Engine Electronics business of Johnson

Controls Inc. and Zexel Valeo Climate Control amounts to 211 million euros out of a total of 217 millions euros. Other entities acquired are not individually material.

4 - Notes to the statement of income

4.1 - Personnel expenses

At December 31

	2005	2004
Total employees ⁽¹⁾	70,400	66,200

⁽¹⁾ Including temporary staff.

The statement of income presents operating expenses by function. Operating expenses include the following personnel related expenses:

(In millions of euros)	2005	2004
Wages and salaries ⁽¹⁾	1,781	1,685
Social charges	400	396
Share-based payments	7	7
Pension benefits in respect of defined contribution schemes	132	132

⁽¹⁾ Including temporary staff.

Pension costs under defined benefit plans are set out in note 5.10.2.

4.2 - Other income and expenses

(In millions of euros)	2005	2004
Litigation and claims	(16)	(9)
Restructuring and asset impairment	(44)	(72)
Goodwill impairment	-	(15)
Other income and expenses	(60)	(96)

4.2.1 - Litigation and claims

The Group recognized income of 23 million euros in 2005 on the favorable completion of an industrial property dispute.

The balance on this account notably includes costs related to resolution in the year of two prior claims by the Group's customers and the estimated risk related to a current product claim.

4.2.2 - Restructuring and asset impairment losses

Asset impairment losses of 27 million euros were recognized in other income and expenses in the year, either following impairment tests or in the context of programmed termination of production activities. Impairment tests were performed in accordance with the method described in section 4.2.3 below, on the basis of future cash flows and using a 7 % discount rate.

4.2.3 - Goodwill impairment

Goodwill is allocated to cash generating units (CGUs) on the basis of the product groups to which the goodwill is related.

The recoverable amounts of these groups of CGUs were calculated using 5 year cash flow projections prepared on the basis of the budgets and medium term plans of the Group's divisions. The forecasts are based on past experience, macroeconomic data in respect of the automobile market, order backlogs and products under development. After 5 years, cash flows are extrapolated using a growth rate of 1%. This growth rate does not exceed the average long-term growth rate of the Group's business sector. A discount rate of 7% is applied to the cash flows in 2005 (8 % as at 01/01/2004 and 12/31/2004), on the basis of the Group's weighted average cost of capital. These tests did not give rise to recognition of any goodwill impairment in 2005. Goodwill impairment in amounts of 15 million euros and 18 million euros had been recognized at December 31, 2004 and January 1st, 2004 respectively.

4.3 - Cost of net debt

(In millions of euros)	2005	2004
Interest expense ⁽¹⁾	(74)	(50)
Interest income	20	17
Cost of net debt	(54)	(33)

⁽¹⁾ The application of IAS 39 on financial instruments at January 1, 2005 led to a year-on-year increase in interest expense of 7 million euros, mainly on OCEANE bonds (see note 2.6.1).

4.4 - Other financial income and expenses

(In millions of euros)	2005	2004
Interest expense on unwinding of discount on pension obligations ⁽¹⁾	(56)	(54)
Expected return on pension plan assets ⁽¹⁾	17	14
Currency gains and losses-net	(8)	(1)
Charges to provisions for credit risk	(6)	-
Other financial income and expenses	1	2
Other financial income and expenses	(52)	(39)

⁽¹⁾ See note 5.10.2.

4.5 - Income taxes

4.5.1 - Income tax expense

(In millions of euros)	2005	2004
Current taxes	(66)	9
Deferred taxes	6	(26)
Income tax expense	(60)	(17)

4.5.2 - Effective tax rate

The Group's average weighted tax rate for 2005 was 29.9%, as against 6.5% in 2004. The net tax charge for 2004 included a 83 million euros tax rebate received from the French tax authorities

in respect of tax paid in 2001 on the gain from the disposal of the Group's 50% interest in LuK (an initial rebate of 88 million euros was received in 2003).

(% of income before tax)	2005	2004
Standard tax rate in France	(34.9)	(35.4)
Impact of:		
• income taxed at other rates	7.8	1.6
• unused tax losses (current year) and unrecognized deferred tax assets	(29.1)	(16.4)
• unused tax losses (prior years)	5.4	3.0
• permanent differences between book income and taxable income	6.1	3.9
• tax credits and rebates	14.8	36.8
Effective Group tax rate	(29.9)	(6.5)

4.6 - Earnings per share

4.6.1 - Basic earnings per share

	2005	2004
Net income attributable to equity holders of the company (in millions of euros)	141	241
Average number of shares outstanding (in thousands)	79,320	82,202
Basic earnings per share (in euros)	1.77	2.93

4.6.2 - Diluted earnings per share

	2005	2004
Net income attributable to equity holders of the company (in millions of euros)	141	241
Average number of shares outstanding (in thousands)	79,320	82,202
Stock options (in thousands)	330	200
Convertible bond OCEANE (in thousands)	-	-
Average number of shares used for the calculation of diluted earnings per share (in thousands)	79,650	82,402
Diluted earnings per share (in euros)	1.76	2.93

5 - Notes to the balance sheet

5.1 - Goodwill

(In millions of euros)	2005	2004
Net goodwill, January 1	1,158	1,185
Acquisitions during the year	217	5
Purchase price payments in respect of acquisitions made in previous years	-	3
Adjustment in values of assets and liabilities in respect of business acquired in previous years	-	-
Disposals	-	-
Translation adjustment	66	(20)
Impairment ⁽¹⁾	-	(15)
Net goodwill, December 31	1,441	1,158
Accumulated impairment losses at December 31	(33)	(33)

⁽¹⁾ The Group subjects goodwill balances to an annual impairment test (in accordance with the accounting policy set out in note 1.12). An impairment loss was recognized against goodwill in the year ended December 31, 2004 in order to write down the carrying amount of goodwill to recoverable amount. This depreciation was recognized in other income and expense in the income statement (see note 4.2).

The main goodwill balances are broken down by group of CGUs as follows:

At December 31,

(In millions of euros)	2005	2004
Wiper Systems	236	216
Electronics and Connective Systems	217	214
Climate Control	217	175
Switches and Detection Systems	175	167
Engine Management Systems	155	-
Other	441	386
TOTAL	1,441	1,158

5.2 - Other intangible assets

(In millions of euros)	2005			2004		
	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Gross carrying amount	Amortization and impairment losses	Net carrying amount
Software	119	(87)	32	94	(65)	29
Patents and licenses	96	(40)	56	41	(30)	11
Capitalized development expenditure	458	(179)	279	325	(103)	222
Other intangible assets	167	(16)	151	27	(8)	19
Intangible assets	840	(322)	518	487	(206)	281

Other intangible assets include customer relationships intangibles purchased in the context of 2005 acquisitions. In addition, patents and licenses include technology intangibles purchased in the context of these acquisitions. The corresponding carrying amounts are respectively 131 million euros and 39 million euros at December 31, 2005.

At December 31	Software	Patents and licenses	Capitalized development expenditure	Other intangible assets	Total
(In millions of euros)					
Net at January 1, 2004	23	14	183	14	234
Capital expenditure	9	3	97 ⁽¹⁾	13	122
Disposals	2	(1)	(3)	(1)	(3)
Changes in scope of consolidation	-	-	-	1	1
Impairment losses	-	-	(6)	-	(6)
Amortization	(14)	(6)	(47)	(2)	(69)
Translation adjustment	-	-	(1)	-	(1)
Reclassifications	9	1	(1)	(6)	3
Net at December 31, 2004	29	11	222	19	281
Capital expenditure	12	2	118 ⁽¹⁾	13	145
Disposals	2	(1)	-	(3)	(2)
Changes in scope of consolidation	1	53	3	136	193
Impairment losses	-	-	(7)	(1)	(8)
Amortization	(19)	(10)	(65)	(7)	(101)
Translation adjustment	1	(1)	8	-	8
Reclassifications	6	2	-	(6)	2
Net at December 31, 2005	32	56	279	151	518

⁽¹⁾ Capitalized development costs are essentially internally generated.

5.3 - Property, plant and equipment

At December 31	2005				2004			
	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Of which held under finance leases	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Of which held under finance leases
(In millions of euros)								
Land	178	(10)	168	-	155	(10)	145	1
Buildings	1,012	(554)	458	15	934	(478)	456	12
Plant and equipment	3,346	(2,413)	933	5	2,977	(2,097)	880	4
Specific tooling	1,156	(1,000)	156	9	1,021	(869)	152	7
Other	538	(415)	123	6	489	(369)	120	8
Fixed assets in progress	205	-	205	-	192	-	192	-
Property, plant and equipment	6,435	(4,392)	2,043	35	5,768	(3,823)	1,945	32

At December 31	Land	Buildings	Plant and equipment	Specific tooling	Other	Fixed assets in progress	Total
(In millions of euros)							
Net at January 1, 2004	148	446	955	188	122	197	2,056
Capital expenditure	2	37	110	42	40	200	431
Disposals	-	(6)	(2)	(4)	(2)	(11)	(25)
Changes in scope of consolidation	-	2	3	-	-	-	5
Impairment losses	(1)	-	(8)	(3)	-	-	(12)
Depreciation	-	(48)	(274)	(112)	(57)	-	(491)
Translation adjustment	(2)	1	(3)	-	-	1	(3)
Reclassifications	(2)	24	99	41	17	(195)	(16)
Net at December 31, 2004	145	456	880	152	120	192	1,945
Capital expenditure	1	19	154	65	43	165	447
Disposals	(10)	(13)	(8)	(2)	-	(12)	(45)
Assets held for sale ⁽¹⁾	(2)	(9)	-	-	-	-	(11)
Changes in scope of consolidation	31	20	71	5	7	18	152
Impairment losses	(1)	(2)	(12)	(2)	(9)	-	(26)
Depreciation	-	(50)	(286)	(113)	(55)	-	(504)
Translation adjustment	6	20	40	9	6	7	88
Reclassifications	(2)	17	94	42	11	(165)	(3)
Net at December 31, 2005	168	458	933	156	123	205	2,043

⁽¹⁾ Within the scope of the application of IFRS 5, buildings in respect of which the Group is actively seeking buyers have been classified as assets available-for-sale in an amount of 11 million euros.

5.4 - Investments in associates

Changes in the "Investments in associates" caption can be analyzed as follows:

(In millions of euros)	2005	2004
Investments in associates at January 1	96	99
Share profit in associates	6	5
Dividend payments	(4)	(3)
Impact of change in the scope of consolidation	8	(1)
Translation adjustment	7	(4)
Other	3	-
Investments in associates at December 31	116	96

At December 31

	Ownership interest (%)		Equity in net assets (In millions of euros)	
	2005	2004	2005	2004
Ichikoh	28.2	22.7	80	64
Faw Zexel Climate Control	36.5	36.5	25	21
Other	-	-	11	11
Investments in associates	-	-	116	96

Ichikoh is a company listed on the Tokyo Stock Exchange with March 31, as closing date. At December 31, 2005, the market capitalization of the shares held by the Valeo Group was 79 million euros.

Summarized financial data in respect of associates accounted companies are set out below:

At December 31,

(In millions of euros)	2005	2004
Total assets	754	776
Total liabilities	509	490
Total operating revenues	1,011	1,228
Income for the period	20	20

5.6 - Deferred tax assets / liabilities

Deferred tax assets and liabilities are offset when a legal right of offset of current tax assets and liabilities exists and the deferred tax assets and liabilities concern income taxes levied by the same tax authority. In France, Valeo elected for tax consolidation for the years 1998 to 2002 and 2003 to 2007. 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 whose legislation allows for it (Germany, Spain, Italy, United Kingdom and the United States).

5.5 - Non-current financial assets

Non-current financial assets are broken down as follows:

At December 31,

(In millions of euros)	2005	2004
Non-consolidated investments	9	8
Long-term loans	12	2
Security deposits	3	2
Other	4	2
Non-current financial assets	28	14

At December 31

(In millions of euros)	2004	Through income	Other movements ⁽¹⁾	2005
Loss carryforwards ⁽²⁾	17	4	(9)	12
Capitalized development expenditure	(69)	(9)	(4)	(82)
Pensions and other employee benefits	53	1	9	63
Other provisions	42	6	15	63
Inventories	13	-	2	15
Provisions for reorganization expenses	14	(1)	(2)	11
Tooling	9	(7)	6	8
Non-current assets	(5)	2	(1)	(4)
Other	(5)	10	1	6
Total deferred taxes	69	6	17	92
Of which:				
• Deferred tax assets	82			101
• Deferred tax liabilities	(13)			(9)

⁽¹⁾ Other movements are comprised of actuarial gains and losses recognized through equity, of the impact of changes in scope of consolidation and of translation adjustments.

⁽²⁾ Deferred tax assets are recognized in respect of tax loss carryforwards to the extent that it is probable that future profits will be available.

At December 31, 2004, deferred tax assets not recognized by the Group are broken down as follows:

At December 31, 2004

(In millions of euros)	Base	Potential tax saving
Tax loss carryforwards - expiration date 2005 to 2008	518	109
Tax loss carryforwards - expiration date 2009 and beyond	326	112
Tax loss carryforwards - available indefinitely	630	207
Current tax loss carryforwards	1,474	428
Unrecognized deferred tax assets on temporary differences	-	278
Total unrecognized deferred tax assets	-	706

At December 31, 2005, deferred tax assets not recognized by the Group are broken down as follows:

At December 31, 2005

(In millions of euros)	Base	Potential tax saving
Tax loss carryforwards - expiration date 2006 to 2009	207	66
Tax loss carryforwards - expiration date 2010 and beyond	757	204
Tax loss carryforwards - available indefinitely	777	263
Current tax loss carryforwards	1,741	533
Unrecognized deferred tax assets on temporary differences	-	316
Total unrecognized deferred tax assets	-	849

5.7 - Inventories

At December 31, 2005, inventories are broken down as follows:

At December 31

(In millions of euros)	2005	2004
Raw materials	224	189
Work-in-progress	81	71
Finished goods, supplies and specific tooling	353	307
Inventories - net	658	567

The cost of inventories recognized in cost of sales was 8,087 million euros in 2005 as against 7,389 million euros in 2004.

Provisions for impairment in the value of inventories amounted to 130 million euros at December 31, 2005, including an allowance of 35 million euros in the year.

5.8 - Accounts and notes receivable

At December 31

(In millions of euros)	2005	2004
Accounts and notes receivable	1,938	1,748
Less provisions	(32)	(22)
Accounts and notes receivable - net	1,906	1,726

Charges to provisions against accounts and notes receivable are recognized in "Other financial income and expenses" where such a provision results from a risk of client default (see note 4.4) and in administrative expenses in other cases.

5.9 - Stockholders' equity including minority interests

5.9.1 - Share capital

At December 31, 2005, Valeo's share capital totaled 233 million euros, represented by 77,510,357 shares of common stock with a par value of 3 euros each, all fully paid-up. Shares which have been registered in the name of the same holder for at least four years carry double voting rights (2,220,020 at December 31, 2005).

Valeo's potential share capital would amount to 277 million euros, representing 92,193,564 shares, in the event of:

- the exercise of stock subscription options granted to Valeo Group employees;
- the conversion of bonds issued as part of the OCEANE program into new shares: (see note 5.11.2).

The following employee stock option plans approved by the General Stockholders' Meeting were in progress at December 31, 2005:

■ Terms and conditions of stock subscription plans

Year in which plan was set up	Number of shares subject to options	Exercise price (in euros) ⁽¹⁾	Number of options outstanding at December 31, 2005 ⁽²⁾	Expiry date
2000	50,000	60.70	50,500	2006
2000	1,300,000	48.00	810,615	2006/2008
2000	37,500	54.52	35,982	2006
2001	80,000	55.82	80,800	2009
2001	600,000	42.48	303,000	2009
2001	442,875	42.69	335,140	2009
2002	420,000	43.84	266,640	2010
2002	600,000	28.30	439,053	2010
2003	700,000	23.51	577,214	2011
2003	780,000	32.91	635,125	2011
2004	1,123,200	28.46	1,043,699	2012
Total	6,133,575		4,577,768	

⁽¹⁾ Exercise price equal to 100% of the average Valeo share price over the 20 trading days preceding the meeting of the Board of Directors or Management Board granting the stock subscription options.

⁽²⁾ The number of shares includes the impact of the public share buyback offer and simplified public tender offer, which increased the share allocation ratio to 1.01 Valeo share from 1 Valeo share.

■ Terms and conditions of stock option plans

Year in which plan was set up	Number of shares subject to options	Exercise price (in euros) ⁽¹⁾	Number of options outstanding at December 31, 2005 ⁽²⁾	Expiry date
2003	500,000	32.91	406,573	2011
2004	280,800	32.74	261,034	2012
2005	650,000	32.32	650,000	2013
Total	1,430,800		1,317,607	

⁽¹⁾ Exercise price equal to 100% of the average Valeo share price over the 20 trading days preceding the meeting of the Board of Directors or Management Board granting the stock subscription options.

⁽²⁾ The number of shares includes the impact of the public share buyback offer and simplified public tender offer, which increased the share allocation ratio to 1.01 Valeo share from 1 Valeo share.

■ Terms and conditions of free share awards

In 2005, 600,000 free Valeo shares were awarded to those employees and company officers most closely associated with the Group's development. This award includes a tranche of 300,000 shares contingent on the Group meeting its profitability targets.

Movements on the stock option plans can be analyzed as follows:

	2005		2004	
	Number of options	Average weighted exercise price	Number of options	Average weighted exercise price
Options not exercised on January 1	6,476,975	38.23	5,524,925	40.92
Options granted	1,250,000	16.81	1,404,000	29.32
Options cancelled	(748,200)	37.67	(393,700)	39.91
Options expired	(485,250)	70.32	(58,250)	67.40
Options exercised	(51,120)	25.69	-	-
Options not exercised on December 31 ⁽¹⁾	6,442,405	31.82	6,476,975	38.23
Options which can be exercised on December 31	3,099,668	39.50	3,288,725	46.75

⁽¹⁾ Taking account of the impact of the public share buyback offer and the simplified public tender offer, the 6,442,405 stock options and bonus shares in circulation at December 31, 2005 carry rights to 6,495,375 Valeo shares. The 51,120 options exercised in 2005 carried rights to 51,333 Valeo shares.

The principal data and assumptions which underlie the valuation of equity instruments at fair value can be analyzed as follows:

Type	2005	2004	2003	2002
	Free share and purchase option	Subscription option and purchase option	Subscription option	Subscription option
Share price at date of grant (euros)	31.46	29.77	32.63 and 20.21	30.9
Expected volatility (%)	- and 26.4	25.8	31.7 and 36.6	32.6
Risk-free rate (%)	2.9 and 3.1	3.1	3.7 and 3.2	3.8
Dividend rate (%)	3.1	3.4	3.4	3.4
Duration of the option (year)	2.25 and 4	4	4	4
Fair value of the option (euros)	28.65 and 5.52	5.67 and 4.26	7.14 and 4.08	8.01

Expected volatility is determined as being the implicit volatility at the date of grant of the plan. The maturity of 4 years used for stock option plans corresponds to the period for which options availability is restricted by tax legislation, which is estimated to correspond to the duration of the option.

Given an employee turnover assumption of 5%, an expense of 7 million euros was recognized in respect of 2005, as against an expense of 5 million euros for 2004.

An expense of 2 million euros was recognized in 2004 reflecting recognition of a liability in respect of SARs (Share Appreciation Rights) granted in the context of an employee share plan. A derivative used to hedge the corresponding commitment was recognized on January 1, 2005 in an amount of 2 million euros on first time application of IAS 39.

At December 31, 2005, the liability and the derivative are both recognized in the Group's financial statements at an amount of 2 million euros. As rights related to the SARs ("Share Appreciation Rights") were not vested at the year-end their intrinsic value is nil.

5.9.2 - Additional paid-in capital

Additional paid-in capital represents the net amount received, either in cash or in assets, in excess of the par value on issuance of Valeo shares.

5.9.3 - Translation reserve

The translation reserve at December 31, 2005 primarily includes gains and losses arising from the translation of the net assets of Valeo's US, Mexican, Brazilian, South Korean and Chinese subsidiaries.

5.9.4 - Retained earnings

Consolidated retained earnings include net income for the year amounting to 141 million euros (before appropriation of the dividend to be proposed at the Annual General Meeting).

The balance of the parent company's distributable retained earnings amounts to 1,593 million euros (before appropriation of the dividend in respect of 2005).

5.9.5 - Treasury stock

At December 31, 2005, Valeo owns 807,704 of its own shares, representing 1.04% of share capital, as against 1,037,804 shares (1.24%) at December 31, 2004.

5.9.6 - Minority interests

Changes in minority interests can be analyzed as follows:

(In millions of euros)	2005	2004
Minority interests at January 1	57	97
Equity in net earnings	6	8
Dividends paid	(5)	(7)
Translation adjustment	4	(3)
Changes in scope of consolidation	(17)	(38)
Minority interests at December 31	45	57

5.10 - Provisions for other liabilities

Changes in provisions for other liabilities can be analyzed as follows:

(In millions of euros)	Provisions for reorganization expenses	Provisions for pensions and other employee benefits	Other provisions	Total provisions for other liabilities
Provisions at January 1, 2004	224	863	265	1,352
Amounts used during the year	(102)	(112)	(57)	(271)
Impact of change in the scope of consolidation	-	1	2	3
Translation adjustment	(3)	(30)	(1)	(34)
Provisions reclassified ⁽¹⁾	(6)	6	(1)	(1)
Additions	57	38	100	195
Unwinding of discount	-	40	-	40
Reversals	(5)	-	(31)	(36)
Reclassifications through equity	-	42	-	42
Provisions at December 31, 2004	165	848	277	1,290
Amounts used during the year	(103)	(89)	(90)	(282)
Impact of change in the scope of consolidation	9	15	126	150
Translation adjustment	10	61	13	84
Provisions reclassified ⁽¹⁾	(6)	13	(6)	1
Additions	108	89	154	351
Unwinding of discount	1	39	-	40
Reversals ⁽²⁾	(4)	(152)	(49)	(205)
Reclassifications through equity	-	50	-	50
Provisions at December 31, 2005	180	874	425	1,479
Of which current portion (< 1 year)	83	73	235	391

⁽¹⁾ Of which 10 million euros and 13 million euros reallocated from provisions for reorganization expenses to provisions for pensions and other employee benefits for the Rochester facility in 2004 and 2005 respectively, with the balance mainly reflecting asset write-downs.

⁽²⁾ Releases of provisions for pension and other employee benefits include an amount of (127) million euros relating to amendments to the healthcare insurance plan in the US and an amount of (20) million euros in connection with the reduction in benefit entitlement due to the closure of the Rochester site.

5.10.1 - Provisions for reorganization expenses

Provisions for reorganization expenses correspond to a series of measures adopted by the Group as part of an industrial rationalization plan aimed at more closely tailoring Valeo's industrial base to customer requirements, in terms of cost competitiveness and geographical location. The provisions include costs relating primarily to:

- the continued rightsizing and production rationalization measures; and
- specific severance payments (CATS) applicable at certain French sites, in accordance with the industry agreement signed in March 2001.

5.10.2 - Provisions for pensions and other employee benefits

■ Description of the plans in force within the Group

The Group's commitments in relation to pensions and other employee benefits primarily concern the following defined benefit plans:

- employment termination benefits (France, Italy, South Korea);
- supplementary pension benefits (United States, Germany, United Kingdom, Japan and France) which top up the statutory pension schemes in force in those countries. These plans are generally externally funded, with the exception being in Germany;
- the payment of certain medical and life insurance costs for retired employees (United States);

- certain of the above-mentioned benefits granted specifically under early retirement schemes (United States, Germany and France);
- other long-term benefits (long-service bonuses in France and Germany).

The costs relating to all of these benefits are accounted for in accordance with the accounting policy described in note 1.17.

■ Actuarial assumptions

The actuarial assumptions used by the Group to calculate its commitments relating to pensions and other employee benefits take into account the specific demographic and financial conditions of each country in which the Group operates and each Group company.

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.

In 2005, the average discount rates used in the countries representing the Group's most significant commitments were as follows:

At December 31	2005 (%)	2004 (%)
France	4.3	4.5
Germany	4.1	4.8
United Kingdom	4.8	5.3
Italy	4.0	4.0
United States	5.6	5.7
Japan	1.8	2.0
South Korea	5.8	4.5

■ Breakdown of obligations

	France	Other European countries	North America	Other countries	Total
December 31, 2004 (In millions of euros)					
Present value of unfunded obligations	168	248	300	32	748
Present value of funded obligations	19	58	230	30	337
Market value of plan assets	(1)	(37)	(148)	(25)	(211)
(Surplus) or deficit	186	269	382	37	874
Unrecognized past service cost	(34)	-	8	-	(26)
Provisions recognized at December 31, 2004	152	269	390	37	848

The discount rates for early retirement plan commitments are lower than the rates set out above, as the commitments have shorter terms than for pensions.

The expected long-term return on plan assets for the countries representing the Group's most significant commitments – calculated taking into account the structure of the related investment portfolio in each country – is as follows:

	2005 (%)	2004 (%)
United States	8.5	8.5
United Kingdom	6.7	7.0
Japan	2.0	2.0
South Korea	4.5	5.0

The weighted average rate of long-term salary increases was 3.6% at December 31, 2004 and 3.5% at December 31, 2005.

The rate of increase for medical costs in the United States used to value the Group's commitments was 10% at December 31, 2004 for 2005, reducing by 1 percentage point per year to reach 5% as from 2010. At December 31, 2005, the rate of increase is 10% for 2006, 2007 and 2008, reducing by 1 percentage point per year from 2009 to reach 5% in 2013.

	France	Other European countries	North America	Other countries	Total
December 31, 2005 (In millions of euros)					
Present value of unfunded obligations	179	286	199	37	701
Present value of funded obligations	24	73	325	56	478
Market value of plan assets	(3)	(42)	(197)	(52)	(294)
(Surplus) or deficit	200	317	327	41	885
Unrecognized past service cost	(31)	-	20	-	(11)
Provisions recognized at December 31, 2005	169	317	347	41	874

■ Movements in provisions

	France	Other European countries	North America	Other countries	Total
(In millions of euros)					
Provisions at December 31, 2003	148	254	434	27	863
Actuarial gains and losses recognized through equity	5	14	18	5	42
Amounts used during the year ⁽¹⁾	(21)	(18)	(68)	(5)	(112)
Impact of changes in the scope of consolidation	-	-	-	1	1
Reclassification / pensions reorganization expenses	(3)	(1)	10	-	6
Translation adjustment	-	(1)	(30)	1	(30)
Provisions for the year (expense)					
• service cost	10	9	11	7	37
• interest expense	8	13	31	2	54
• past service cost	7	-	(6)	-	1
• expected return on plan assets	-	(2)	(11)	(1)	(14)
• other items	(2)	1	1	-	-
Provisions at December 31, 2004	152	269	390	37	848
Actuarial gains and losses recognized through equity	7	40	15	(12)	50
Amounts used during the year ⁽¹⁾	(19)	(14)	(49)	(7)	(89)
Impact of changes in the scope of consolidation	5	1	2	7	15
Reclassification / pensions reorganization expenses	-	-	13	-	13
Translation adjustment	-	1	55	5	61
Provisions for the year (expense)					
• service cost	10	10	10	9	39
• interest expense	8	14	31	3	56
• past service cost	6	-	(127) ⁽²⁾	-	(121)
• expected return on plan assets	-	(2)	(14)	(1)	(17)
• other items	-	(2)	21 ⁽³⁾	-	19
Provisions at December 31, 2005	169	317	347	41	874
Of which current portion (< 1 year)	13	13	42	5	73

⁽¹⁾ Including benefits paid directly to beneficiaries or contributions paid to external funds, depending on the plan concerned.

⁽²⁾ Corresponds to changes in retiree medical plans.

⁽³⁾ Of which (20) million euros in connection with the reduction in benefit entitlement and 41 million euros effect of acceleration of rights in the context of the closure of the Rochester site.

■ Movements in obligations

	France	Other European countries	North America	Other countries	Total
(In millions of euros)					
Obligations at December 31, 2003	165	281	547	55	1,048
Service cost	10	9	11	7	37
Interest expense	8	13	31	2	54
Benefits paid	(21)	(18)	(42)	(7)	(88)
Actuarial gains and losses	2	12	25	4	43
Plan amendments	26	3	-	-	29
Impacts of changes in the scope of consolidation	-	-	-	1	1
Other	(3)	6	-	-	3
Translation adjustment	-	-	(42)	-	(42)
Obligations at December 31, 2004	187	306	530	62	1,085
Service cost	10	10	10	9	39
Interest expense	8	14	31	3	56
Benefits paid	(18)	(15)	(42)	(10)	(85)
Actuarial gains and losses	9	43	16	(7)	61
Plan amendments	2	(1)	(116)	-	(115)
Impacts of changes in the scope of consolidation	5	1	4	30	40
Other	-	-	13	-	13
Translation adjustment	-	1	78	6	85
Obligations at December 31, 2005	203	359	524	93	1,179

■ Movements in plan assets

	France	Other European countries	North America	Other countries	Total
(In millions of euros)					
Plan assets at December 31, 2003	2	33	116	28	179
Expected return on plan assets	-	2	11	1	14
Contributions paid to external funds	1	2	31	2	36
Benefits paid	(1)	-	(5)	(4)	(10)
Actuarial gains and losses	(1)	-	7	(1)	5
Impacts of changes in the scope of consolidation	-	-	-	-	-
Other	-	-	-	-	-
Translation adjustment	-	-	(12)	(1)	(13)
Plan assets at December 31, 2004	1	37	148	25	211
Expected return on plan assets	-	2	14	1	17
Contributions paid to external funds	2	-	13	4	19
Benefits paid	(1)	(1)	(6)	(7)	(15)
Actuarial gains and losses	1	3	-	5	9
Impacts of changes in the scope of consolidation	-	-	3	23	26
Other	-	-	-	-	-
Translation adjustment	-	1	25	1	27
Plan assets at December 31, 2005	3	42	197	52	294

■ Breakdown of plan assets

	France	Other European countries	North America	Other countries	Total
(In millions of euros)					
Cash at bank	-	-	3	22	25
Shares	1	28	125	-	154
Government bonds	-	5	13	-	18
Corporate bonds	-	4	7	3	14
Breakdown of plan assets at December 31, 2004	1	37	148	25	211
Cash at bank	-	-	5	4	9
Shares	2	29	163	19	213
Government bonds	-	7	22	25	54
Corporate bonds	1	6	7	4	18
Breakdown of plan assets at December 31, 2005	3	42	197	52	294

Contributions paid to external funds are estimated at 18 million euros for 2005 and 19 million euros for 2006.

The effective return on plan assets amounted to 26 million euros in 2005 as against 21 million euros in 2004.

The effects of a change of one point in the rate of increase in medical costs are as follows:

	2005		2004	
(In millions of euros)	Increase	Decrease	Increase	Decrease
Effect on service cost and interest expense	2	(2)	2	(2)
Effect on obligations	3	(3)	29	(23)

5.10.3 - Other provisions

At December 31

(In millions of euros)	2005	2004
Provisions for product warranties	195	108
Other ⁽¹⁾	230	169
Other provisions	425	277

⁽¹⁾ This category mainly concerns contractual, social, environmental or tax risks and litigation.

Movements of 126 million euros in this account caption arise as a result of changes in the scope of consolidation in the year.

5.11 - Net debt

5.11.1 - Gross debt

At December 31, 2005, the Group's gross debt can be analyzed as follows:

(In millions of euros)	2005	2004
Long-term debt (note 5.11.2)	1,303	1,027
Current maturities of long-term debt (note 5.11.2)	581	188
Short-term debt (note 5.11.3)	157	175
Gross debt	2,041	1,390

5.11.2 - Long-term debt

■ Analysis of long-term debt

At December 31

(In millions of euros)	2005	2004
Bond issues	1,094	500
OCEANE ⁽¹⁾	419	463
Syndicated loans	221	127
Lease obligations	25	28
Other borrowings	86	72
Accrued interest	39	25
Long-term debt	1,884	1,215

⁽¹⁾ The carrying amount of the OCEANE was reduced from 463 million euros to 419 million euros following application of IAS 32 and IAS 39 (see note 5.11.5).

Long-term debt includes:

- 500 million euros worth of five-year fixed rate bonds issued by Valeo on July 13, 2001, repayable in full at maturity. The interest rate on these bonds is 5.625% of the nominal amount and coupons are payable annually. The effective interest rate on these bonds is 5.73%. In 2004, the full amount of these bonds was swapped for variable rate debt;
- 600 million euros worth of eight-year fixed rate bonds issued by Valeo on June 24, 2005. The interest rate on these bonds is 3.75% of the nominal amount. These bonds were issued in the context of the Euro Medium Term Note program. The effective interest rate on these bonds is 3.88%;

- 463 million euros worth of bonds convertible for new shares or exchangeable for existing shares (OCEANE) issued on August 4, 2003, representing 9,975,754 bonds with a nominal value of 46.4 euros each. The interest on these bonds is 2.375% per annum payable in arrears on January 1 of each year. Bearers of the bonds can at any time request conversion and/or exchange into common stock on the basis of 1.013 Valeo shares for one bond. The exchange ratio was increased from 1 Valeo share to 1.013 Valeo shares following the public share buyback offer and the simplified public tender offers which took place from May 6 to June 3, 2005 and under the terms of which Valeo bought back 6,250,000 shares from its shareholders. In addition, Valeo has a call option which it can exercise between January 31, 2007 and December 31, 2010 if the Valeo share is valued at an average price of 60 euros. The effective interest rate of the OCEANE amounts to 4.54% (4.46% excluding the call);

- two fixed-rate seven-year syndicated loans for a total amount of 225 million euros issued on July 29, 2005, hedged by two interest rate swaps which are perfectly matched in both amount and duration. These loans and the related hedges have the following characteristics:

- the first loan is at a variable rate and incorporates a cap which limits the interest rate to a maximum of 4.735%. It is hedged by a derivative which offsets the option incorporated in the loan,
- the second loan is at a fixed rate of 3.62% and incorporates a swap option which enables the Group to opt for variable rate in 2009. It is hedged by a derivative which has identical characteristics to those of the option incorporated in the loan.

■ Maturities of long-term debt

At December 31

(In millions of euros)	2007	2008	2009	2010	2011	2012 and beyond	Total
OCEANE	-	-	-	-	419	-	419
Syndicated loans	-	-	-	-	-	221	221
Bond issues	-	-	-	-	-	595	595
Lease obligations	6	2	-	1	-	2	11
Other borrowings	41	1	2	2	3	8	57
Total	47	3	2	3	422	826	1,303

5.11.3 - Short-term debt

At December 31

(In millions of euros)	2005	2004
Commercial paper	-	50
Short-term loans and overdrafts	157	125
Short-term debt	157	175

5.11.4 - Cash and cash equivalents

At December 31

(In millions of euros)	2005	2004
Marketable securities	454	488
Cash	495	380
Cash and cash equivalents	949	868

5.11.5 - Net debt

Net debt is defined as follows: it includes all long-term debt (including current maturities thereof) and short-term debt less loans, other long-term financial assets and cash and cash equivalents.

■ Net debt at January 1, 2005

Application of IAS 32 and IAS 39 at January 1, 2005 had the effect of reducing the Group's net debt by 23 million euros. Details of the restatements are given in the table below and are explained in note 2.6.

(In millions of euros)	
At December 31, 2004	520
OCEANE	(52)
Treasury stock	32
Subsidized loans	(3)
At January 1, 2005	497

■ Breakdown of net debt

(In millions of euros)	2005	At January 1, 2005	2004
Long-term debt (note 5.11.2)	1,303	972	1,027
Current maturities of long-term debt (note 5.11.2)	581	188	188
Loans and other long-term financial assets	(12)	(2)	(2)
Total long-term debt	1,872	1,158	1,213
Short-term debt (note 5.11.3)	157	175	175
Cash and cash equivalents (note 5.11.4)	(949)	(836)	(868)
Net cash and cash equivalents	(792)	(661)	(693)
Net debt	1,080	497	520

5.11.6 - Analysis of net debt by currency

Net debt can be analyzed as following by currency:

At December 31

(In millions of euros)	2005	2004
Euro	1,179	612
US dollar	(64)	(44)
Yen	110	66
Brazilian Real	(25)	(15)
Korean Won	(44)	(47)
Chinese Yuan	(21)	(23)
Other currencies	(55)	(29)
Total	1,080	520

6 - Additional disclosures

6.1 - Segment reporting

As has been explained in note 1.20, Valeo consists of a single business segment ("Automotive equipment"). The geographical areas

presented correspond to production areas. Additional information is provided according to the most appropriate dimensions for the understanding of Group's business.

6.1.1 - Reporting by geographical area

(In millions of euros)	Net sales by market	Net sales by area of production	Total assets	Capital expenditure for the year	Number of employees
2005					
Europe ⁽¹⁾	6,890	7,284	4,051 ⁽²⁾	436	52,100
North America	1,443	1,366	575	67	7,800
South America	429	402	199	35	3,400
Asia	1,171	1,133	757 ⁽³⁾	59	7,100
Eliminations	-	(252)	(154)	(5)	-
Total	9,933	9,933	5,428	592	70,400
2004					
Europe ⁽¹⁾	6,598	6,920	3,802	437	50,500
North America	1,451	1,364	498	59	7,700
South America	320	303	131	17	3,200
Asia	860	808	444	47	4,800
Eliminations	-	(166)	(70)	(7)	-
Total	9,229	9,229	4,805	553	66,200

⁽¹⁾ Including Africa.

⁽²⁾ Of which 9 million euros of assets held for sale.

⁽³⁾ Of which 2 million euros of assets held for sale.

Total segment assets reconcile to total Group assets as follows:

(In millions of euros)	2005	2004
Total segment assets	5,428	4,805
Financial assets	1,116	978
Deferred taxes assets	101	82
Goodwill	1,441	1,158
Total	8,086	7,023

Goodwill balances cannot be broken down by geographical area as they are allocated to groups of CGUs which belong to several such areas.

6.1.2 - Research and development expenditure by Domain of innovation and sales by products family

The goal of the Domains of innovation is to enhance and support innovation by bringing together different technologies and product lines in order to propose overall solutions to the market based on the themes of safety, the environment and comfort.

(In millions of euros)	2005	2004
Driving Assistance	175	164
Propulsion Efficiency	208	178
Comfort Enhancement	225	199
Other	53	62
Total	661	603

The Domains of innovation aim to assist development of sales of the products portfolio, production and sale of which is placed under the responsibility of the Group's divisions. The product portfolio is broken down into the following product lines:

(In millions of euros)	2005	2004
Transmissions	742	693
Climate Control	1,510	1,397
Engine Cooling	1,473	1,415
Lighting Systems	1,151	1,071
Electrical Systems	1,041	985
Wiper Systems	1,064	1,161
Motors & Actuators	257	277
Security Systems	676	661
Switches & Detection Systems	833	878
Electronics & Connective Systems	606	672
Compressors	398	190
Engine Management Systems	366	-
Other and eliminations	(184)	(171)
Total	9,933	9,229

6.1.3 - Sales by customer

Valeo generates nearly 60% of its original equipment market sales with its four principal customers (ranked from the highest level of sales: Renault-Nissan, PSA Peugeot Citroën, DaimlerChrysler and Volkswagen). Sales generated with each of these customers represents between 10% and 20% of the total.

The Group aims to be a supplier to all automakers.

6.2 - Risk management policy

The Group, in the context of its industrial and sales activity, operates in an international environment in which it is confronted with market risks, specifically foreign currency risk, price risk and interest rate risk. It uses derivatives to manage and reduce its exposure to changes in foreign exchange rates, prices and interest rates.

In general, foreign currency risks, price risks in respect of base metals and interest rate risks for all Group companies are managed centrally by Valeo.

In addition to market risks, the Group is also exposed to liquidity risk, financial instrument counterparty risk and to credit risk in respect of its accounts and notes receivable.

6.2.1 - Market risks

■ Foreign currency risk

Transaction risk

Group subsidiaries may bear transaction risk in respect of purchases or sales transacted in currencies other than their functional currency, whether such transactions are already recognized in the balance sheet or are simply forecast future transactions. Hedging of subsidiaries' current and future trading and investment transactions is generally performed for durations of less than 6 months.

Subsidiaries principally hedge their transactions with Valeo, which hedges net Group positions with external counterparts.

The principal hedging instruments that the Group uses are forward firm purchases and sales of foreign currencies, swaps and options.

Not all derivatives used by the Group to hedge its foreign currency risk qualify as hedging instruments in the meaning ascribed to that term by IAS 39.

In certain cases, however, the Group applies hedge accounting for highly probable future flows as from the date that the derivatives are put in place.

At December 31, 2005, an unrealized loss of less than 1 million euros is recognized through Group stockholders' equity in respect of hedge accounting for currency derivatives.

The unrealized gain of 1 million euros recognized through stockholders' equity at January 1, 2005 has been fully taken to operating income in the period.

At December 31, 2005, the Group's net position in its principal currencies is as follows:

At December 31

(In millions of euros)	USD	JPY	GBP	Euro
Total assets	144	33	7	13
Total liabilities	(32)	(19)	(13)	(2)
Net balance sheet position before risk management	112	14	(6)	11
Forward sales	(125)	(18)	(6)	(18)
Forward purchases	17	8	14	4
Risk management	(108)	(10)	8	(14)
Net position after risk management	4	4	2	(3)

In view of this net position, a movement in exchange rates would only have a minor impact on the Group's financial statements.

Risk on net investments

The Group is also exposed to foreign currency risk through its investments in its foreign subsidiaries, particularly to risks of a movement in the exchange rate of the currency of the country in which a subsidiary is located against the euro, which is the Group's functional currency. Such movements can impact Group stockholders' equity.

The Group can thus decide, on a case-by-case basis, to hedge the net investment. Any gain or loss resulting from such a hedge will be deferred by being recognized through equity until such time as the foreign investment is wholly or partly sold.

In 2005, a loss of 3 million euros in respect of the hedge of a net investment in Brazil was recognized through Group stockholders' equity.

No derivative is recognized in respect of this type of hedge in the Group's balance sheet at December 31, 2005.

■ Metal price risks

In order to reduce its exposure to changes in prices of non-ferrous metals, the Group hedges its future purchases of base metals over a period which is generally less than 6 months. The raw materials currently hedged (aluminum, processed aluminum, copper, zinc, and tin) are quoted on official markets.

The Group favors hedging instruments which do not involve physical delivery of the underlying commodity: swaps and options on the average monthly price.

Base metals derivatives used by the Group are designated as cash flow hedges under IAS 39. An unrealized gain of 22 million euros related to hedges in place at December 31, 2005 has been recognized through Group shareholders' equity.

The unrealized gain of 7 million euros recognized in stockholders' equity at January 1, 2005 was in respect of hedges on raw materials purchases in first-half 2005 and was thus fully taken to operating income in the year.

The unrealized gain of 22 million euros at December 31, 2005 is broken down as follows by type of metal:

At December 31

(In millions of euros)	2005
Aluminum	10
Processed aluminum	2
Copper	7
Tin	-
Zinc	3
Total	22

68% of this unrealized gain relates to purchases of raw materials denominated in euros and 29% to purchases denominated in US dollars.

■ Interest rate risk

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

The interest rate derivatives used by the Group to hedge against changes in value of its fixed rate debt are designated as fair value hedges under IAS 39. These derivatives are recorded at fair value in the balance sheet with changes in fair value being taken to income. The effect on income is neutralized, for the effective portion of the hedge, by a symmetrical restatement to fair value of the hedged component of the debt. The interest rate derivatives used by the Group to hedge its variable rate debt are not designated as hedging instruments in the meaning ascribed to that term by IAS 39.

The Group's financing rate was 4.6% in 2005 (5.4% in 2004).

At December 31, 2005, 83% of long-term debt is at a fixed rate (50% at December 31, 2004).

Fixed rate position

At December 31

(In millions of euros)	Less than 1 year	1 to 5 years	More than 5 years
Total assets at fixed rate	-	-	-
Total liabilities at fixed rate	579	472	825
Net fixed rate position before risk management	579	472	825
Risk management	(500)	-	(225)
Net position after risk management	79	472	600

A decrease in interest rates of 1% would result in a change in the fair value of the net position of about 58 million euros.

Variable rate position

At December 31

(In millions of euros)	Less than 1 year	1 to 5 years	More than 5 years
Total assets at variable rate	(949)	(12)	-
Total liabilities at variable rate	159	5	1
Net variable rate position before risk management	(790)	(7)	1
Risk management	(3)	(4)	-
Net position after risk management	(793)	(11)	1

An increase of 1% in interest rates would lead to an increase in interest income of about 8 million euros.

6.2.2 - Counterpart risk

In the context of financial markets transactions entered into for the purposes of risk management and treasury management, the Group is exposed to counterpart risk. Limits have been set by counterpart, taking account of the ratings of the counterparts with ratings agencies. They also have the effect of avoiding excessive concentration of market transactions with a limited number of banks.

6.2.3 - Liquidity risk

The Group targets maximization of its operating cash flows in order to be in a position to finance both the investments required for its development and growth and the dividend paid to its stockholders. In addition, the strategy followed aims to ensure that the Group has the cash resources necessary to meet all circumstances. For these reasons, the Group borrows long-term funds when market conditions are favorable, either from banks or by accessing public debt markets. Thus, in 2005, Valeo issued 600 million euros worth of Euro Medium Term Notes maturing in 2013. It also took out two syndicated loans for a total amount of 225 million euros maturing in 2012.

Valeo also has several confirmed bank credit lines available for an average period of 4 years in a total amount of 1.3 billion euros. None of these credit lines were used at December 31, 2005.

The Group also has a short-term commercial paper financing program in a maximum amount of 1.2 billion euros and a medium and long-term Euro Medium Term Notes financing program in a maximum amount of 2 billion euros.

The credit lines have an early repayment clause related to the Group's debt/equity ratio (Covenants). It requires that the Group's net debt should not exceed 120% of stockholders' equity. Non-compliance with this ratio causes the credit lines to be suspended and leads to early reimbursement of prior drawdowns. At December 31, 2005, the Group's ratio is well below this level.

The Euro Medium Term Notes include an option granted to the bondholders who can request early redemption of their bonds in the case of a change of control of Valeo which leads to a downgrade in the bond's rating to below investment grade. Such a change of control is deemed to occur if a shareholder, or several shareholders acting together, acquire(s) more than 50% of Valeo's share capital or come(s) to hold more than 50% of voting rights.

6.2.4 - Credit risk

Through its sales, Valeo is exposed to credit risk, particularly to risk of default by its customers.

Valeo only operates in the automobile sector and is thus dependent on the sector's performance, principally in Europe and North America.

In 2005, the automaker Rover went out of business and several other customers, who are not major counterparts for Valeo, took protection under bankruptcy legislation, particularly in the United States. Thus Delphi, a large American automotive supplier in respect of which Valeo had strongly increased its vigilance, announced on October 8, 2005 that it was placing itself under the protection of American chapter 11 bankruptcy law.

In 2005, a provision of 6 million euros was recognized against accounts receivable in respect of such bankruptcies.

Valeo works with all automakers in the sector. On December 31, 2005, Valeo's largest automaker customer represents less than 20% of the Group's accounts and notes receivable. Approximately 6% of accounts and notes receivable are with the two largest American automakers. The downturn in the automobile sector business environment in recent months has led to strengthened control of customer risks and of settlement periods which may, on a case-by-case basis, be subject to bilateral renegotiations with customers.

Valeo also generates 7% of its net sales in the aftermarket. The Group's numerous, dispersed customer base in this market constantly monitored and the risk of default is covered by a credit insurance policy. These customers represent slightly more than 6% of Group accounts and notes receivable at December 31, 2005.

6.2.5 - Financial instruments

■ Fair value of financial instruments

At December, 31	2005	
(In millions of euros)	Carrying amount	Fair value
ASSETS		
Non-current financial assets	28	28
Accounts and notes receivable	1,906	1,906
Cash and cash equivalents	949	949
LIABILITIES		
Bond	499	507
EMTN	595	594
OCEANE (debt component)	419	429
Syndicated loans	221	222
Other long-term debt	150	150
Accounts and notes payable	1,926	1,926
Short-term debt	157	157

Fair values for bonds presented above are calculated on the basis of an active market. For the debt component of the OCEANE and for the syndicated loans, fair value is estimated by discounting future cash flows at the market rate applicable at year-end, taking account of an issuer spread for the Group estimated at 0.675% for the OCEANE and at 0.60% for the syndicated loans.

■ Fair value of derivatives

Foreign currency derivatives

At December 31	2005	
	Nominal	Fair value
(In millions of euros)		
Forward foreign currency purchases	28	1
Forward foreign currency sales	(10)	-
Currency swaps	(15)	-
Total assets	3	1
Forward foreign currency purchases	19	-
Forward foreign currency sales	(104)	(2)
Currency swaps	(18)	(1)
Total liabilities	(103)	(3)
Net impact on stockholders' equity		(2)

The fair value of foreign currency derivatives is calculated using the following valuation method: future cash flows are calculated using forward exchange rates at year-end and are discounted using the interest rate of the valuation currency.

Metals derivatives

At December 31	2005	
	Nominal	Fair value
(In millions of euros)		
Swaps - Purchases	125	22
Swaps - Sales	(2)	-
Total assets	123	22
Swaps - Purchases	1	-
Swaps - Sales	(2)	-
Total liabilities	(1)	-
Net impact on stockholders' equity		22

The fair value of metal derivatives is calculated using the following valuation method: future cash flows are calculated using forward raw materials prices and forward exchange rates at year-end and are then discounted using the interest rate of the valuation currency.

Interest rate derivatives

At December 31	2005	
	Nominal	Fair value
(In millions of euros)		
Interest rate swaps	732	(5)
Total liabilities	732	(5)

The fair value of interest rate swaps is calculated by discounting future cash flows at market interest rates at year-end.

6.3 - Commitments

To the best of Valeo's knowledge, no other significant commitments exist or exceptional events have occurred, other than those disclosed in the notes to the financial statements, that are likely to have a material impact on the business, financial position, results or assets and liabilities of the Group.

6.3.1 - Lease commitments

Future minimum lease commitments existing at December 31, 2005 (excluding capital leases) are as follows:

At December 31	2005	2004
(In millions of euros)		
Less than 1 year	38	36
1 to 5 years	31	29
More than 5 years	10	9
Total	79	74

Lease rentals recognized in expenses in the year were as follows:

	2005	2004
(In millions of euros)		
Rent	56	52

Lease commitments in respect of capital leases are as follows:

At December 31	2005	2004
(In millions of euros)		
Future minimum lease payments		
Less than 1 year	15	14
1 to 5 years	10	15
More than 5 years	3	2
Total future minimum lease payments	28	31
Of which interest charges	(3)	(3)
Present value of future lease payments		
Less than 1 year	14	13
1 to 5 years	9	13
More than 5 years	2	2
Total present value of future lease payments	25	28

6.3.2 - Other commitments given

In the course of its ordinary business, Valeo has the following unrecorded commitments:

At December 31

(In millions of euros)	2005	2004
Guarantees given	30	33
Non-cancelable purchase commitments for fixed assets	57	58
Other commitments given ⁽¹⁾	66	49
Total	153	140

⁽¹⁾ Including 19 million euros in respect of capital increases in joint-ventures at year-end 2005 as against 4 million euros at year-end 2004.

Commitments regarding pensions and other employee benefits are disclosed in note 5.10.2. Commitments regarding hedges of foreign currency risks, interest rate risks and metals risks are disclosed in note 6.2.

The following items, recognized in assets in the Group's balance sheet, have been pledged as security:

At December 31

(In millions of euros)	2005	2004
Property, plant and equipment	84	49
Financial assets	12	13
Total	96	62

6.3.3 - Claims and litigation

Known claims and litigation involving Valeo or its subsidiaries have been reviewed as of the date of these financial statements. Based on the advice of counsel, all necessary provisions have been made to cover the estimated contingencies and potential losses.

6.4 - Contingent liabilities

To the best of Valeo's knowledge at closing date, no contingent liability likely to have a material impact on the business, financial position, results or assets and liabilities of the Group exists.

6.5 - Related party transactions

6.5.1 - Management and Directors' remuneration

Management and Directors are comprised of the members of the Group's Management Committee and its Board of Directors. Remuneration paid during the year is broken down as follows:

(In millions of euros)	2005	2004
Salaries and other short-term benefits	12	13
Contract termination payments	-	2
Total	12	15

In addition, the Group recorded expenses related to pension commitments in an amount of 2 million euros in 2005 (2 million euros in 2004). It also recorded expenses in relation to stock option and free share plans in an amount of 2 million euros in 2005 (1 million euro in 2004).

At December 31, 2005, provisions included in the Group balance sheet in respect of these pension commitments amounted to 13 million euros (10 million euros at December 31, 2004).

6.5.2 - Investments in associates

The consolidated financial statements include transactions carried out in the normal course of business between the Group and its associate companies in which it has an equity accounted investment. These transactions are carried out at market prices.

(In millions of euros)	2005	2004
Sale of goods and services	13	3
Purchases of goods and services	(18)	(17)
Dividends received	4	3

At December 31

(In millions of euros)	2005	2004
Operating receivables	4	4
Operating payables	1	3

6.5.3 - Joint ventures

The consolidated financial statements include transactions carried out in the normal course of business between the Group and its joint ventures. These transactions are carried out at market prices.

(In millions of euros)	2005	2004
Sale of goods and services	25	20
Purchases of goods and services	(9)	(12)
Dividends received	4	9

At December 31

(In millions of euros)	2005	2004
Operating receivables	10	10
Operating payables	4	5

6.6 - Joint ventures

The following amounts are included are recorded in the Group's consolidated financial statements in respect of joint ventures consolidated under the proportionate method of consolidation:

At December 31

(In millions of euros)	2005	2004
Non-current assets	51	163
Current assets	86	207
Non-current liabilities	15	67
Current liabilities	75	242
Total operating revenues	334	681
Total operating expenses	321	642

6.7 - Subsequent events

To the best of Valeo's knowledge, no event has occurred since December 31, 2005 that is likely to have a material impact on the business, financial position, results or assets and liabilities of the Group.

7 - List of consolidated companies

Companies	Countries	2005		2004	
		voting % rights	% interest	voting % rights	% interest
EUROPE					
Valeo	France	parent company			
Cablea (merged with Valeo Câblage)	France	-	-	100	100
D.A.V	France	100	100	100	100
Équipement 11	France	100	100	100	100
Équipement 7	France	100	100	100	100
Valeo Cablage (ex-Cablea + Financière Cablea)	France	100	100	100	100
SC2N	France	100	100	100	100
Société de Participations Valeo	France	100	100	100	100
Telma	France	100	100	100	100
Valeo Bayen	France	100	100	100	100
Valeo Électronique et Systèmes de Liaison	France	100	100	100	100
Valeo Embrayages	France	100	100	100	100
Valeo Équipements Électriques Moteur	France	100	100	100	100
Valeo Finance	France	100	100	100	100
Valeo Four Seasons ⁽²⁾	France	50	50	50	50
Valeo Furukawa Wiring Systems ⁽²⁾	France	50	50	50	50
Valeo Liaisons Électriques	France	100	100	100	100
Valeo Management Services	France	100	100	100	100
Valeo Matériaux de Friction	France	100	100	100	100
Valeo Plastic Omnium ⁽²⁾	France	50	50	50	50
Valeo Sécurité Habitacle	France	100	100	100	100
Valeo Service	France	100	100	100	100
Valeo Switches and Detection Systems - VSDS	France	100	100	100	100
Valeo Systèmes de Contrôle Moteur	France	100	100	-	-
Valeo Systèmes d'Essuyage	France	100	100	100	100
Valeo Systèmes Thermiques	France	100	100	100	100
Valeo Thermique Habitacle	France	100	100	100	100
Valeo Vision	France	100	100	100	100
Valeo Zexel China Climate Control (merged with Valeo Syst. Thermiques)	France	-	-	60	60
Valeo Componentes Automoviles	Spain	100	100	100	100
Valeo España, S.A.	Spain	100	100	100	100
Telma Retarder España, S.A.	Spain	100	100	100	100
Valeo Climatizacion, S.A.	Spain	100	100	100	100
Valeo Iluminación, S.A.	Spain	99.8	99.8	99.8	99.8
Valeo Materiales de Fricción, S.A.	Spain	100	100	100	100

⁽¹⁾ Company accounted for by the equity method.

⁽²⁾ Company accounted for on a proportional basis.

⁽³⁾ Company accounted for on a proportional basis on 2004 and fully consolidated in 2005.

⁽⁴⁾ Company accounted for by the equity method in 2004 and fully consolidated in 2005.

⁽⁵⁾ Company fully consolidated in 2004 and accounted on a proportional basis in 2005.

⁽⁶⁾ Company sold in 2005.

Companies	Countries	2005		2004	
		voting % rights	% interest	voting % rights	% interest
Valeo Plastic Omnium, S.L. ⁽²⁾	Spain	50	50	50	50
Valeo Service España, S.A.	Spain	100	100	100	100
Valeo Sistemas de Conexion Electrica, S.L.	Spain	100	100	100	100
Valeo Sistemas de Seguridad y de Cierre, S.A.	Spain	100	100	100	100
Valeo Sistemas Electricos, S.L.	Spain	100	100	100	100
Valeo Termico, S.A.	Spain	100	100	100	100
Cablagens do Ave	Portugal	100	100	100	100
Cablinal Portuguesa	Portugal	100	100	100	100
Cablauto, Srl	Italy	100	100	100	100
Cavisud, Srl	Italy	100	100	100	100
Valeo Service Italia, S.p.a.	Italy	100	99.9	100	99.9
Valeo, S.p.a.	Italy	99.9	99.9	99.9	99.9
Valeo Cablaggi e Commutazione, S.p.a	Italy	100	100	100	100
Valeo Sicurezza Abitacolo, S.p.a.	Italy	100	99.9	100	99.9
Valeo Sistemi di Climatizzazione, S.p.a.	Italy	100	100	100	100
Valeo Auto Electric GmbH	Germany	100	100	100	100
Valeo Auto-Electric Beteiligungs GmbH	Germany	100	100	100	100
Valeo Germany Holding GmbH	Germany	100	100	100	100
Valeo Holding Deutschland GmbH	Germany	100	100	100	100
Telma Retarder Deutschland GmbH	Germany	100	100	100	100
Sylea GmbH	Germany	100	100	100	100
Valeo Beleuchtung Deutschland GmbH	Germany	100	100	100	100
Valeo Klimasysteme GmbH	Germany	100	100	100	100
Valeo Motoren und Aktuatoren GmbH	Germany	100	100	100	100
Valeo Schalter und Sensoren GmbH	Germany	100	100	100	100
Valeo Service Deutschland GmbH	Germany	100	100	100	100
Valeo Sicherheitssysteme GmbH	Germany	100	100	100	100
Valeo Wischersysteme GmbH	Germany	100	100	100	100
Valeo Compressor Europe GmbH ⁽³⁾	Germany	100	100	50	50
Valeo UK Ltd	UK	100	100	100	100
Labauto Ltd	UK	100	100	100	100
Telma Retarder Ltd	UK	100	100	100	100
Valeo Climate Control Ltd	UK	100	100	100	100
Valeo Security Systems Ltd	UK	100	100	100	100
Valeo Service (UK) Ltd	UK	100	100	100	100
Valeo Engine Cooling A.B.	Sweden	100	100	100	100
Valeo Vision Belgique	Belgium	100	100	100	100
Valeo Service Belgique	Belgium	100	100	100	100

⁽¹⁾ Company accounted for by the equity method.

⁽²⁾ Company accounted for on a proportional basis.

⁽³⁾ Company accounted for on a proportional basis on 2004 and fully consolidated in 2005.

⁽⁴⁾ Company accounted for by the equity method in 2004 and fully consolidated in 2005.

⁽⁵⁾ Company fully consolidated in 2004 and accounted on a proportional basis in 2005.

⁽⁶⁾ Company sold in 2005.

Companies	Countries	2005		2004	
		voting % rights	% interest	voting % rights	% interest
Coreval	Luxembourg	100	100	100	100
Valeo Holding Netherlands B.V.	Netherlands	100	100	100	100
Valeo International Holding B.V.	Netherlands	100	100	100	100
Valeo Service Benelux B.V.	Netherlands	100	100	100	100
Valeo Vymeniky Tepla Sro	Czech Republic	100	100	100	100
Sylea Tchequia Sro	Czech Republic	100	100	100	100
Valeo Autoklimatizace Sro	Czech Republic	100	100	100	100
Valeo Compressor Europe Sro ⁽³⁾	Czech Republic	100	100	50	50
Valeo Slovakia Sro	Slovakia	100	100	100	100
Valeo Autosystemy Sp.zo.o.	Poland	100	100	100	100
Valeo Service Eastern Europe Sp.zo.o.	Poland	100	100	100	100
Valeo Electric and Electronic Systems Sp.zo.o.	Poland	100	100	100	100
Valeo Auto-Electric Hungary Spare Parts Production LLC	Hungary	100	100	100	100
EKO, d.d.	Slovenia	-	-	98.9	98.9
Valeo Kabli, d.o.o.	Slovenia	100	100	100	100
Valeo Cablaje s.r.l. (ex-Valeo Electronice si Sisteme de Conectare Romania)	Romania	100	100	100	100
Valeo Electrical Connective Systems s.r.l.	Romania	100	100	-	-
Cablea Tunisie, S.A.	Tunisia	100	100	100	100
DAV Tunisie, S.A.	Tunisia	100	100	100	100
Société Tunisienne de Câblages STC	Tunisia	100	100	100	100
Valeo Mateur (ex-Sylea Tunisie)	Tunisia	100	100	100	100
Valeo Embrayages Tunisie	Tunisia	100	100	100	100
Valeo Bouskoura (ex-Cabelec)	Morocco	100	100	100	100
Valeo Ain Sebaa (ex-Cablea Maroc)	Morocco	100	100	100	100
Cablinal Maroc, S.A.	Morocco	100	100	100	100
Valeo Bouznika, S.A.	Morocco	100	100	100	100
Nursan ED ⁽¹⁾	Turkey	40	40	40	40
Nursan OK ⁽¹⁾	Turkey	40	40	40	40
Valeo Otomotiv Dagitim A.S.	Turkey	100	100	100	100
Valeo Otomotiv Sistemleri Endustrisi A.S.	Turkey	100	100	100	100
Valeo Armco Engine Cooling Co. ⁽²⁾	Iran	51	51	-	-
Valeo Systems South Africa (Proprietary) Ltd.	South Africa	51	51	51	51
NORTH AMERICA					
Valeo Aftermarket, Inc.	USA	100	100	100	100
Valeo Electrical Systems, Inc.	USA	100	100	100	100
Valeo Investment Holdings, Inc.	USA	100	100	100	100
Valeo Raytheon Systems, Inc. ⁽⁵⁾	USA	73.1	73.1	66.6	66.6

⁽¹⁾ Company accounted for by the equity method.

⁽²⁾ Company accounted for on a proportional basis.

⁽³⁾ Company accounted for on a proportional basis on 2004 and fully consolidated in 2005.

⁽⁴⁾ Company accounted for by the equity method in 2004 and fully consolidated in 2005.

⁽⁵⁾ Company fully consolidated in 2004 and accounted on a proportional basis in 2005.

⁽⁶⁾ Company sold in 2005.

Companies	Countries	2005		2004	
		voting % rights	% interest	voting % rights	% interest
Valeo Compressor North America, Inc. ⁽³⁾ (ex-Selective Technology, Inc.)	USA	100	100	50	50
Telma Retarder, Inc.	USA	100	100	100	100
Valeo Acustar Thermal Systems, Inc	USA	51	51	51	51
Valeo Climate Control Corp.	USA	100	100	100	100
Valeo Friction Materials, Inc.	USA	100	100	100	100
Valeo, Inc.	USA	100	100	100	100
Valeo Switches and Detection Systems, Inc.	USA	100	100	100	100
Valeo Sylvania, LLC ⁽²⁾	USA	50	50	50	50
Delmex de Juarez S. de R.L. de CV	Mexico	100	100	100	100
Telma Retarder de Mexico, SA de CV	Mexico	100	100	100	100
Valeo Automotive Electrical Systems de Mexico, SA de CV	Mexico	100	100	100	100
Valeo Sistemas Electricos, SA de CV	Mexico	100	100	100	100
Valeo Sistemas Electronicos, SA de CV	Mexico	100	100	100	100
Valeo Sylvania Iluminacion, S. de R.L. de CV ⁽²⁾	Mexico	50	50	50	50
Valeo Termico, SA de CV	Mexico	100	100	100	100
Valeo Climate Control de Mexico, SA de CV	Mexico	100	100	100	100
Valeo Materiales de Friccion de Mexico, SA de CV	Mexico	100	100	100	100
SOUTH AMERICA					
Valeo Climatizacao Brasil (merged with Valeo Sistemas Automotivos Ltda)	Brazil	-	-	100	100
Valeo Sistemas Automotivos Ltda	Brazil	100	100	100	100
Cibie Argentina, SA	Argentina	100	100	100	100
DAV Argentina, SA (merged with Cibie Argentina, SA)	Argentina	-	-	100	100
Emelar Sociedad Anonima	Argentina	100	100	100	68
Il Tevere ⁽⁶⁾	Argentina	-	-	50	50
Interclima ⁽⁶⁾	Argentina	-	-	50	26
Mirgor ⁽⁶⁾	Argentina	-	-	50	26
Valeo Embragues Argentina, S.A.	Argentina	100	100	68	68
Valeo Termico Argentina, S.A.	Argentina	100	100	100	100
ASIA					
Valeo Compressor (Thailand) Co. Ltd ⁽³⁾ (ex-Zexel Valeo Compressors)	Thailand	98.5	98.5	50	48.1
Valeo Siam Thermal Systems Co. Ltd ⁽⁴⁾ (ex-Siam Zexel Co. Ltd)	Thailand	74.9	74.9	39	19.5
Valeo Compressor Clutch (Thailand) Co. Ltd ⁽³⁾ (ex-Zexel Clutches Co. Ltd)	Thailand	97.3	97.3	50	48.1
Valeo Thermal Systems Sales (Thailand) Co. Ltd ⁽⁴⁾ (ex-Zexel Sales Thailand)	Thailand	89.9	74.9	7.8	7.8
Valeo Electrical Systems Korea Ltd	South Korea	100	100	100	100
Valeo Pyeong Hwa Co. Ltd ⁽²⁾	South Korea	50	50	50	50
Valeo Pyeong Hwa Distribution Co. Ltd ⁽²⁾	South Korea	50	50	50	50
Valeo Tek Inc.	South Korea	100	100	100	100

⁽¹⁾ Company accounted for by the equity method.

⁽²⁾ Company accounted for on a proportional basis.

⁽³⁾ Company accounted for on a proportional basis on 2004 and fully consolidated in 2005.

⁽⁴⁾ Company accounted for by the equity method in 2004 and fully consolidated in 2005.

⁽⁵⁾ Company fully consolidated in 2004 and accounted on a proportional basis in 2005.

⁽⁶⁾ Company sold in 2005.

Companies	Countries	2005		2004	
		voting % rights	% interest	voting % rights	% interest
Valeo Compressor Korea Co. Ltd ⁽³⁾ (ex-Zexel Valeo Climate Control Korea Co. Ltd)	South Korea	100	100	50	50
Dae Myong Corporation ⁽³⁾	South Korea	100	100	50	50
Ichikoh Industries Ltd ⁽¹⁾	Japan	28.2	28.2	22.7	22.7
Valeo Engine Cooling Japan Co. Ltd	Japan	100	100	100	100
Zexel Logitec Company ⁽³⁾	Japan	100	100	50	50
Zexel Logistic Company (Butsuryu) ⁽³⁾	Japan	100	100	50	50
Konno Sangyo Co. Ltd ⁽³⁾	Japan	100	100	50	50
Valeo Unisia Transmissions	Japan	66	66	66	66
Valeo Thermal Systems Japan Corp. ⁽³⁾ (ex-Zexel Climate Control)	Japan	100	100	50	50
Hubei Valeo Autolighting Company Ltd	China	75	75	75	75
Valeo Automotive Air Conditioning Hubei Co. Ltd	China	55	55	55	33
FAW Zexel Climate Control System Co. Ltd ⁽¹⁾	China	36.5	36.5	36.5	21.9
Huada Zexel Automotive Air Conditioner Co. Ltd ⁽¹⁾	China	30	30	30	15
Valeo Lighting Hubei Technical center Co. Ltd	China	100	100	100	100
Nanjing Valeo Clutch Co. Ltd ⁽²⁾	China	55	55	50	50
Shanghai Valeo Automotive Electrical Systems Co. Ltd ⁽²⁾	China	50	50	50	50
Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd	China	55	55	55	55
Taizhou-Valeo Wenling Automotive Systems Company Limited	China	55	55	55	55
Telma Vehicle Braking System (Shanghai) Company Limited	China	70	70	-	-
Shenzhen Valeo Hangsheng Automotive Switches & Detection Syst. Co. Ltd	China	75	75	-	-
Valeo Automotive Security Systems (Wuxi) Co. Ltd	China	100	100	-	-
Valeo Fawer Compressor (Changchun) Co. Ltd ⁽²⁾	China	60	60	-	-
PT Zexel AC Indonesia ⁽¹⁾	Indonesia	49	49	49	24.5
Amalgamations Valeo Clutch Private Ltd ⁽²⁾	India	50	50	50	50
Valeo Friction Materials India Limited	India	60	60	60	60

⁽¹⁾ Company accounted for by the equity method.

⁽²⁾ Company accounted for on a proportional basis.

⁽³⁾ Company accounted for on a proportional basis on 2004 and fully consolidated in 2005.

⁽⁴⁾ Company accounted for by the equity method in 2004 and fully consolidated in 2005.

⁽⁵⁾ Company fully consolidated in 2004 and accounted on a proportional basis in 2005.

⁽⁶⁾ Company sold in 2005.

Statutory auditor's report on the 2005 IFRS consolidated financial statements

Year ended December 31, 2005

This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information presented below is the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

In compliance with the assignment entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Valeo (the Company) for the year ended 31 December 2005, as presented on pages 72 to 129.

The consolidated 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. These financial statements have been prepared for the first time in accordance with IFRSs as adopted by the European Union. They include comparative information restated in accordance with the same standards with respect to fiscal year 2004 except for IAS 32 and IAS 39 which, in accordance with the exemption allowed by IFRS 1, have been applied as from 1 January 2005.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides as reasonable basis for our 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 consolidated group as at 31 December 2005 and of the results of its operations for the year then ended in accordance with IFRSs as adopted by the European Union.

Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Law (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

The Company records provisions related to pensions and other similar obligations in accordance with the policy described in note 1.17 to the consolidated financial statements. Such obligations have generally been determined with the assistance of independent actuaries. We have reviewed the data and assumptions used and the calculations completed. We have not identified any item that could affect the amounts and methods to account for pensions and other similar obligations.

The Company performs at the end of each year impairment tests of the amounts recorded as goodwill and also assesses whether indicators point to a lasting impairment of fixed assets in accordance with the policy described in note 1.12 to the consolidated financial statements. We have reviewed the methods and assumptions used by the Company in preparing the accounts and we have verified that such assumptions were reasonable.

These assessments were made in the context of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion which is expressed in the first part of this report.

Specific verification

In accordance with professional standards applicable in France, we have also verified the information given 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.

Neuilly-sur-Seine and Paris, 9 February 2006

PricewaterhouseCoopers Audit

The Statutory Auditors

Salustro Reydel
Member of KPMG International

Serge Villepelet

Jean-Christophe Georghiou

Jean-Pierre Crouzet

Emmanuel Paret

4

CORPORATE GOVERNANCE

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Report of the Chairman of the Board of Directors relating to the conditions of preparation and organization of the Board's work, the possible limitations to the powers of the Chief Executive Officer and the internal control procedures put in place by the Valeo Group

1. Preparation and organization of the work of the Board of Directors

On March 31, 2003, the Board of Directors adopted Internal Rules which are in line with the recommendations of the Bouton Report on corporate governance, aimed at precisely defining the operating procedures of the Board, in addition to legal and regulatory requirements and the provisions of the Company's bylaws.

1.1. Rules specific to the functioning and organization of the Board and their application

1.1.1. Composition of the Board of Directors

The bylaws provide that the Board of Directors shall have between 3 and 18 members. Following the replacement of Noël Goutard by Pierre-Alain De Smedt on March 7, 2005, the Board currently has 10 members.

Precise details concerning the composition of the Board of Directors are set out in the appendix to this report.

The Board of Directors examined the position of each of the Directors in light of the independence criteria set out in the Board's Internal Rules. Under these rules, independent Directors are those who do not have any 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, a Director is presumed to be independent if he/she:

- I. is not an employee or a corporate officer of the Company, nor an employee or Director of a company consolidated by Valeo, and has not been so in the past five years;
- II. is not a corporate officer in a company in which the Company directly or indirectly holds a directorship, or in which an employee appointed in that role or a corporate officer of the Company (current or having been so in the past five years) holds a directorship;
- III. is not a significant customer, supplier, or banker of the Company or the Group, or where the Company or Group does not represent a significant portion of the business of the Director concerned;
- IV. does not have a close family link with a corporate officer;
- V. has not been an auditor of the Company in the past five years;
- VI. has not been a Director of the Company for more than twelve years on the date when he/she was appointed to his/her current term of office.

For Directors holding at least 10% of the Company's capital or voting rights, or representing an independent legal entity holding such a stake, the classification as independent takes account of the Company's ownership structure and any potential conflict of interests.

In application of these criteria, the Board of Directors noted that:

- one Director is both Chairman and Chief Executive Officer of the Company: Thierry Morin;

- four Directors have been members of the Board of Directors (and previously the Supervisory Board) for over 12 years: Carlo De Benedetti, Alain Minc, Erich Spitz and Yves-André Istel;
- five Directors are independent with respect to the criteria set forth in the Internal Rules and in accordance with the recommendations set out in the Bouton Report on corporate governance: Pierre-Alain De Smedt, François Grappotte, Philippe Guédon, Jean-Bernard Lafonta and Véronique Morali.

1.1.2. Average period of notice for calling Board meetings

Pursuant to the Internal Rules, each Director will be notified of the dates of Board meetings at the beginning of each fiscal year at the latest. The average period of notice for calling Board of Directors' meetings is approximately two weeks.

1.1.3. Representation of Directors

A Director may be represented at meetings of the Board of Directors by another Director. The proxy must be given in writing. During the 2005 fiscal year, two Directors used the possibility of being represented at Board meetings.

1.1.4. Chairman of Board meetings

The Board meetings are chaired by the Chairman of the Board or, in his/her absence, by a Vice-Chairman or a Director designated by the Board of Directors. All ten Board meetings held during the 2005 fiscal year were chaired by the Chairman.

1.1.5. Videoconference facilities

The bylaws provide the Directors with the possibility of participating in the Board's deliberations by videoconference. Pursuant to the bylaws and the Internal Rules, Directors who take part in the Board's deliberations using such means are deemed to be present for the purposes of calculation of the quorum and majority, except for the purposes of adopting the following decisions: the appointment, renewal or dismissal of the Chairman, Chief Executive Officer or Deputy Chief Executive Officers, as well as in relation to setting their remuneration, the preparation of the annual corporate and consolidated financial statements and the annual report. Videoconference facilities were used on four occasions during the year, but concerned only two Directors.

1.2. Directors' access to information

1.2.1. Directors' access to information

The Chairman has provided the Directors, within a sufficient time frame, with the information enabling them to fully carry out their appointed roles. Each Director receives or is able to obtain the necessary information for the purposes of completing his or her duties.

1.2.2. Guests of the Board

During the year, the Group Financial Control Director attended all Board meetings.

1.3. Frequency of Board meetings and average attendance rates of the Directors

Pursuant to the Internal Rules of the Board, the Board of Directors meets at least four times a year. The Board of Directors met on ten occasions during the 2005 fiscal year.

The average attendance rate of the members of the Board of Directors (in person or through a proxy) during the 2005 fiscal year was 90.8%. The average attendance rate of the members of the Board of Directors in person during the 2005 fiscal year was 86.6%.

1.4. Role of the Board

The principal role of the Board of Directors is to determine the business strategies of the Company and oversee their implementation.

During the 2005 fiscal year, the Board of Directors analyzed the 2004 annual financial statements, management forecasts and IFRS transition reports, reviewed strategic transactions (particularly acquisitions and restructuring operations), heard the minutes of meetings of the various management-level committees, appointed Pierre-Alain De Smedt to replace Noël Goutard, recommended a public share buyback offer and public tender to the General Shareholders' Meeting, as well as the granting of stock options and bonus shares to employees and corporate officers who have been the most directly involved in the Group's development.

1.5. Committees created by the Board

The Board has created a number of committees to improve its functioning and provide effective assistance with respect to the preparation of its decisions.

The Board has created the following permanent committees: the Strategy Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee. Each of these committees is governed by a series of internal rules previously approved by the Board of Directors.

The work of the Strategy, Audit, Remuneration and Nomination Committees are presented to the Board of Directors throughout the fiscal year in the form of reports.

1.5.1. Strategy Committee

The Strategy Committee has five members including a Chairman and two independent Directors as defined by the criteria set forth in the Internal Rules. The members of the Strategy Committee are appointed by the Board of Directors.

In 2005, committee members were Jean-Bernard Lafonta, Alain Minc, Thierry Morin, Erich Spitz and Philippe Guédon, who also acted as Chairman.

The roles and responsibilities of the Strategy Committee are:

- to express an opinion to the Board concerning the strategic goals of the Company and the Group and any other major strategic issue referred to the Committee by the Board or the Chairman;
- to analyze annual budgets and interim reviews, as well as the medium- and long-term strategic development plans of the Group.

The committee's role also includes examining and expressing an opinion to the Board on issues submitted to it concerning major transactions including acquisitions, disposals, financing and debt.

The Strategy Committee met six times during the 2005 fiscal year with a 93.3% attendance rate. During its meetings, the committee reviewed the Group's results and studied any planned acquisitions. It also assessed the strategy adopted by the Group in respect of the Powertrain Efficiency Domain.

1.5.2. Audit Committee

The Audit Committee has three members including a Chairman, appointed by the Board of Directors. All members of the Audit Committee are independent Directors as defined by the criteria set forth in the Internal Rules.

The members of the Audit Committee are François Grappotte, Jean-Bernard Lafonta and Pierre-Alain De Smedt, who also acts as Chairman.

The roles and responsibilities of the Audit Committee are:

- to ensure the relevance and due application of the accounting and financial methods adopted to prepare the consolidated financial statements, as well as the appropriate treatment of transactions within the Group;
- to check that internal procedures are defined for the compilation and control of financial and accounting information, ensuring the prompt communication and reliability of such information; to review the Group's internal audit plan and Management's related comments; and to keep informed of the internal and external audits of the Group and Management's related comments;
- to express an opinion on the choice of Statutory Auditors or the renewal of their terms of office;
- to review any financial or accounting matter referred to it by the Chairman of the Board of Directors as well as any issue of conflict of interest of which it is aware.

The Audit Committee met four times in 2005 with a 75% attendance rate. During its meetings, the Audit Committee notably reviewed the 2004 consolidated financial statements, the interim financial statements for the six months to June 30, 2005, and the IFRS transition document.

The Audit Committee's work was conducted in line with its objectives. The Statutory Auditors and Financial Control Director attended all the Audit Committee meetings during the year. The presentations made by the Statutory Auditors mainly related to the findings of their limited review of the interim financial statements and their audit of the annual and consolidated financial statements. They also reported on the Group's transition to IFRS. The Audit Committee did not have any reservations concerning the consolidated financial statements presented to it.

1.5.3. Remuneration Committee

The Remuneration Committee has three members including a Chairman and two independent Directors as defined by the criteria set forth in the Internal Rules. The members of the Remuneration Committee are appointed by the Board of Directors.

The members of the Remuneration Committee are François Grappotte, Philippe Guédon and Alain Minc, who also acts as Chairman.

The roles and responsibilities of the Remuneration Committee are:

- to study and make recommendations concerning the remuneration of corporate officers;

- to recommend to the Board the rules for allocating attendance fees; and
- to examine any issues submitted to it by the Chairman, including plans to launch employee share issues.

The Remuneration Committee met on two occasions in 2005, with a 100% attendance rate.

During its meetings, the committee recommended to the Board the issuance of 650,000 stock purchase options and 600,000 bonus shares to the employees and corporate officers who had been the most directly involved in the Group's development. This recommendation was unanimously approved by the Board of Directors at its November 17, 2005 meeting.

1.5.4. Nomination Committee

The Nomination Committee has five members including a Chairman and three independent Directors as defined by the criteria set forth in the Internal Rules. The members of the Nomination Committee are appointed by the Board of Directors.

The members of the Nomination Committee are Véronique Morali, François Grappotte, Philippe Guédon, Thierry Morin and Alain Minc, who also acts as Chairman.

The Nomination Committee is responsible for the preparation and composition of the Company's executive bodies (corporate officers and directors). Each year, the committee examines the position of each of the Directors with respect to the independence criteria set out in the Internal Rules adopted by the Board of Directors.

The Nomination Committee met three times in 2005, with a 93.3% attendance rate.

During its meetings, the Nomination Committee recommended to the Board of Directors the appointment of Pierre-Alain De Smedt to replace Noël Goutard. This recommendation was unanimously adopted by the Board of Directors at its meeting of March 7, 2005, and subsequently ratified by the General Shareholders' Meeting of May 3, 2005. In accordance with the Internal Rules, the Nomination Committee examined the position of each Director with respect to the aforementioned independence criteria.

1.6. Assessment of the functioning of the Board

In accordance with the Internal Rules, the Board has carried out its own assessment regarding the functioning of the Board and the proper organization of its discussions.

The Board of Directors' assessment for the 2005 fiscal year was carried out with the assistance of an external advisor during

the last quarter of 2005. A detailed questionnaire was sent to all Directors concerning their assessment of the functioning of the Board and suggestions for improvement. The topics covered included the functioning and composition of the Board, Directors' access to information, the choice of issues discussed, as well as the quality of the discussions and the general operation of the special committees.

The Directors' replies were analyzed and the findings presented at the meeting of the Board held on February 9, 2006. All of the Directors expressed their general satisfaction with regard to the functioning of the Board.

1.7. Shareholdings and securities transactions

Each Director must hold at least 100 Valeo shares during his or her entire term of office.

On accepting their position, members of the Board of Directors and the Executive Management of the Group agreed to a Code of Conduct in relation to transactions involving the Company's securities. Under the terms of this code, Directors must declare to the Group's General Counsel any transactions that they have entered into involving the Company's securities, within a maximum of fifteen working days following the transaction. In accordance with applicable regulations, this information must then be submitted to the French securities regulator (Autorité des Marchés Financiers) and subsequently made public.

1.8. Agreements governed by Article L.225-38 of the French Commercial Code

During the 2005 fiscal year, Valeo pursued a number of transactions governed by the procedures concerning regulated, related-party agreements, which were entered into by the Company and its Spanish subsidiaries as part of the implementation of the 2004 Valeorizon international employee stock ownership plan. These transactions were authorized by the Board of Directors at its meeting of October 18, 2004.

At its meeting of December 15, 2005, the Board of Directors authorized the signature of trademark royalties agreements between the Company and the Group's operating subsidiaries.

These agreements will be disclosed in the Statutory Auditors' special report.

1.9. Delegation of authority regarding sureties, endorsements and guarantees governed by Article L.225-35 of the French Commercial Code

The Board of Directors has authorized the Chairman, who is entitled to sub-delegate this authority, to issue sureties, endorsements and guarantees in the Company's name up to a maximum amount of 23 million euros, and to maintain in effect the sureties, endorsements and guarantees previously issued.

This authorization, which was granted for a 12-month period, expires on March 7, 2006. During the 2005 fiscal year, no further commitments were given by the Chairman under this authorization.

1.10. General management of the Company and limitations on the powers of the Chief Executive Officer

The Company's Board of Directors has chosen to combine the positions of Chairman of the Board of Directors and Chief Executive Officer.

The Board of Directors has not limited in any particular way the powers of the Chief Executive Officer. The Chairman and Chief Executive Officer therefore has the widest possible powers to act in any circumstances in the Company's name. He exercises his powers within the limits of the Company's corporate purpose and subject to the powers that the law specifically grants to Shareholders' Meetings or to the Board of Directors. The Chairman and Chief Executive Officer represents the Company in its relations with third parties.

2. Internal control procedures

This report was presented to the Audit Committee on February 7, 2006.

2.1. Definition and aims of internal control procedures

Internal control as defined by the Valeo Group is the process implemented by Management and employees to provide reasonable assurance regarding the achievement of objectives in the following categories:

- reliability of financial reporting;
- compliance with laws and regulations;
- safeguarding of assets;
- effectiveness and efficiency of operations.

Valeo has adopted a definition of internal control in line with that provided by the COSO (Committee Of Sponsoring Organization of the Treadway Commission) Framework, the findings of which were published in 1992 in the United States.

2.2. Review of the various components of Valeo's internal control procedures

The decentralized organization of Valeo gives it the responsiveness and proximity to customers that enable it to develop within its markets. This decentralized structure fits in with the principles and rules governing its operation, which apply throughout the Group.

The Code of Ethics has been sent out to all managers and constitutes the basis for the detailed procedures applicable within the Group. This Code, available on the Intranet, was updated in 2004 to include new provisions in relation to the management of human resources.

The Group's Administrative and Financial Manual has been the benchmark for Valeo's financial and management dealings for 15 years. The manual is used on a daily basis by all operational staff. The manual has two parts:

- part one concerns the rules governing management and internal control;
- part two defines how the main items of the balance sheet and statement of income should be measured and presented.

Every year, the Director and Financial Control Director of each Division sign a letter of representation in which they undertake to ensure the manual's rules are complied with. A very detailed internal control questionnaire, which now contains more than 400 questions concerning compliance with the rules set forth in the manual, is updated every year. The findings of this questionnaire are transferred to a specific database and the results disclosed to the relevant operational or functional directors within the Group so that appropriate action can be taken, where necessary.

The budget and monthly reporting procedure is a critical tool for Valeo in managing its operations. Any variances can thus be identified, analyzed and dealt with during the year, thereby increasing the reliability of the interim and annual accounts closing process.

Specific rules and procedures have also been put in place by the Group's various functional directors, in line with the Administrative and Financial Manual. These include:

- the Constant Innovation Charter, which provides a strict definition of the management principles for development projects;
- marketing procedures and sales practices;
- human resources procedures;
- purchasing procedures, aimed at reducing the number of listed suppliers and enabling the quality of their services to be monitored more effectively;
- the Risk Management Manual and implementation guides in relation to security, safety and the environment, together with the Insurance Manual. Valeo has undertaken to at least comply with local regulations concerning safety and the environment and, in certain cases, to comply with even higher standards.

Substantially all of the information concerning these rules and procedures may be consulted on the Group's intranet by the staff concerned.

In terms of quality, Valeo has set its own benchmarks, Valeo 1000 and Valeo 5000, which are regularly checked in the context of "VAQ" (Valeo Assurance Quality) audits. In addition, the QRQC (Quick Response Quality Control) method ensures the prompt implementation of corrective action. In 1997, Valeo launched a certification program of its sites in accordance with the ISO 14001 standard; to date, 117 sites out of a total of 134 have this certification.

2.3. Management of internal control procedures

An important part of the system for managing internal control procedures, in particular in relation to accounting and financial matters, is the Valeo Internal Audit Department, whose task is to carry out assignments within the Group to ensure that the procedures set up function properly. The Internal Audit team is also called upon

at regular intervals to carry out audits on performance indicators at various manufacturing sites and Divisions, and to coordinate the updating of the financial and management benchmark procedures.

2.4. Review of work carried out in 2003 and 2004

Valeo carried out the following tasks at Group level in 2003:

- an analysis of the existing internal control procedures in light of the five main components defined by the COSO Framework (control environment, risk assessment, control activities, information and communication, and monitoring); and a preliminary mapping of major risks and processes based on interviews with the Group's main operational and functional managers;
- the identification of material accounts and their interaction with the processes, as well as an inventory of the existing internal control procedures, relating to the preparation of the financial statements.

In 2004, the Group decided to put in place a special project designed to improve internal control in relation to the reliability of financial information. Over the long term, Valeo's aim is to be able to assess the relevance and correct implementation of internal control in relation to the reliability of financial information.

In order to achieve this, 132 key control points have been identified in relation to the seven processes set out below:

- sales, management of receivables and payments received;
- procurement, management of accounts payable and payments made;
- monitoring of assets;
- monitoring of inventory;
- payroll;
- cash flow;
- accounts closing policy.

These control points are applicable throughout the Group's operational sites.

Rules relating to documentation and testing – particularly regarding the size of the sample used – have been defined to ensure uniformity between the sites.

An initial on-site pilot test took place in June/July 2004, during which the project team undertook documentation work and tests, alongside site management. This exercise made it possible to validate the approach adopted, fine-tune the forecasts of required resources and standardize documentation and testing for all of the sites. A specific database of best practices to be used in internal control procedures has been created and posted on the Group's Intranet.

On this basis, a number of pilot sites began to implement the documentation and testing requirements in the second half of the year, under the aegis of the Internal Audit department. Our Statutory Auditors have carried out a review of the work undertaken by these pilot sites.

In parallel, Valeo has set up a procedure aimed at reviewing the access controls and user profiles with regard to the SAP software, which has been progressively rolled out to all the Group's main sites. On the basis of matrices showing incompatibilities for each of the processes, optimized standard user profiles have been identified.

In 2004, Valeo put in place a new tool for reporting the findings of its internal control self-assessment procedures, following on from the self-evaluation tool that the Group has used since 1999. The new tool will centralize documentation relating to the controls and tests carried out in the context of the LSF (French Financial Security Act) project. This tool will also be used to monitor action plans for the improvement of internal control procedures in real time.

2.5. Work carried out in 2005

The key control documentation and testing process designed to strengthen internal control in relation to the reliability of financial information has been launched in all Group operating entities. Action plans have been drawn up on the basis of the findings of the documentation and testing procedure. The action plans were implemented under the responsibility of Financial Control Directors and are being monitored by the Group's Internal Audit department. SAP access controls and user profiles have been deployed at 18 of the Group's most important sites.

A secondary risk map is currently being prepared, based on interviews carried out of 70 executives, both at the Group's headquarters and at the Branches. Risks were classified for each process in order of importance and degree of control. Some of

the risks identified are disclosed in section 9 of the management report (Risks and uncertainties p. 38). The audit plan presented to the Audit Committee in December 2005 is largely based on this risk mapping.

The risk mapping exercise also included the "Corporate" functions, with risks associated with the Valeo Internal Bank (BIV) documented over the second half of 2005.

The Group's authoritative standards on quality, manufacturing, project management and safety have been updated in Valeo 5000.

2.6. Outlook for 2006 and 2007

A two-year audit plan (2006/2007) has been drawn up, covering the major points identified in the risk mapping exercise.

The risk map will be regularly updated to ensure that it reflects any changes in the Group's risk exposure.

Following on from BIV in 2005, a documentation procedure will be set up for other "Corporate" processes.

The roll-out of the key control documentation and testing process will be finalized at all sites, with the aim of achieving full coverage of all key controls by the sites concerned.

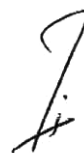
Access controls and user profiles will be reviewed for all sites using SAP, while a specific approach will be developed for non-SAP users.

More generally, the Group will pursue its ongoing efforts to improve internal control, with the specific aim of being able to assess the relevance and correct implementation of internal control procedures in place regarding the reliability of financial information.

These efforts are wholly supported by the Group's General Management team.

Thierry Morin

Chairman of the Board of Directors



Composition of the Board of Directors at December 31, 2005

Last name and first name or corporate name	Date of first appointment	Expiration date of term of office	Main duties performed in the Company	Main duties performed outside the Company	Other offices held and duties performed in any company in 2005
Thierry Morin	03/21/2001	General Shareholders' Meeting called to approve the 2006 financial statements	Chairman and Chief Executive Officer		<ul style="list-style-type: none"> Chairman and Chief Executive Officer of: Valeo Bayen Chairman of: Société de Participations Valeo, Valeo Service, Valeo Finance, Valeo Thermique Habitacle, Valeo España, S.A., Valeo Holding Netherlands B.V., Valeo SpA, Valeo Japan Co. Ltd, Valeo International Holding B.V., Valeo (UK) Limited Legal Manager of: Valeo Management Services, Valeo Auto-Electric Beteiligungs GmbH, Valeo Germany Holding GmbH, Valeo Grundvermögen Verwaltung GmbH, Valeo Holding Deutschland GmbH Director of: Valeo Électronique & Systèmes de Liaison, Valeo Service España S.A., Valeo Iluminacion, S.A., Valeo Termico, S.A. Director of CEDEP
Carlo De Benedetti	07/04/1986	General Shareholders' Meeting called to approve the 2006 financial statements		Chairman of the Board of Directors of CIR SpA	<p>Cofide-CIR Group</p> <ul style="list-style-type: none"> Chairman of the Board of Directors of Cofide SpA, CIR SpA Director of: Gruppo Editoriale L'Espresso SpA, Sogefi SpA <p>Outside the Cofide-CIR Group</p> <ul style="list-style-type: none"> Chairman of the Board of Directors of CDB Web Tech SpA Chairman of the Supervisory Board of M&C Management & Capitali SpA Director of: Pirelli SpA, Banca Intermobiliare SpA
Pierre-Alain De Smedt	03/07/2005	General Shareholders' Meeting called to approve the 2006 financial statements			<ul style="list-style-type: none"> Director of: Belgacom, C.N.P. (Compagnie Nationale à Portefeuille/Groupe A. Frère), Deceuninck Plastics, Alcopa Member of the Executive Committee and Director of FEBIAC (Fédération Belge de l'Industrie de l'Automobile et du Cycle)
François Grappotte	03/31/2003	General Shareholders' Meeting called to approve the 2006 financial statements		Chairman of the Board of Directors of Legrand S.A.	<p>LegrandGroup</p> <ul style="list-style-type: none"> Chairman of: Legrand S.A.S., Lumina Management Chief Executive Officer and Director of Legrand Holding S.A. Director of: B. Ticino, Bufer Elektrik, Eltas Elektrik, Legrand Española, Lumina Parent, Pass & Seymour, The Wiremold Company <p>Outside the Legrand Group</p> <ul style="list-style-type: none"> Director of BNP Paribas Member of the Supervisory Board of: Michelin, Galeries Lafayette Member of: the Banque de France Consultative Committee, the Administrative Board of F.I.E.E.C. (Fédération des Industries Électriques, Électroniques et de Communication), the Administrative Board of Gimelec (Groupement des industries de l'équipement électrique, du contrôle-commande et des services associés), the Board of Promotelec (Promotion de l'installation électrique dans les bâtiments neufs et anciens)

Last name and first name or corporate name	Date of first appointment	Expiration date of term of office	Main duties performed in the Company	Main duties performed outside the Company	Other offices held and duties performed in any company in 2005
Philippe Guédon	03/31/2003	General Shareholders' Meeting called to approve the 2006 financial statements		Legal manager and shareholder of Espace Développement	N/A
Yves-André Istel	01/29/1992	General Shareholders' Meeting called to approve the 2006 financial statements		Senior Advisor to Rothschild, Inc.	• Director of: Compagnie Financière Richemont AG, Imperial Sugar
Jean-Bernard Lafonta	12/07/2001	General Shareholders' Meeting called to approve the 2006 financial statements		Chairman of the Management Board of Wendel Investissement	Wendel Group • Chairman of the Supervisory Board of: Editis Holding, Bureau Veritas • Member of the Supervisory Board of Oranje-Nassau Groep B.V. • Director of: Legrand Holding, Legrand S.A., Lumina Parent Outside the Wendel Group • Legal Manager of Granit (SARL)
Alain Minc	07/04/1986	General Shareholders' Meeting called to approve the 2006 financial statements		Chairman of A.M. Conseil	• Chairman of the Supervisory Board of Le Monde • Director of: Fnac, Vinci
Véronique Morali	03/31/2003	General Shareholders' Meeting called to approve the 2006 financial statements		Deputy Chief Executive Officer and Director of Fimalac	Fimalac Group • Sole director of FCBS GIE • Director of Cassina SpA • Member of the Board of: Fimalac Inc., Fitch Ratings, Inc., Fitch Risk Management, Inc. Outside the Fimalac Group • Director of: Eiffage, Club Méditerranée • Member of the Board of Tesco Plc
Erich Spitz	06/24/1987	General Shareholders' Meeting called to approve the 2006 financial statements		Consultant for Thales	Thales Group • Chairman of Thales Avionics Lcd • Director of Thales Corporate Ventures Outside the Thales Group • Chairman of the Board of Directors of Novaled • Chairman of the Supervisory Board of Riber • Correspondent member of the Académie des Sciences • Member of the Académie des Technologies • Honorary Chairman of European Industrial Research Management Association (EIRMA)

Statutory Auditors' report prepared in accordance with article L. 225-235 of the French Commercial Code (*Code de commerce*) on the report of the Chairman of the Board of Directors on internal control procedures relating to the preparation and processing of accounting and financial information

Year ended December 31, 2005

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

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 present our report on the report prepared by the Chairman of the Board of Directors of your Company in accordance with article L. 225-37 of the French Commercial Code for the year ended December 31, 2005.

In his report, the Chairman of the Board of Directors is required to report on the preparation and organization of the work carried out by the Board of Directors and the internal control procedures implemented within the Company.

It is our responsibility to report to you our observations on the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of accounting and financial information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of accounting and financial information. These procedures notably consisted of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of accounting and financial information, as set out in the Chairman's report;
- obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information given on the internal control procedures relating to the preparation and processing of accounting and financial information, contained in the report of the Chairman of the Board, prepared in accordance with the last paragraph of article L. 225-37 of the French Commercial Code.

Neuilly-sur-Seine and Paris, February 9, 2006

The Statutory Auditors

PricewaterhouseCoopers Audit

Salustro Reydel
Member of KPMG International

Serge Villepelet

Jean-Christophe Georghiou

Jean-Pierre Crouzet

Emmanuel Paret

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General information about the issuer

1. Legal provisions and Company bylaws

Corporate name and registered office

The name of the Company is Valeo. Its registered office is at 43, rue Bayen, 75017 Paris, France (tel.: + 33 (0)1 40 55 20 20).

Legal form and governing law Corporate governance

Valeo is a joint-stock company ("société anonyme") with a Board of Directors. It is governed by French law, notably the provisions of Section II of the French Commercial Code and Decree 67-236 dated March 23, 1967.

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 on page 134 in the report of the Chairman of the Board of Directors on the conditions for preparing and organizing the work conducted by the Board and internal control procedures.

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.

Corporate purpose

The Company's corporate purpose is as follows (Article 3 of the bylaws):

- The research and development, manufacture, sale, trading or supply of any products, equipment or services for industry and business purposes which may be manufactured, finished or developed by the Company or other Valeo Group companies or which may interest their customers;
- Operations of any nature – including industrial, commercial, financial and investing activities, or acquisitions and divestments – which are directly or indirectly related to the corporate purpose or designed to facilitate the development or realization thereof.

Registration particulars

The Company is registered at the Paris Companies Registry under number 552 030 967.

Fiscal year

The Company's fiscal year covers a twelve-month period from January 1 to December 31.

Consultation of documents

The Company's press releases and annual registration documents filed with the AMF (including historical financial information relating to the Company and the Group), as well as any updates thereto can be accessed on the Company's website at www.valeo.com. Copies are also available on request from the Company's head office.

The bylaws, minutes of Shareholders' Meetings, Statutory Auditors' reports and all other corporate documents can be consulted at Valeo's head office in accordance with the law and the Company's bylaws.

Auditors

Statutory Auditors

- PricewaterhouseCoopers Audit SA, represented by Serge Villepelet and Jean-Christophe Georghiou – 63, rue de Villiers, 92200 Neuilly-sur-Seine, France.

Member of the Compagnie régionale des Commissaires aux comptes de Versailles.

First appointed on March 31, 2003.

Current term of office began on April 5, 2004 and expires at the close of the General Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2009.

- Salustro Reydel, represented by Jean-Pierre Crouzet and Emmanuel Paret, 8, avenue Delcassé – 75008 Paris, France.

Member of the Compagnie régionale des Commissaires aux comptes de Paris.

First appointed on May 27, 1998.

Current term of office began on April 5, 2004 and expires at the close of the General Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2009.

Alternate Statutory Auditors

- Yves Nicolas – 63, rue de Villiers, 92200 Neuilly-sur-Seine, France.

Member of the Compagnie régionale des Commissaires aux comptes de Versailles.

First and current term of office began on April 5, 2004 and expires at the close of the General Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2009.

- Philippe Arnaud – 8, avenue Delcassé – 75008 Paris, France.

Member of the Compagnie régionale des Commissaires aux comptes de Paris.

First and current term of office began on April 5, 2004 and expires at the close of the General Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2009.

Yves Nicolas and Philippe Arnaud were appointed as Alternate Statutory Auditors on April 5, 2004 to replace Jean-Louis Mullenbach, who had been appointed by the General Shareholders' Meeting of May 27, 1998 for a six-year term.

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 prior year losses and amounts appropriated to the legal reserve, plus any income carried forward. Subject to the provisions of the law, shareholders in a General Meeting may decide to distribute amounts taken from available reserves and/or retained earnings. In this case, the related resolution approved by the shareholders must clearly specify the reserve account from which the distributed amounts are to be taken.

Shareholders may resolve to pay out a dividend only after approving the financial statements for the year and noting that amounts are available for distribution. Shareholders or the Board of Directors set the applicable conditions for any dividend payments.

The Board of Directors may decide to pay an interim dividend before the financial statements are approved, subject to the conditions set down by law.

At the General Meeting called to approve the financial statements, shareholders may decide to offer a stock dividend alternative representing all or part of the dividend, or an interim dividend, as provided for by law.

Dividends unclaimed after a period of five years from the date they were made payable are paid to the French government.

Liquidation surpluses

Liquidation surpluses are allocated between the shareholders in proportion to their interests in the Company's capital.

General Shareholders' Meetings

Ordinary and Extraordinary General Shareholders' Meetings are called and conduct business in accordance with the conditions set down by law.

In order to be entitled to attend General Meetings, holders of registered stock must have their shares recorded in the Company's register at least two days prior to the date of the meeting. Holders of bearer stock must send evidence of their title to the shares to the place stated in the notice of the meeting at least two days prior to the date of the meeting, in the form of a certificate issued by the bank, broker or other intermediary that manages their stock account. Both these forms of registration must comply with applicable legal conditions.

Subject to the above-mentioned conditions, all shareholders are entitled to attend General Meetings provided they have settled all capital calls related to their shares.

Shareholders who are unable to attend a meeting in person may give proxy to their spouse or another shareholder or may cast a postal vote. Alternatively, they may return the signed form of proxy to the Company without naming a person to represent them, in accordance with the applicable laws and regulations.

In compliance with the conditions set down by the applicable law and regulations, shareholders may send proxy and postal voting forms for General Meetings either in paper format or, if authorized by the Board of Directors in the notice of meeting, in electronic form.

Minutes of shareholders meetings are drawn up, and copies and extracts thereof are certified and delivered, in accordance with the law.

Double voting rights

Each shareholder has a number of votes corresponding to the number of shares held or represented by proxy. However, since the General Shareholders' Meeting of June 16, 1992, article 23 of the Company's bylaws provides that double voting rights are attached to all fully-paid shares that have been registered in the name of the same holder for at least four years. In the case of a bonus share issue paid up by capitalizing reserves, profits or share premiums, the new registered shares allocated to a shareholder in respect of existing shares carrying double voting rights will also have 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 sold. 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 a donation inter vivos to a spouse or relative in the direct line of succession. Double voting rights may be removed at an Extraordinary Shareholders' Meeting, subject to the approval of the shareholders entitled to double voting rights, obtained at a special meeting held for the purpose.

Changes in share capital and rights attached to shares

Any changes in the Company's share capital or voting rights attached to shares are subject to the applicable law as the bylaws do not contain any specific provisions in relation to such operations.

2. Corporate governance structure

2.1. Executive Management

The Group's Executive Management team includes the Chairman and Chief Executive Officer, and Valeo's Functional and Operational Directors.

Chairman and Chief Executive Officer:

Thierry Morin

Term of office started on March 31, 2003 and expires at the General Shareholders' Meeting to be called to approve the 2006 financial statements.

At its meeting of March 31, 2003, Valeo's Board of Directors elected to combine the roles of Chairman of the Board of Directors and Chief Executive Officer.

In his capacity as Chairman and Chief Executive Officer, Thierry Morin has the broadest ranging powers to act in any circumstances in the Company's name. He exercises these powers within the limits of the Company's corporate purpose and subject to the powers that the law specifically grants to Shareholders' Meetings or to the Board of Directors. Thierry Morin represents the Company in its relations with third parties.

Functional Directors

Bruno-Roland Bernard

Vice-President, Chairman's Office and Group Communications

Michel Boulain

Vice-President, Human Resources

Robert Charvier

Financial Controller, Industrial Products

Bernard Clapaud

Vice-President, Strategy

France Curis

Taxation Director

Rémy Dumoulin

Investor Relations Director

André Gold

Technical Senior Vice-President

Martin Haub

Vice-President, Research & Development and Product Marketing

Kazuo Kawashima

Quality Director

Hans-Peter Kunze

Senior Vice-President, Sales and Business Development

Géric Lebedoff

General Counsel

Serge Le Berre

Industrial Vice-President

Vincent Marcel

Vice-President, Financial Affairs and Strategic Operations

Xavier Véret

Financial Control Director

Operational Directors**Luc Blériot**

Chief Operating Officer

Pierre Ensch

Vice-President, Engine Cooling Products

Patrick Favre

Vice-President, Electronics & Connective Systems Products

Jean-Jacques Giambi

Vice-President, Motors & Actuators Products

Michel Giannuzzi

Vice-President, Wiper Systems Products

Claude Leïchlé

Vice-President, Lighting Systems Products

Alain Marmugi

Vice-President, Climate Control Products

Christian Marsais

Vice-President, Compressors Products

Christophe Périllat-Piratoine

Vice-President, Switches & Detection Systems Products

Orazio Ragni

Vice-President, Electrical Systems Products

Michael Schwenzer

Vice-President, Transmissions Products

Michel Serre

Vice-President, Security Systems Products

Henri Trintignac

Vice-President, Engine Management Systems Products

Robert de la Serve

Vice-President, Valeo Service Activity

Philippe Huyghe

Vice-President, Independent Aftermarket Branch

Guillaume Péronnet

Vice-President, Original Equipment Spares Branch

2.2. Board of Directors**2.2.1. Members of the Board of Directors**

At March 15, 2006, Valeo's Board of Directors comprised the following members (also see the table on page 141).

- **Thierry Morin**

Aged 54

Business address: Valeo, 43 rue Bayen, 75017 Paris, France.

Start of current term of office: March 31, 2003 (first appointed on March 21, 2001).

Current term expires at the General Shareholders' Meeting to be called to approve the 2006 financial statements.

Main position held within the Company: Chairman and Chief Executive Officer.

Main positions held outside the Company: Thierry Morin holds management positions and directorships in several Group subsidiaries (see page 141).

Other positions held during the last five years (in companies other than Valeo subsidiaries):

- *Chairman* of Valeo's Board of Directors from March 21, 2001 through May 9, 2001 when the Company changed its corporate governance structure to a company governed by a Management Board and a Supervisory Board.
- *Chairman* of Valeo's Management Board until March 2003, when the Company changed its corporate governance structure to a company governed by a Board of Directors.
- *Director* of CEDEP*.

Thierry Morin joined the Valeo Group in 1989 as Finance Director of the Clutches Branch. He then became Finance Director of the Engine Cooling Branch and subsequently Group Financial Control Director. In 1997, he was appointed Deputy Managing Director and Director of Financial and Strategic Operations. On June 5, 2000 he was appointed Senior Vice-President in charge of Finance, Strategic Operations and Information Systems and became a member of the Management Committee. He was named Chairman of the Board of Directors on March 21, 2001, Chairman of the Management Board on May 9, 2001 and on March 31, 2003 was appointed as Valeo's Chairman and Chief Executive Officer.

Before joining Valeo, Thierry Morin was Assistant Director of the ISD Division at Thomson Consumer Electronics in Los Angeles. He also held various financial positions during ten years spent with Schlumberger.

* Current terms of office/positions.

Thierry Morin has a Masters degree in Management from the University of Paris-IX Dauphine.

At March 15, 2006, Thierry Morin held 4,300 Company shares.

• **Carlo De Benedetti**

Aged 71

Business address: CIR SpA, Via Ciovassino 1, 20121 Milan, Italy.

Start of current term of office: March 31, 2003 (first appointed on July 4, 1986).

Current term expires at the General Shareholders' Meeting to be called to approve the 2006 financial statements.

Main position held within the Company: Member of the Board of Directors.

Main position held outside the Company: Chairman of the Board of Directors of CIR SpA.

Other positions held during the last five years (in companies other than Valeo subsidiaries):

Cofide-CIR Group:

- *Chairman of the Board of Directors of:* Cofide SpA*, CIR SpA* and Sogefi SpA.
- *Director of Gruppo Editoriale L'Espresso SpA* and Sogefi SpA*.*

Outside the Cofide-CIR Group:

- *Chairman of the Board of Directors of* CDB Web Tech SpA*.
- *Director of* Pirelli SpA* and Banca Intermobiliare SpA*.
- *Chairman of the Supervisory Board of* M&C Management & Capitali SpA*.
- *Member of the Supervisory Board of* Valeo.

In 1976, Carlo De Benedetti founded CIR (Compagnie Industriale Riunite) of which he is currently Chairman. He is also the Chairman and majority shareholder of Cofide (Compagnia Finanziaria De Benedetti).

Carlo De Benedetti started his entrepreneurial career in 1959 in the family-owned company Compagnia Italiana Tubi Metallici Flessibili. From 1972 through 1976 he was Chairman and CEO of Gilardini, a group made up of his family-owned company and acquired companies in the automotive parts and chemical technical materials sectors. In 1978 he became one of the major shareholders in Olivetti and was appointed Vice Chairman and CEO of the company. From 1983 he was Chairman and CEO of Olivetti, until he was appointed Honorary Chairman in 1996, a position he held until June 1999. In March 2000, he founded CDB Web Tech, of which he is currently Chairman.

In December 1998, Carlo De Benedetti set up the Rodolfo De Benedetti Foundation, which he chairs, in memory of his father. He is on the Committee of Confindustria and a member of the International Council of the CSIS-Center for Strategic & International Studies (Washington). In 1986 he received an honorary degree in law from the Wesleyan University, Middletown, Connecticut (USA) and in 1987 was awarded the French Légion d'Honneur.

Carlo De Benedetti graduated from Turin Polytechnic University in 1958 with a degree in electrical engineering.

At March 15, 2006, Carlo De Benedetti held 100 Company shares.

• **Pierre-Alain De Smedt**

Aged 62

Business address: 53, promenade Albert-Ier - B 8400, Ostend, Belgium.

Start of current term of office: March 7, 2005 (first appointment).

Current term expires at the General Shareholders' Meeting to be called to approve the 2006 financial statements.

Main position held within the Company: Member of the Board of Directors.

Main positions held outside the Company: Director of various companies in Belgium.

Other positions held during the last five years (in companies other than Valeo subsidiaries):

- *Executive Vice-President of* Renault SA.
- *Director of* Belgacom*, C.N.P. (Compagnie Nationale à Portefeuille/A. Frère Group)*, Deceuninck Plastics* and Alcopa*.
- *Member of the Executive Committee and a director of* FEBIAC (the Belgian Federation of the Car and Two-wheeler Industries)*.

Pierre-Alain De Smedt is qualified as a Sales Engineer and holds a Commercial and Financial Sciences degree from the Université Libre de Bruxelles in Belgium. He began his career in 1966 in the IT Department of Solvay before joining Bosch Belgium in 1971 as Financial Director responsible for Purchasing, Logistics, Organization and IT. He was appointed to the same position within the Volkswagen group in 1973 and in 1985 was nominated Chairman of the Board of Directors of the Volkswagen subsidiary responsible for logistics, purchasing, organization and IT. In 1988, he became a director of Tractebel and Chairman of the Executive Committee of the electricity companies Ebes, Intercom and Unerg.

* Current terms of office/positions.

* Current terms of office/positions.

In 1991, Pierre-Alain De Smedt was appointed Managing Director of Autolatina – the leading Latin American private company and a joint venture between Volkswagen and Ford – and in 1997 he was named Chairman of Seat, a subsidiary of the Volkswagen group. In 1999, he joined Renault as Executive Vice-President, Industry and Technology. He is currently a member of the Executive Committee of the Renault Group and of the Renault/Nissan Alliance Board.

At March 15, 2006, Pierre-Alain De Smedt held 200 Company shares.

• **François Grappotte**

Aged 70

Business address: Legrand, 128, avenue du Maréchal-de-Lattre-de-Tassigny, 87045 Limoges Cedex, France.

Start of current term of office: March 31, 2003 (first appointment).

Current term expires at the General Shareholders' Meeting to be called to approve the 2006 financial statements.

Main position held within the Company: Member of the Board of Directors.

Main position held outside the Company: Chairman of the Board of Directors of Legrand SA.

Other positions held during the last five years (in companies other than Valeo subsidiaries):

Legrand Group:

- *Chairman* and Chief Executive Officer of Legrand S.A.*
- *Chairman of Legrand S.A.S.*, Lumina Management*, B. Ticino, and FIMAF.*
- *Chief Executive Officer of Legrand Holding S.A.* and FIMEP.*
- *Director of Legrand Holding S.A.*, B. Ticino*, Bufer Elektrik*, Eltas Elektrik*, Legrand Española*, Lumina Parent*, Pass & Seymour*, The Wiremold Company* and FIMEP.*

Outside the Legrand Group:

- *Director of BNP Paribas*.*
- *Member of the Supervisory Board of Michelin* and Galeries Lafayette.*
- *Member of the Banque de France Consultative Committee*, the Administrative Board of F.I.E.E.C. (Fédération des Industries Electriques, Electroniques et de Communication)*, the Administrative Board of Gimelec (Groupement des industries de l'équipement électrique, du contrôle-commande et des services associés)* and the Board of Promotelec (Promotion de l'installation électrique dans les bâtiments neufs et anciens)*.*

* Current terms of office/positions.

François Grappotte is the Chairman of the Board of Directors of Legrand S.A. He joined Legrand S.A. in 1983 and went on to become Chief Executive Officer and subsequently Chairman and CEO, a position he held until December 31, 2003.

After seven years at the French Ministry of Industry and Ministry of Finance and the Economy from 1963 through 1970, François Grappotte joined Rothschild Bank as a Deputy Director. He was subsequently appointed Assistant Director and then Director (1970-1972) before taking up the position of General Secretary at La Compagnie Electromécanique (CEM) in 1973. He went on to become the Chief Executive Officer of CEM, a position which he held until 1983.

François Grappotte has a degree in law and post-graduate diplomas in political economics and economic and financial sciences from the Law Faculty of the University of Paris. He also graduated from the Paris Political Studies Institute (Institut d'Etudes Politiques de Paris) and the École Nationale d'Administration (ENA).

At March 15, 2006, François Grappotte held 500 Company shares.

• **Philippe Guédon**

Aged 72

Business address: Espace Développement, 16 rue Troyon, 92316 Sèvres, France.

Start of current term of office: March 31, 2003 (first appointment).

Current term expires at the General Shareholders' Meeting to be called to approve the 2006 financial statements.

Main position held within the Company: Member of the Board of Directors.

Main position held outside the Company: Managing Partner of Espace-Développement.

Other positions held during the last five years (in companies other than Valeo subsidiaries):

- *Chairman and Chief Executive Officer of Matra.*
- *Chairman of the Supervisory Board of Matra Automobile.*

Philippe Guédon has been Legal Manager of Espace Développement since 2003. He joined Simca in 1956 as an After-Sales Service Engineer and went on to become a Research Engineer until 1965. He then joined Matra, where he also held to the post of research engineer, and in 1983 took on the position of Technical Director. In that year he was appointed as Chairman and Chief Executive Officer of Matra and held this position until 2003.

* Current terms of office/positions.

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

He graduated as an engineer from the Arts et Métiers school in Angers, France in 1956.

At March 15, 2006, Philippe Guédon held 100 Company shares.

• **Yves-André Istel**

Aged 70

Business address: Rothschild, Inc., 1251 Avenue of the Americas, 51st floor, New York, NY 10020, USA.

Start of current term of office: March 31, 2003 (first appointed on January 29, 1992).

Current term expires at the General Shareholders' Meeting to be called to approve the 2006 financial statements.

Main position held within the Company: Member of the Board of Directors.

Main position held outside the Company: Senior Advisor to Rothschild Inc.

Other positions held during the last five years (in companies other than Valeo subsidiaries):

Rothschild Group:

- *Vice-Chairman of Rothschild Inc.*
- *Director of Banque Rothschild & Cie.*

Outside the Rothschild Group:

Director of Compagnie Financière Richemont AG, Imperial Sugar* and the Chalone Wine Group.*

Member of the Supervisory Board of Valeo.

Yves-André Istel is currently Senior Advisor to Rothschild Inc. in New York.

From 1964 to 1984 he was a Partner and Director of Kuhn, Loeb Inc. and subsequently Lehman Bros. He then held the position of Co-Chairman of First Boston International between 1984 and 1988 before taking up the post of Chairman of International Wasserstein Perella between 1988 and 1992. He was then appointed as Vice-Chairman of Rothschild Inc., a position he held from 1992 to 2002.

Yves-André Istel graduated from the University of Princeton in 1957.

At March 15, 2006, Yves-André Istel held 500 Company shares.

• **Jean-Bernard Lafonta**

Aged 44

Business address: Wendel Investissement, 89, rue Taitbout, 75009 Paris, France.

Start of current term of office: March 31, 2003 (first appointed on December 7, 2001).

Current term expires at the General Shareholders' Meeting to be called to approve the 2006 financial statements.

Main position held within the Company: Member of the Board of Directors.

Main position held outside the Company: Chairman of the Management Board of Wendel Investissement.

Other positions held during the last five years (in companies other than Valeo subsidiaries):

Wendel Group:

- *Chairman of the Supervisory Board of Editis Holding*.*
- *Vice-Chairman and Chairman* of the Supervisory Board of Bureau Veritas.*
- *Chief Executive Officer of Compagnie Générale d'Industrie et de Participations - CGIP.*
- *Executive Vice-President of Wendel Investissement.*
- *Member of the Supervisory Board of Oranje-Nassau Groep B.V.*.*
- *Director of Legrand Holding*, Legrand S.A.*, Lumina Parent*, Wendel Investissement and Bureau Veritas.*
- *Permanent representative of Sofu on the Supervisory Board of Bureau Veritas.*

Outside the Wendel Group:

- *Chairman of Banque Directe.*
- *Legal Manager of Granit (SARL)*.*
- *Member of the General Management Committee of BNP Paribas.*
- *Member of the Supervisory Board of Valeo.*
- *Director of Cap Gemini.*

Jean-Bernard Lafonta joined the Wendel Investissement Group as Director and Executive Vice-President in September 2001. He began his career as an engineer and held various public functions between 1986 and 1992, including within Ministerial cabinets. In 1993 he joined the M&A team of Lazard Bank as Deputy Managing Director in Paris. In 1996 he joined BNP as Strategy Director working with Michel Pébèreau who in the same year requested him to take responsibility for all of the Bank's capital markets activities. In 2000, he became a member of BNP Paribas' General Management Committee and was appointed Chairman of Banque Directe.

Jean-Bernard Lafonta graduated from the Ecole Polytechnique and has an engineering degree from the Corps des Mines de Paris.

At March 15, 2006, Jean-Bernard Lafonta held 100 Company shares.

* Current terms of office/positions.

* Current terms of office/positions.

• **Alain Minc**

Aged 57

Business address: A.M. Conseil, 10, avenue George-V, 75008 Paris, France.

Start of current term of office: March 31, 2003 (first appointed on July 4, 1986).

Current term expires at the General Shareholders' Meeting to be called to approve the 2006 financial statements.

Main position held within the Company: Member of the Board of Directors.

Main position held outside the Company: Chairman of A.M. Conseil.

Other positions held during the last five years (in companies other than Valeo subsidiaries):

- *Chairman of the Supervisory Board of Le Monde*.*
- *Chairman of Société des Lecteurs du Monde.*
- *Director of Fnac*, Vinci* and Yves Saint-Laurent S.A.*
- *Member of the Supervisory Board of Valeo.*
- *Member of the Supervisory Board of Pinault-Printemps-Redoute.*

Alain Minc has been the Chairman of A.M. Conseil since April 1991. Earlier in his career, he held the following positions: Finance Director of Compagnie de Saint-Gobain (1979-1986); Chairman of the Orient-Gestion SICAV fund (1984-1985); Chairman of Sofimatique (1979-1983); Chairman and CEO of Air Industrie (1982-1984), then Director, Vice-Chairman and CEO and subsequently Chairman of Cochery Bourdin et Chaussé (1985-1986); Chairman of La Société des Lecteurs du Monde (1985-2003); CEO of Société Générale d'Entreprises (1985-1986); Director and CEO (1986-1989) and subsequently Vice-Chairman and CEO (1989) of Cerus; Vice-Chairman and CEO of Dumenil Leblé S.A., renamed Cerus (1989-1991).

Alain Minc graduated as a civil engineer (Ingénieur Civil des Mines) and has post-graduate diplomas from the Paris Political Institute (Institut d'Études Politiques de Paris) – Major 1971 – and the École Nationale d'Administration (ENA) (Major - Economic Administration – Léon Blum class 1975).

At March 15, 2006, Alain Minc held 500 Company shares.

* Current terms of office/positions.

• **Véronique Morali**

Aged 47

Business address: Fimalac, 97, rue de Lille, 75007 Paris, France.

Start of current term of office: March 31, 2003 (first appointed on March 31, 2003).

Current term expires at the General Shareholders' Meeting to be called to approve the 2006 financial statements.

Main position held within the Company: Member of the Board of Directors.

Main position held outside the Company: Director and Chief Operating Officer of Fimalac.

Other positions held during the last five years (in companies other than Valeo subsidiaries):

Fimalac Group:

- *Chairman and Chief Executive Officer of Fimalac Investissements.*
- *Chairman of Strafor Facom, Inc.*
- *Vice-Chairman of Fitch France.*
- *Member of the Executive Committee of Fimalac.*
- *Sole director of FCBS GIE*.*
- *Director of Cassina SpA*.*
- *Member of the Board of Fimalac Inc.*, Fitch Ratings, Inc.*, Fitch Risk Management, Inc.*, Core Ratings Limited and Fitch, Inc.*
- *Permanent representative of Fimalac Inc. on the Board of Directors of Fitch France S.A.*
- *Permanent representative of Fimalac on the Board of Directors of Facom.*

Outside the Fimalac Group:

- *Legal Manager of Pandour and Silmer.*
- *Member of the Supervisory Board of Club Méditerranée.*
- *Director of Eiffage*, Club Méditerranée* and Minerais & Engrais.*
- *Member of the Board of Tesco Plc*.*
- *Member of the Conseil des Marchés Financiers.*

Véronique Morali joined the Inspectorate General of the French Finance Ministry in 1986 before joining Fimalac in 1990. Within Fimalac she has successively held the positions of Chargée de Mission, Deputy Managing Director and Director and Chief Operating Officer.

Véronique Morali graduated from the Ecole Nationale d'Administration (ENA).

At March 15, 2006, Véronique Morali held 100 Company shares.

* Current terms of office/positions.

- **Erich Spitz**

Aged 75

Business address: Thales, RD 128, 91767 Palaiseau Cedex, France.

Start of current term of office: March 31, 2003 (first appointed on June 24, 1987).

Current term expires at the General Shareholders' Meeting to be called to approve the 2006 financial statements.

Main position held within the Company: Member of the Board of Directors.

Main position held outside the Company: Advisor to Thales.

Other positions held during the last five years (in companies other than Valeo subsidiaries):

Thales Group:

- *Chairman of Thales Avionics Ltd**.
- *Director of Thales Corporate Ventures**.

Outside the Thales Group:

- *Chairman of the Board of Novaled**.
- *Chairman of the Supervisory Board of Riber**.
- *Member of the Management Board of ERA.*
- *Member of the Supervisory Board of Valeo.*
- *Correspondent member of the Académie des Sciences**.
- *Member of the Académie des Technologies**.
- *Honorary Chairman of the European Industrial Research Management Association (EIRMA)*.*

In 1958, Erich Spitz joined Compagnie Générale de TSF, which has since become Thomson-CSF. He began his career with the company as Director of the Central Research Laboratory before becoming Research and Development Director of the Thomson Group from 1983 to 1994.

Erich Spitz graduated from Prague Polytechnic University and holds a doctorate in science.

At March 15, 2006, Erich Spitz held 144 Company shares.

2.2.2. Directorship candidates at the next General Shareholders' Meeting

At the General Shareholders' Meeting to be called to approve the 2005 financial statements, the Board of Directors will invite shareholders to elect Daniel Camus and Jérôme Contamine as Directors of the Company.

Daniel Camus, 52, joined EDF in 2002, holding the positions of Finance Director and Deputy Chief Executive Officer before becoming Chief Operating Officer, Head of Finance and in charge of the Group's

international development. He is also a Director of Edison, ENBW Énergie and Dalkia. Before joining EDF he held financial positions in various pharmaceutical companies including the post of Finance Director at Aventis Pharma in Germany and the United States.

Daniel Camus holds a Doctorate in Economics and Finance from Université de Paris 1 Sorbonne and is a graduate of the Institut d'études politiques in Paris.

Jérôme Contamine, 48, joined Veolia in 2000 as Executive Vice-President, Finance, before becoming Senior Executive Vice President responsible for cross-functional activities in 2003. He is also a Director of Rhodia. Between 1988 and 2000, he held several posts within the Elf Group including Financing and Treasury Director (1991 to 1994), Assistant Director, Europe and the USA for the Exploration and Production Division, CEO of Elf Norway (1995-1998), and Head of Continental European and Central Asian Operations of the Exploration/Production Division (2000).

Jérôme Contamine graduated from the École polytechnique and the École nationale d'administration and is a special adviser to the Cour des comptes.

2.2.3. Declarations concerning members of the Board of Directors

As far as the Company is aware, there are no family relationships between the members of the Board of Directors.

As far as the Company is aware, in the past five years, (i) none of the members of the Board of Directors have received any convictions for fraudulent offences, (ii) none of the members of the Board of Directors have been involved in any bankruptcies, receiverships or liquidations, (iii) no official public incriminations and/or sanctions have been issued against any member of the Board of Directors by statutory or regulatory authorities (including designated professional bodies), and (iv) none of the members of the Board of Directors have 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.

To the best of the Company's knowledge there are no potential conflicts of interest between the duties of the members of the Board of Directors of Valeo and their private interests and/or any other duties.

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 holdings in the Company's securities within a certain period of time, other than the restrictions set down by law or the Company's bylaws or in the Company's stock option, stock grant or employee share ownership plans, under which certain members of the Board of Directors have acquired shares.

* Current terms of office/positions.

To the best of the Company's knowledge there are no arrangements or understandings with major shareholders, customers or suppliers pursuant to which any member of the Board of Directors was selected as a Director or member of Valeo's Executive Management.

2.2.4 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 benefits upon termination of employment.

2.3. Organization and operation of the Board of Directors

On March 31, 2003, the Company's Board of Directors adopted a set of Internal Rules of Operation in line with the recommendations set out in the Bouton report on promoting better corporate governance in French listed companies.

These internal rules set out the Board's *modus operandi* and the procedures to be followed when appointing Board members. They are applied alongside the provisions set down by law, the applicable regulations and the Company's bylaws.

2.3.1. Composition of the Board and appointment of Directors

The Company's bylaws provide that the Board of Directors must be made up of at least three and no more than eighteen members (subject to any amendments in line with the applicable law).

Directors are appointed by shareholders in a General Meeting on the recommendation of the Board of Directors, which in turn receives proposals from the Nomination Committee.

Members of the Board are appointed for renewable four-year terms which expire at the close of the Annual Shareholders' Meeting called to approve the accounts for the year in which their terms expire. Where one or more seats on the Board become vacant due to the death or resignation of any member or members, the Board of Directors may appoint new members on a temporary basis until the next Shareholders' Meeting, in accordance with the applicable legislation. The term of office of the Chairman may not exceed his term of office as a Director.

The proportion of Board members over the age of 70 may not exceed one third. This age limit provision applies both to individuals and to permanent representatives of legal entities holding directorships.

The Chairman's term of office expires at the latest at the close of the General Shareholders' Meeting held to approve the accounts for the year in which he reaches his seventieth birthday.

Directors may be removed from office by shareholders in a General Meeting at any time.

The Company's Board of Directors has comprised ten members since the May 3, 2005 General Meeting in which the shareholders ratified the Board of Directors' appointment of Pierre-Alain De Smedt on March 7, 2005 to replace Noël Goutard. No Directors are elected by employees and there are no non-voting Directors.

At the General Shareholders' Meeting to be called to approve the 2005 financial statements, the Board of Directors will invite shareholders to elect Daniel Camus and Jérôme Contamine as Directors of the Company.

2.3.2. Independent Directors

In accordance with its Internal Rules of Operation, each year prior to the publication of the Annual Report, the Board of Directors assesses the position of each Director with respect to the independence criteria set out in the Internal Rules of Operation, in line with the recommendations of the Bouton report. Under these rules, independent Directors are those who do not have any 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:

- (i) is not currently and has not been in the past five years, an employee or a corporate officer of Valeo, or an employee or Director of a company consolidated by Valeo;
- (ii) is not a corporate officer in a company in which the Company directly or indirectly holds a directorship, or in which an employee appointed in that role or a corporate officer of the Company (current or having been so in the past five years) holds a directorship;
- (iii) is not a customer, supplier, investment banker or commercial banker which is material for the Company or the Group, or for which the Company or Group represents a material proportion of the entity's activity;
- (iv) does not have any close family ties with a corporate officer of the Company;
- (v) has not been an auditor of the Company in the past five years;
- (vi) has not been a Director of the Company for more than twelve years on the date on which they were appointed to their current term of office.

For Directors holding at least 10% of the Company's capital or voting rights, or representing a business that holds such a stake, the classification as independent takes into account the Company's ownership structure and any potential conflict of interests.

In application of these criteria, at its meeting of February 9, 2006, the Board of Directors noted that:

- one Director holds the positions of Chairman and Chief Executive Officer of the Company: Thierry Morin;
- four Directors have been members of the Board of Directors (and previously the Supervisory Board) for over twelve years: Carlo De Benedetti, Alain Minc, Erich Spitz and Yves-André Istel;
- five Directors are independent based on the criteria set out in the Board's Internal Rules of Operation: Pierre-Alain De Smedt, François Grappotte, Philippe Guédon, Jean-Bernard Lafonta and Véronique Morali.

At the General Shareholders' Meeting to be called to approve the 2005 financial statements, the Board of Directors will invite shareholders to elect two new Directors who meet these independence criteria.

2.3.3. Roles and responsibilities of the Board of Directors

The Board of Directors represents all shareholders. It determines the Company's overall business strategies and oversees their implementation. Subject to the powers expressly reserved for Shareholders' Meetings and within the limits of the corporate purpose, the Board of Directors deals with any issues relating to the efficient functioning of the Company and makes any and all decisions relating thereto. The Board devotes one meeting per year to reviewing the Group's overall industrial and financial strategies.

The Chairman convenes meetings of the Board as often as required in the general interest of the Company and at least once a quarter. The dates for the quarterly meetings are issued at the beginning of each fiscal year at the latest. In 2005, the Board of Directors held ten meetings with a 90.8% average attendance rate (in person or by proxy).

Board meetings are chaired by the Chairman of the Board or, in his absence, by any Director who has been temporarily authorized to chair Board meetings, a Vice-Chairman or a Director appointed for the role by the Board of Directors.

Board meetings are only validly constituted if at least half of the members are present or deemed present (in accordance with the law and the Company's bylaws), excluding members attending by proxy. Decisions are taken based on a majority vote of the members present, deemed present, or represented, in accordance with the law and the Company's bylaws. Each member who is present or represented has one vote and each member present may only represent one other member. In the case of a split decision, the Chairman has the casting vote.

Minutes are drawn up after each Board Meeting, which are signed by the Chairman and one other Director.

In accordance with its Internal Rules of Operation, the Board of Directors includes an assessment of Board performance on the agenda of one meeting per year. For 2005, this assessment was carried out with the assistance of an external firm through a detailed questionnaire which was sent to each of the Directors. The topics covered included the operation and composition of the Board, information provided to Directors, the choice of issues discussed, the quality of the discussions and the general running of the Board committees. The Directors' replies were analyzed and the findings presented at the Board meeting held on February 9, 2006. All of the Directors expressed their general satisfaction with regard to the functioning of the Board.

2.3.4. Directors' rights and duties - Compensation

The Board's Internal Rules of Operation impose certain duties on Directors in order to ensure that they are aware of the rules and regulations applicable to them, that conflicts of interest are avoided, that they dedicate the necessary time and attention to their function and that 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 in a General Meeting may grant an annual fixed amount of attendance fees which may be freely allocated by the Board among its members. The Board of Directors may also grant Directors exceptional compensation for specific assignments or tasks entrusted to them. The Board of Directors is responsible for setting the Chairman's compensation.

Article 14 of the Company's bylaws stipulates that each Director must hold at least 100 Valeo registered shares throughout his or her term of office.

On accepting their position, each member of the Board of Directors and the Group's Executive Management team agrees to a Code of Conduct governing 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 recalls the fact that they may not carry out any such transactions based on insider information.

2.4. Board Committees

The Board has set up committees in order to enhance its operation and to provide assistance with preparing its decisions. The following permanent committees have been created: the Audit Committee, the Strategy Committee, the Nomination Committee and the Remuneration Committee. Each of these committees is governed

by a series of internal rules which are approved by the Board of Directors.

Further details relating to the composition and running of these permanent committees are provided on page 134 in the report of the Chairman of the Board of Directors on the preparation and organization of the Board's work and internal control procedures.

3. Compensation paid to senior managers and members of the Board of Directors

The Remuneration Committee plays a central role in determining the compensation paid to Valeo's corporate officers and members of the Board of Directors. It reviews the compensation paid to corporate officers and makes recommendations, especially in relation to the variable portion. The Committee defines the rules used to set this variable portion, taking into account the officers' performance over the year and the medium-term strategy of the Company and the Group. It is also responsible for ensuring that these rules are applied. In addition, the Remuneration Committee provides recommendations to the Board of Directors on the Group's general stock option policy and specific stock option grants, as well as on pensions granted to corporate officers and all other forms of benefits.

The Remuneration Committee's tasks also encompass recommending to the Board an overall amount of attendance fees payable to Directors to be submitted to shareholders for approval, as well as rules relating to the allocation of these fees and the individual amounts payable to each Director based on their attendance record at meetings of the Board, and where appropriate, Board Committees.

Finally, the Remuneration Committee is informed of the compensation policy applicable to the senior managers of the Company and other Group companies who are not corporate officers.

3.1. Executive Management

3.1.1. Compensation paid to the Chairman and Chief Executive Officer

The Board of Directors sets the compensation paid by Valeo to Thierry Morin, the Company's Chairman and Chief Executive Officer. Its decision is based on recommendations provided by the Remuneration Committee.

Fixed compensation and benefits in kind

The total gross fixed compensation paid to Thierry Morin in 2005 came to €1,302,395, made up of €1,284,000 in gross compensation and €18,395 in benefits in kind (including €11,928 for the use of a company car and €6,467 in contributions to the business leaders social welfare fund (Garantie Sociale des Chefs d'Entreprise).

Variable compensation

Thierry Morin did not receive any variable compensation in 2005.

Attendance fees paid by the Company

In 2005, Thierry Morin received €35,000 in attendance fees in his capacity as a Director of Valeo.

Compensation paid by controlled companies

Thierry Morin received total gross compensation of €118,758 from companies controlled by Valeo (as defined in article L. 233-16 of the French Commercial Code). This total was made up of €45,750 in attendance fees and €73,008 in contributions to a pension fund.

Thierry Morin did not receive any benefits in kind in 2005 from companies controlled by Valeo.

Compensation paid to Thierry Morin over the past three years

The table below provides a breakdown of the total gross compensation and benefits paid to Thierry Morin over the last three years.

(in euros)	Compensation paid by the Company			Benefits in kind	Compensation paid by controlled companies	Total gross compensation and benefits
	Fixed portion	Variable portion	Attendance fees			
2003	1,161,489	390,000	26,250	17,780	114,106	1,709,625
2004	1,272,760	150,000	35,000	17,892	116,922	1,592,574
2005	1,284,000	0	35,000	18,395	118,758	1,456,153

Pension scheme

Thierry Morin is still a member of the supplementary pension scheme set up for members of the former Management Board as approved by the Supervisory Board on October 17, 2002. This scheme is designed to top up existing pension benefits (statutory pension, ARRCO, AGIRC, etc.) to enable beneficiaries to acquire benefits representing 2% of their final salary per year of service with the Group. The total amount of pension benefits may not exceed 60% of a beneficiary's final salary and the scheme will only apply to beneficiaries who have a minimum of 15 years' service in the Valeo Group when they retire and for whom Valeo or one of its subsidiaries was their last employer at their retirement date.

Termination benefits

In the event that Thierry Morin leaves the Company, either by way of a decision of the Board of Directors, or at his own initiative in the event of a difference of opinion concerning the strategy implemented by the Board further to a public tender offer, the amount of his termination benefits will amount to three times his last annual compensation, excluding bonuses. Such termination benefit will not be payable in the event of misconduct.

3.1.2. Total compensation paid to other Group executive managers

Total compensation allocated to other Group executive managers in 2005 amounted to €10,438,062, compared with €10,895,652 in 2004 and €10,093,389 in 2003).

3.2. Board of Directors

Directors receive attendance fees which are paid every six months. They are not, however, paid to Directors if their average attendance at Board Meetings, or where applicable, at Committee meetings is lower than 50% during the six months in question.

Attendance fees were allocated as follows in 2005: €20,000 to each Director and an additional €15,000 for each Director who is a member of one of the four Board Committees.

Total attendance fees paid by the Company to members of the Board of Directors amounted to €301,250 in 2005, breaking down as follows:

Amount in euros	2005	2004	2003*
Thierry Morin	35,000	35,000	26,250
Carlo De Benedetti	10,000	10,000	0
Pierre-Alain De Smedt	18,750	-	-
François Grappotte	35,000	35,000	22,500
Philippe Guédon	35,000	35,000	26,250
Erich Spitz	35,000	35,000	26,250
Alain Minc	35,000	35,000	26,250
Véronique Morali	35,000	10,000	15,000
Jean-Bernard Lafonta	35,000	35,000	26,250
Yves-André Istel	27,500	25,000	12,500

* Prorata, based on terms of office starting on March 31, 2003.

No other compensation or benefits were paid to members of the Board of Directors during the year either by Valeo or any other Group company.

3.3. Information concerning stock options and stock grants

3.3.1. Stock options granted and exercised during the year

In 2005 no stock options were granted to or exercised by members of the Board of Directors, including Thierry Morin.

Stock options granted to and exercised by members of the Board of Directors	Number of options granted/exercised	Weighted average exercise price	Expiry date	Date of Shareholders'/Board of Directors' meeting
Options granted to Board members in 2005 by Valeo* and other Group companies	None*			
Options exercised by Board members in 2005	None			

* No Group companies other than Valeo have issued stock options.

** In view of the prohibited periods set down by French stock exchange regulations, during the year the Board of Directors did not grant any stock options to Thierry Morin for 2005. He was, however, granted 150,000 stock purchase options on March 3, 2006.

Stock options granted to and exercised by the ten employees with the highest number of options	Number of options granted/exercised	Weighted average exercise price	Expiry date	Date of Shareholders'/Board of Directors' meeting
Options granted in 2005 by Valeo* or other Group companies to the ten employees of Valeo or other Group companies receiving the highest number of options	48,900 stock purchase options** (11 beneficiaries***)	€32.32	November 16, 2013	November 17, 2005
Options exercised in 2005 by the ten employees of Valeo or other Group companies exercising the highest number of options	None			

* No Group companies other than Valeo issued stock options during the year.

** Out of a total of 650,000 stock purchase options granted.

*** Ten employees received the same number of options in second position.

3.3.2. Stock grants

In accordance with the authorization granted in the fifteenth resolution of the General Shareholders' Meeting held on May 3, 2005, the Board of Directors granted 600,000 existing Valeo shares

with a par value of €3, without consideration, on November 17, 2005. The beneficiaries of these stock grants were the employees and corporate officers who were considered to be the most directly concerned by the Group's development.

Stock grants to members of the Board of Directors	Number of shares received without consideration	Date of Shareholders'/Board of Directors' meeting
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Shares granted without consideration in 2005 by Valeo or other Group companies

None*

** In view of the prohibited periods set down by French stock exchange regulations, during the year the Board of Directors did not award any stock grants to Thierry Morin for 2005. He was granted 50,000 shares without consideration on March 3, 2006. The vesting date for these shares was set by the Board of Directors at June 3, 2008 subject to the following conditions: (i) Thierry Morin must still hold an employment contract or a corporate officer's position within the Valeo Group at that date, and (ii) the vesting of 30,000 of the shares awarded are subject to performance criteria concerning operating margin targets for 2006 and 2007.

Stock grants to the ten employees receiving the highest number of shares without consideration	Number of shares received without consideration	Date of Shareholders'/Board of Directors' meeting
Shares granted without consideration in 2005 to the ten employees of Valeo or related entities as defined in article L. 225-197-2 of the French Commercial Code, who received the highest number of shares without consideration	73,350 (11 beneficiaries*)	November 17, 2005

* Ten beneficiaries received the same number of shares in tenth position.

The vesting date for these shares was set by the Board of Directors at February 17, 2008, i.e. two years and three months from the date of the Board meeting at which the stock grants were decided. The vesting conditions are as follows: (i) the beneficiaries must still hold an employment contract or a corporate officer's position within the Valeo Group at that date, and (ii) the vesting of 50% of the shares awarded are subject to performance criteria concerning operating margin targets for 2006 and 2007.

Provided the above-mentioned conditions are met, the beneficiaries will become the owners of the shares granted without consideration on the vesting date and will have the same rights in relation thereto as all other shareholders. They may not, however, sell the shares received for a period of two years as from the vesting date.

3.4. Provisions for pensions and other post-employment benefits

At December 31, 2005, the total amount of provisions set aside by Valeo and its subsidiaries for the payment of pensions and other post-employment benefits to members of the Board of Directors and other members of the Group's Executive Management team came to €13 million, versus €10 million one year earlier.

In 2005, the total expense recorded by Valeo and its subsidiaries for the payment of these benefits to former Board members and other Group executive managers came to €81,992.25.

4. Related party transactions

4.1. Transactions carried out during 2005

At its meeting of December 15, 2005, the Board of Directors authorized the signature of brand royalties agreements between the Company and several of the Group's operating subsidiaries.

Also during the year, Valeo carried out further transactions with its Spanish subsidiaries as part of the implementation of the Valeorizon 2004 international employee stock ownership plan. These transactions were authorized by the Board of Directors at its meeting of October 18, 2004 (see below).

4.2. Transactions carried out during 2003 and 2004

On October 18, **2004** the Board of Directors authorized Valeo España SA, Valeo Service España SA, Valeo Iluminacion SA and Valeo Termico SA, to grant stock options exercisable for Valeo shares under the 2004 Valeorizon international employee stock ownership plan.

No new regulated agreements were entered into in **2003**. However, the non-exclusive license agreements for Valeo brands entered into with Valeo Matériaux de Friction and Valeo Embrayages, authorized by the Supervisory Board on April 16, 2002, remained in force during the year.

Further details on these transactions can be found in the Statutory Auditors' special reports on regulated agreements relating to 2003 and 2004 and incorporated by reference in this registration document.

5. Governmental, legal and arbitration proceedings

Apart from the legal proceedings related to industrial property that were settled in Valeo's favor in 2005 (see Note 4.2.1 to the consolidated financial statements on page 100), to the best of Valeo's knowledge, during the past twelve months there were no governmental, legal or arbitration proceedings, including

proceedings in progress, pending or expected, that may have, or have had in the recent past, a significant impact on the financial position or profitability of the Company or the Group.

6. Insurance and risk coverage

The Group's insurance strategy is strongly rooted in risk prevention and protection, and is aimed at covering the major risks to which Valeo is exposed. The Group self-insures recurring risks with a view to optimizing insurance costs.

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

The risks covered include property damage, business interruption, merchandise and equipment transportation, third party liability, occupational illnesses and accidents. The table below provides details of the coverage limits by type of risk.

Type of insurance	Coverage limit (in euros)
Property damage/business interruption	1 billion
General liability and product liability	50 million
Directors and Officers' liability	40 million
Transport	4.575 million per transport

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

In 2005, insurance premiums paid out by the Group in connection with its insurance coverage totaled €11.9 million.

Fees paid by the Group to the auditors and members of their networks

2005

(in thousands of euros)

	PricewaterhouseCoopers	%	KPMG	%
AUDIT				
Statutory audit and contractual audits	5,115		2,242	
Other engagements	2,919		487	
Sub-total audit	8,034	92	2,729	90
OTHERS SERVICES				
Legal land tax advisory services	633		290	
Other	22		19	
Sub-total other services	655	8	309	10
TOTAL	8,689	100	3,038	100

2004*

(in thousands of euros)

	PricewaterhouseCoopers	%	KPMG	%
AUDIT				
Statutory audit and contractual audits	4,292		1,818	
Other engagements	958		103	
Sub-total audit	5,250	93	1,921	96
OTHERS SERVICES				
Legal land tax advisory services	395		48	
Other	10		35	
Sub-total other services	405	7	83	4
TOTAL	5,655	100	2,004	100

* IFRS Data.

General information about the Company's capital

1. Changes in Valeo's share capital

At December 31, 2005, Valeo's share capital totaled €232,531,071, represented by 77,510,357 common shares with a par value of €3 each, all in the same class and all fully paid-up. The Valeo share is quoted on the Eurolist market of Euronext.

To the best of the Company's knowledge, none of these shares have been pledged.

Changes in capital since December 31, 2001 are as follows:

Year	Type of operation	Changes (in € millions)			Number of shares	Total number of shares at Dec. 31
		Par value	Premium	Total		
2001	Issuance of shares on exercise of stock options	-	5	5	133,2	83,056,603
2002	Issuance of shares on exercise of stock options	1	11	12	277,125	83,333,728
	Capital reduction by cancellation of treasury stock	(4)	(47)	(51)	1,200,000	82,133,728
2003	-	-	-	-	-	82,133,728
2004	Employee share issue	5	28	33	1,575,296	83,709,024
	- Issuance of shares on exercise of stock options	-	1	1	51,333	
	- Capital reduction further to a public share buyback offer/simplified public tender offer	(19)	(233)	(252)	(6,250,000)	77,510,357

In **2004**, Valeo set up an international employee stock ownership plan entitled "Valeorizon 2004" and carried out an employee share issue under an authorization given at the Annual General Meeting of April 5, 2004. The issue was described in an information memorandum registered with the French securities regulator (Autorité des marchés financiers - AMF) on August 27, 2004 under number 04-738. As a result of this operation, on December 16, 2004, Valeo placed on record a capital increase through the issue of 1,575,296 new shares, including 400,653 subscribed by Société Générale in order to offer employees of subsidiaries in certain countries outside France a leveraged formula equivalent to that offered through a corporate mutual fund. The shares were issued without pre-emptive subscription rights for existing shareholders,

at a price of €23.65 per share, representing a 20% discount to the average of the opening prices quoted for Valeo shares over the twenty trading days preceding the Board of Directors' decision to set the opening date of the offer period.

During **2005**, Valeo bought back 6,250,000 shares from the Company's shareholders, at a price of €40 each, representing approximately 7.5% of the Company's capital. The shares were purchased under a public share buyback offer and a simplified public tender offer, described in an information memorandum registered with the AMF on April 28, 2005 under number 05-323. The offer period ended on June 3, 2005. On June 20, 2005 the Board of Directors cancelled the acquired shares and reduced the Company's capital by €18,750,000, representing the par value of the shares.

2. Authorized, unissued capital

Securities concerned Date of Shareholders' Meeting (duration and expiry of authorization)	Maximum amount of issue	Maximum capital increase	Utilizations of authorizations during the year
ISSUES WITH PRE-EMPTIVE SUBSCRIPTION RIGHTS FOR EXISTING SHAREHOLDERS			
Issuance of shares and/or share equivalents (A) AGM of May 3, 2005 – eighth resolution (authorization given for a maximum of 26 months, expiring on July 3, 2007)	€1.52 billion worth of debt securities (A)+(C)+(G) ceiling = €2 billion.	€76.22 million (A)+(B)+(C)+(D)+(E)+(F)+ (G) ceiling = €180 million	None
Capital increase paid up by capitalizing income, retained earnings or additional paid-in capital (B) AGM of May 3, 2005 – eleventh resolution (authorization given for a maximum of 26 months, expiring on July 3, 2007)		€76.22 million (A)+(B)+(C)+(D)+(E)+(F)+ (G) ceiling = €180 million	None
ISSUES WITHOUT PRE-EMPTIVE SUBSCRIPTION RIGHTS FOR EXISTING SHAREHOLDERS			
Issuance of shares and/or share equivalents (C) AGM of May 3, 2005 – ninth resolution (authorization given for a maximum of 26 months, expiring on July 3, 2007)	€1.52 billion worth of debt securities (A)+(C)+(G) ceiling = €2 billion.	€76.22 million (A)+(B)+(C)+(D)+(E)+(F)+ (G) ceiling = €180 million	None
Issuance of shares for the purpose of stock-for- stock exchanges. AGM of May 3, 2005 – tenth resolution (authorization given for a maximum of 26 months, expiring on July 3, 2007)		10% of the Company's share capital (A)+(B)+(C)+(D)+(E)+(F)+ (G) ceiling = €180 million	None
Issuance of shares to members of the employee stock ownership plan (E) AGM of May 3, 2005 – thirteenth resolution (authorization given for a maximum of 26 months, expiring on July 3, 2007)		€2.1 million (A)+(B)+(C)+ (D)+(E)+(F)+(G) ceiling = €180 million	None
EMPLOYEE STOCK OPTIONS AND SHARE GRANTS			
• Options to purchase new shares AGM of April 5, 2004 – twelfth resolution (authorization given for a maximum of 38 months, expiring on June 5, 2007)	1,500,000 shares		None
• Share grants (F) AGM of May 3, 2005 – fifteenth resolution (authorization given for a maximum of 26 months, expiring on July 3, 2007)	The number of new or existing shares granted without consideration may not exceed 10% of the Company's capital	(A)+(B)+(C)+(D)+(E)+(F)+ (G) ceiling = €180 million	600,000 existing shares granted without consideration
ISSUES WITH OR WITHOUT PRE-EMPTIVE SUBSCRIPTION RIGHTS FOR EXISTING SHAREHOLDERS			
Issuance of shares under a greenshoe option, with or without pre-emptive subscription rights for existing shareholders (G) AGM of May 3, 2005 – twelfth resolution (authorization given for a maximum of 26 months, expiring on July 3, 2007)	Issue capped at 15% of the initial issue €1.52 billion worth of debt securities(A)+(C)+(G) ceiling = €2 billion.	(A)+(B)+(C)+(D)+(E)+(F)+ (G) ceiling = €180 million	None

At the Combined Annual and Extraordinary Shareholders' Meeting held on May 3, 2005, shareholders renewed the authorization given in the twelfth resolution of the April 5, 2004 Meeting to grant stock purchase options. The new authorization provides that stock options granted may not be exercisable for more than 1,500,000 shares. This figure is a blanket ceiling applicable to both stock purchase and stock subscription options. The Board of Directors used the authorization given in 2004 to grant 1,123,200 stock subscription options and 280,800 stock purchase options during that year.

3. Share equivalents

3.1. Bonds convertible into new shares and/or exchangeable for existing shares (OCEANES)

Under the terms of the authorization granted by the General Shareholders' Meeting of June 10, 2002 (and confirmed on March 31, 2003 when the Company's management structure was changed), on July 25, 2003 Valeo issued 9,975,754 bonds convertible into new shares and/or exchangeable for existing shares (OCEANES) with a nominal value of €46.40 each, representing an aggregate nominal value of €462,874,985.60.

These bonds – which mature on January 1, 2011 – are quoted on the Eurolist market of Euronext. They bear interest at 2.375% per annum and since August 4, 2003 may be exercised at any time. The bond issue is described in detail in the prospectus registered with the Commission des Opérations de Bourse on July 25, 2003 under number 03-707.

On June 20, 2005, the Board of Directors adjusted the exercise conditions of the OCEANE bonds following the public share buyback offer and simplified public tender offer carried out in May and June 2005, which resulted in Valeo purchasing its own shares at an amount higher than the publicly quoted price. This adjustment was made in order to maintain the rights of the bondholders in accordance with article 242-11 of the March 23, 1967 Decree and with the OCEANE bond issue contract. Consequently, the conversion/

exchange ratio applicable to the OCEANE bonds was amended from 1 share for 1 bond to 1.013 shares for 1 bond.

At March 15, 2006, all of the OCEANE bonds were outstanding and were convertible and/or exchangeable for 10,105,439 shares, taking into account the adjustment due to the public share buyback offer and simplified public tender offer.

3.2. Stock option plans

The table on page 166 presents the stock option plans put in place since 1996.

In accordance with article 174-9-A of the Decree dated March 23, 1967, following the public share buyback offer and simplified public tender offer, on June 20, 2005 the Board of Directors adjusted the number of shares underlying the Company's stock options. As a result, the exercise ratio was raised from 1 share to 1.01 shares for 1 stock option, with the number of shares to be allocated on the exercise of options rounded up to the nearest whole number.

At December 31, 2005, 1,310,797 stock purchase options were outstanding exercisable for 1,317,607 existing shares (including 6,180 related to the public share buyback offer and simplified public tender offer), and 4,531,608 stock subscription options were outstanding exercisable for 4,577,768 new shares (including 46,160 related to the public share buyback offer and simplified public tender offer).

4. Other securities

Under the terms of the authorization granted by the General Shareholders' Meeting of May 27, 1998, Valeo issued €500 million worth of bonds on July 13, 2001 maturing on July 13, 2006, with a fixed annual interest rate of 5.625%. These bonds are quoted on the Luxembourg stock exchange.

The General Shareholders' Meeting of June 10, 2002 granted the Management Board a five-year authorization in its sixth resolution to issue bonds subject to a ceiling of €2 billion. This authorization – which was confirmed on March 31, 2003 at the time of the change in Valeo's management structure – expires on June 10, 2007.

The Board of Directors used the above authorization to set up a Euro Medium Term Notes (EMTN) program in October 2002, which has been regularly renewed since. Under the most recent program, set up on March 11, 2005, Valeo issued €600 million worth of notes on June 24, 2005. The notes have an eight-year term and bear fixed interest of 3.75%.

STOCK OPTION PLANS IN FORCE AT DECEMBER 31, 2005

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Date of Shareholders' Meeting	05/21/96	05/21/97	05/27/98	05/25/99	05/25/00	05/09/01	06/10/02	03/31/03	04/05/04	05/03/05
	500,000	500,000	500,000	500,000	800,000	1,000,000	1,500,000	1,500,000	1,500,000	4,500,000
	(5 years and 3 months)	(5 years and 3 months)	(6 years)	(6 years)	(8 years)	(8 years)	(8 years)	(8 years)	(8 years)	(8 years)
Date of Board of Directors/ Supervisory Board/ Management Board meeting	1 - 10/14/99	1 - 10/14/99	1 - 10/14/99	4 - 10/17/00	4 - 10/17/00	6 - 12/07/01	8 - 07/01/02	10 - 03/31/03	12 - 11/08/04	13 - 11/17/05
			2 - 04/12/00		5 - 03/21/01	7 - 12/10/01	9 - 11/25/02	11 - 11/06/03		
			3 - 05/25/00		6 - 12/07/01		10 - 03/31/03			
			4 - 10/17/00							
Aggregate number of shares to be subscribed or purchased at inception of the plans	1 - 60,375	1 - 500,000	1 - 289,625	4 - 500,000	4 - 677,125	6 - 557,125	8 - 420,000	10 - 220,000	12 - 1,404,000 ^(**)	13 - 650,000
(excluding adjustments related to the public share buyback offer and simplified public tender offer)			2 - 37,500		5 - 80,000	7 - 442,875	9 - 600,000	11 - 1,280,000 ^(*)		
			3 - 50,000		6 - 42,875		10 - 480,000			
			4 - 122,875							
- Including conditional options	-	-	2 - 35,625	-	-	6 - 300,000	-	-	-	-
- Including number of shares to be subscribed or purchased by corporate offers (including former members of the Management Board)	1 - 0	1 - 0	1 - 0	4 - 0	4 - 88,000	6 - 300,000	8 - 0	10 - 0	12 - 240,000	13 - 8,800
Number of persons concerned: 7			2 - 35,625		5 - 80,000	7 - 0	9 - 0	11 - 145,000		
			3 - 50,000		6 - 0		10 - 160,000			
			4 - 0							
- Including number of shares to be subscribed or purchased by management (excluding corporate officers)	1 - 0	1 - 0	1 - 0	4 - 2,000	4 - 147,000	6 - 150,000	8 - 2,500	10 - 38,750	12 - 197,000	13 - 94,300
Number of persons concerned: 29			2 - 0		5 - 0	7 - 116,500	9 - 121,500	11 - 166,250		
			3 - 0		6 - 0		10 - 50,000			
			4 - 0							

^(*) On November 6, 2003, the Board of Directors granted 1,280,000 options, including 500,000 stock purchase options and 780,000 stock subscription options. At December 31, 2005, 1,030,650 options were outstanding, exercisable for 1,041,698 shares (taking into account an additional 11,048 shares arising from adjustments related to the public share buyback offer and simplified public tender offer), including 402,457 stock purchase options and 628,193 stock subscription options.

^(**) On November 8, 2004, the Board of Directors granted 1,404,000 options, including 280,800 stock purchase options and 1,123,200 stock subscription options. At December 31, 2005, 1,291,700 options were outstanding, exercisable for 1,304,733 shares (taking into account an additional 13,033 shares arising from adjustments related to the public share buyback offer and simplified public tender offer), including 258,340 stock purchase options and 1,033,360 stock subscription options.

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
- Including number of shares to be subscribed or purchased by the top ten employee grantees	1 - 0	1 - 0	1 - 0	4 - 0	4 - 96,000	6 - 100,000	8 - 0	10 - 24,000	12 - 92,000	13 - 48,900
Number of employees concerned: 11			2 - 0		5 - 0	7 - 78,500	9 - 60,500	11 - 79,000		
(10 persons with an equal number in second position)			3 - 0		6 - 0		10 - 30,000			
			4 - 0							
	1: 50%- 2 years; 100%- 3 years	1: 50%- 2 years; 100%- 3 years	2: 100%- conditional	4: 50%- 2 years; 100%- 3 years	4: 50%- 2 years; 100%- 3 years	6: 50%- immediately; 50%- conditional	8, 9 & 10: 50%- 2 years; 100%- 3 years	10 & 11: 50%- 2 years; 100%- 3 years	12: 50%- 2 years; 100%- 3 years	13: 50%- 2 years; 100%- 3 years
Start date of exercise period			3: 100%- immediately		5: 100%- immediately					
			1 & 4: 50%- 2 years; 100%- 3 years		6: 50%- immediately; 50%- conditional	7: 50%- 2 years; 100%- 3 years				
Expiry date	1 - 01/13/05	1 - 01/13/05	1 - 10/13/05	4 - 10/16/06	4 - 10/16/08	6 - 12/06/09	8 - 06/30/10	10 - 03/30/11	12 - 11/07/12	13 - 11/16/13
			2 - 04/11/06		5 - 03/20/09	7 - 12/09/09	9 - 11/24/10	11 - 11/05/11		
			3 - 05/24/06		6 - 12/06/09		10 - 03/30/11			
			4 - 10/16/06							
Exercise price	1 - €70.32	1 - €70.32	1 - €70.32	4 - €48.00	4 - €48.00	6 - €42.48	8 - €43.84	10 - €23.51	12 - €28.46 (subscription)	13 - €32.32 (purchase)
			2 - €54.52		5 - €55.82	7 - €42.69	9 - €28.30	11 - €32.91 (subscription and purchase)	and €32.74 (purchase)	
			3 - €60.70		6 - €42.48		10 - €23.51			
			4 - €48.00							
Terms and conditions of exercise	-	-	-	-	-	-	-	-	-	-
Number of additional shares resulting from the public share buyback offer and simplified public tender offer as at 06/21/2005 (1 option = 1.01 shares):										
56,330 shares	-	-	1 - 1,700	-	4 - 8,287	6 - 3,000	8 - 2,724	10 - 6,022	12 - 13,469	
			2 - 357		5 - 800	7 - 3,455	9 - 4,568	11 - 11,448		
			3 - 500							
Number of shares subscribed at December 31, 2005 (total), including adjustments related to the public share buyback offer and simplified public tender offer	0	0	0	0	0	0	9 - 23,375	10 - 7,758	0	0
							10 - 20,200			

5 INFORMATION ON THE COMPANY AND ITS CAPITAL

General information about the Company's capital

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Stock options cancelled during the fiscal year, including adjustments related to the public share buyback offer and simplified public tender offer	1 - 0	1 - 317,250	1 - 169,700	4 - 41,750	4 - 24,672	6 - 257,125	8 - 30,384	10 - 0	12 - 127,486	13 - 0
			2 - 0		5 - 0	7 - 38,615	9 - 46,640	11 - 112,250		
			3 - 0		6 - 42,875		10 - 42,600			
			4 - 0							
Outstanding stock options at December 31, 2005	1 - 0	1 - 0	1 - 0	4 - 360,000	4 - 442,500	6 - 300,000	8 - 264,000	10 - 174,125	12 - 1,291,700	13 - 650,000
			2 - 35,625		5 - 80,000	7 - 331,800	9 - 434,705	11 - 1,030,650		
			3 - 50,000		6 - 0		10 - 397,300			
			4 - 0							
Aggregate number of shares to be subscribed or purchased at December 31, 2005 (including any adjustments related to the public share buyback offer and simplified public tender offer)	1 - 0	1 - 0	1 - 0	4 - 360,000	4 - 450,615	6 - 303,000	8 - 266,640	10 - 179,914	12 - 1,304,733	13 - 650,000
			2 - 35,982		5 - 80,800	7 - 335,140	9 - 439,053	11 - 1,041,698		
			3 - 50,500		6 - 0		10 - 397,300			
			4 - 0							

Current ownership structure

1. Changes in ownership structure since 2003

	Groupe Wendel Investissements	Caisse des dépôts et consignations**	Franklin Resources Inc.	Brandes Investment Partners	Boston Company Asset Management	Employees	Treasury stock	Other
December 31, 2003								
Number of shares	8,186,045	5,566,391	8,852,446				1,018,618	58,510,228
%	9.97	6.78	10.78				1.24	71.23
Number of voting rights*	8,186,045	7,182,146	8,852,446				0	58,663,973
%	9.88	8.67	10.68				0	70.77
December 31, 2004								
Number of shares	8,186,045	5,367,080	8,465,610	602,105	3,075,521	1,575,296	1,037,804	55,399,563
%	9.78	6.41	10.11	0.72	3.67	1.88	1.24	66.18
Number of voting rights*	8,816,045	6,982,835	8,465,610	602,105	3,075,521	1,575,296	0	54,933,725
%	10.44	8.27	10.02	0.71	3.64	1.87	0	65.05
December 31, 2005								
Number of shares	1,012,072	5,061,559	8,323,865	3,996,838	4,124,213	1,418,375	807,704	52,765,731
%	1.31	6.53	10.74	5.16	5.32	1.83	1.04	68.07
Number of voting rights*	1,012,072	7,128,860	8,323,865	3,996,838	4,124,213	1,418,375	0	52,918,450
%	1.28	9.03	10.55	5.06	5.23	1.80	0	67.05

* Shares registered in the name of the same shareholder for a minimum of four years carry double voting rights (see page 148).

** Caisse des dépôts et consignations interest held in its own account. Caisse des dépôts et consignations is the only shareholder owning over 5% of the capital that has double voting rights.

1.1. Major shareholders

To the best of the Company's knowledge, the only shareholders directly or indirectly holding 5% or more of the Company's capital or voting rights at December 31, 2005 were Franklin Resources, Inc., Caisse des dépôts et consignations, Boston Company Asset Management and Brandes Investment Partners.

As far as the Company is aware, the only shareholders directly or indirectly holding 2% or more of the Company's capital or voting rights at December 31, 2005 were Franklin Resources, Inc., Caisse des dépôts et consignations, Boston Company Asset Management, Brandes Investment Partners and Azimut SGR SpA.

On June 24, 2005, Caisse des dépôts et consignations declared that it held 6.53% of the Company's capital and 9.03% of its voting rights, thus reducing its interest by a multiple of the 2% statutory disclosure threshold.

On September 13, 2005, Wendel Investissements declared that it had reduced its interest below the 5% statutory disclosure threshold on September 5, 2005 and that it directly and indirectly held 4.08% of the Company's capital and 4% of its voting rights. Wendel Investissements subsequently sold further stakes in Valeo, reducing its interests to 1.31% of the Company's capital and 1.28% of its voting rights at December 31, 2005.

On December 21, 2005, Brandes Investment Partners declared that it held 5.16% of the Company's capital and 5.06% of its voting rights on behalf of its clients, thus increasing its interest to above the 5% statutory disclosure threshold.

1.2. Treasury stock

At December 31, 2005, Valeo directly or indirectly held 807,704 of its own shares, representing approximately 1.04% of the Company's capital for an aggregate par value of €2,423,112. The unit value of these shares is €32.39 based on their purchase price.

1.3. Directors' interests

As part of the employee share issue carried out in 2004 (see page 163), Thierry Morin, Chairman and Chief Executive Officer of Valeo, subscribed to 153,617 units in the Valeorizon mutual fund, corresponding to 153.62 Company shares, and 921,702 units in the Valeorizon+ mutual fund, entitling him to 7,373.62 shares as a result of the applicable leverage effect. Thierry Morin's total investment in these funds came to €25,431.30, representing €23.65 per unit.

At December 31, 2005, Thierry Morin and other members of the Board of Directors held less than 1% of Valeo's capital and voting rights in a personal capacity.

1.4. Employee stock ownership

At December 31, 2005, employees held a total of 1,418,375 Valeo shares under Group employee stock ownership plans, directly or through two corporate mutual funds, representing 1.83% of the Company's capital and 1.80% of its voting rights.

1.5. Change in control

To the best of the Company's knowledge, there are no shareholder pacts or agreements that could lead to a change in control of the Company.

There are no provisions in the Company's bylaws or internal rules that may delay, postpone or prevent a change in the Company's control.

1.6. 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.

2. Disclosure thresholds

In accordance with article L. 233-7 of the French Commercial Code, any individual or legal entity, acting alone or in concert that holds a number of shares representing over 5%, 10%, 15%, 20%, 25%, 33-1/3%, 50%, 66-2/3%, 90% or 95% of the Company's capital or voting rights, is required to disclose to the Company and the AMF by letter that the related disclosure threshold has been exceeded. Said disclosure must be made within five trading days from the date when the threshold is exceeded. The AMF subsequently publishes the disclosures. This disclosure obligation also applies when an interest in the Company's capital and/or voting rights is reduced to below the above-mentioned thresholds.

If any shareholder fails to comply with these disclosure requirements, the shares in excess of the relevant threshold will be stripped of voting rights at any and all General Shareholders' Meetings held within the two-year period from the date when the omission is remedied.

Since the General Shareholders' Meeting of March 31, 2003, article 9 of the Valeo bylaws states that, in addition to the applicable

statutory disclosure thresholds, any individual or legal entity, acting alone or in concert, that holds – directly or indirectly – over 2% of the Company's capital or voting rights (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 exceeded. Said disclosure must be made within 15 days from the date when the threshold is exceeded 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 obligation also applies to shares held through an intermediary.

Non-compliance with the above obligations is subject to the penalties set out in article L. 233-14 of the French Commercial Code, at the request of one or several shareholders together holding at least 2% of the Company's capital or voting rights, as recorded in the minutes of the General Shareholders' Meeting.

3. Shareholder identification

Registered and bearer shares are recorded in shareholders' accounts in accordance with applicable laws and regulations.

However, a bank, broker or other intermediary may register on behalf of shareholders who are domiciled outside France in accordance with article 102 of the French Civil Code. This registration may be made in the form of a joint account or several individual accounts, each corresponding to one shareholder. Any such intermediary must inform the Company or the intermediary managing the Company's account that it is holding the shares on behalf of another party.

The Company is entitled to identify all holders of shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at General Shareholders' Meetings, in accordance with the procedure provided for in article L. 228-2 et seq. of the French Commercial Code.

In order to identify holders of bearer shares, in accordance with the applicable laws and regulations, the Company is entitled to request, at any time, from the central depository responsible for its securities issues account, in exchange for a fee, the name – or, in the case of corporate shareholders, the company name –, nationality, year of birth – or, in the case of corporate shareholders, the year of incorporation – and address of holders of bearer shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at General Shareholders' Meetings, together with details of the number of shares held by each such shareholder and of any restrictions applicable to the securities concerned.

Based on the list provided by the above-mentioned organization, where the Company considers that shares may be held on behalf of third parties, it may request, in accordance with the same conditions, either through the organization or directly from the parties mentioned on the list, the same information concerning the holders of the shares. If one of the parties mentioned on the list is a bank, broker or other intermediary, it must disclose the

identity of the shareholders for whom it is acting. The information is therefore provided directly to the financial intermediary managing the Company's share account, which shall pass on said information either to the Company or the above-mentioned central depository, as applicable.

For registered shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares, any intermediary holding the securities on behalf of a third party must disclose the identity of the person or entity for whom it is acting as well as the number of shares held by each, upon simple request by the Company or its representative, which may be made at any time.

The Company may also request from any corporate shareholder holding over 2.5% of the Company's capital or voting rights, information concerning the identity of persons or companies holding either directly or indirectly over one third of the corporate shareholder's capital or voting rights.

If an individual or corporate shareholder is asked to provide information in accordance with the above conditions and fails to provide it by the applicable deadline, or provides incomplete or incorrect information, the shares or other securities redeemable, exchangeable, convertible or otherwise exercisable for shares recorded in the shareholder's account shall be stripped of voting rights for all General Shareholders' Meetings held until the identification request has been fulfilled, and the payment of any corresponding dividends shall also be deferred until that date.

In addition, if an individual or company registered in the Company's shareholders' account deliberately ignores their obligations, the Company or one or more shareholders holding at least 5% of the Company's capital may apply to the court of the place in which the Company's registered office is located to obtain an order to totally or partially strip the shares concerned of their voting rights and the corresponding dividend, for a maximum period of five years.

Market for the Company's securities

1. Share performance over 18 months

Date	Price (in euros)			Trading volume (no. of shares)	Trading volume (in € millions)
	High	Low	Closing (average)		
September 04	34.31	29.01	32.17	11,962,329	379.80
October 04	30.05	27.22	28.43	18,903,564	536.40
November 04	30.95	28.62	29.88	8,488,521	253.96
December 04	31.20	28.06	29.53	11,841,115	345.38
January 05	32.70	30.25	31.71	11,542,088	366.26
February 05	37.30	31.31	34.43	16,523,262	574.65
March 05	37.45	33.72	35.06	14,747,760	520.61
April 05	37.58	32.61	34.63	23,235,829	898.99
May 05	35.15	32.38	33.70	15,409,273	519.24
June 05	37.50	33.75	36.02	25,519,464	921.18
July 05	38.20	34.27	35.88	23,527,524	845.34
August 05	35.78	32.98	34.48	11,255,902	387.81
September 05	35.14	32.99	33.73	14,434,933	489.14
October 05	35.14	30.50	32.73	12,923,368	424.15
November 05	32.07	30.68	31.41	6,620,180	208.34
December 05	32.26	30.50	31.64	7,733,743	246.93
January 06	33.49	31.28	32.33	9,304,957	301.22
February 06	34.75	32.90	33.82	9,615,280	324.81

Source: Euronext Paris.

2. Share buyback program and cancellation of treasury shares

2.1. Share buyback program

In the sixth resolution of the Combined Shareholders' Meeting held on May 3, 2005, in accordance with articles L. 225-209 et seq of the French Commercial Code, the Company's shareholders granted the Board of Directors an eighteen-month authorization from the date of said Meeting to trade in the Company's shares, including by delegation. This authorization may be used for the following purposes: i) to allocate shares under stock option plans, ii) to award shares to employees by way of profit-sharing bonuses and in connection with

company savings plans, iii) to grant shares without consideration, iv) to attribute shares on redemption, conversion, exercise or exchange of share equivalents, v) to purchase shares with a view to canceling all or some of them, vi) to attribute shares in exchange for shares in another entity in connection with acquisitions, vii) to acquire shares with a view to using them in accordance with a liquidity agreement entered into with an investment services provider, including for the purpose of market making.

This 18-month authorization superseded, for the unexpired period, the unused portion of the authorization granted in the seventh

resolution of the Combined Shareholders' Meeting held on April 5, 2004.

The 2005 renewal of the share buyback program was described in an information memorandum registered with the AMF on March 29, 2005 under number 05-191.

The number of shares that may be acquired under this authorization may not represent over 10% of the Company's capital.

The purchase price may not exceed €70 per share.

In accordance with this authorization and the authorization to carry out a public share buyback offer given in the sixteenth resolution of the May 3, 2005 General Shareholders' Meeting, during the year the Board of Directors launched a public share buyback offer and a simplified public tender offer and purchased a total of 6,250,000 shares at a price of €40 each. At the close of the offer period, 2,322,397 shares had been purchased under the public share buyback offer and 3,927,603 under the simplified public tender offer. The aggregate purchase price for the 3,927,603 shares acquired under the simplified public tender offer came to €157,104,120. All of these shares were cancelled by the Board of Directors at its June 20, 2005 meeting (see Note 2.2 on page 174).

In 2005 Valeo also carried out a number of other transactions under the above mentioned share buyback program and that authorized by shareholders at the General Meeting of April 5, 2004. During the year the Company purchased 1,441,633 shares at an average price of €33.43 and sold 1,671,733 shares at an average price of €33.46. All of these transactions were carried out under the liquidity contract signed on April 22, 2004 with an investment services provider which complies with the AFEI (French Association of Investment Companies) code of ethics.

At the year end, Valeo held 807,704 treasury shares representing 1.04% of the Company's share capital, with a unit value of €32.39 per share based on their purchase price. At December 31, 2004, the Company held 1,037,804 treasury shares, representing 1.24% of its capital.

The number of shares held in treasury at December 31, 2005 broke down as 617,704 to be allocated on the exercise of stock options and 190,000 to be used in connection with the above-mentioned liquidity contract.

At the General Shareholders' Meeting to be held to approve the accounts for the year ended December 31, 2005, Valeo's Board of Directors will invite shareholders to renew the share buyback program by adopting the following resolution:

Fifth resolution (Authorization to be granted to the Board of Directors to trade in the Company's shares)

Having reviewed the report of the Board of Directors, in accordance with articles L. 225-209 et seq. of the French Commercial Code, the

General Shareholders' Meeting authorizes the Board of Directors, and, by delegation, any other person duly authorized, to purchase Valeo shares for the following purposes:

- for allocation under stock option plans in accordance with articles L. 225-177 et seq. of the French Commercial Code;
- to award shares to Group employees by way of profit-sharing bonuses and in connection with company savings plans, on the terms and by the methods provided for by law (particularly articles L. 443-1 et seq. of the Labor Code);
- to grant shares without consideration in accordance with articles L. 225-197-1 et seq. of the French Commercial Code, subject to an annual ceiling of 1% of the Company's capital;
- to attribute shares on the exercise of rights attached to share equivalents, through redemption, conversion, exchange, presentation of a warrant, or otherwise;
- to purchase shares with a view to canceling all or some of them;
- for attribution (in payment for assets, in exchange for shares in another company or otherwise) in connection with external growth transactions;
- to be used in accordance with a liquidity contract entered into with an investment services provider that complies with the code of ethics approved by the Autorité des marchés financiers, including for the purpose of market making in the secondary market for the Company's shares;
- for carrying out purchases, sales or transfers by any appropriate means, through an investment services provider, including off market transactions.

The ceilings relating to the number of Valeo shares purchased under this authorization are as follows:

- the number of shares which the Company may purchase during the share buyback program may not represent over 10% of the Company's share capital, which represented 77,510,357 shares at December 31, 2005;
- the number of Valeo shares held by the Company at any one time may not represent over 10% of the Company's capital stock at the date concerned.

The total amount allocated to the above-mentioned share buyback program may not exceed €600 million.

The shares may be purchased, sold or transferred at any time, by any appropriate method on the market or over-the-counter, including by means of block purchases or sales of shares, through public tender offers, or through the use of options or other forward financial instruments traded on a regulated market or over-the-counter, or by issuing marketable securities, convertible, exchangeable, redeemable or otherwise exercisable for shares. The entire buyback program may be carried out by means of a block purchase or

transfer of shares, and it may be implemented either directly or indirectly or through an investment services provider.

The maximum purchase price for shares acquired under this resolution shall be €70 per share.

This authorization cancels and replaces, with immediate effect, the unused portion of all earlier authorizations given to the Board of Directors to trade in the Company's shares. It is given for a period of eighteen months as from the date of this Meeting.

In the event of any transaction affecting shareholders' equity, including a change in the par value of shares, a capital increase paid up by capitalizing reserves, a bonus share issue, a stock-split or reverse stock-split, a distribution of reserves or any other assets, or the amortization of capital stock, the Board of Directors may adjust the above purchase price per share to take into account the impact on the share price of any such transactions.

The General Shareholders' Meeting grants full powers to the Board of Directors, and, by delegation, to any person duly authorized by the Board, to use this authorization, and where necessary to set the terms and conditions applicable thereto, to carry out the share buyback program and notably to place any stock market orders, enter into any and all agreements including for recording purchases and sales, to carry out any and all filing and other formalities with the AMF or any other institution, and generally do whatever is necessary.

2.2. Cancellation of treasury shares

In the seventeenth resolution of the Combined Shareholders' Meeting held on May 3, 2005, shareholders confirmed the authorization granted to the Board of Directors by the Combined Shareholders' Meeting of April 5, 2004 to reduce the Company's share capital by canceling treasury shares. The number of shares cancelled in any given twenty-four month period may not exceed 10% of the Company's capital.

On June 20, 2005, the Board of Directors used the authorization given in this resolution and in the sixteenth resolution approved by the Combined Shareholders' Meeting of May 3, 2005 authorizing the Board of Directors to reduce the Company's capital by means of a public share buyback offer, in order to cancel all of the shares purchased in connection with the public share buyback offer/simplified public tender offer carried out in May and June 2005. The number of shares cancelled totaled 6,250,000, with a par value of €3 each. Following the cancellation of these shares, the Board of Directors reduced the Company's capital by €18,750,000, representing the aggregate par value of the shares purchased.

3. Dividends

Dividends per share over the past three years were as follows:

	2002	2003	2004
Gross dividend per share (in €)	1.50	1.57	N/A
Net dividend per share (in €)	1.00	1.05	1.10
Tax credit/allowance (in €)*	0.50*	0.52*	**
Total dividend (excluding tax credit/allowance) – (in € millions)	81	86	91

* For shareholders entitled to a 50% tax credit.

** This amount is eligible for the 50% tax allowance provided for in article 158-3-2 of the French General Tax Code.

In 2005, the Company purchased Valeo shares from its shareholders. The portion of the transaction corresponding to the public share buyback offer, concerning 2,322,397 shares, gave rise to a distribution of revenue (eligible for the 50% tax allowance provided for in article 158-3-2 of the French General Tax Code), amounting to €30.02 per purchased share, representing the gain realized by each shareholder.

In view of the Group's results in 2005, at the General Shareholders' Meeting held to approve the accounts for the year, the Board of Directors will recommend a net dividend of €1.10 per share.

As the dividend distribution rate is not fixed, future dividend payments will depend on the Group's results as well as the financing required to drive future growth. The Company cannot guarantee the amount of dividends to be paid for any particular year.

Investor relations

Valeo aims to provide a steady flow of exhaustive and detailed real-time information to its diverse financial community, comprising

current and prospective private and institutional shareholders, as well as financial analysts.

1. Individual shareholder relations

Based on the Company's estimates, individual shareholders control approximately 5% of Valeo's share capital. These shareholders, who are mostly domiciled in France, have access to the following communication tools:

- A toll-free line (0 800 814 045) available to individual shareholders in France since 1998. In 2005, this service dealt with approximately 600 requests – double the amount in 2004. The implementation of the public share buyback offer and simplified public tender offer completed in mid-June accounted for more than a third of the calls. The remainder concerned Valeo's share price, communications strategy, shareholder rights, and news and outlook relating to the Group.
- The valeo.com website which is aimed at providing information to all shareholders. The Finance section of the site provides real-time stock market and shareholder information, including the latest share prices, ownership structure, dividends, and AGM documents. Financial publications can also be consulted on-line, such as annual and interim reports and financial presentations, as well as all press releases and prospectuses. Visitors to the site can also submit financial questions to the Group's spokesperson.

Since November 2003, users who register their details online receive a periodical newsletter providing relevant information for those interested in monitoring the Group's progress. At the end of the year over 3,100 people were subscribers to the newsletter, representing an 80% increase on 2004.

In 2005, Valeo's financial communication strategy for its internet site involved further improving the level of web-based services (quicker response times for publishing information on the site and more frequent publication of financial presentations). A German language version of the site was also made available, in addition to the existing French and English versions. Other sections of Valeo's website were significantly enriched, notably the area dedicated to products and innovations. The total number of visits to the Finance section increased by more than 20% over the year.

- The share registrar service provided by Société Générale since the end of 2000. This service, used by more than 3,000 shareholders at December 31, 2005 – mainly individual shareholders – provides a share information line (0825 820 000), available only in France, for questions concerning dividends, tax issues and placing orders.

2. Institutional shareholder relations

Valeo's senior management team significantly increased the frequency of contacts with investors and analysts over the course of the year. In total, more than 750 shareholder representatives were put in touch with the senior management team or the Investor Relations Director.

Meetings were organized in major financial centers in Europe, North America and Asia. These took various forms, including one-on-one meetings, group events, conference calls, themed or general investor conferences, and site visits.

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 the Group's strategy, products, key events and financial performance.

Contact:

Rémy Dumoulin

Investor Relations Director

Valeo

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Tel : +33 (0) 1 40 55 20 39

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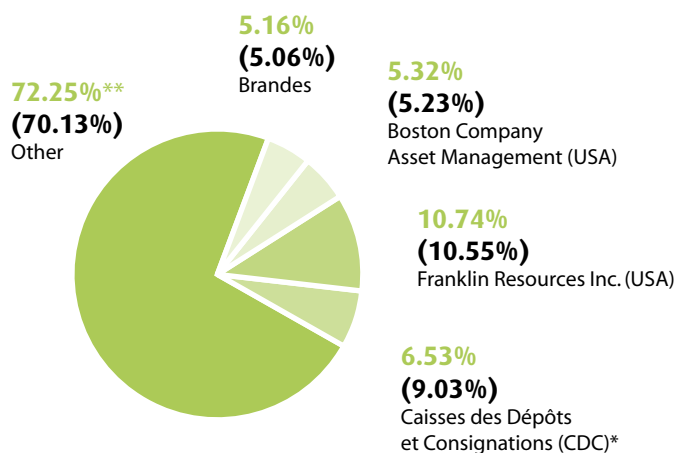
E-mail : remy.dumoulin@valeo.com

Provisional financial communication calendar

- First-quarter 2006 results: April 20, 2006
- First-half 2006 results: July 24, 2006
- Third-quarter 2006 results: October 19, 2006
- Full-year 2006 results: first half of February 2007.

3. Ownership structure at December 31, 2005

% equity (% voting rights)



Number of shares: 77,510,357**
Number of voting rights: 78,922,460

* Own account.

** including 807,704 treasury shares, representing 1.04% of the Company's capital.

4. Stock market data

	2005	2004	2003	2002	2001
Market capitalization at end of year (in € billions)	2.43	2.58	2.61	2.46	3.72
Number of shares	77,510,357	83,709,024	82,133,728	82,133,728	83,056,603
Highest share price (in €)	38.20	38.35	36.40	53.00	59.90
Lowest share price (in €)	30.25	27.22	19.75	23.00	30.02
Average share price (in €)	33.79	32.47	29.27	40.14	47.17
Share price at end of year (in €)	31.41	30.80	31.75	29.90	44.80

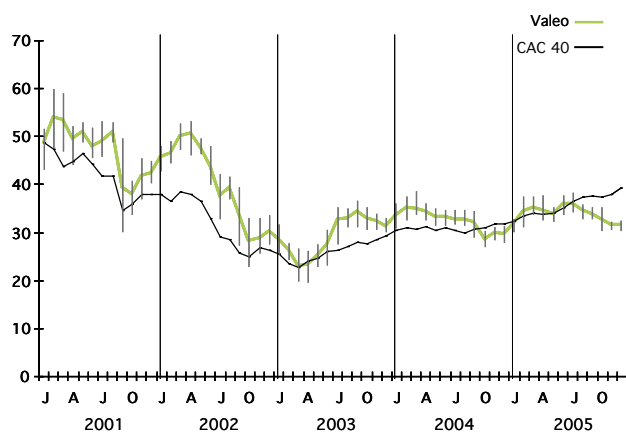
5. Per share data

	IFRS		French GAAP			
(in €)	2005	2004	2004	2003	2002	2001
Earnings per share (based on the average number of shares)	1.77	2.93	1.83	2.20	1.63	(7.12)
Net dividend	1.10*	1.10	1.10	1.05	1.00	0.70
Gross dividend**	N/A**	N/A**	N/A**	1.57	1.50	1.05

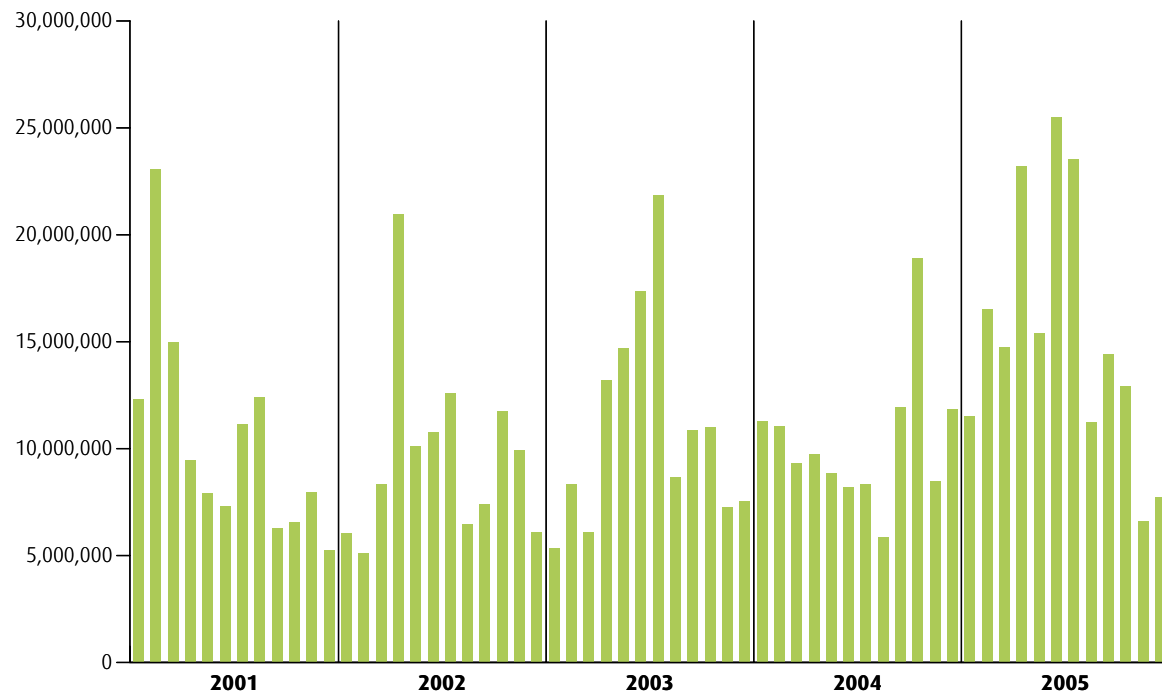
* €1.10 dividend, subject to approval by shareholders at the General Shareholders' Meeting to be held on May 17, 2006.

** Amounts eligible for the 50% allowance provided for in article 158-3-2 of the French General Tax Code.

6. Share price from January 1, 2001 through December 31, 2005



7. Monthly trading volumes



Information on subsidiaries and affiliates

Following the creation of subsidiaries for industrial activities in 2002, Valeo is now the Group's holding and cash management company. As such, Valeo centralizes the management of market risks to which its operating subsidiaries are exposed, including changes in interest rates as well as fluctuations in exchange rates and quoted commodities prices. Valeo also centralizes the financing requirements of these subsidiaries and is generally the sole counterparty of the financial institutions that provide the funding to cover these requirements. The related assets (cash and marketable securities) and liabilities (external debt) are included in Valeo's balance sheet.

Valeo is also responsible for upholding the image of the Valeo brand. To this end, it has entered into brand licensing agreements with

certain of its operating subsidiaries (see Related party transactions on page 160).

Group-wide control and support functions, encompassing accounting, legal counsel, information technology, procurement, real-estate management and supply-chain management, are performed by Valeo Management Services, which bills a fee to the French subsidiaries.

The Group's operating assets and liabilities are carried by its 172 subsidiaries, mainly by the industrial and commercial entities listed on page 180.

A list of consolidated companies – including their geographic location – is provided in Note 7 to the consolidated financial statements on page 125.

5 INFORMATION ON THE COMPANY AND ITS CAPITAL

Information on subsidiaries and affiliates

Industrial 

Commercialization 

MAIN INDUSTRIAL AND

Direct and indirect stakes

European Union					Other European countries	Africa	North America
France	Germany	Belgium, UK, Netherlands, Sweden	Italy, Spain, Portugal	Hungary, Poland, Czech Republic, Slovakia, Slovenia	Turkey, Romania	Morocco, Tunisia, South Africa	United States
VALEO EMBRAYAGES	VALEO AUTO-ELECTRIC GmbH	VALEO VISION BELGIE	VALEO S.p.A. (Italy)	VALEO AUTO-ELECTRIC HUNGARY SPARE PARTS PRODUCTION LLC (Hungary)	VALEO OTOMOTIV SISTEMLERI ENDUSTRISI A.S. (Turkey)	VALEO BOUSKOURA (Morocco)	VALEO INC.
100	100	100	99,9	100	100	100	100
VALEO MATERIAUX DE FRICTION	VALEO BELEUCHTUNG DEUTSCHLAND GmbH	VALEO SERVICE BELGIE	VALEO SICUREZZA ABITACOLO S.p.A. (Italy)	VALEO ELECTRIC AND ELECTRONIC SYSTEMS Sp.zo.o. (Poland)	VALEO OTOMOTIV DAGITIM A.S. (Turkey)	CABLINAL MAROC S.A.	VALEO FRICTION MATERIALS INC.
100	100	100	99,9	100	100	100	100
VALEO SWITCHES & DETECTION SYSTEMS-VSDS	VALEO SCHALTER UND SENSOREN GmbH	TELMA RETARDER LIMITED (UK)	VALEO SISTEMI DI CLIMATIZZAZIONE S.p.A. (Italy)	VALEO AUTOSYSTEMY Sp.zo.o. (Poland)	NURSAN ED (Turkey)	VALEO AIN SEBAA (Morocco)	VALEO INVESTMENT HOLDINGS INC.
100	100	100	100	100	40	100	100
VALEO EQUIPEMENTS ELECTRIQUES MOTEUR	TELMA RETARDER DEUTSCHLAND GmbH	VALEO CLIMATE CONTROL LIMITED (UK)	VALEO CABLAGGI E COMMUTAZIONE Srl (Italy)	VALEO SERVICE EASTERN EUROPE Sp.zo.o. (Poland)	NURSAN OK (Turkey)	VALEO BOUZNICA S.A. (Morocco)	VALEO ELECTRICAL SYSTEMS INC.
100	100	100	100	100	40	100	100
VALEO SECURITE HABITACLE	VALEO WISCHERSYSTEME GmbH	VALEO SERVICE UK LIMITED (UK)	CABLAUTO Srl (Italy)	VALEO VYMENIKY TEPLA Sro (Czech Republic)	VALEO CABLAJE Srl (Romania)	CABLEA TUNISIE S.A.	VALEO CLIMATE CONTROL CORP.
100	100	100	100	100	100	100	100
VALEO SYSTEMES D'ESSUYAGE	VALEO SICHERHEITS-SYSTEME GmbH	VALEO SERVICE BENELUX B.V. (Netherlands)	CAVISUD Srl (Italy)	VALEO AUTOKLIMATIZACE Sro (Czech Republic)	VALEO ELECTRICAL CONNECTIVE SYSTEMS Srl (Romania)	"S.T.C." - SOCIETE TUNISIENNE DE CABLAGES	VALEO SYLVANIA LLC
100	100	100	100	100	100	100	50
VALEO PLASTIC OMNIUM SNC	VALEO KLIMASYSTEME GmbH	VALEO ENGINE COOLING A.B. (Sweden)	VALEO SERVICE ITALIA S.p.A.	SYLEA TCHEQUIA Sro (Czech Republic)		VALEO MATEUR (Tunisia)	VALEO ACUSTAR THERMAL SYSTEMS INC.
50	100	100	99,9	100		100	51
VALEO VISION	VALEO MOTOREN UND AKTUATOREN GmbH		VALEO ESPANA S.A.	VALEO COMPRESSOR EUROPE Sro (Czech Republic)		VALEO EMBRAYAGES TUNISIE S.A.	TELMA RETARDER INC.
100	100		100	100		100	100
VALEO ELECTRONIQUE & SYSTEMES DE LIAISON	VALEO COMPRESSOR EUROPE GmbH		VALEO MATERIALES DE FRICCION S.A. (Spain)	VALEO SLOVAKIA Sro (Slovakia)		DAV TUNISIE	VALEO AFTERMARKET INC.
100	100		100	100		100	100
D.A.V.	VALEO SERVICE DEUTSCHLAND GmbH		VALEO COMPONENTES AUTOMOVILES S.A. (Spain)	VALEO KABLI d.o.o. (Slovenia)		VALEO SYSTEMS SOUTH AFRICA (Proprietary) Limited	VALEO SWITCHES & DETECTION SYSTEMS INC.
100	100		100	100		51	100
VALEO LIAISONS ELECTRIQUES			VALEO TERMICO S.A. (Spain)				VALEO RAYTHEON SYSTEMS INC.
100			100				73,1
SC2N			VALEO ILUMINACION S.A. (Spain)				VALEO COMPRESSOR NORTH AMERICA INC.
100			99,8				100
VALEO CABLAGE			VALEO PLASTIC OMNIUM S.L. (Spain)				
100			50				
VALEO FOUR SEASONS			TELMA RETARDER ESPANA S.A.				
50			100				
TELMA			VALEO SISTEMAS ELECTRICOS S.L. (Spain)				
100			100				
VALEO SERVICE			VALEO SISTEMAS DE SEGURIDAD Y DE CIERRE S.A. (Spain)				
100			100				
VALEO SYSTEMES THERMIQUES			VALEO CLIMATIZACION S.A. (Spain)				
100			100				
VALEO FURUKAWA WIRING SYSTEMS			VALEO SISTEMAS DE CONEXION ELECTRICA S.L. (Spain)				
50			100				
VALEO SYSTEMES DE CONTRÔLE MOTEUR			VALEO SERVICE ESPANA S.A.				
100			100				
			CABLINAL PORTUGUESA				
			100				
			CABLAGENS DO AVE (Portugal)				
			100				

COMMERCIAL ENTITIES

by country (% of interest)

North America	South America	Asia					
Mexico	Brazil, Argentina	Iran	South Korea	China	Japan	India	Thailand, Indonesia
VALEO MAT. DE FRICCION DE MEXICO SA de CV 100	VALEO SISTEMAS AUTOMOTIVOS Ltda (Brazil) 100	VALEO ARMCO ENGINE COOLING Co. 51	VALEO ELECTRICAL SYSTEMS KOREA Ltd 100	TAIZHOU VALEO-WENLING AUTO.SYSTEMS COMPANY LIMITED 100	VALEO ENGINE COOLING JAPAN Co. Ltd 100	VALEO FRICTION MATERIALS INDIA LIMITED 60	VALEO THERMAL SYSTEMS SALES (Thailand) Co. Ltd 74,9
VALEO SISTEMAS ELECTRICOS SA de CV 100	VALEO EMBRAGUES ARGENTINA S.A. 100		VALEO PYEONG HWA Co. Ltd 50	HUBEI VALEO AUTO LIGHTING COMPANY LTD 75	VALEO UNISIA TRANSMISSIONS K.K. 66	AMALGAMATIONS VALEO CLUTCH PRIVATE LIMITED 50	VALEO SIAM THERMAL SYSTEMS Co. Ltd (Thailand) 74,9
VALEO TERMICO SA de CV 100	EMELAR Sociedad Anonima (Argentina) 100		VALEO PYEONG HWA DISTRIBUTION Co. Ltd 50	VALEO AUTOMOTIVE AIR CONDITIONING HUBEI Co. Ltd 55	VALEO THERMAL SYSTEMS JAPAN CORP. 100		VALEO COMPRESSOR (Thailand) Co. Ltd 98,5
DELMEX DE JUAREZ S. de R.L. de CV 100	CIBIE ARGENTINA S.A. 100		VALEO COMPRESSOR KOREA Co. Ltd 100	FAW ZEXEL CLIMATE CONTROL SYSTEMS Co. Ltd 36,5	ZEXEL LOGITEC COMPANY 100		VALEO COMPRESSOR CLUTCH (Thailand) Co. Ltd 97,3
VALEO SISTEMAS ELECTRONICOS S. de R.L. de CV 100	VALEO TERMICO ARGENTINA S.A. 100			NANJING VALEO CLUTCH Co. Ltd 55	ICHIKOH INDUSTRIES 28,2		PT ZEXEL AC INDONESIA 49
VALEO CLIMATE CONTROL DE MEXICO SA de CV 100				VALEO SHANGHAI AUTO. ELECT. MOTORS & WIPER SYSTEMS Co. Ltd 55			
VALEO SYLVANIA ILUMINACION S. de R.L. de CV 50				SHANGHAI VALEO AUTO. ELECTRICAL SYSTEMS COMPANY LIMITED 50			
TELMA RETARDER DE MEXICO SA de CV 100				HUADA ZEXEL AUTOMOTIVE AIR CONDITIONER Co. Ltd 30			
				VALEO LIGHTING HUBEI TECHNICAL CENTER Co. Ltd 100			
				TELMA VEHICLE BRAKING SYSTEM (SHANGHAI) COMPANY LIMITED 70			
				SHENZEN VALEO HANGSHENG AUTOMOTIVE SWITCHES & DETECTION SYSTEMS Co. Ltd 75			
				VALEO AUTOMOTIVE SECURITY SYSTEMS (WUXI) Co. Ltd 100			
				VALEO FAWER COMPRESSOR (Changchun) Co. Ltd 60			

Persons responsible for the registration document

Thierry Morin, Chairman and Chief Executive Officer of Valeo.

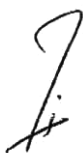
Declaration by the person responsible for the registration document

I hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in the registration document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import.

I obtained a statement from the Statutory Auditors at the end of their engagement affirming that they have read the whole “document de référence” (Registration document), of which this document is a free translation from the original and examined the information about the financial position and the historical accounts contained therein.

The Statutory Auditors issued an observation in their report on the consolidated financial statements for the year ended December 31, 2004, presented on page 103 of the registration document filed with the Autorité des marchés financiers on March 29, 2005 under number D.05-0290. This observation concerned the change in method of accounting for retirement commitments presented in Note 1.2 to the consolidated financial statements.

Paris, March 31, 2006



Thierry Morin

Chairman and Chief Executive Officer

The English version of this Registration document is a free translation from the original, which was prepared in French. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions expressed therein, the original language version of the document in French takes precedence over this translation.



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