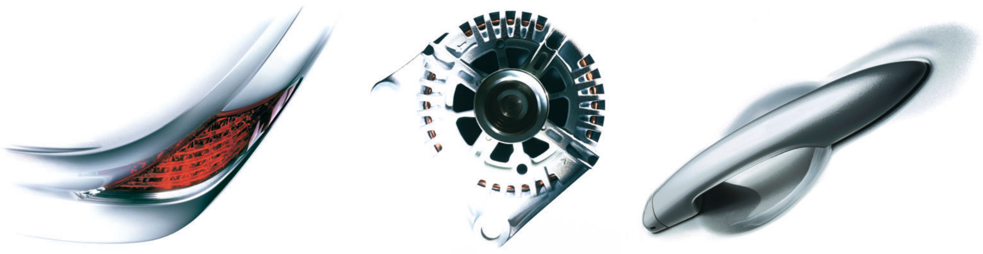
Reference Document 2003



Valeo

CONTENTS

> ATSUGI-SHI (Japan)

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 market and the aftermarket.

The Group supplies all of the world's major automakers and possesses a balanced portfolio in which no single customer represents more than 18% of its sales; its five biggest customers account for 75% of its sales.

Present in 26 countries, the Group employs 68,200 people of 70 different nationalities, at 129 production sites, 65 Research & Development centers and 9 distribution centers.

Valeo is made up of 10 Industrial Branches, themselves grouped into Activities to encourage transversal synergies in development and production. Valeo Service is the Group's aftermarket business, which regroups Original Equipment Spares (OES) and Independent Aftermarket (IAM) sales.

ELECTRICAL AND ELECTRONIC SYSTEMS

The Electrical and Electronic Systems Activity represents 53% of Valeo's sales and covers the following Branches: Lighting Systems, Wiper Systems, Switches & Detection Systems, Electrical Systems, Motors & Actuators, Electronics & Connective Systems and Security Systems.

THERMAL SYSTEMS

The Thermal Systems Activity represents 25% of Valeo's sales and covers the Climate Control and Engine Cooling Branches and the associated modules.

TRANSMISSIONS

Transmissions includes friction materials and clutch systems, and represents 4% of Valeo's sales.

VALEO SERVICE

Valeo Service, Valeo's aftermarket business, covers two Branches, for the sale of replacement parts to automakers and sales to the independent aftermarket. Marketing and logistics activities are combined to improve efficiency. Separate customer interfaces are maintained for the independent aftermarket (IAM) and original equipment spares (OES) to provide the best solutions for specific customer requirements. Valeo Service accounts for 18% of the Group's sales.

HISTORY

> 1923 – 2003: 80 years of innovation

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 end of 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) and Valeo Transtürk (clutches in Turkey).
- 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.

Throughout the 1990s, the Group implemented a powerful strategy based on:
- **a new industrial culture:** the Group adopted its "5 Axes" methodology in 1991 (see page 25);
- **a sustained Research & Development drive:** in 1992, the Group set up an electronics research center in Créteil (France). In 1993, Valeo opened R&D centers for Lighting Systems in Bobigny and for Clutches in Saint-Ouen;
- **increasing international growth:** the first production site in Mexico 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
- 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).
- Creation of a joint venture in Japan with Unisia Jecs (transmissions in Japan).

2000

- Acquisition of a stake in Zexel (thermal systems).
- Strategic alliance with Ichikoh (lighting systems in Japan).
- Acquisition of Labinal's automotive business.

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, with 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 new marketing dynamism 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.

80 years

Following these years of rationalization, Valeo has established a solid strategic position, enabling it to provide optimal solutions to automakers' needs.

Valeo's structural strength should enable the Group to reinforce its position among the leading players in the sector:

- competitive production costs: thanks to its industrial rationalization and in particular its move to low-cost labor regions, the Group now possesses a high-performance industrial footprint;

- the culture of total quality: originating from Japanese industrial principles, the Group has developed procedures and acquired its own culture, built upon the 5 Axes, which aims to satisfy even the most demanding customers;

- worldwide production capacity: Valeo's presence on the four major continents of automotive production means it benefits from global supply contracts for the platforms of leading international automakers;

- innovative technological offering: its investment in R&D and the Domains strategy enable Valeo to offer customers new functionalities to differentiate their vehicles.

- With the adoption of the Valeo 2010 strategic project in early 2004, it is the Group's firm intention to position itself as world leader by the end of the decade (see page 44, Management Report, Outlook).

2003 KEY EVENTS

COMMERCIAL SUCCESSES

Valeo won numerous contracts in 2003, and the Group took orders representing 1.3 times its sales. This success helped to increase the content of Valeo products per vehicle.

Among the many innovative technologies offered by the Group, several achieved significant commercial success during the year:

- Valeo signed a contract with General Motors to supply Flat Blade wiper systems for future generations of vehicles, including the GMT 900 SUVs.
- Valeo won its first contract for the new mechanical multi-exchanger. The mechanical multi-exchanger offers a number of advantages including a substantial reduction in the cost and number of parts necessary, as well as requiring 20% less space and therefore providing greater flexibility for designers in the front end of the vehicle, where gaining space is a priority. The first model equipped with the mechanical multi-exchanger will be the Renault Clio.
- At the Frankfurt Motor Show, PSA Peugeot Citröen announced that in 2004 Valeo would supply one of its models with a starter-alternator which combines both the starter and alternator functions in a single unit. The system's Start-Stop function limits the consumption of fuel and reduces emissions by automatically cutting off the engine when the vehicle is stationary and starting it again, instantly and silently, when the driver engages a gear or releases the brakes;
- the new BMW 6-Series coupé is equipped with Valeo stop lamps, which feature an innovative LED system so that the lamps become brighter when the driver brakes hard. The lifetime of the LEDs is longer than that of a car, and LEDs consume less energy and are activated faster than conventional bulbs.
- Valeo signed an exclusive cooperation agreement with Iteris for its lane departure warning system. Based on a miniature camera fitted on the windshield, the system uses software algorithms to continuously monitor the lane markings in front of the car. It immediately alerts the driver of an unintentional lane change, allowing corrective action to be taken. Production of this system will begin for North American vehicles in 2004.
- Valeo signed its first contract to supply its front wiper system with a dual reversible motor to one of Europe's leading automakers. This new wiper system was specifically designed for large windshields which require antagonistic wiping for optimal efficiency, whatever the weather.

The Group's growing international presence enables it to work with its customers on all their markets, as shown by the examples below:

- Valeo was awarded a contract worth several million euros by Dacia, for a large range of systems and components for the new Solenza, scheduled to go into production at Pitesti in Romania;
- As part of its partnership with Ichikoh, Valeo has signed a contract to supply Toyota with the world's first LED rear lamps using Mono-LED technology.

Valeo has increased its presence on the second-generation Renault Mégane, voted 2003 Car of the Year. The Mégane represents Valeo's highest content per vehicle, thanks to the addition of new technologies such as xenon headlamps, that were previously fitted on "top-end" cars.

For the fourth consecutive time, Valeo won prizes at Equip'Auto: the Gold Award for its Multi-Application Alternator in the aftermarket category, and a special Tenth Anniversary Prize for its Silencio wiper blade with wear indicator.

Valeo's Branches, Divisions and sites have won accolades from their customers and corporate partners for the quality of their products and services:

- The new Wiper Systems plant at Bietigheim in Germany received the A.T. Kearney prize for Global Excellence in Operations.
- Japanese and Korean customers awarded prizes to the Transmissions Divisions in Mexico (Subaru) and Korea (Hyundai and Kia Motors);
- The Engine Cooling Division in the United States received a Honda Quality Award;
- Toyota presented awards to numerous Group Divisions including the lighting sites in France, and the Juarez Wipers Division and the Queretaro Transmissions Division in Mexico;
- The Wipers Division in San Luis Potosi, Mexico, and the Engine Cooling site in Saragossa, Spain, obtained first prizes for Logistics from General Motors and the Aragon Development Institute, respectively.
- In Mexico, the Electrical Systems Division at San Luis Potosi was named Best Supplier of the Year by Ford, while San Luis Potosi's Climate Control Division was singled out by the national Quality and Export program;
- Valeo Service was elected Best Supplier by Groupe Auto Union for the second year running;
- Shanghai Valeo Automotive Electrical Systems, a joint venture in China for electrical systems, was named Best Supplier by FAW-Volkswagen in China;
- In South Africa, the Front-End Module Division won the Volkswagen Best Supplier Award;
- Valeo was named 2003 Supplier of the Year by General Motors in Shanghai.

OPTIMIZATION OF THE INDUSTRIAL BASE

Throughout 2003, Valeo continued to implement its rationalization plan aimed at adapting its industrial footprint to customers' needs. Anticipating market decline until 2004, the Group intensified its restructuring plan.

In 2003, industrial reorganization efforts involved the following:

- the Group announced its plan to open a new Lighting Systems site at Chrzanow in Poland, bringing to five the number of Valeo sites in the country;
- the Group finalized the transfer of its Polish production of Wiper Systems from Zielonki to its new site at Skawina;
- Wiper System activities at Bietigheim in Germany were transferred to the new site, allowing the old unit to be closed;
- as part of the program of selective disposals, the following assets were sold:
  - four wiring units in India and the Ain Harrouda site in Morocco;
  - the plastic injection site at Saint-Aubin d'Arquenay in France;
  - the Lighting Systems site at Venissieux, France, specializing in the design and production of rear lights and accessories for heavy vehicles.
- The following sites were closed:
  - Switches and Detection Systems: Fort Worth in the United States, Carmen de Areco in Argentina, Bäumenheim in Germany and Sainte Savine in France;
  - Lighting Systems: Barcelona in Spain;
  - Transmissions: La Rioja in Argentina;
  - Electronics & Connective Systems: Jablonec in the Czech Republic; Abrera in Spain; Sissonne, Labastide and Dreux in France. In addition to the closure of Abrera, Valeo announced a restructuring plan for the Santo Tirso site (Portugal).

These reorganization efforts are part of a plan to redeploy a portion of production to low-cost countries. At December 31, 2003, around 41% of the Group's sites were in low-cost labor regions. At the same date, before the consolidation of Zexel Valeo Climate Control Corporation, which joined Valeo in December (see below "Increased Presence in Asia", p. 9), the Group had 122 sites, compared to 140 a year earlier. The consolidation of the ZVCC Thermal Systems activities brings the total number of production sites to 129.

TECHNOLOGICAL INNOVATION

Throughout 2003 Valeo demonstrated its ability to bring new technologies to the automotive sector, such as:

- infrared night vision, offering the driver visibility three times greater than standard direct vision. Using an infrared beam and an integral miniature camera that sends images to the driver, this technology provides a light level in low-beam mode similar to that of normal high-beam headlamps;
- the steering torque sensor developed for electric power steering;
- the blind spot detection system, the result of a partnership with Raytheon Inc., precisely detects objects in the blind spot while overtaking;
- the electric clutch actuator with electronic controls, which replaces the mechanical or hydraulic link between the clutch and the pedal. It greatly reduces pedal travel and load, is more comfortable for the driver and less aggressive in the event of an accident.
- UltimateCooling™ technology is a new concept in engine cooling architecture which uses water as the sole cooling fluid, in order to save space at the front end of the vehicle.
- the Group launched the development of sensor fusion technology, one of whose applications has been a camera-based parking system to improve driving comfort while reversing. This system displays information in real time, thereby making it much easier for the driver to reverse or park the vehicle.

Alongside the introduction of new technologies and new functions in vehicles, Valeo strengthened its leadership in terms of existing products, as witnessed by the development of its offering on the market for ultrasonic parking systems. Valeo's product is sold on the aftermarket under the name Ultrasonic Park Assist. Valeo is able to provide the same level of performance and reliability for the aftermarket as for the original equipment market. The Group's software expertise allowed it to produce just five versions of Ultrasonic Park Assist to cover nearly 80% of European automobiles.

TECHNOLOGICAL PARTNERSHIPS

Valeo chooses to work with partners who are leaders in their field, in order to accelerate the introduction of new technologies to the automotive industry.

In 2003, Valeo signed an exclusive cooperation agreement with Iteris, a US specialist in sensor technology. After two years working together, this partnership led to the production and marketing of lane departure warning systems using optical sensor technology, which can be used on all light vehicles around the world.

For the third year running, the Group's dynamic R&D drive was rewarded by the automotive electronic innovation prize from EPCOS/SIA (Electronics Parts and Components/Society of Automotive Engineers) in the Powertrain category, for its new interfaced regulator for alternators. This system, a world first, controls the alternator's output voltage and optimizes communication with the engine management system.

INCREASED PRESENCE IN ASIA

For the past few years, Valeo has been developing a strong presence on markets in Northeast Asia (Japan and Korea) and in China. At December 31, 2003, the Group had 17 production sites and employed 5,150 people in the region.

In the second half of 2003, the following operations strengthened Valeo's presence in the region:

- Valeo signed a letter of intent with Furukawa Electric in Japan, in order to develop the automotive wiring systems market. The two companies will work together at a commercial level and will pool their R&D expertise. This alliance will improve service to customers through the worldwide presence of Valeo and Furukawa;
- Valeo acquired an additional 10% of the capital of the joint venture Zexel Valeo Climate Control Corporation from Bosch Automotive Systems Corporation Japan. The joint venture designs and manufactures air conditioning systems for Asian customers, and compressors for customers globally. Valeo's stake in the joint venture is now 50%. Zexel Valeo Climate Control Corporation was created in 2000 as part of Valeo's strategy to expand in Asia. Its sales reached 424 million euros in 2003. Zexel Valeo Climate Control Corporation employs 3,400 people and has seven production sites in Japan (3), Korea (2), Thailand (1) and the Czech Republic (1), two R&D centers in Germany (1) and North America (1), as well as two sales offices, also in North America;
- Valeo announced that it was increasing its stake in Shanghai Valeo Automotive Electrical Systems Co. Ltd from 30% to 50%. This will enable Valeo to reinforce its role in the operational and administrative management of the joint venture. Its partner stakeholder is Shanghai Automotive Industry Co. Ltd (a wholly-owned subsidiary of SAIC). Created in 1994, this joint venture specializes in the manufacture of starters and alternators, and employs more than 850 people. Its customers include leading Chinese automakers such as Shanghai-VW, Shanghai-GM and FAW, and in 2003 it generated sales of nearly 30 million euros. The transaction took effect in January 2004;
- Valeo announced that it would increase its stake in Valeo Shanghai Automotive Electrical Motors & Wiper Systems Co. Ltd from 50% to 55%, thereby strengthening its role in the management of the joint venture it owns with STEC, a subsidiary of SAIC. Created in 1995, the joint venture specializes in the manufacture of wiper systems and electric motors. It employs more than 240 people and supplies leading Chinese automakers such as Shanghai-VW, Shanghai-GM, FAW and Jinbei. In 2003, the joint venture posted sales of nearly 70 million euros.

In R&D, Valeo announced the construction of its first Technical Center in China, at Wuhan. This center will develop advanced lighting systems for Chinese and European automakers. When fully operational, the center will employ some 120 engineers and technicians.

In April 2003, Valeo had also signed a new agreement to increase its shareholding in Hubei Valeo Auto Lighting Co. Ltd from 51% to 75%. This company, created in 1994, manufactures front and rear lighting systems in Wuhan.

17 sites in Asia,

5,150 employees

ENHANCED CORPORATE GOVERNANCE

At Valeo's Annual General Meeting held on March 31, 2003, its shareholders approved a change of structure to turn Valeo from a company with Supervisory and Management Boards into a "société anonyme" with a Board of Directors.

The Board of Directors adopted internal governance rules which include a code of good conduct. In particular, the rules govern relations between the Board of Directors and the Chairman and CEO. They introduce a system of corporate governance that matches best practice among listed companies. These documents may be consulted on Valeo's website (www.valeo.com).

The decisions of the Board of Directors are prepared by four committees: an Audit Committee, a Strategy Committee, an Appointments Committee and a Remuneration Committee.

The functioning of the various company structures is described in the section "General information about the issuer".

A STRONGER FINANCIAL STRUCTURE

In July 2003, Valeo issued convertible and/or exchangeable "Océane" bonds to a value of 463 million euros.

With these funds, the Group was able to optimize its financial structure by extending the maturity of its debt and diversifying its sources of financing. This bond issue enabled Valeo to benefit from favorable market conditions.
The success of this operation, subscribed twelve times over, has improved Valeo's ability to seize opportunities for growth.

TRANSMISSIONS

The Transmissions Branch develops, manufactures and markets systems that ensure the smooth transfer of engine power and torque to the transmission of passenger cars and industrial vehicles. The Branch has developed a range of solutions based on innovative systems that efficiently dampen noise, vibrations and harshness with a level of performance to suit the specific demands of the market. One of the world leaders in clutches, the Transmissions Branch has a commercial and industrial presence on all the major original equipment markets and the aftermarket.

Products

- Cover assemblies
- Discs
- Clutch facings
- Release bearings
- Hydraulic clutch actuators
- Dual mass flywheels
- Flexible flywheels
- Systems for automated manual transmissions
- Torque converters
- Lock-ups

Industrial strategy

The Transmissions Branch continued to rationalize its industrial facilities in 2003, specializing its European sites by technology and product line and increasing its production capacity in Turkey. In South America, industrial activity was concentrated in Brazil.
Development in Asia is a key strategy for the Branch. A center of expertise in converters for automatic transmissions was created in Japan, and a new R&D center was opened in India. In Korea, new technologies developed in Europe were launched on the national market. The Branch registered strong growth in sales in China, where a project to expand its industrial facilities is being studied.

Technological innovation

Engine and transmission technologies are undergoing major change: new regulations aimed at reducing fuel consumption and pollution are forcing automakers to seek suitable solutions.
In 2003, the Transmissions Branch continued to expand its product range by developing innovative technical solutions in response to legal requirements while improving acoustic and passenger comfort, driving pleasure, safety and respect of the environment.
The launch of new “G5” clutch facings using water-based solvents is a major technical advance and a significant contribution to environmental protection.

Commercial success

On the OE market, the Transmissions Branch consolidated its position in 2003 thanks to new projects for flexible flywheels and the expansion of the hydraulic clutch actuators business with a number of European and Japanese automakers. In automatic transmissions, the first orders for torque converters were taken. The Transmissions Branch was also chosen by one of the world’s biggest automakers to develop and supply a clutch control system for trucks.
On the aftermarket, the Transmissions Branch continued to increase its business in 2003. Sales in Europe rose significantly, especially in Eastern Europe and on the industrial vehicle market.
In the United States, an organization responsible for direct sales and logistics services for distributors was set up. A complete range of clutch kits for passenger cars was successfully launched on the market.
The Branch continued to strengthen its position in Asia and South America, through its presence in Brazil, China, India, and Korea.

720 million euros*

Capital expenditure: €41 million / Employees: 4,550
*sales including intragroup business

CLIMATE CONTROL

The Climate Control Branch offers intelligent systems for heating, ventilation and air conditioning, to enhance individual comfort for all vehicle occupants in all circumstances. Future growth is expected in this area for all types of vehicle.

Products

- Heating, ventilation and air conditioning systems
- Components:
  - Compressors
  - Control panels
- Central consoles
- Air quality systems
- Air ducts

Industrial strategy

Valeo has increased its stake to 50% in Zexel Valeo Climate Control Corporation in Asia, a joint venture with Bosch Automotive Systems. This joint venture designs and develops air conditioning systems for the Asian market and compressors for the international market. The partnership strengthens the Group's presence among Korean and Japanese automakers.
A new production line was introduced at Mioveni (Romania), near the automaker Dacia, and the Rakovnik site (Czech Republic) was expanded.
The technical center in Prague is operational and is dedicated to engineering for mechanical and plastic technologies.

Technological innovation

The "Stop-Stay Cool" technology complements the "Start-Stop" function on vehicles featuring Valeo's latest generation of starter-alternators. This lightweight, low-cost and reliable system supplies cold air to the ventilation system, even when the engine is not running. Using a special fluid, the cold energy is stored while the engine is running and released when the AC compressor is on stand-by.

The CO_2 air conditioning systems eliminate the need for R134a fluid and represent a response to the Kyoto agreement on environmental protection.

To meet the twofold need for increased air conditioning functionality and lower costs, Valeo has developed a full range of components which are fully compatible with the LIN bus electrical architecture.

Commercial success

Major contracts for air conditioning systems and control panels were signed in 2003 with BMW, Fiat, Chrysler, Renault and Nissan. These notably include the BMW PL3-PL4 and Chrysler PT successor.

1,321 million euros*

Capital expenditure: € 45 million / Number of employees: 7,210
These figures include Zexel's compressor activities
*sales including intragroup business

ENGINE COOLING

The Engine Cooling Branch develops and manufactures systems that manage the thermal energy of the powertrain. Current developments aim to reduce pollutant emissions and fuel consumption, while facilitating the integration of these systems by automakers, from the design of the front end to assembly on the production line. Major progress was made in 2003 in penetrating the Asian market, a key objective for the Branch.

Products

- Powertrain cooling systems
- Radiators
- Heater cores
- Condensers
- Evaporators
- Charge air coolers & exhaust gas recirculation coolers
- Oil coolers
- Fan/motor systems
- Engine cooling modules & front-end modules

Industrial strategy

Events during the year included the opening in Poland of a new plant at Tychy for the assembly of front-end modules to supply Fiat, and the transfer to Skawina of some condenser and radiator production. In addition, the recently opened plant at Zebrak in the Czech Republic increased its production of evaporators and brazed heater cores.
The truck activity launched a process to replace vacuum brazing technology with controlled atmosphere brazing, in order to optimize costs.
The industrial activities in North America were reorganized.
Production of the Mechanical Multi-Exchanger, which began in 2003, was a world first in the industry, with the introduction of induction brazing technology.

Technological innovation

A project was launched for a new, less bulky front-end module architecture. This should improve pedestrian safety in the event of impact to the legs, in accordance with European regulations to be introduced in 2005.
The UltimateCooling™ technology using the Themis™ concept was presented for the first time at the Frankfurt Motor Show. It regulates engine temperature according to driving and traffic conditions. UltimateCooling's unique front-end exchanger optimizes transfer of heat energy, wherever temperature control is required.
In addition to providing an optimal, high-performance thermal environment, the new concept frees up considerable space in the engine compartment.

Commercial success

The Branch has taken its first orders for front-end modules for supplies in Japan and North America as of 2005. In Asia, the Branch has received an order for EGR coolers and oil coolers for diesel engines.
In the United States, the Branch has reinforced its position as the leading supplier of charge air coolers, with new orders from the main automakers.
In Europe, the Branch has won contracts for major platforms and is broadening its customer portfolio for various cooling components. It obtained its first contracts for a Mechanical Multi-Exchanger, a world first for Valeo, and for a high-performance mechanical radiator.

1,454 million euros*

Capital expenditure: €46 million / Number of employees: 8,090

*sales including intragroup business

LIGHTING SYSTEMS

The priority of the Lighting Systems Branch is to improve driver visibility and clearly indicate vehicle position and changes in vehicle direction, in all driving conditions (poor weather, at night, etc.). Headlamps and rear lamps are also key design features, playing an increasingly important role in the styling differentiation of new models.

Products

- Main and auxiliary headlamps (halogen and xenon)
- Fog lamps
- Headlamp leveling actuators
- Headlamp cleaning systems
- Tungsten and LED rear lighting

Industrial strategy

A world leader in automotive lighting technologies, the Lighting Systems Branch continued to rationalize its industrial processes in 2003 as part of its cost-control efforts. In this context, four pilot line projects were launched for each of the key processes. These new standards will be applied to all sites starting in the second half of 2004.

The new production site in Poland will be operational as of May 2004. The capacity of the plant in China will be doubled and a technical center is being set up there which will help reduce development costs.

The alliance between Valeo, Valeo Sylvania (in North America) and Ichikoh (in Japan) has strengthened the Group’s ties with Toyota, which awarded its Excellence Prize to Valeo for its project management and the quality of its lighting systems supplied for the Yaris, launched recently in Europe.

The exemplary launch at Angers, France, of the production of lighting systems for the Nissan Micra was rewarded when it received the “headlamp of the year” award from a leading German automobile magazine.

Technological innovation

Several customers adopted the low beam bending lights developed by Valeo for the Porsche Cayenne. Volume production of dynamic bending lights will begin in 2004.

In the field of vision aids, the Branch continued to develop its infrared systems.

LEDs are increasingly being used in rear lamps. In 2003, BMW and Valeo developed for the 6-Series a rear lamp with light guides and LED brake lamps that get brighter during severe braking, according to the vehicle’s rate of deceleration.

Commercial success

New products went into volume production to supply the Volkswagen Golf V, the Fiat Punto and the BMW 6-Series.

A major new contract was signed with General Motors for variants on a major future platform.

Ichikoh began volume production of the Mono-LED technology for the Toyota Estima, as well as a number of rear lamps using Multi-LED technology.

Having already equipped the Volkswagen Touareg, Volvo XC90, Peugeot 807, Citroën C8, Lancia Phedra and Fiat Ulysse, Valeo is gaining ground with its Bi-Xenon technology which will be launched at all leading automakers.

1,140

million euros*

Capital expenditure: €55 million

Number of employees: 7,650

*sales including intragroup business

WIPER SYSTEMS

The Wiper Systems Branch develops and manufactures all wiper systems for windshields and rear windows, to give the driver perfect visibility in all weather conditions and to improve driver comfort and safety.
The Branch adds value to innovative vehicles through features that are constantly being improved (heated wash system, high-performance jets, synchronized motors, ultra-flat wiper blades) as well as modules such as the complete rear e-module™, which consists of the rear wiper motor, center high-mounted stop lamp and window latch. As one of the world leaders with an extensive customer portfolio, the Wiper Systems Branch pursued its efforts in technological innovation and the continuous improvement of quality and competitiveness. The Branch's objectives in 2003 related to the continuous improvement of a comprehensive service for current customers and the development of Asian markets, in particular among Japanese automakers as well as automakers present in China.

Products

- Arms
- Blades
- Linkages
- Motors
- Wash systems
- Modules

Industrial strategy

The process of industrial standardization continued in order to optimize the product range and to reduce costs and the number of suppliers, as well as time-to-market for key innovations.
Valeo increased its stake in the joint venture Valeo Shanghai Automotive Electric Motors & Wiper Systems from 50% to 55%.
New sites were opened, including a plant and a technical center in Bietigheim (Germany) and a production site in Skawina (Poland).

Technological innovation

The dual reversing wiper system: two reversing motors with alternating rotation are placed on either side of the windshield (one motor for each wiper blade) and electronically synchronized. This replaces the generally bulky linkage and offers automakers significant space saving for optimal integration.
The OPTI-Blade™: combining two types of rubber (natural for better wiping quality and synthetic for a longer life) combined with a brand new surface finish, in a single unit using a coextrusion process. This innovation gives the Valeo wiper a longer lifetime as well as more efficient and silent operation.

Commercial success

Valeo's front and rear wiper systems were chosen to equip the GMT900, General Motors' biggest platform in North America.
The first industrial orders were taken for the new generation of electronically controlled wiper motors (dual and mono reversible).
Repeat orders for wiper systems from leading global automakers will enable the Wiper Systems Branch to remain in a leading position among international suppliers.
The Flat Blade was launched on the independent aftermarket (IAM) in Europe.

1,235
million euros*

Capital expenditure: €70 million
Number of employees: 8,280
*sales including intragroup business

SWITCHES & DETECTION SYSTEMS

The Switches and Detection Systems Branch designs and manufactures solutions for the driver-vehicle interface and for the environment-vehicle interface. These solutions enable drivers to "keep an eye on the road and their hands on the steering wheel" by keeping them fully informed about traffic conditions and the environment of their vehicle, and in constant interaction with it.

Products

- Traffic and environment sensors: park assist systems, rain/light/tunnel sensors, lane departure warning systems, blind spot detection systems, etc.
- Switches: steering column controls and switches, multifunctional controls
- Powertrain sensors: steering angle and stress sensors, temperature and level sensors
- Top column modules

Industrial strategy

In 2003, standardization of all product lines resulted in the optimization of development, investment and production costs, a reduction in design lead times and an improvement in quality.
Industrial rationalization continued, with the closure of sites in Fort Worth (United States), Sainte-Savine (France), Bäumenheim (Germany) and Carmen d'Areco (Argentina) and the sale of the Saint-Aubin d'Arquenay site (France).
The supplier base was considerably reduced.
The aftermarket business was launched this year.

Technological innovation

In addition to its success as a global leader in park assist systems, the Branch is positioned in new areas of activity with strong growth potential, such as rain/light/tunnel sensors, electronic steering column controls, and steering angle and stress sensors.
The blind spot detection system, the result of a partnership with Raytheon, Inc., unveiled at the Frankfurt Motor Show, precisely detects and monitors objects in the blind spot while passing other vehicles.
The park assist system compares the slot available with the vehicle length using two ultrasonic sensors positioned in the vehicle's front bumper. The driver is informed of the feasibility of parking in the space available via a visual display on the dashboard.

Commercial success

The partnership with Iteris in vision systems resulted in the first contract for volume production in 2004 of the lane departure warning system.
Many customers including Ford/PAG and Volkswagen selected the Branch to supply its new generation of the Ultrasonic Park Assist (UPA) system for their European platforms.
Several prestigious customers selected the Branch to supply its new rain/light/tunnel sensor.
The DaimlerChrysler Group selected the Branch to supply steering column products for the successor to the Sprinter.
The Branch will develop and supply the steering angle sensor for the new Renault Laguna, Vel Satis and Espace. Production of the platform for these three models will begin at the end of 2004.

855 million euros*

Capital expenditure: €68 million / Number of employees: 5,950

*sales including intragroup business

ELECTRICAL SYSTEMS

Electrical energy in the vehicle is a key factor for more comfort, more mobility and less pollution. The aim of the Electrical Systems Branch is to optimize the supply and management of this electrical energy.
On the original equipment market, the Electrical Systems Branch registered a 6% growth in sales in 2003. The Branch has consolidated its position as a world leader, especially on the alternator market, despite a difficult economic context.

Products

- Starter motors
- Alternators
- Starter-alternators
- Remanufactured alternators, starters and compressors for the aftermarket
- Electrical energy management systems
- Electrical retarders for trucks and buses

Industrial strategy

In 2003, the Branch continued to expand internationally. The compact, powerful TG alternator is now produced in San Luis Potosi (Mexico) for the North American market.
In China, the Branch has strengthened its position by increasing its stake and consolidating its role in the operational and administrative management of its joint venture with Shanghai Automotive Industry Co. Ltd. Finally, the production of new-generation starter motors and the remanufacturing of air conditioning compressors was launched in Poland.
A strategy based on standard modules such as Statcol™ (stator mechanical decoupling) applied to its entire alternator range enabled the Electrical Systems Branch to standardize its product lines around the world.
Valeo is a world leader in the field of new technologies for micro-hybrid vehicles (combining electrical and internal combustion energy), and industrialization began at the Etaples plant in France, in particular including the integration of electronics.

Technological innovation

In starter-alternator systems which reduce fuel consumption using the Start-Stop function, the Branch is acquiring power electronics expertise through close partnerships, like the one with International Rectifier. The first starter-alternator application will be marketed in 2004.
The Electrical Systems Branch is among the finalists selected for the PACE automotive innovation awards, for its 14V belt-driven starter-alternator.
The Branch is also developing a very wide range of alternator regulators, greatly anticipated by all automakers. The interfaced regulator, a world first, incorporates a microprocessor that enables the alternator to communicate intelligently with the engine management system. This innovation received the EPCOS/SIA prize in 2003.
The aftermarket has also been a success, with the multi-application alternator obtaining the Gold Medal in the Grand Prix for Technical Innovation at the Equip'Auto show.

Commercial success

The Branch won numerous contracts with:

- Toyota and PSA Peugeot Citroën for starter motors and alternators for the B0 platform;
- BMW and PSA Peugeot Citroën for alternators and starter motors for the joint platform Prince;
- Renault for alternators and starter motors for the Mégane;
- Mercedes as a main supplier of alternators;
- Volkswagen for the latest generation starter motors for the Golf, Touran and Audi A3 platform;
- Samsung in Korea for alternators and starter motors for the SM-5, SM-520 and SM-525 models;
- General Motors in the United States, with increased growth in alternators, mainly for the Corvette, the Epsilon platform, Chevrolet Colorado/GMC Canyon Trunks and the Saturn.

919 million euros*

Capital expenditure: €49 million / Number of employees: 5,140

*sales including intragroup business

MOTORS & ACTUATORS

The Motors & Actuators Branch manufactures electric motors, motorized products and cooling systems.

Vehicles increasingly feature powered systems for a wide range of functions such as ventilation, power steering, ABS, seat adjustment, sunroofs, electric windows and sliding doors.

Electronics play an important role in all these areas, optimizing security, comfort, accessibility and performance for the driver. Today, Valeo Motors & Actuators is a reference in its market.

It supplies modules directly to automakers as well as to other Valeo Branches.

The Branch is constantly striving to meet its customers' needs by improving costs, performance and modularity and by reducing the size of its products, with the ultimate goal of offering automakers increasingly innovative solutions.

Products

- Cooling motors
- Seat adjustment and headrest motors, steering column and seatbelt adjustment motors
- Door, trunk and liftgate latch actuators, window lift and sunroof motors
- ABS motors
- Air compressors for adjustable suspension

367 million euros*

Capital expenditure: €20 million / Number of employees: 1,880

*sales including intragroup business

Industrial strategy

The Branch continued to rationalize its industrial facilities in order to optimize costs and improve flexibility. Production at Rochester (United States) was transferred to Juarez (Mexico), while the electronic activities at Juarez were transferred to its partner Jabil Circuit. Highly automated activities were concentrated at the Bietigheim (Germany) site.

Technological innovation

Innovations in 2003 included brushless motors, which improve the performance of braking and power steering systems, and the "New Drive" DCK series motors for intelligent powered closure of the trunk, liftgate and sliding doors.

A wide range of motors with integrated anti-pinch function for window lift and sunroof systems is now available.

In partnership with Valeo Engine Cooling, the Branch has developed Fantronic® modules featuring electronic controls in order to optimize the performance and axial volume of the engine cooling system.

Commercial success

With its Gen-X and CompactDrive ranges of motors, the Branch won a number of contracts in 2003 for sunroofs for European and American vehicles, worth a total of €115 million.

The very close cooperation between the Motors & Actuators and Engine Cooling Branches enables Valeo to offer high-performance cooling systems and it obtained several contracts for fan/motor systems, notably for DaimlerChrysler and PSA Peugeot Citroën.

A new contract signed with Conti-Teves for ABS motors manufactured in Mexico has strengthened the Branch's position on the North American market.

ELECTRONICS & CONNECTIVE SYSTEMS

The Electronics & Connective Systems Branch is a global player in electrical and electronic distribution systems for the automotive market.
Its expertise covers the architecture and engineering of these systems and the development and volume production of the related components. Functions can be made “intelligent” with the addition of electronics. Wire harnesses and multiplexing are becoming more complex, and modularity for assembly has become a key issue for automakers. Connective systems designed by the Branch enable Valeo to position itself as a supplier of high-performance and innovative solutions in this field.

Products

- Body controllers
- Electronic modules
- Modular electrical wiring harnesses
- Electronic distribution boxes

Industrial strategy

The Branch pursued its efforts in the area of Quality Control (ISO certification) and the redeployment of its activities to low-cost labor countries (Romania, start-up of the Bouznika site in Morocco), while reinforcing its international base, in particular with Furukawa Electric in Japan, for the joint development of the wiring systems market.
A particular effort has been made to capitalize on and spread know-how in order to standardize processes, increase the flexibility of production lines and define pilot technical standards for partner Branches within Valeo.
The reinforcement of pull-flow methods in the production of wiring harnesses has given rise to the creation of “advanced supplier” sites among automakers.
The partnership with Jabil Circuit has enabled Valeo to increase its control over the entire value chain in the electronics field. Jabil contributes its component buying power, its knowledge of manufacturing processes and its worldwide industrial coverage and logistics. This allows Valeo to concentrate its efforts on the research and development of products and systems in the Branches and at its Electronics Center of Expertise.

Technological innovation

Body controllers are becoming standardized and cover functions such as front and rear lights, anti-ignition systems, audible warnings, steering indicators, front and rear wiper systems and radio frequency remote control. These units play a major role in the multiplexing and interconnection of electrical circuits in the vehicle.
The modulation of data flows that use electrical circuits is developing.

Commercial success

The Branch has won high-volume contracts to equip new vehicle models: front harnesses for the Citroën C2 and C5, Dacia Solenza, Lancia Ypsilon, PSA Peugeot Citroën’s new A platform and the new Renault Clio, Master and Kangoo, and body controllers for two new Fiat models and for PSA Peugeot Citroën.

737 million euros*

Capital expenditure: €21 million / Number of employees: 14,110

*sales including intragroup business

SECURITY SYSTEMS

The Security Systems Branch develops and supplies systems that guarantee authorized, secure and comfortable access to vehicles in all circumstances.
The know-how of the Security Systems Branch is particularly associated with hands-free keyless access and ignition systems, as well as powered opening systems (trunk, liftgate, sliding doors).
These functions offer greater convenience and facilitate access to the vehicle while ensuring maximum protection against theft.

Products

- Keyless access and ignition systems
- Powered opening/closure systems (trunk, liftgate and sliding side doors)
- Radio-frequency remote controls and receivers
- Transponder-based immobilizer systems
- Steering column locks
- Ignition switches
- Keys, locks
- Handles, latches

Industrial strategy

The Branch has focused on rationalizing flows for the keys and locks activity between the Nevers and Dijon sites in France and the Olesa site in Spain.
In Brazil, the acquisition of land in Sao Paulo allowed the Branch to launch the rationalization plan to combine the two existing plants at a single site. In Mexico, the Toluca plant expanded by 3,000 square meters to adapt latch production capacity to the needs of General Motors on the American market.

652 million euros*

Capital expenditure: €32 million / Number of employees: 4,020

*sales including intragroup business

Technological innovation

Valeo has validated a new standard control unit for powered closure systems. Compact and easily adapted to different vehicle architectures, it functions with various powered closure systems for trunks, liftgates and sliding doors. Research also continued into ways of combining powered closure with keyless vehicle access (via antennae, tactile sensors, etc.).
The development of the first all-electric compact latch continued in 2003. This electric latch offers greater comfort with its opening assist system. In the event of an accident, the system also improves safety by making it much easier to open the door while maintaining the functionality of a traditional mechanical latch.
2003 saw the launch of volume production of the second generation keyless access and ignition system for the Renault Espace IV, which does away with the need to take a card out of one's pocket or bag to mobilize or immobilize the vehicle, or to start and stop the engine. The system offers greater comfort than the previous version, and the low frequency/radio frequency communication improves its range around the vehicle to enhance safety. Valeo supplies all the system components: the smart card (replacing the traditional key), antennae, ignition unit, electrical steering column locks, handles with approach sensor, locks and mechanical back-up keys.

Commercial success

The Volkswagen Group has signed contracts with the Branch for powered liftgate systems which integrate the standard electric control unit. This first long production run confirms Valeo's position as a leading player in the field of powered liftgates.
As of the end of 2003, Honda has been fitting its vehicles with a new sensor developed by the Security Systems Branch. This offers an innovative trunk access solution that is more practical than a traditional switch.
The Branch signed new contracts with several automakers for the fourth generation of electrical steering column locks, compatible with the keyless access and ignition solutions.
Two major contracts were signed with a French automaker to supply latches for side doors, trunks and liftgates.

VALEO SERVICE

Valeo Service offers its aftermarket customers a wide range of products and quality services (catalogs, marketing tools, training and diagnostic tools). Its aim is to enable repairers to be more effective and to help them understand the increasingly important role played by technology in each vehicle.

Strategy

In 2002, Valeo regrouped its expertise in sales and marketing for the aftermarket within a new Activity called Valeo Service.
This new organization provides a more effective means of handling technological developments and the geographic and regulatory changes in the aftermarket.
The various teams within Valeo Service were created and organized in 2003.
The Independent Aftermarket (IAM) Branch is now organized by country (France, Spain, UK, Germany, Italy, Turkey, Eastern Europe, Brazil, Benelux) while the Original Equipment Spares (OES) Branch is made up of teams dedicated to each automaker.
New European regulations concerning notably the definition of original parts (European Commission regulation n°1400 / 2002 dated July 31, 2003) now gives Valeo the right to claim the status of creator of the products it designs ans develops. This recognition is important for a group like Valeo which devotes a large portion of its sales to R&D in order to develop new products that offer constantly improved performance, safety and respect for the environment.
"Valeorigin" is the new label created by Valeo. The packaging of original equipment and parts of equivalent quality now bear this new label. It is a mark of Valeo's technological know-how as a designer and manufacturer of original equipment. It is also a sign of Valeo's commitment to its independent and automaker customers on the aftermarket: to offer the best quality to everyone.
Valeo Service was named Best Supplier of the Year by Groupe Auto Union International (GAUI).
The 2003 Stratégies Design prize was awarded to Valeo Service for its innovative packaging of the Silencio X-TRM wiper blade.

In order to raise its profile among the general public, and in particular to enhance Valeo's image on the aftermarket, the Group decided to sponsor the yachtsman Philippe Monnet, who holds a number of records including the solo round the world record against prevailing winds and tides, held since 2000. Monnet's trimaran is a true "Formula 1" of the seas: a perfect illustration of how technological innovation can enhance performance. Monnet competed in the World Multihull Championships in 2003.

New products and services

Valeo Service has made a special effort to improve its coverage of the market and broaden its product range.
The multi-application alternator is an innovative solution with a broad coverage. Its body has the same qualities as those of products for the original equipment market (OEM): its design uses SG technology, which has an excellent reputation among many automakers, and is manufactured in a plant dedicated to the original equipment market.
In 2003, Valeo Service launched the Silencio X-TRM wiper blade, which uses Flat Blade technology. This revolutionary blade, with an ultra-flat design, improves visibility whatever the speed of the vehicle, thanks to a shape that hugs the surface of the windshield. The new blade is now available as a replacement for standard wipers on many vehicle models.
The Ultrasonic Park Assist System supplied to the OEM is now also available to the aftermarket under the name of Ultrasonic Park Assist.
Valeo Clim Service, the leading European network of air conditioning specialists, continued to develop its business in 2003 and now has more than 1,700 members in eight countries. The program offers distributors the products that make up the air conditioning loop, diagnostic tools, training tailored to each skill level and attractive marketing material. Repairers can also join the program through their approved distributor.

Commercial success
Valeo Service signed a three-year international agreement with ATR for clutch, radiator and air conditioning functions.

Another important contract signed in 2003 was with Germany's biggest distributors, TROST and PV Autoteile, members of the TEMOT International network, for the exclusive supply of radiators.

PSA Peugeot Citroën ordered cabin filters as replacement parts, even though Valeo is not the automaker's original equipment supplier for this product.

1,045 million euros*

Capital expenditure: €2 million / Number of employees: 1,070
*sales including intragroup business

GEOGRAPHICAL PRESENCE

The Group optimizes its industrial facilities on an ongoing basis in relation to customer demand, capital invested and cost of labor.
Following its major drive for internationalization and recent developments in Asia, Valeo now has production facilities in each of the world's major vehicle assembly regions.

On each continent where vehicles are assembled, Valeo has new sites based in countries offering the lowest production costs within that region.

The breakdown in sales by production region and destination region can be found in appendix 18.2 of the consolidated accounts, on page 101.

Sites by region

	Production sites	R&D centers	Distribution centers	Headcount
Western Europe Belgium, France, Germany, Italy, Portugal, Netherlands, Spain, Sweden, UK	63	41	6	36,500
Eastern Europe Czech Republic, Hungary, Poland, Romania, Turkey	11	1	2	6,000
North America USA, Mexico	17	13	-	8,050
South America Argentina, Brazil	11	-	1	2,700
Asia China, India, Japan, Korea, Thailand	17	9	-	5,150
Africa Morocco, South Africa, Tunisia	10	1	-	9,800
TOTAL	**129**	**65**	**9**	**68,200**

AUTOMAKER CUSTOMERS

Valeo develops, produces and sells its systems on all continents. The Group aims to supply all automakers, and its main OEM customers are:

- BMW
- DaimlerChrysler
- Fiat
- Ford Motor Company
- General Motors
- Honda
- Hyundai
- Iveco
- Man
- MG Rover
- Navistar
- Paccar
- Porsche
- PSA Peugeot Citroën
- Renault – Nissan
- Subaru
- Suzuki
- Toyota
- Volkswagen Group
- Volvo Trucks

Taking account of alliances, the five biggest customer groups are (in alphabetical order): DaimlerChrysler, General Motors-Fiat, PSA Peugeot Citroën, Renault-Nissan and Volkswagen Group. The biggest customer group represents about 15% of Valeo's sales.

COMPETITIVE SITUATION

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

For some categories of products 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 categories, Valeo competes against the four biggest international automotive suppliers (in alphabetical order): Delphi, Denso, Robert Bosch and Visteon;
- In some categories, notably transmissions, thermal systems, security systems and lighting systems, the leading suppliers include companies that are smaller or are more geographically concentrated, like Behr, Hella, Kiekert, Koito or LuK;
- Valeo estimates that the following Branches are among the world leaders in each segment (in sales): Transmissions, Climate Control (through Valeo and through the alliance with Zexel), Engine Cooling, Wiper Systems, Lighting Systems and Electrical Systems. In addition, several products in the Switches and Detection Systems, Electronics and Connective Systems, and Security Systems Branches enjoy other European or regional leadership positions (source: Valeo).

THE 5 AXES

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

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

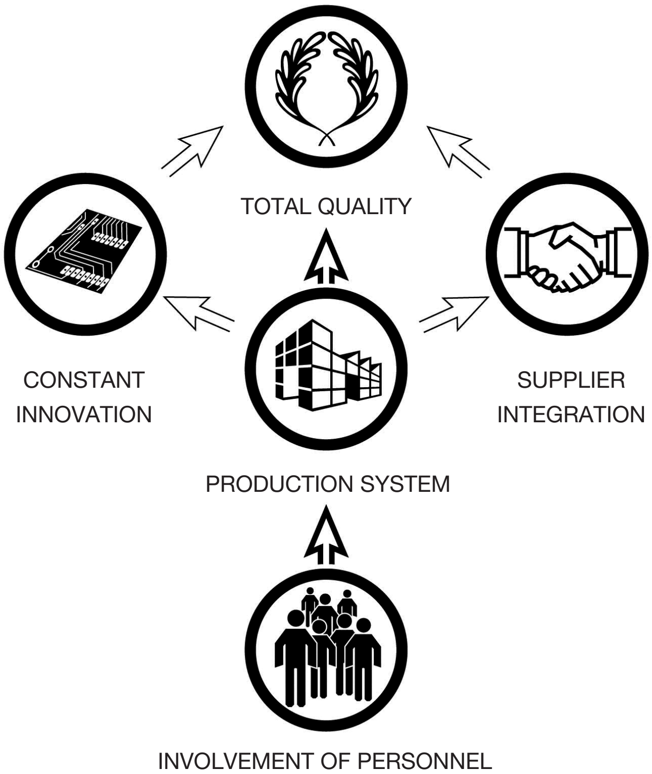
Valeo Production System (VPS)
The VPS is designed to improve the productivity and quality of products and systems. It is a "pull-flow" system based on the flexibility of production resources, the elimination of all non-productive operations and the stopping of production at the first non-quality incident.

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

Supplier Integration
By integrating suppliers, Valeo benefits from their ability to innovate and can develop productivity plans with them and improve quality. Valeo sets up and sustains close, long-term and mutually beneficial relationships with a limited number of world-class suppliers.

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

For over ten years, Valeo has demonstrated its wish to reconcile growth with respect for its partners: its policies in terms of human resources, the environment and ethical practice contribute to a culture of ongoing progress. Everywhere around the world, at all times, Valeo promotes the practice of sustainable development for the benefit of the communities where the Group is present.

HUMAN RESOURCES POLICY

With a workforce of 68,200 people in 26 countries, decentralization is a daily reality at Valeo.

In all countries where the Group operates, its Human Resources policy is based on employee empowerment, and strives to provide all employees with the same learning opportunities so that they can enhance their efficiency, operational performance and development potential.

Valeo is evolving in a particularly competitive market: the involvement of employees and the updating and development of their skills are essential for the Group's progress. Valeo is particularly attentive to all factors that motivate employees in their work and that sustain a dynamic collaboration between teams.

A new Involvement of Personnel department was created at the end of 2003 within Group Human Resources. By adopting the same name as one of the Valeo 5 Axes, this new department emphasizes the Group's wish to coordinate its actions, in order to further increase employee involvement.

TRAINING

The training policy implemented in 2003 pursued the same objectives as in previous years: to support the Group in its changes and developments, to make its training program even more effective, and to optimize its impact by combining different methods.

The theoretical content of the 5 Axes training program is now accessible online. Valeo took this opportunity to refocus its seminars on practical exercises that can be applied immediately on the shop floor.
Also in 2003, Valeo rolled out its 5 Axes Step-by-Step training for operators, which is based on the concept of an educational game. Special sessions are also being designed for management to give them a practical understanding of the impact of implementing the 5 Axes. The sessions are led by in-house trainers.

ValeoC@mpus, Valeo's online university which offers individualized, optimized, fast and low-cost training programs, continued to develop and increase the number of modules, and also offered complete programs. In addition to general modules (office systems, languages) and specific programs developed internally (5 Axes; the use of the Valeo Collective Memory; cross-Group expertise developed by experts from the Valeo Technical Schools), ValeoC@mpus now also offers management training.

The ValeoC@mpus philosophy is to identify employees' needs and offer them training tailored to their individual profiles and current or future responsibilities. Increasingly, training combines online modules and more traditional teaching methods.

90% of Valeo's sites currently have access to ValeoC@mpus.

In order to enhance the professionalism of its management personnel, who must lead the way in developing the skills of their teams, the Training Department has produced a guide called "Building your training project". This guide allows managers to build up a clearer picture of their educational objectives, define precise specifications and identify the most appropriate methods. The Group plans to distribute this guide to all its entities following a specific training program.

The Dynamic Leadership Management Skills Program introduced in 2002 was pursued and stepped up, and in 2003 involved all managers right up to the top level of the hierarchy, including all directors.
This training gives managers a better understanding of their leadership styles and enables them to develop their leadership skills.

MANAGEMENT DEVELOPMENT

As part of its Management Development strategy, Valeo has set itself two major objectives: to attract the best talents from outside the Group, and to develop in-house skills. The key initiatives of 2003 were built upon the foundations laid in 2002

RECRUITMENT

In 2003, Valeo's worldwide Employer Image campaign, entitled "Valeo added, You make it happen", was deployed in-house, in the press and on the Internet.

This slogan emphasizes the sense of initiative, individual responsibility and control over one's personal development in the dynamic working environment offered by the Group. Its objective is not only to attract the best talent, but also to recognize the contribution of current Valeo employees.
This campaign was awarded the Silver Top Com prize at the seventh Top Com Corporate Business Awards.

Valeo initiated a comprehensive review of its relationship with France's educational establishments in 2003. Partnerships were forged with leading engineering and business schools. Valeo's communication with future graduates is now centered on its Employer Image campaign, which was deployed through a new booth at recruitment fairs. This new partnership approach will be extended next year to key countries (China, Germany, Mexico, the United States, etc.) where Valeo wants to recruit the best talent.

In 2003, Valeo recruited 1,389 engineers and managers from a number of different countries, bringing new skills into the Group.

1,389
engineers and managers recruited in 2003

Internal mobility is an essential component of Valeo's strategy, which enables it to attract the best managers. Its objective is to fill three out of every four positions through internal promotion and to reduce the turnover of staff. Valeo offers each employee concrete opportunities for career development that can be varied on three different levels: geographical location, product line and functional responsibility.

The Succession and Development Plan lies at the heart of the Group's Management Development system. Through the use of PeopleSoft in 2003, the Human Resources information system helped managers to identify the best internal candidates for positions and to define the future direction of employees.

Career Committees were formed at every level of the Group, with monthly meetings between leaders of each entity (Group, Branch, Division, Site) in order to select internal candidates for a variety of posts and to agree on the best opportunities for their development.

The Competency Management Program was launched in 2003. Each employee will be assessed for a limited number of transversal and professional skills. Valeo's ability to identify and select the best internal candidates will be improved. The program will also enable employees and their managers to compare their current skills profile with that required for their next post. Any skills lacking will be taken into account in a targeted development plan and will enable employees to make the best choices.

The full implementation of the Management Development system has enabled the Group to reduce its turnover of engineers and managers: from more than 10% in 2001 to 7.8% in 2002, and down to 6.6% in 2003.

INDUSTRIAL RELATIONS

Valeo is firmly committed to a forward-looking employment and skills management policy.
In 2003 the Group pursued the restructuring program initiated in 2001. In view of the continued necessity to rationalize its industrial base, Valeo actively seeks solutions that will provide alternative jobs for employees affected: transfers within the Group, individual and collective external redeployment, the search for new employers to take over the sites in question, the reindustrialization of employment regions and local economic development initiatives.
Employee representatives are regularly informed and consulted on these operations at a national level. Valeo's European Works Committee met on five occasions in 2003.

The Group's social indicators can be consulted on page 66.

ENVIRONMENTAL POLICY

Risk control and environmental protection require a number of necessarily long-term initiatives. Valeo has been applying such initiatives for nearly 15 years.

The objective is, naturally, to prevent environmental pollution, but also to protect the environment by reducing consumption of energy and raw materials, by achieving the maximum recyclability of all products and by offering an industrial environment that is both safe and pleasant to work in.
In 2003, Valeo continued to develop its environmental policy, focusing on two major areas of progress: the health and safety of employees and the cultural integration of these issues within the Group.

A GLOBAL APPROACH TO RISK MANAGEMENT

Environmental management is part of an integrated risk management system that covers the protection of people, property and equipment, information systems and the environment in a wider sense.

Valeo's approach consists in systematically identifying risks, mapping out its risk environment and then implementing all the necessary means of prevention and protection, with the ultimate goal of "zero risk".

Valeo's risk management policy is detailed in its **Risk Management Manual**. In 2003, this document was supplemented by application guidelines on specific subjects such as security of production facilities, the environment and personal safety. These guidelines are the official reference for audits, and are useful teaching tools within sites for the practical application of Group procedures.

CONTINUOUS IMPROVEMENT OF THE ENVIRONMENTAL PERFORMANCE OF VALEO'S PRODUCTS AND PROCESSES

Valeo innovations incorporate an environmental dimension into their design, with the aim of better integrating the car in society and the environment. They help to improve mobility through a reduction in the cost of vehicles, improved comfort for drivers, less noise and vibration, lower energy consumption and reduced emissions of less harmful pollutants.

The most remarkable achievements of 2003 were the reduction of energy consumption and pollutant emissions with Valeo's "Start-Stop" system; the improvement in air quality with Themis™, which optimizes fuel consumption and lowers pollutant emissions; the UltimateCooling™ technology which cools all engine fluids using a single thermal loop; and the pollution sensor which automatically switches on the air recirculation mode and cleans inflowing air in conditions when the external pollution level rises, such as in traffic jams or in tunnels.

Valeo's environmental policy applies to a product throughout its lifetime, from design to production and use, right up to the management of the product at the end its life. Changes in the aftermarket have given a new impetus to Valeo's determination to become a leader in the remanufacturing of automotive parts. Guaranteed for one year by Valeo, these parts are already being used by most major automotive brands as standard replacement parts.

Since 1988, a group of experts in environmental matters and R&D from different Branches of the Group 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 banned and restricted substances, the elimination of hexavalent chrome, the elimination of lead and its compounds, the elimination of chlorinated solvents and the use of recycled plastic.

Valeo has also created a reference database of substances that are banned or restricted in the automotive industry. This regularly updated database details the applicable regulations 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.

Since July 1, 2003, the new European directive on End-of-Life Vehicles has required heavy metals to be eliminated from the production of European vehicles, and it lists the metals concerned. All of Valeo's part numbers (including those bought from suppliers) now comply with the new directive. Wherever necessary, heavy metals have been replaced by permitted substances. For 2004 and 2005, the Group has decided to go beyond the requirements of this directive and to extend these measures to products sold around the world. Also in 2003, Valeo launched a program to eliminate lead from all its electronic products by the end of 2004. And more than ten years ago, Valeo decided to stop making and selling products containing asbestos. This policy includes the elimination of asbestos from all the Group's buildings and facilities.

THE SAME ENVIRONMENTAL CULTURE IN ALL VALEO SITES

The Risk, Insurance and Environment Department's mission involves close collaboration with all other Group departments, in particular R&D, Human Resources, Purchasing, Quality, Legal and Industrial. At each site, a Health, Safety, Security and Environment (HSSE) manager is responsible for applying the procedures described in the Risk Management Manual. A network of Branch coordinators provides technical expertise to site HSSE managers.

For more than ten years, Valeo has been raising awareness among its employees and educating all of them, at every level, on environmental issues. The recruitment of HSSE engineers, who are also effective transversal project managers, was stepped up in 2003 in order to train employees and optimize risk management at all Group sites.

The training and awareness-raising policy was further intensified in 2003, with awareness-raising days held, gathering all HSSE managers by country, in line with Group directives. The number of initiatives at individual sites increased thanks to the impetus of local managers. In line with local needs, these initiatives aim to enhance the knowledge of all employees in terms of prevention and protection, and remind them of existing tools and resources. These occasions also serve to share practical experience, from which lessons are drawn to benefit the Group as a whole.

Specific directives are regularly drawn up concerning various health and safety risks (i.e. Legionnaire's disease, carcinogenic, mutagenic and toxic substances and reinforced safety measures applicable to lifting equipment and presses). Valeo has made this one of its priorities, and each of these directives is based on the most stringent industry standards.

Another initiative from Valeo is its Travel Attitude Passport, a guide distributed to all personnel who go on business trips. It contains simple cautionary, preventive and emergency rules. This document is part of Valeo's people protection policy, but is also designed to protect the Group's know-how, of which its employees are the custodians.

A VOLUNTARY, STRINGENT PROCESS OF CERTIFICATION

In environmental and safety matters, the Group applies in-house standards that are even more demanding than those required by local laws. Valeo leads the field in the application of OHSAS 18001, a standard recognized by all major certification bodies. The sites at Veszprem in Hungary and San Bernardo di Campo in Brazil were the first two sites to receive OHSAS 18001 certification. In 2004, Valeo will start to implement this standard across all of its sites.

In 2003, Valeo pursued its ISO 14001 certification policy at all sites. 92 of the Group's sites have now been certified on schedule.

92 sites
certified ISO 14001 at end 2003

The **generic plant** is a concept developed by Valeo, based on the work of the HQE (High Quality Environment) association, the US Green Building Council and the recommendations of the World Bank. All new plant construction and refurbishment projects are carried out according to very detailed specifications concerning:

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

Valeo's plants at Veszprem in Hungary, Skawina in Poland, Zebrak in the Czech Republic, Atsugi-Shi in Japan and most recently Bouznika in Morocco are illustrations of the application of the generic plant concept.

Valeo has just produced a document setting out a comprehensive approach to the construction and renovation of buildings in line with these standards.

Security at plants is designed to ensure the highest sense of protection, in terms of both the protection of people and property (against the risk of fire, for example), and the protection of technologies (against the risk of industrial espionage).

STRICT PERFORMANCE MONITORING

The Valeo audit program, deployed since 1991, is a major component of its environmental policy. External experts audit each site at least every two years, to measure performance and progress in terms of environmental protection, the health and safety of people at work, the security of buildings and equipment, the safety of machinery and the protection of data.

Each audit is backed up by a detailed plan of action, a schedule and a budget. These action plans are themselves checked every other year. Meetings to monitor the progress of projects are held regularly and Branch coordinators ensure their application. Twice-yearly reports are made on the progress of all action plans. The Risk Management Committee, comprising all Branch coordinators, meets regularly to share experience and technological intelligence.

Prevention and protection plans are defined and applied for each site, and cover risks relating to natural events. For potential new sites, areas at risk are identified and automatically excluded from consideration.

When Valeo leaves a site, it ensures all traces of industrial waste are eliminated, and maintains it in good condition until its acquisition by another party, to whom Valeo delivers a precise status report, and keeps a record of events concerning the site.

Valeo's risk management strength is due to its extremely high standards of prevention and protection.

In financial terms, one of the methods applied by the Group is to penalize sites where incidents occur, by making them pay high insurance deductibles on the insured risks. This method also helps to keep the cost of insurance premiums down.

More detailed information on the Group's environmental record is provided in the Environmental Indicators section, on page 57.

CODE OF ETHICS

Valeo has updated its Code of Ethics to ensure it remains in line with the Group's values and professional practice, and reflects in greater detail some basic principles such as human rights and the respect of people's dignity and value in the workplace.

Through its Code of Ethics, Valeo affirms its wish to respect all laws and regulations applicable in each country where the Group operates. Moreover, Valeo commits, in various areas, to exceed the requirements of some existing national legislation (the basis of the principles and values applied worldwide by the Group). This notably concerns child labor, disabled people, discrimination in recruitment and in the workplace, moral and sexual harassment, and physical and mental health.
Valeo's Code of Ethics is wholly in line with its approach of sustainable development, and covers:

- environmental policy: achieving excellence in terms of protecting the environment,
- human resources policy: affirming the importance for the Group of respecting principles relating to freedom of expression and social dialogue, as well as the individual development of each employee,
- the Group's commitments to society: contribution to professional training resources, development of a culture of empowerment and commitment in R&D in order to help integrate the car into society, continued provision of support for employees affected by site closures including assistance with obtaining new employment and the reindustrialization of regions concerned.

Finally, the Code of Ethics sets out essential rules in terms of the business conduct of the Group and the professional conduct of its employees.

Valeo's new Code of Ethics is available for consultation at www.valeo.com.

Valeo has joined the United Nations Global Compact as part of its commitment to promoting sustainable development.
Based on the principle of collective action, the Global Compact aims to promote corporate responsibility towards society and help the business community contribute to finding solutions to the problems of globalization.
The private sector, working in partnership with other community organizations, can in this way contribute to the realization of the vision expressed by the UN General Secretary of a more viable, more open global economy.

By joining the UN's Global Compact, Valeo confirms its commitment to uphold a number of principles in terms of human rights, working standards and environmental practice.

- human rights: to uphold and respect the protection of the rights of men and women expressed at an international level and to ensure the Group is not associated with any violation of human rights.
- working standards: to allow people the freedom to associate, to recognize the right to collective negotiation, to condemn child labor and to eliminate all forms of forced labor and discrimination.
- the environment: to support a preventive approach to ecological problems, to undertake initiatives to promote greater environmental responsibility, to encourage the development and spread of technologies that respect the environment.

Since 2001, Valeo has been included in the FTSE4Good index, which selects businesses according to ethical and sustainable development criteria.

Valeo has played an active role in the Garches Institute's Wheel Chair Test Center, ever since the center was set up outside Paris in 1988. The Garches Institute's mission is to facilitate the return home of physically handicapped people after a long stay in the hospital and to help them live a normal social and professional life.

THE VALEO PRODUCTION SYSTEM

In 2003, Valeo continued to improve product quality and at the same time reduce production costs to meet customer requirements. At the heart of this strategy lie the optimization of the industrial footprint and the deployment of a Total Quality Culture. The 5 Axes, and in particular the Valeo Production System, is the methodology used to improve the productivity and quality of the Group's products and services.

OPTIMIZED LOGISTICS

Each Valeo plant is organized according to product flow. Responsiveness and flexibility with regard to customers' requirements are fundamental.
The **SCALE** (Supply Chain And Logistics for Excellence) project launched at the end of 2001 continued to be widely deployed in 2003. By simultaneously optimizing data flows (from customer order to billing) and physical flows (movement of raw materials, work-in-progress and finished products), it has significantly reduced storage and shipping costs. This approach has also improved anticipation of requirements, resulting in a reduction of inventory, which reached a historical low at the end of the year. Valeo will pursue its efforts in this area to improve responsiveness and flexibility further still by practicing pull-flow production methods, thus benefiting from a substantial competitive edge.

MORE EFFICIENT PRODUCTION

In 2003, Valeo continued to implement its plan to standardize processes, components and equipment. These operational standards make it possible to capitalize on experience, cut product development lead times, stabilize new production lines more quickly while avoiding start-up problems, and cut costs at every stage of the process. All activities are now carried out within the framework of standards that supervisors must ensure are respected and improved. On the shop floor, performance is monitored in real time through a concrete and precise analysis of what really happens on the production line. Problems identified are processed immediately and are turned into opportunities for improvement.

The Kaizen (continuous improvement) mindset is present everywhere.
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 this process of optimizing investments was remarkably high in 2003. This approach has also 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 at work. This approach is part of the Health, Safety, Security and Environment policy developed by Valeo. It helps reduce the number of accidents at the Group's production sites.

In order to further improve safety at work, Valeo held a competition for improvement suggestions on this theme, during the first six months of 2003.

AN INDUSTRIAL BASE SERVING THE AFTERMARKET

The aftermarket presents certain specificities that have a direct impact on industrial operations. These products are manufactured in priority with the same production machines used for original equipment parts. If necessary, simplified lines designed for small volumes with low levels of automation can meet the requirement of this market. Servicing and maintenance of these specific machines are already in place.

TOTAL QUALITY

Quality is a key demand from consumers and automakers. Quality is the cornerstone of Valeo's 5 Axes methodology and 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. Total Quality requires the involvement of everyone at all times, on the shop floor.

MOBILIZING EVERYONE, AT EVERY LEVEL

The San Gen Shugi approach, adopted by Valeo and inspired by Japanese best practices, is based on the concrete and precise analysis of what actually happens on the shop floor. San Gen Shugi is based on reality:

- Gen-ba (real time and place)
- Gen-butsu (real object)
- Gen-jitsu (real, measurable facts)

It is founded both on individual responsibility and on teamwork.

Quick Response Quality Control (QRQC) meets this objective by enpowering individuals and teams. It reflects a process of learning on the shop floor. Any problem is immediately identified and analyzed by the parties involved. Corrective action is defined immediately and implemented within 24 hours. In the event of an incident, meetings are held in real time on the spot to identify the root cause and eliminate it for good. These meetings involve employees from Production, Logistics, Maintenance and Human Resources, as required.

In 2003, QRQC was deployed extensively in every department of the Group. It allows everyone to contribute to the resolution of quality problems. By encouraging a collective approach, communication and the adoption of the methodology is facilitated.

Training and education initiatives were also implemented in 2003 in order to facilitate the understanding and application of QRQC by all. The Group Quality Department made a particularly noteworthy effort to simplify existing tools and to step up on-the-job training based on real production line situations. At the same time, management got closely involved, taking ownership of the need to achieve tangible improvements in terms of quality.

An annual Group-wide QRQC Competition has been launched in order to develop and encourage involvement of sites in the drive to improve Quality.

INCREASINGLY STRINGENT QUALITY STANDARDS

For more than ten years, Valeo has implemented its own quality audit standards:

- Valeo 1000 is used to assess the quality system and synthesizes the quality systems of the Group's main customers and international standards.
- Valeo 5000 is used to evaluate and improve the application of each of the 5 Axes.

In 2003, the Group's plants continued to make progress on these two proprietary audit standards, which actually exceed automaker demands through ISO-TS standards and specifications.
The Group also has its own Quality Audit structure.

A new milestone on the road to improved quality

In 2003, customer returns expressed in PPM (defective parts per million) once again fell significantly to reach 53 ppm.

PURCHASING POLICY AND SUPPLIER INTEGRATION

In 2003, Valeo continued to implement its strategy to integrate the best suppliers as early as possible; they then become the Group's preferred long-term partners. To make these partnerships as beneficial as possible, this year the Group particularly focused on deploying resources to help its suppliers improve their own Quality processes.

TRAINING SUPPLIERS TO IMPROVE QUALITY

The QRQC approach adopted by Valeo as part of its own Quality strategy continued to be implemented among suppliers, to help them achieve zero defects. In 2003, more than 500 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. Since 2003, it has had two modules in operation: Incident Management System (IMS) and Supplier QCD Feedback (reporting back to suppliers on their performance in terms of quality, cost and delivery). These enable Valeo and its suppliers to work closely together and share standardized processes, for example in order to identify and process non-quality incidents rapidly, using the IMS module.

In 2003, this partnership with suppliers reduced their number of incidents by 25%.

By working with fewer suppliers, Valeo is better able to support them in their quality strategies. The Group has therefore retained the best suppliers in terms of quality, technology and productivity, and has been able to reduce the number of its suppliers from 4,500 three years ago to 2,475 (excluding Zexel Valeo Climate Control) at the end of 2003, with worldwide coverage including a high proportion of low-cost countries.

The VIP (Valeo Integrated Partners) program now includes 110 of its best suppliers. In exchange for an undertaking to continuously improve operating performance, Valeo offers these partners greater volumes and business opportunities.

At the same time, the Group includes its suppliers in projects as early as possible in order to benefit from their technological expertise. In this way, they become fully contributing members of project teams. In this spirit, suppliers organize technology days with Valeo to present their latest technological innovations.

IMPROVING PURCHASING BY SOURCING IN LOW-COST COUNTRIES

Purchasing in low-cost countries represented 13% of total production purchases in 2003, a rise of 39% compared to 2002 at constant reporting entity.

This result was notably achieved through a purchasing office in Shanghai, which was opened in 2001 as part of the deployment of Valeo's VIP program. Production purchasing for other continents represented more than 100 million euros in 2003. Efforts initially focused on China, where Valeo has a long-standing presence, then widened to cover other countries in the Asia Pacific region. The objective is to create a reliable supplier base in low-cost countries.

Valeo's "Low-Cost Countries" Project aims to significantly increase the Group's proportion of purchasing from low-cost countries by 2010. The objective is to use the Group's Divisions and their suppliers in low-cost countries in Asia, North Africa, Eastern Europe and South America, in order to generate a flow of exports towards countries in Western Europe, North America and Japan. The introduction of this ambitious program is accompanied by a policy to raise the standards of the quality assurance systems of the Group's local suppliers.

IMPROVING PURCHASING THROUGH MORE EFFECTIVE TOOLS

In 2003, the deployment of the e@SI (e-purchasing at Supplier Integration) program, designed to facilitate relations between Valeo and its suppliers, continued to optimize purchasing, sourcing and supplier integration. All parties benefit from the advantages offered by the tools in this package.

Bidding online continued to develop strongly in 2003. Valeo trained several hundred suppliers in bidding online, to familiarize them with this tool and encourage them to use it. Online bidding is an important resource in Valeo's purchasing policy: suppliers selected according to strategic criteria and expertise are invited to participate. In 2003, online bidding accounted for a volume of 1.6 billion euros (including 1 billion euros in reverse bidding). Valeo's VIP suppliers benefited from a greater volume of business, and the portion of purchasing in low-cost countries was increased. Production purchasing accounted for most transactions, but purchasing related to general expenses, investments and components for projects under development recorded significant growth.

Purchasing Knowledge Management, based on the sharing of knowledge and assistance in decision-making, is the cornerstone of Valeo's supplier management process. It integrates the supplier monitoring database which rates each supplier according to quality, cost and delivery indicators. Purchasing Knowledge Management provides buyers with both a global and segmented overview of purchases made by the Group. The database was extended to include general expenses and investment suppliers in 2003.

The Web Catalog is a tool designed to globalize non-production purchases with selected suppliers on special terms. In return, suppliers benefit from wider access to the Group as a whole. There are at present over 187 product and service web catalogs in six languages, accessible by almost all sites. 22.5 million euros of business was conducted by some 7,500 users of these applications.

LISTENING TO SUPPLIERS

Designing innovative new products with different materials based on new architectures can also help reduce costs at every stage of production. With this in mind, the Group pursued and developed initiatives to encourage innovation among suppliers.
Productivity workshops for suppliers were organized by Valeo on different themes, such as reducing the production cycle time, reducing inventory, efficiency and waste management.
The GAIN (Give An Idea Now) program, launched in 2002, was pursued. This encourages suppliers to share their suggestions for improvement through ongoing dialog, in order to enhance technical productivity and innovation. Over the year Valeo received a total of 7,250 suggestions from suppliers.

In 2003, purchasing, including industrial investments and subcontracting, amounted to 5.6 billion euros.

RESEARCH & DEVELOPMENT AND THE DOMAINS APPROACH

The Group focuses on practical, rapidly applicable R&D projects so that its innovations keep up with the faster pace of new model releases, and reduce development lead times. Innovation must enable Valeo and its customers to increase their market share and differentiate their vehicles.

Valeo's engineers seek to anticipate automakers' demand for solutions that offer real added-value for drivers: more safety, more comfort, more performance and more respect for the environment.

In 2003, Valeo's R&D budget represented 6.1% of sales, and more than 550 new patents were filed.

METHODS AND PEOPLE

Valeo's Development Efficiency Plan (DEP), first implemented in late 1999, is designed to improve the performance and the efficiency of project development activities using an integrated management system. Combined with Valeo's project management methodology, the DEP efficiently tracks schedules, gross margins and development costs. In phase with Valeo's Constant Innovation Axis, DEP provides a powerful lever for cutting project costs and lead times. The objective is to improve R&D efficiency by more than 10% per year, in order to manage a higher number of development projects while keeping costs stable.

A new Constant Innovation Policy was launched in 2003. The redefinition of the Constant Innovation Charter has now been completed. The new document, renamed the Constant Innovation Policy, sets out in detail the innovation process at Valeo. Four stages correspond to four project categories: P3 (creativity), P2 (generic standards), P1 (customer application) and P0 (changes during the production phase). This document also covers Valeo best practice and details the organization of teams, resource management rules and the development of systems and modules.

The standardization program implemented by Valeo in order to accelerate time-to-production at a lower cost and with higher quality, was also pursued in the area of Research and Development.

This was the thinking behind the development of the "e-module™", which offers automakers customized integration of all liftgate electrical and electronic components and systems (lock, wiper, reversing sensors, lights), right from the design stage. The use of integrated mechatronic sub-modules (rear-view camera, reversing and ultrasonic sensors) designed for flexibility and precise positioning, minimizes assembly line costs and maximizes quality for automakers.

TECHNOLOGY PARTNERS

In 2003, Valeo continued to develop its policy of partnerships with specialists that are leaders in their fields, to enhance the Group's technological offering and reduce time-to-production.

In 2003, most of these efforts focused on ongoing partnerships formed in previous years, such as Valeo's joint venture with Raytheon, a specialist in radar technologies, which led to the launch of the blind spot detection system at the Frankfurt Motor Show; its partnership with the automotive engineering consultancy, Ricardo, resulting in the presentation of a 42-volt hybrid demonstration vehicle; the partnership with International Rectifier, focusing on power electronic modules, in particular for starter-alternators; and the cooperation with Jabil Circuit concerning the production of printed circuit board's.

Valeo signed an exclusive cooperation agreement with Iteris in 2003. After two years of joint efforts, this agreement has led to the production and marketing of a camera-based lane departure warning system for all light vehicles worldwide.

R&D CENTERS AROUND THE WORLD

Valeo's R&D centers are closely coordinated within each Branch, and currently employ 3,400 engineers around the world.
Valeo has opened very high-specification R&D Centers in low-cost countries, including in Casablanca (Morocco), Prague (Czech Republic) and Mexico City (Mexico). A new Center has been annonced in Wuhan (China).
Teams work at these Centers both on projects for the local markets and on Group-wide projects. At end 2003, 10% of resources in development for P1 projects were already based in these low-cost countries.

EXCITING SHOWCASE FOR INNOVATIONS

Valeo's Ride & Drive events enable customers to test the Group's innovations for themselves at the wheel of Valeo's specially equipped demonstration vehicles. Following on from the success of these events in 2002, Valeo organized a dozen Ride & Drive operations in 2003, both in Europe and the United States. Valeo now has a fleet of around thirty US and European demonstration vehicles, all equipped with its latest innovations.

The Group also continued to organize workshops in partnership with automakers to study specific technologies. This strategy aims to increase Valeo's role at an early stage in the vehicle development process and to promote its innovations.
The international motor shows at Frankfurt, Shanghai and Tokyo provided further world class opportunities to showcase Valeo's new products.

THE DOMAINS APPROACH

Valeo's cross-Branch Domains approach generates commercial, industrial and research synergies between the different areas of expertise within the Group. It makes it easier for Valeo to form partnerships with other businesses.

Focusing all resources on ambitious targets allows for breakthrough solutions beyond those achievable by simply improving existing components.

Valeo's objective is to offer automakers global solutions that meet fundamental market needs related to comfort, safety, reduced fuel consumption and emissions, and driving pleasure.

Automakers benefit from shorter development lead times for innovative, user-friendly and fully integrated systems and modules that are cost-effective and easier to install.

3,400 engineers
spread across the world

SHAREHOLDER RELATIONS

Valeo provides regular, clear and transparent information for its individual and institutional shareholders, both current and potential, as well as to financial analysts.

Information is communicated through press releases and through the quarterly publication of the Group's results. Valeo presented its audited annual financial statements for 2003 on February 10, 2004, making it once again one of the most proactive companies in the world in its early publication of results.

Individual shareholder relations:
Valeo has around 70,000 individual shareholders who account for nearly 7% of its capital.
The need for efficient communication with these shareholders is met in a number of ways:

- a toll-free phone number, 0800 814 045 (in France), available since 1998, provides shareholders with practical information on Valeo's share price, the management of their shares, their rights, current developments within the Group and background information;
- the Group's website, **www.valeo.com**, includes a large section dedicated to financial communication which is regularly updated to offer a user-friendly service for shareholders and investors. The site gives access to all of the Group's financial information: the latest share price, recent resolutions adopted at the Annual General Meeting of Shareholders, and recent reference documents (annual and interim reports). The site also includes presentations, published on a quarterly basis, for institutional shareholders and financial analysts. Users can also submit financial questions to the Group.
- In October 2003, Valeo published the latest issue of its shareholder newsletter, ValeoValue. This helps the Group stay in regular contact with individual shareholders;
- Valeo had a booth at "Actionaria", the Paris event for shareholders and investors, in November 2003, and was visited by a large number of current and potential shareholders.

Since the end of 2000, Société Générale has been Valeo's share registrar, providing a valuable channel of communication with individual shareholders. A reduced-cost information line (0825 820 000) is available to registered shareholders in France.

Institutional shareholder relations:
Valeo's senior management team is widely involved in communications with investors and analysts. In the course of 2003, they met with some 200 investors in major financial centers around the world, in Europe, the United States and Asia.

Meetings and telephone conferences with analysts are held to coincide with the publication of annual, interim and quarterly results, and with the Group's acquisitions as part of its external growth strategy.

Investors and analysts can contact Valeo's Investor Relations Department with any questions concerning the Group's strategy, products, and key events.

EXPECTED REPORTING SCHEDULE FOR 2004:

- First quarter 2004 results: April 20, 2004
- First half 2004 results: end July 2004
- Third quarter 2004 results: mid-October 2004
- Annual 2004 results: early February 2005.

> BOUZNIKA (Morocco)

2003 marked the end of a three-year overhaul for Valeo, geared towards enhancing the performance of its international industrial base and enriching its innovative technological offering. As a result, the Group has reclaimed its former competitive edge, and once again ranks among the world leaders of automotive equipment manufacturers.

Despite a decline in the North American automobile manufacturing market and a flat European market in 2003, Valeo improved its gross margin and strengthened its financial structure. At the same time, the Group recorded high levels of orders, paving the way for sustained growth over the coming years.

VALEO'S ACTIVITY AND THE WORLD AUTOMOTIVE ENVIRONMENT

During the year, the automotive market was impacted by a decrease in new car registrations in Europe and North America, just offset by additional demand in South America and Asia. With automakers adjusting their output to weaker demand, Valeo found itself faced with a manufacturing drop in North America and a flat market in Europe.

Consolidated sales totaled 9,234 million euros, down by 6% versus 2002. Of this, 5% was due to currency effects following the fall in the US dollar. At constant reporting entity and exchange rates, sales dropped by 1%.

- in Europe, Valeo's sales remained stable at constant reporting entity and exchange rates, reflecting the flat automotive output. Europe's contribution increased to 71% of total Group sales;
- in North America, Valeo's sales fell by 13% at constant reporting entity and exchange rates, and automotive output contracted by 3%. This decrease reflects the commercial impact of efforts undertaken since 2002 to strictly manage profitability and carry out restructuring of the Valeo Electrical Systems Inc., subsidiary. North America represented 18% of overall Group sales, down on the year earlier figure due primarily to the weak dollar;
- in Asia, automotive output rose by 7%, driven by strong growth in the Chinese market. The Group benefited from its industrial footprint and experience in this area of the world and sales were up 9% at constant reporting entity and exchange rates. Asia accounted for 7% of Valeo's overall sales;
- in South America, Valeo's sales grew 25% at constant reporting entity and exchange rates, in a favorable climate in which output increased by 2%. The Group has been able to capitalize on its long-standing presence in the region and its recent investment in Brazil.

Changes in the Group's reporting entity correspond partially to disposals carried out in line with the strategy of selectively divesting peripheral businesses (for example, sale of the wiring activities in India and heavy vehicle signal lighting in France). They also correspond to the Group's stronger presence in Asia (see The Group's Activities – 2003 Key Events – Increased Presence in Asia p.9), and the change in consolidation method for Zexel Valeo Climate Control Corporation resulting from Valeo raising its share in this company to 50% at December 1, 2003.

Aftermarket sales reached €1,658 million (18% of consolidated sales). Original equipment sales amounted to €7,576 million (82% of consolidated sales).

CONSOLIDATED FINANCIAL STATEMENTS

Evolution of industrial footprint

Efforts to rationalize the industrial base (see The Group's Activities – Key events of 2003 – Optimizing of Industrial Facilities – p 7) and to leverage the supplier base (see The Group's Activities Report – Purchasing Policy and Supplier Integration – p 35) contributed significantly to the growth in gross margin which increased by 0.5 points in one year, reaching 17.9% in 2003.

Despite a decrease in sales, Group operating margin remained stable at 5% of sales. Improvement in gross margin was dedicated to maintaining high levels of sales and R&D expenditure (respectively 2% and 6.1% of sales). This performance was achieved in tandem with an unprecedented marketing and technological drive, as evidenced by the number of patents filed in 2003 (over 550 first filings). Strong efforts were made to increase productivity in research and development expenditure.

Financial income and expenses

Net financial expense amounted to €41 million in 2003, down on the €62 million figure for 2002. This was primarily attributable to a reduction in average debt during the year (see below – Cash flow and indebtedness). This item includes €8 million in interest received from the French tax authorities in connection with a tax rebate on the gain generated by the disposal of the Group's stake in LuK (see below – Net income).

Other income and expenses – net

Net other expenses totaled €89 million, versus €74 million in 2002. This increase corresponds primarily to the intensified industrial restructuring and related social costs. Operating income after net financial expense improved by 0.3 points, thanks to the Group's financial structure.

Net income

Net income came to €181 million – or 2% of sales – up 34.1% on the prior year figure of €135 million. The rise was fuelled by a combination of the following factors: income before income taxes totaled €335 million, or 3.6% of sales. Income taxes amounted to €55 million, corresponding to an effective tax rate of 16.4%, compared with €106 million in 2002. The net tax charge for 2003 includes an €88 million tax rebate received from the French authorities during the year, corresponding to a portion of the tax paid in 2001 on the gain from the 1999 disposal of the Group's 50% interest in LuK.

After tax, net income from consolidated companies rose 14.3% from €245 million to €280 million, or 3% of sales. Equity in net earnings of associated companies rose from €7 million to €9 million, boosted by improved performance of associated companies. After amortization of goodwill to the amount of €90 million (down on 2002 due to the weak dollar), net income before minority interests stood at €199 million in 2003, representing 2.2% of sales. Minority interests came to €18 million, and earnings per share was €2.20.

Changes in share capital

At December 31, 2003, Valeo's stockholders' equity amounted to €1,980 million (versus €2,101 million at December 31, 2002), taking into account €160 million in currency effects mainly related to the fall in the dollar. The amount includes €181 million in net income for the year, net of the €81 million dividend paid in 2003. Stockholders' equity was impacted by a €39 million equalization tax in relation to the above-mentioned tax rebate (see "Net income").

At December 31, 2003, Valeo's share capital consisted of 82,133,728 shares with a par value of 3 euros each. The number of shares that could have been issued due to the exercise of stock options awarded to the employees and corporate officers of the Group amounted to 5,024,925 at December 31, 2003. At the same date, Valeo held 1,018,618 of its own shares, representing 1.24% of share capital, including 586,632 shares acquired between April 1, 2003 (following approval of the Annual Shareholders' Meeting) and December 31, 2003 at an average price of €31.14. Over the same period, Valeo disposed of 407,881 shares at an average price of €32.51. Transaction fees amounted to €82,376. Interventions in the market were carried out within the framework of the share buy-back program with a view to stabilizing the share price or in line with the Group's asset and liabilities management policy.

The Group's employees do not hold any Valeo shares through a Company Savings Plan or a dedicated investment fund.

Provisions for contingencies and charges

Provisions for contingencies and charges at December 31, 2003 amounted to €1,074 million, compared with €1,288 million at December 31, 2002. This decrease is essentially due to the intensive use of provisions for restructuring social expenses, the balance of which fell from €365 million at December 31, 2002 to €203 million at December 31, 2003. The amount of provisions for pension and other employee benefits stood at €633 million versus €642 million at December 31, 2002.

Positive cash flow and reduction in indebtedness

In 2003, Valeo generated €796 million in earnings before depreciation and amortization, up slightly on the 2002 figure of €783 million. This increase reflects growth in net income.

Rationalization of the industrial base carried out since 2001, combined with standardization of equipment purchases, resulted in a decrease in capital expenditure to €453 million from €556 million in 2002.

The Group's working capital requirements were reduced during the year. After the consolidation of Zexel Valeo Climate Control Corporation, they came out on a par with 2002, at €205 million, or 2.1% of annualized sales. This permitted the Group to scale down its net debt before acquiring an additional 10% interest in Zexel Valeo Climate Control Corporation. After fully consolidating the debt of this entity, total net debt for the Group stood at €568 million, a very slight increase on the prior year figure of €564 million. This stability was achieved despite the payment of €81 million in dividends, and equalization tax of €39 million. At December 31, 2003, the debt-to-equity ratio was 29%.

Thanks to the quality of its long-term debt, the Group was rated A3 by Moody's.

PREPARATION FOR TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In application of EC regulation 1725/2003 published by the administrative authorities of the European Community on October 13, 2003, as of January 1, 2005, companies quoted on a regulated market of one of the Member States must present consolidated financial statements in accordance with International Financing Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB).

Valeo is impacted by this obligation. The consolidated financial statements issued by Valeo in 2005 will therefore be presented in accordance with IFRS. To enable meaningful comparisons, restated financial statements for 2004 will also be made available.

In order to ensure a smooth transition, Valeo has put in place a dedicated project, headed by the Financial Controller. The objective of the project is to prepare the necessary groundwork for applying IFRS during 2004, while respecting the legal obligation to issue financial statements in accordance with French GAAP until the end of 2004.

The related work will be carried out in four phases:

- the first stage – the launch – was devoted to establishing a project team and setting an action plan schedule;
- the second stage, given over to diagnosing the situation, entails identifying the impact of the standards and choosing the appropriate accounting treatment. It also includes drawing up a roadmap of organizational and IT implications;
- the third step corresponds to overhauling procedures and adapting source information systems and the reporting system;
- the completion stage, after testing and certification, when the project findings will be deployed.

OUTLOOK: ROLLING OUT THE "VALEO 2010" STRATEGIC PROJECT

2004 marks the beginning of a new development phase for the Group as formalized in the "Valeo 2010" strategic project that the Group has recently launched. Valeo intends to emerge from the evolutions in the automotive supply industry as a worldwide leader. It intends to achieve this goal by sharpening its competitive edge in terms of costs, quality and services in all markets across the globe.

The first vector of the strategy will be geared towards enriching Valeo's technological product offering with a view to delivering solutions that integrate systems and services in three domains: Driving Assistance, Powertrain Efficiency and Comfort Enhancement. Synergies will be further fostered between Industrial Branches in research and development, as well as in the marketing of innovative solutions.

The second growth vector will be geographic, with a specific focus on North America and Asia. A global presence among all automakers and the development of global manufacturing platforms will be a strategic advantage.

The third vector encompasses bolstering Valeo's aftermarket business. Having set up Valeo Service, the Group now has an effective organization in place to win market share in this area on an international scale.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

In January 2004, Valeo raised its share in Shanghai Valeo Automotive Electrical Systems from 30% to 50% (see The Group's Activities – 2003 Key Events – Increased Presence in Asia – p 9).

VALEO SA'S FINANCIAL STATEMENTS

Following the creation of subsidiaries for industrial activities in 2002, Valeo SA is now focused on holding activities and managing the Group's cash flow.

Net financial income totaled €60 million in 2003, versus €821 million in 2002. This includes net interest on investments as well as €26 million in dividends received from subsidiaries. In 2002, these dividends came to €817 million.

Net exceptional income stood at €5 million in 2003, compared with €122 million the previous year. The 2002 total included net capital gains of €134 million.

The Company recorded a tax benefit of €124 million, arising from a €116 million tax rebate. Of this amount, €88 million corresponded to a portion of the tax paid in 2001 on the gain from the 1999 disposal of the Group's 50% interest in LuK, and €29 million to the cancelation of the residual tax debt recorded in 1999 in connection with this sale.

Net income for 2003 stood at €181 million.

Valeo SA's stockholders' equity totaled €3,424 million at December 31, 2003, compared with €3,363 million at December 31, 2002. This increase includes net income for the year, net of the dividend payout.

The sections "The Group's Activities – 2003 Key Events"– "Environmental and Social Performance" of the Reference Document form an integral part of the Management Report.

REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS RELATING TO THE CONDITIONS OF PREPARATION AND ORGANIZATION OF THE BOARD'S WORKS, TO THE POSSIBLE LIMITATIONS BROUGHT TO THE POWERS OF THE MANAGING DIRECTOR AND TO THE CONTROL PROCEDURES SET UP BY THE VALEO GROUP

PREPARATION AND ORGANIZATION OF THE WORKS OF THE BOARD OF DIRECTORS

The Board of Directors adopted, on March 31, 2003, internal rules in line with the recommendations of the report of the AFEP-MEDEF working group chaired by Mr. Daniel Bouton to improve the corporate governance in listed companies of September 2002 (the Bouton report) and aimed at specifying the terms and conditions in the running of the Board, in addition to the legal, regulatory and statutory provisions applicable to the Company.

Rules specific to the running and organization of the Board and implementation

Composition of the Board of Directors – The by-laws provide that the Board of Directors includes between 3 and 18 members. To date, the Board has 10 members.

Details on the composition of the Board of Directors appear as annex to this report.

In accordance with the provisions of its internal rules, the Board of Directors has reviewed the situation of each of its members in respect of the independence criteria provided for by the internal rules. The internal rules of the Board of Directors deem to be independent the directors who do not have any relation whatsoever with the Company, its Group or its management, likely to compromise the exercise of his/her freedom of judgment. In particular, shall be deemed to be independent the directors:

(i) who are not employees or corporate officers of the Company, employees or directors of a company consolidated by Valeo and who have not been so for the last five years,
(ii) who are not corporate officers of a company in which the Company is, directly or indirectly, a director or in which an employee designated as such or a corporate officer of the Company (currently or having been so for less than five years) is a director,
(iii) who are not clients, suppliers, business bankers, significant investment bankers of the Company or its Group or for which the Company or its Group represents a significant portion of the activity,
(iv) who have no close family links with a corporate officer,
(v) who have not been auditors of the Company for the last five years,
(vi) who have not been directors of the company for more than twelve years on the date on which their current term of office was granted to them.

For directors holding 10% of the capital or voting rights of the Company or more, or representing a legal entity holding such an interest, the qualification as independent takes into account the composition of the share capital of the Company and the existence of a possible conflict of interest.

In accordance with such criteria, the Board has considered that:
- a director exercises the position as Managing Director of the Company: Thierry Morin;
- four directors have been members of the Board of Directors (and previously of the Supervisory Board) for more than twelve years: Noël Goutard, Carlo De Benedetti, Alain Minc and Erich Spitz;
- five directors are independent in respect of the criteria proposed by the internal rules (in line with the recommendations of the Bouton report): François Grappotte, Philippe Guédon, Yves-André Istel, Jean-Bernard Lafonta and Véronique Morali.

Average time-periods of convening of the Board
The average notice-period for convening of the Board of Directors was approximately 15 days.

Representation of directors
Directors have the possibility to be represented at the meetings of the Board by another director. The power must be given in writing. During the fiscal year 2003, two directors used the possibility to be represented.

Chairman of the Board's meetings

The Chairman or, if he is absent, a vice-chairman or a director delegated by the Board of Directors acts as chairman of the Board's meetings. For the six meetings of the Board of Directors held during the fiscal year, the Chairman always acted as chairman of the Board.

Videoconference

The by-laws provide for the possibility for directors to participate in the Board's deliberations by videoconference. In accordance with the by-laws and the internal rules, directors taking part in the Board's deliberations through such means are deemed to be present for purposes of calculation of the quorum and majority, except for the adoption of the following decisions: appointment, renewal or dismissal of the Chairman, the managing director or the deputy managing directors as well as determination of their compensation, preparation of the annual corporate and consolidated financial statements and the annual report. Such possibility was not used during the past fiscal year.

Information of directors

The Chairman has provided directors, within a sufficient time-period, with the information enabling them to fully exercise their assignments. Each director receives and may be communicated the information required to fulfill his assignments.

Guests of the Board

During the fiscal year, the Group Financial Controller attended all the Board's meetings and was heard by the Board in the context of discussions relating to the annual and consolidated financial statements of Valeo.

Frequency of the meetings of the Board and average attendance of the directors

Pursuant to the internal rules of the Board, the Board of Directors holds meetings at least four times a year. The Board of Directors met six times during the fiscal year 2003; it being reminded that the company changed its corporate organization from March 31, 2003, date on which the first company's Board of Directors of the fiscal year took place.

The average attendance of the members of the Board of Directors (in person or through representative) during the fiscal year 2003 was 85%.

Agreements referred to in Article L.225-38 of the French Commercial Code

During the fiscal year, there were no new agreements referred to in Article L.225-38 of the French Commercial Code other than agreements relating to usual transactions entered into under normal conditions, the list of which will be presented, for authorization, to the Board of February 10, 2004.

Delegations regarding sureties, endorsements and guarantees – Article L.225-35 of the French Commercial Code

The Board of Directors has authorized the Chairman to constitute, in the name of the Company, sureties, endorsements and guarantees up to an amount of €23 million and to continue the sureties, endorsements and guarantees previously delivered.

Such authorization granted for a twelve-month period, expires on March 31, 2004. Of this sum, the Chairman has granted, at the end of the fiscal year, €3 million of commitments of such nature in the name of the Company.

Committees created by the Board

The Board has created committees for improving the running of the Board and for efficiently supporting the preparation of its decisions.

The Board has therefore created the following permanent committees: the Strategic Committee, the Audit Committee, the Compensation Committee and the Appointment Committee.

Strategic Committee

The Strategic Committee has six members including a Chairman appointed by the Board of Directors.

The members of the Strategic Committee are: Messrs. Philippe Guédon, Jean-Bernard Lafonta, Alain Minc, Thierry Morin and Erich Spitz as well as Mr. Noël Goutard who also acts as Chairman of the Strategic Committee.

The duties of the Strategic Committee shall be:

- to express to the Board its opinion on the strategic main lines of the Company and the Group, and any other significant strategic matter referred to it by the Board or its Chairman;
- to review the annual budgets and the half-year reviews, as well as the medium and long-term plans relating to the strategic orientations of the Group.

Its duties also include studying and expressing its opinion to the Board on issues referred to it relating to main acquisitions, sales, financings and indebtedness.

During the fiscal year 2003, the Strategic Committee met 11 times.

Audit Committee

The Audit Committee has three members including a Chairman appointed by the Board of Directors.

The members of the Audit Committee are: Messrs. François Grappotte and Yves-André Istel, as well as Mr. Jean-Bernard Lafonta who also acts as Chairman of the Audit Committee.

The duties of the Audit Committee shall be:

- to ensure the relevance of the choice and the due application of the accounting and financial methods adopted to prepare the consolidated financial statements as well as the appropriate treatment of transactions at the level of the Branches and the Group;
- to check that internal procedures of collection and control of the financial and accounting information ensuring the prompt feedback and reliability thereof are defined; review the internal audit plan of the Group and related answers of the Management; be informed of the internal and external audits of the Group and related answers of the Management;
- to give an opinion on the selection of statutory auditors or the renewal of their term of office;
- to review any financial or accounting matter submitted to it by the Chairman of the Board of Directors as well as any issue of conflict of interest of which it has knowledge.

The Audit Committee met twice in 2003. It has reviewed the consolidated financial statements for the fiscal year 2003.

The works of the Audit Committee were consistent with the objectives entrusted to it. Such works were facilitated by the attendance of the statutory auditors and the Group Financial Controller to all meetings. The presentations made by the statutory auditors mainly related to the findings of their limited review of the half-year financial statements and of their audit of the annual financial statements.

The Audit Committee noted, in particular, that the accounting treatments adopted by the Group were consistent with the applicable rules. It never made any reserve whatsoever on the consolidated financial statements presented to it.

The members of the Audit Committee reviewed the significant risks and off-balance sheet commitments.

Compensation Committee

The Compensation Committee has four members including a Chairman appointed by the Board of Directors.

The members of the Compensation Committee are: Messrs. Noël Goutard, François Grappotte, Philippe Guédon and Alain Minc, Mr. Alain Minc acts as Chairman.

The duties of the Compensation Committee shall be:

- to study and make proposals regarding the compensation of the corporate officers;
- to propose to the Board rules of allocation of directors' fees;
- to examine any issue referred to it by the Chairman and, in particular, proposed capital increases reserved to employees.

The Compensation Committee met three times in 2003.

Appointment Committee

The Appointment Committee has six members including a Chairman appointed by the Board of Directors.

The members of the Appointment Committee are: Mrs. Véronique Morali and Messrs. Noël Goutard, François Grappotte, Philippe Guédon, Alain Minc and Thierry Morin. Mr. Alain Minc acts as Chairman.

The Appointment Committee is in charge of preparing the composition of the managing bodies of the Company (corporate officers and directors).

The Committee reviews each year the situation of each director in respect of the independence criteria retained by the internal rules of the Board of Directors.

In 2003, the Appointment Committee did not meet. It was called to meet before the publication of the annual report on the fiscal year 2003 to review the situation of each of the directors.

In accordance with the provisions of its internal rules, the Board of Directors has devoted a point of the agenda of its first meeting of the fiscal year 2004 to the assessment of its partnership during the fiscal year 2003. The directors have generally considered that the Board's meetings were properly organized and had enabled to ensure a satisfying running.

Method of exercise of the General Management of the Company and limitations of the powers of the Managing Director

The Company's Board of Directors has chosen that only one person would exercise the positions of Chairman of the Board of Directors and Managing Director.

The Board of Directors has not brought specific limits to the powers of the Managing Director. The Chief Executive Officer (Président-Directeur Général) has therefore the broadest powers to act in all circumstances in the name of the Company. He shall exercise his powers within the limit of the corporate purpose and subject to the powers that the law expressly grants to shareholders' meetings and to the Board of Directors. He shall represent the Company in its relations with third parties.

Definition of internal control

Internal control is defined in the Valeo Group as being a process implemented by the Management and the staff to achieve the following aims:

- reliability of financial and management information;
- compliance with the laws and regulations;
- protection of assets;
- optimization of the operational activities.

Therefore, Valeo adopts a definition of internal control similar to that of the "COSO" international authoritative document (COSO: Committee Of Sponsoring Organization of the Treadway Commission, the findings of which were published in 1992 in the United States). It should be noted that, according to the "COSO" authoritative document, the internal control must give reasonable guarantee regarding the achievement of aims and cannot therefore give an absolute guarantee that they will be achieved.

It should be specified that, considering the recent enactment of the Law on Financial Security, such first report describes Valeo's internal control system. Generally, it has been prepared from an inventory of the existing procedures circulated within the organization made with the support of the Internal Audit Division of the Group.

Main points of Valeo's internal control

The decentralized organization of the Valeo in Branches and in Divisions brings it the reactivity and proximity with clients enabling it to develop on its markets. Such decentralization falls within running principles and rules applying everywhere in the Group.

Therefore, the Code of Ethics has been circulated to all the executives. It constitutes the basis of the detailed procedures applicable within the Group. For practical reasons, it is presented in the same document as the book of Group Legal Procedures.

The Administrative and Financial manual (Manuel Administratif et Financier, M.A.F.) has constituted for more than fifteen years the financial and management language of the Group. It is used daily by operational staff and has been updated. The M.A.F. has two parts:

- one is devoted to the management and internal control rules;
- the other defines the rules of assessment and presentation of the main items of the balance sheet and profit and loss statement.

Every year, the Director and Financial Controller of each Division sign an assertion letter by which they undertake that the M.A.F. rules be complied with. Such assertion letter comes with a very detailed internal control questionnaire, including more than 300 questions, relating to the compliance with the M.A.F. rules. The questionnaire is consolidated in a specific database and the results are disclosed to the operational or functional heads concerned at the Group level so that, if necessary, the required actions may be undertaken.

The budget and monthly reporting procedure is a critical tool for Valeo in managing its operations. It enables to identify, analyze and treat any possible difficulties encountered during the year, which enables to contribute to the reliability of the half-year and annual closings.

The specific rules and procedures prepared by the various functional Departments of the Group come in support of the M.A.F.:

- the Constant Innovation Chart strictly defines the management principles for the proposed developments;
- marketing procedures and sales practices;
- Legal Procedures and Code of Ethics;
- human resources procedures;
- purchasing procedures;
- risk management manual and procedure and implementation guides relating to the safety and environment, as well as insurance (Valeo's policy is to comply with at least the local regulations regarding safety and environment and, in some cases, to comply with higher standards).

Almost all the information regarding such rules and procedures is available on line for the Valeo's staff concerned.

In terms of quality, Valeo has its own authoritative standards, Valeo 1000 and Valeo 5000, which are subject to regular Valeo Quality Assurance audits. Moreover, the QRQC method (see above p 34) ensures a prompt implementation of corrective actions. Finally, since 1997, Valeo has launched a certification program of its sites according to the ISO 14001 standard; to-date, 92 sites of a total of 129 benefit from such certification.

The Valeo Internal Audit Division constitutes a material element of the internal control procedures, in particular for accounting and financial matters. Such Division is in charge of conducting assignments in the Group to make sure that the planned procedures are running properly. The internal audit is also led to regularly carry out audits on the performance of the sites and the Divisions and coordinates the up-date of the M.A.F. procedures.

APPROACH ADOPTED AND ACTION PLANS

Valeo's objective is to be able to carry out in the future a global assessment of the relevance and proper application of its internal control.

Therefore, in 2003, Valeo kept on developing internal control by making:

- an analysis of the existing internal control in view of the main five components defined by the "COSO" authoritative document (control environment, risk assessment, control activities, information and communication, management of the whole system);
- a mapping of the processes and main risks based on meetings with the main operational and functional heads;
- an identification of the significant accounts and processes impacting them, as well as an inventory of the existing internal control procedures relating to the preparation of the financial statements.

Valeo will keep on disseminating such methodology by relying on the key control issues enabling to contribute to the risk management as well as on a formalized program of verification of their running.

The Group's General Management will bring its support to such conduct of which Valeo acknowledges the significance for the proper development of the Group.

Chairman and Chief Executive Officer
Thierry MORIN

ANNEX

COMPOSITION OF THE BOARD OF DIRECTORS

Last name and first name or corporate name of the member	Date of first appointment	Expiry date of term of office	Main position exercised in the Company	Main position exercised outside the Company	Other terms of office and positions exercised in any Company
Thierry Morin	3/21/2001	Shareholders' Meeting called to approve the financial statements for the fiscal year ending 12/31/2006	Chief Executive Officer (Président-Directeur Général)		• 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 (UK) Limited, Valeo International Holding B.V. • General Manager of: Valeo Management Services, Valeo Auto-Electric Beteiligungs GmbH, Valeo Germany Holding GmbH, Valeo Grundvermögen Verwaltung GmbH, Valeo Holding Deutschland GmbH, Valeo Verwaltungs-Beteiligungs GmbH • Director of: Valeo Electronique & Systèmes de Liaison, Valeo Climatisation, Valeo Service España S.A., Valeo Iluminacion, S.A., Valeo Services Limited, Valeo Termico, S.A.
Noël Goutard	1/01/1987	Shareholders' Meeting called to approve the financial statements for the fiscal year ending 12/31/2006	None	Chairman of the Supervisory Board of NG Investments	• Director of: Valeo (UK) Limited, Vocatif SA, Materis, Medextend • Partner and member of the Management Board of LBO France
Carlo De Benedetti	7/04/1986	Shareholders' Meeting called to approve the financial statements for the fiscal year ending 12/31/2006	None None	Chairman of the Board of Directors of CIR SpA	**Cofide-CIR Group:** • Chairman of the Board of Directors of Cofide SpA, Sogefi SpA • Director of Gruppo Editoriale L'Espresso SpA **Outside the Cofide-CIR Group:** • Chairman of the Board of Directors of CDB Web Tech SpA • Director of Pirelli SpA

Last name and first name or corporate name of the member	Date of first appointment	Expiry date of term of office	Main position exercised in the Company	Main position exercised outside the Company	Other terms of office and positions exercised in any Company
François Grappotte	3/31/2003	Shareholders' Meeting called to approve the financial statements for the fiscal year ending 12/31/2006		Chairman of Legrand S.A.	**Legrand Group:** • Chairman of: B.Ticino, Legrand S.A.S., Lumina Management • Director and Managing Director of Legrand Holding S.A. • Director of: Bufer Elektrik, Eltas Elektrik, Legrand Española, Lumina Parent, Pass & Seymour, The Wiremold Company **Outside the Legrand Group:** • Director of BNP Paribas • Member of the Supervisory Board of Michelin • Member of the Consultative Board of the Banque de France, Bureau de la F.I.E.E.C. (Fédération des Industries Electriques, Electroniques and de Communication)
Philippe Guédon	3/31/2003	Shareholders' Meeting called to approve the financial statements for the fiscal year ending 12/31/2006	None	Managing Partner of Espace-Dévelop-pement	None
Yves-André Istel	1/29/1992	Shareholders' Meeting called to approve the financial statements for the fiscal year ending 12/31/2006	None	Senior Advisor of Rothschild Inc.	**Rothschild Group:** Director of Banque Rothschild & Cie **Outside the Rothschild Group:** Director of: Compagnie Financière Richemont AG, Chalone Wine Group, Imperial Sugar
Jean-Bernard Lafonta	12/7/2001	Shareholders' Meeting called to approve the financial statements for the fiscal year ending 12/31/2006	None	Deputy Managing Director of Wendel Investissement	**Wendel Group:** • Member of the Supervisory Board of Oranje-Nassau Groep B.V. • Director of: Wendel Investissement, Legrand Holding S.A., Legrand S.A., Lumina Parent • Permanent representative of Sofu at the Supervisory Board of Bureau Veritas **Outside the Wendel Group:** Manager of Granit (SARL)

Last name and first name or corporate name of the member	Date of first appointment	Expiry date of term of office	Main position exercised in the Company	Main position exercised outside the Company	Other terms of office and positions exercised in any Company
Alain Minc	7/4/1986	Shareholders' Meeting called to approve the financial statements for the fiscal year ending 12/31/2006	None	Chairman of A.M. Conseil	• Chairman of the Supervisory Board of Le Monde • Member of the Supervisory Board of Pinault-Printemps-Redoute • Director of: Fnac, Vinci
Véronique Morali	3/31/2003	Shareholders' Meeting called to approve the financial statements for the fiscal year ending 12/31/2006	None	Deputy Managing Director of Fimalac	**Fimalac Group:** • Director and 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. **Outside the Fimalac Group:** • Director of Eiffage • Member of the Board of Tesco PLC
Erich Spitz	6/24/1987	Shareholders' Meeting called to approve the financial statements for the fiscal year ending 12/31/2006	None	Advisor of Thales	**Thales Group:** • Chairman of Thales Avionics Lcd. • Director of Thales Corporate Ventures **Outside the Thales Group:** • Chairman of the Supervisory Board of Riber • Member of the Management Board of ERA (The Czech Republic) • Corresponding Member of the French 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 THE FINAL PARAGRAPH OF ARTICLE L.225-235 OF THE FRENCH COMMERCIAL CODE, RELATING TO THE REPORT OF THE CHAIRMAN OF VALEO'S BOARD OF DIRECTORS CONCERNING INTERNAL CONTROL PROCEDURES USED FOR THE PREPARATION AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION

Free translation of the original French language report

To the shareholders of Valeo SA,

In our capacity as Statutory Auditors of Valeo SA and in accordance with the final paragraph of 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 Code de Commerce for the year ended December 31, 2003.

Under the responsibility of the Board of Directors, the company's management must define and implement adequate and efficient internal control procedures. In his report, the Chairman of the Board of Directors is required to comment on the conditions applicable for the preparation and organization of the work carried out by the Board of Directors and the internal control procedures implemented within the company.

Our responsibility is to provide you with our comments on the information and declarations contained in the Chairman's report concerning the internal control procedures relating to the preparation and processing of accounting and financial information.

In accordance with the professional guidelines applicable in France, we have examined the objectives and the general organization of the company's internal control procedures and the internal control procedures relating to the preparation and processing of accounting and financial information, as presented in the Chairman's report.

As this is the first year of application for the provisions introduced by Act no. 2003-706 of August 1, 2003 and as there are no established practices in relation to the content of the report prepared by the Chairman, the said report does not contain any assessment of the adequacy and efficiency of the internal control procedures relating to the preparation and processing of accounting and financial information. Therefore, this limitation also applies to the scope of our work and to the contents of our report. However, we did examine the steps implemented by the Group to progressively evaluate its internal control procedures, as presented in the Chairman's report.

Taking into account the above-mentioned limitation and based on our procedures mentioned above, we have no comments to make on the information and declarations concerning the company's internal control procedures relating to the preparation and processing of accounting and financial information, as contained in the report of the Chairman of the Board of Directors, prepared in accordance with the final paragraph of article L.225-37 of the Code de Commerce.

Paris February 10, 2004

The Statutory Auditors

PricewaterhouseCoopers Audit
Serge Villepelet

RSM Salustro Reydel
Jean-Pierre Crouzet

> ZEBRAK (Czech Republic)

ENVIRONMENTAL INDICATORS

Valeo's environmental policy is brought into play at all stages of the product life cycle, from design and manufacturing, to use and end of life.

In 2003 Valeo pursued its aim of reducing the environmental impact of manufacturing processes throughout the entire life cycle, in compliance with the latest regulations.

The Group uses a unique database listing substances whose use is banned or regulated in the automobile industry. This database indicates applicable regulations in the various countries in which Valeo operates as well as automakers' requirements.

SCOPE OF ENVIRONMENTAL INDICATORS

The environmental data published in this report concern all Valeo production and distribution sites worldwide for 2001 through 2003.
The level to which the figures are representative is provided next to each indicator. The data are calculated by dividing the quantities of products consumed or emitted by the total sales from the sites which responded.

Only those subsidiaries in which Valeo has a majority share have been included, with the exception of acquisitions completed in 2003 that will be included in the 2004 financial statements and companies divested during 2003.

Sites dedicated exclusively to R&D activity or to office work were not included in the report.

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

COMPLIANCE OF OPERATIONS WITH REGULATORY REQUIREMENTS AND GROUP STANDARDS

Valeo has a "Risk Management Manual" which sets out risk management procedures applicable to the Group. These are used to ensure that operations comply with the regulations in force in each country and with Group standards meeting the most demanding requirements.

The Group introduced a directive several years ago to be applied at all sites worldwide to counter the risk of Legionnaire's disease.

These procedures are complemented by application guidelines, which are pedagogical tools for the sites to help them implement the procedures.

EMERGENCY PLAN

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

INTERNAL ENVIRONMENTAL MANAGEMENT ORGANIZATION

The Risk, Insurance and Environment Department works hand-in-hand with all Group Departments, in particular the R&D, Human Resources, Purchasing, Quality, Legal and Industrial Departments. Actions are also carried out with suppliers, in accordance with ISO 14001 objectives, to bring them up to the same standards applicable in Valeo's own sites.

A Security, Safety, Health and Environment manager is responsible for ensuring that procedures are correctly applied at each site, and performs internal audits to verify compliance with both regulations and Valeo's standards.

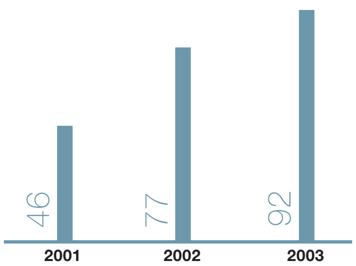
A network of coordinators in the Branches provides technical support to the site security managers, reporting their findings to the Risk Management Committee.

EXTERNAL AUDITS AND REPORTING

The Valeo audit program, introduced in 1991, is a major component of the Group's environmental policy. External experts carry out audits every two years to measure performance levels and progress made in relation to environmental issues, health and safety at work, the security of buildings and equipment, equipment safety and information security. These audits include detailed recommendations and form the basis for action plans, with each site providing a six-monthly update on the action plan for use by the Branches and the Risk, Insurance and Environment Department.

ISO 14001 CERTIFIED SITES

Number of certified sites

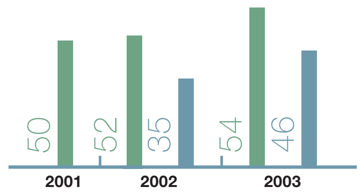


The Group moved a step closer to ISO 14001 certification of all its sites in 2003. By the end of the year, 75% (92 sites) were certified ISO 14001, compared with only 27% (46 sites) in 2001, with progress being recorded in all Branches.

Research and distribution sites are also involved in the certification process, alongside production sites.

EXTERNAL AUDITS

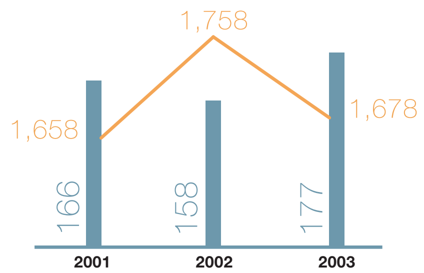
Percentage of sites audited by external experts



Sixty environmental compliance audits were carried out in 2003, in respect of local regulations and Group standards. This represents 54% of the sites within the scope under review and equates to each site being audited every two years. In compliance with Group risk management procedures, an environmental compliance audit was systematically performed upon closure, sale or acquisition of a site.

The ongoing Group external health and safety at work audit process gave rise to 52 audits worldwide in 2003, with the proportion of sites audited increasing from 35% in 2002 to 46% in 2003.

ENERGY CONSUMPTION



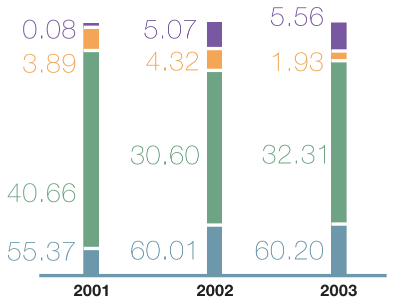
■ Total energy consumption/sales
(MWh/million euro)
▬ Total energy consumption *(GWh)*

Representativeness (% of sales)
2001: 82; 2002: 98; 2003: 100

Although the total energy consumption in MWh fell in 2003, as a percentage of sales the year-on-year increase amounted to 12%.
The Group continued to replace fuel oil by cleaner energy sources, including solar energy, where possible.

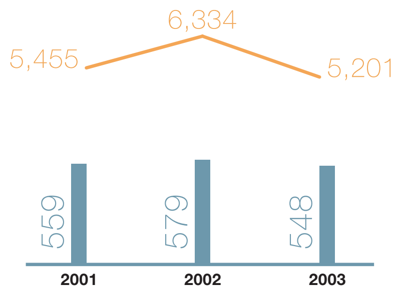
ENERGY CONSUMPTION BREAKDOWN

In percentage



■ Electricity ■ Gas ■ Fuel oil ■ Other

WATER



■ Total water volume consumed/sales
(cu.m./million euro)
▬ Total volume of water consumed
(thousand cu.m.)

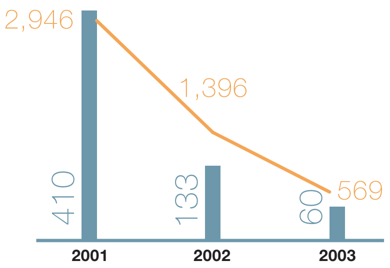
Representativeness (% of sales)
2001: 80; 2002: 96; 2003: 100

The total volume of water consumed in 2003 was down versus 2002, the decrease being particularly significant in terms of water consumed per million euro of sales.

Further investment was made in 2003 to continue the installation of closed-loop cooling systems.

HEAVY METALS AND CHLORINATED SOLVENTS

Heavy Metals

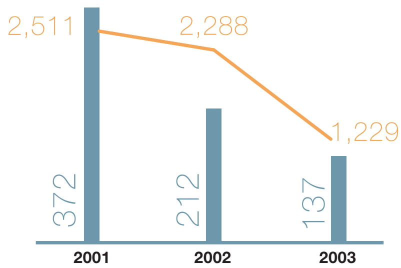


■ Heavy metal consumption/sales *(kg/million euro)*
▬ Heavy metal consumption *(tonnes)*

Representativeness (% of sales)
2001: 59; 2002: 92; 2003: 97

In July 2003, the Group completed implementation of the requirements of Directive 2000/53/EC limiting the use of heavy metals in new vehicles, resulting in a 59% reduction in consumption of heavy metals originating from raw materials (excluding heavy metals contained in semi-finished products supplied to the Group).

Chlorinated solvents



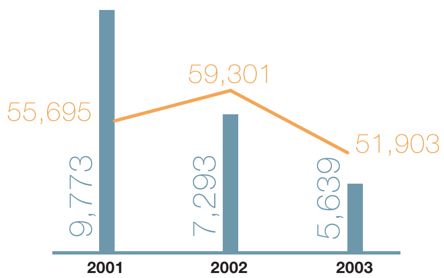
■ Consumption of chlorinated solvents/sales *(kg/million euro)*
▬ Consumption of chlorinated solvents *(tonnes)*

Representativeness (% of sales)
2001: 55; 2002: 95; 2003: 95

The Group continued the drive to reduce consumption of chlorinated solvents initiated several years ago. Substitute products are increasingly used, with total consumption on Group sites falling from 2,288 tonnes in 2002 to 1,229 tonnes in 2003, a reduction of 46%.

PACKAGING

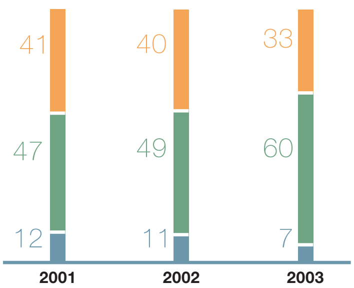
Total consumption



■ Total packaging materials used/sales *(kg/million euro)*
▬ Total packaging materials used *(tonnes)*

Representativeness (% of sales)
2001: 49; 2002: 72; 2003: 96

BREAKDOWN OF PACKAGIING MATERIALS USED IN %

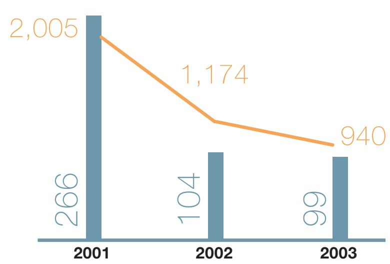


■ Wood ■ Cardboard ■ Plastic

Total packaging material use fell sharply in 2003, the reduction in plastic and wood consumption being particularly pronounced.

INDUSTRIAL EFFLUENT AND HEAVY METALS

Industrial effluent

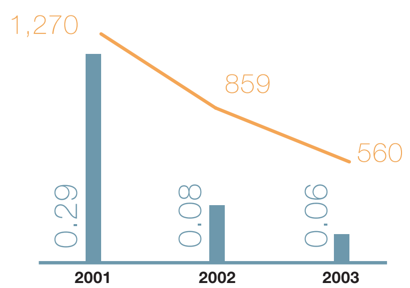


■ Total volume of water consumption/sales *(cu.m/million euro)*
▬ Total volume of water consumption *(thousand of cu.m)*

Representativeness (% of sales)
2001: 62; 2002: 99; 2003: 100

As in 2002, 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. The slight decrease in water consumption observed in 2003, following on from the reductions in previous years, reflects the Group's firm intent to gradually abandon processes that call for on-site treatment.

Heavy metals

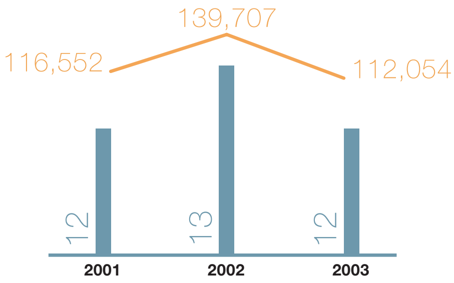


■ Heavy metal content in effluent/sales *(cu. m/million euro)*
▬ Heavy metal content in effluent *(thousand cu.m)*

Representativeness (% of sales)
2001: 36; 2002: 94; 2003: 98

In 2003, the amount of heavy metals released to the environment was 130 g per million euro of sales generated. The Group is pursuing its ongoing target of reducing the heavy metal content of effluent produced.

WASTE PRODUCTION

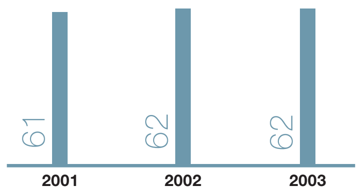


- Total quantity of waste produced/sales *(tonnes/million euro)*
- Total quantity of waste produced *(tonnes)*

Representativeness (% of sales)
2001: 78; 2002: 95; 2003: 98

2003 saw a slight decrease in the total volume of waste generated by the Group, the reduction in non-dangerous waste being particularly marked.

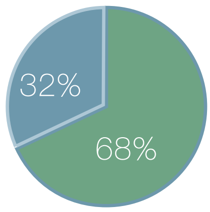
WASTE RE-USE RATE USING EXTERNAL RECYCLING



Representativeness (% of sales)
2001: 61; 2002: 85; 2003: 99

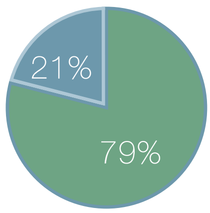
TYPE OF WASTE PRODUCED

2001



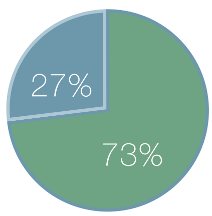
- Dangerous waste
- Non-dangerous waste

2002



- Dangerous waste
- Non-dangerous waste

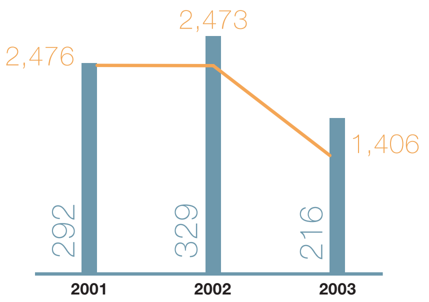
2003



- Dangerous waste
- Non-dangerous waste

ATMOSPHERIC EMISSIONS

Volatile Organic Compounds (VOCs)



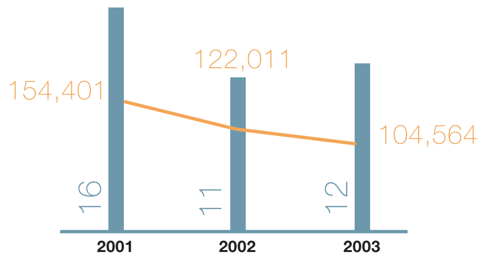
VOC atmospheric emissions/sales *(kg/million euro)*
VOC atmospheric emissions *(tonnes)*

Representativeness (% of sales)
2001: 69; 2002: 66; 2003: 73

A reduction was recorded in the quantity of VOCs emitted as a proportion of sales.

The focus in 2004 will be on improved identification of VOC emissions and their continued reduction.

Greenhouse gas equivalent CO_2



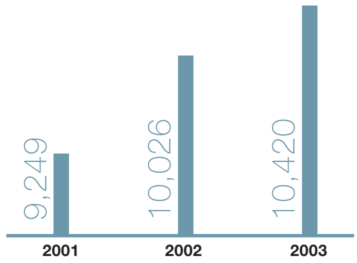
Greenhouse gas emissions/sales *(tonnes CO_2 eq./sales)*
Greenhouse gas emissions *(tonnes CO_2 eq.)*

Representativeness (% of sales):
2001: 79; 2002: 96; 2003: 92

Direct emissions of CO_2 were calculated on the basis of energy consumption using the emission coefficients of the Intergovernmental Panel on Climate Change.

RECYCLED PLASTIC USE

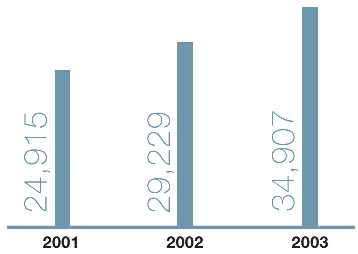
Recycled plastic use
(in tonnes)



Valeo used 4% more recycled plastic in 2003 than in 2002.

ENVIRONMENTAL TRAINING

Number of hours of environmental training



The number of hours of environmental training is increasing constantly. The rise in 2003 was 20%, giving an overall increase since 2001 of 40%.

In addition to training, safety awareness-raising days took place for the first time in 2003 on one site in all countries in which Valeo operates, providing an opportunity reiterate on Group procedures concerning security, environmental issues, and health and safety at work, and to share feedback of relevance for all sites.

In addition to the increased investment in training in 2003, Valeo continued its recruitment program targeting engineers trained in the environmental and safety field.

ODOR POLLUTION

Odor pollution at Valeo principally concerns friction materials manufacturing sites and is produced by material curing operations. The Limoges site fitted new devices 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 AND READINGS TO LIMIT BIOLOGICAL IMBALANCE

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 and continued to eliminate them in 2003. Significant space is accorded over 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.

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, Zebrak in the Czech Republic, Atsugi-Shi in Japan and recently at Bouznika in Morocco are all examples of the new generic plant concept.

FINANCIAL DATA

2003	Units	Value	Representativeness (% of sales)
Number of fines	Number	0	96%
Amount	Thousands of euro	0	96%
Provisions and guarantees for environmental risks	Thousands of euro	3,703	95%
Investments made (excluding pollution elimination costs) to cover environmental consequences of the business	Thousands of euro	19,987	94%
Specific pollution elimination costs	Thousands of euro	1,833	94%

2004 TARGETS

Topic	% of Group sites with topic-specific targets
Waste	78%
Industrial effluent	31%
Water	70%
Electricity	66%
Natural gas	26%
Compressed air	53%
Fuel oil	10%
PCB	8%
Organic solvents	21%
Asbestos	20%

In 2004, the Group will continue to work to reduce the quantity of waste generated.
Short-term waste reduction of between 5% and 15% is anticipated at 67% of Group sites.

One out of every two sites is set to reduce its water consumption in 2004, with an average target reduction of 5% to 20% . This action includes an active leak detection and control program.

A further target for the Group in 2004 is improved identification of VOCs with a view to their future reduction.

In 2004, the Group will continue removing PCB transformers at all its sites and taking steps to remove asbestos from buildings, above and beyond those required by law. Few sites are concerned by these two objectives as the majority have already been dealt with.

SOCIAL INDICATORS

In 2002, social indicators were based on data from the 19 French companies, with the exception of indicators related to headcount and training that were consolidated globally.
In 2003, upgrading of the internal information systems made it possible to consolidate indicators for the Group worldwide. The only exception to this is Zexel Valeo Climate Control, with 2,000 employees, which was consolidated on December 1 and is not included in the data below.

GLOBAL CONSOLIDATED SOCIAL DATA

Employment

Number of employees

Number of employees	2002	2003
Engineers and managers	10,229	10,427
Technicians, supervisors and administrative staff	13,362	11,028
Operators	40,934	40,913
Registered headcount	**64,525**	**62,368**
Agency temporary	4,563	3,812
Total headcount	**69,088**	**66,180**
Including		
• Permanent	56,605	53,370
• Temporary	12,482	12,810

As at December 31, 2003, the Group employed 66,180 people worldwide, a reduction of 4% versus 2002, or 3,235 permanent posts. Overall temporary staffing levels (fixed-term contracts and agency temporary personnel) remained stable. The percentage of engineers and managers rose to 16.7% of headcount from 15.8% in 2002.
The male-female breakdown was 61%-39%, and 6,034,700 hours' overtime was paid in 2003, 83% of which were paid to production staff.

Recruitment

Permanent contracts	2003
Engineers and managers	1,389
Technicians, supervisors and administrative staff	798
Operators	2,277
TOTAL	**4,464**

Valeo hired 4,464 permanent staff in 2003, 8.4% of permanent headcount.
Engineers and managers made up 31% of the year's hires. Recruitment broke down into 66% male and 34% female.

Fixed-term contracts	2003
Engineers and managers	198
Technicians, supervisors and administrative staff	334
Operators	9,045
TOTAL	**9,577**

9,577 fixed-term contracts were signed during the year. Employees on fixed-term contracts occupied 8,998 posts at December 31, 2003.
The Group's corporate image and experience ensured that no significant hiring difficulties were experienced.

Departures

Departures	2003
Contract terminations	4,500
of which redundancies	2,950
Early retirement	495
Retirement	607

Valeo terminated 4,500 contracts in 2003 (8.4% of the permanent workforce), redundancies representing two-thirds of those terminations.
Early retirement and retirement accounted for the equivalent of 2% of permanent headcount.
Rightsizing programs involved 8 out of 10 of the Group's industrial Branches, as well as Valeo Service (a total of 2,213 employees).

During restructuring operations, the Group explores all possible avenues in finding alternative employment for staff. In 2003, 566 employees were found new jobs. Of these, 122 employees were found jobs within the Group.

Organization of the working week

Shift patterns

Employee breakdown by shift patterns in %

Shift patterns	2003
Day workers	41%
Two 8-hour shifts	32%
Three 8-hour shifts	21%
Night workers	5%
Weekend workers	1%

Production employees work two or three shifts or nights to optimize plant utilization.

Part-time workers

A total of 1,405 employees worked part-time, 2.6% of the permanent workforce.

Absenteeism

Absenteeism, expressed as the number of hours absent over the possible number of working hours, totaled 3.4% and comprised sickness, work- or journey-related accidents, strikes and unauthorized absences.

Equality between men and women in the workplace

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

Labor relations and collective bargaining agreements

Valeo has developed an active contractual policy in respect of labor relations.
A total of 194 agreements were signed in 2003.

Health and safety

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

Health and safety at work are 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 two ratios: "frequency rate" (number of accidents leading to an absence per million hours worked) and "gravity rate" (number of days lost because of work accidents per thousand hours worked).

Frequency & gravity rate	2003
Frequency rate	9.59
Gravity rate	0.27

Remuneration

Total payroll amounted to €1,571 million, with social charges amounting to €570 million (36%), giving a total of €2,141 million. Personnel costs (including temporary staff) amounted to €2,283 million, representing 24.7% of sales.

Training

In 2003, 75% of employees participated in at least one training course, as part of the Group's skills development policy.

Training	2002	2003
Number of employees trained	54,200	46,664
Number of training hours given	1,500,000	1,534,741
Training costs (in €)	n/a	32,624,810

Training was provided to all professional categories:

- Engineers and managers accounted for 18% of employees trained,
- Technicians, supervisors and administrative staff for 20%, and
- Production staff 62%.

In 2003 a total of 1,534,741 hours' training was given, for an average of 33 hours per employee trained.
The overall cost was €32,624,810, the equivalent of 2% of payroll **excluding salary costs.**

Disabled employees

A total of 1,130 disabled employees work for the Group.

Subcontracting

Subcontracting costs amounted to €137.7 million in 2003, covering services such as site security, cleaning and maintenance.
Valeo is particularly vigilant in ensuring that its subsidiaries comply with the fundamental principles of international labor law in all their dealings with subcontractors and that they apply the Valeo Code of Ethics.

The Group's role in youth training and employment

Valeo has developed a number of partnerships with technical schools, higher education establishments and universities in the regions where it operates, with future employees being trained and hired via apprenticeships, work experience schemes and internships.
This has played an important role in training and hiring employees.

CONSOLIDATED SOCIAL DATA FOR THE FRENCH COMPANIES

Employment

Number of employees

Number of employees	2002	2003
Engineers and managers	4,477	4,622
Technicians, supervisors and administrative staff	3,843	3,426
Operators	10,760	9,905
Registered headcount	**19,080**	**17,953**
Agency temporary	2,690	2,344
Total headcount	**21,770**	**20,297**
Including		
• Permanent	18,340	17,463
• Temporary	3,430	2,834

As at December 31, 2003, the Group employed 20,297 people in France, a reduction of 6.8% versus the 2002 figure. There was a 4.8% reduction in the permanent staffing level and a 17.4% drop in temporary staffing. The latter represented 14% of total headcount and the equivalent of 16% of permanent headcount.

In 2003 a total of 377,918 hours' overtime was paid, 78% of which was paid to production staff. The 2003 figure was up from 261,000 in 2002.

Recruitment

Permanent contracts	2002	2003
Engineers and managers	869	574
Technicians, supervisors and administrative staff	196	137
Operators	630	486
TOTAL	**1,695**	**1,197**

In 2003, Valeo's French entities recruited 1,197 new employees on permanent contracts, down 29% on the previous year. Engineers and managers (574 in all) made up 48% of the year's hires.

Fixed-term contracts	2002	2003
Engineers and managers	96	102
Technicians, supervisors and administrative staff	173	95
Operators	1,429	1,492
TOTAL	**1,698**	**1,689**

In 2003, 1,689 fixed-term contracts were signed, including contract extensions. As at December 31, 2003, 489 employees were employed under fixed-term contracts.

Departures

Departures	2002	2003
Contact termination	587	659
of which redundancies	293	383
Early retirement	549	272
Retirement	n/a	235

In 2003, the French entities terminated 659 contracts (3.8% of the permanent workforce); 507 employees retired or accepted early retirement (2.8% of the registered headcount).

A series of measures have been implemented to encourage employee redeployment including internal transfers, outplacements, initiatives aimed at finding buyers for divested operations and reindustrialization of employment catchment areas. In 2003, a total of 56 employees were redeployed in the Group's French companies and 395 employees found a new job outside the Group thanks to the redeployment units set up within the company.

Organization of the working week

Working hours/days

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

All the French companies have signed majority agreements with the trade union organizations concerning the organization of working hours.

Employee breakdown by shift patterns in %

Shift patterns	2002	2003
Day workers	45%	49%
Two 8-hour shifts	40%	35%
Three 8-hour shifts	5%	4%
Night workers	10%	9%
Weekend workers	n/a	3%

Part-time workers

A total of 544 employees worked part-time in 2003, the equivalent of 3% of the registered headcount, down from 4.3% in 2002.

Absenteeism

Absenteeism, expressed as the number of hours absent over the possible number of working hours, totaled 3.3% in 2003 and comprised sickness, work- or journey-related accidents, strikes and unauthorized for absences. Action plans implemented in the various companies were successful in reducing the figure by 13% from the 3.8% level posted in 2002.

Equality between men and women in the workplace

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 at the workplace and on the measures required to achieve these targets. Three such agreements were signed in 2003.

Valeo actively promotes equality in terms of career development, access to training, salaries and rank within the company.

Labor relations and collective bargaining agreements

Valeo has developed an active contractual policy in respect of labor relations.
In 2003 an agreement on Personnel and Trade Union Representative career development was signed by all French companies with four trade unions (CGT, CFDT, FO and CFE/CGC).
An additional 68 agreements were signed with the employee trade union organizations in 2003 covering wide-ranging issues including remuneration, work organization and life and disability insurance.

Health and safety

Frequency & gravity rate	2002	2003
Frequency rate	16.90	16.47
Gravity rate	0.49	0.49

"Frequency rate" (number of accidents leading to an absence per million hours worked) and "Gravity rate" (number of days lost because of work accidents per thousand hours worked) were below 2002 industry averages by 43% and 56% respectively (Source: UIMM: Union of Metallurgic Industries and Trades).

Remuneration

Total payroll

Total French payroll amounted to €633 million, with social charges amounting to €274 million (43%), giving a total of €907 million.
Personnel costs including temporary staff amounted to €1,009 million, the equivalent of 29.5% of sales.

Wages policy

Wages went up 2.3% in 2003; 17 wage agreements were signed with the French companies.

Profit sharing

In 2003, €2,722,000 were set aside by four companies in a special "participation" profit sharing reserve.

Incentive schemes

€8,183,000 were paid out to employees from eight companies under incentive schemes in 2003.

Employee savings

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 by Valeo. The scheme covers only the Group's French companies, with 10,507 employees (58.5% of registered headcount) currently participating.

Training

Training	2002	2003
Number of employees trained	13,653	14,087
Number of training hours given	438,678	522,628
Training costs (in €)	n/a	19,000,056

A total of 78% of employees received at least one training course in 2003.

Training programs concern all professional categories:

- Engineers and managers represented 30% of employees trained.
- Technicians, supervisors and administrative staff represented 21% of employees trained.
- Other staff represented 49% of employees trained.

In 2003, a total of 522,628 hours of training was given, for an average of 37 hours per employee trained.
Training costs for 2003 amounted to €19 million, the equivalent of 3% of payroll, **excluding salary costs**.

Disabled employees

A total of 606 disabled employees work at the Group's French sites, representing 3.4% of the registered headcount (3.5% in 2002) and a large number of subcontracting and service contracts have been set up with centers which promote the employment of disabled workers.

Social benefits programs

€11 million was spent on social benefits programs in 2003, representing 1.7% of payroll, as against 1.8% in 2002.

Subcontracting

Subcontracting costs in the French companies amounted to €87.1 million in 2003 (€78.2 million in 2002), covering services such as site security, cleaning and maintenance.

> SAN LUIS POTOSI (Mexico)

CONSOLIDATED KEY FIGURES

(in € millions)	2003	2002	2001
Net sales and revenues	**9,234**	**9,803**	**10,234**
Gross margin % sales	**1,653** 17.9%	**1,702** 17.4%	**1,675** 16.4%
Operating income % sales	**465** 5.0%	**487** 5.0%	**388** 3.8%
Net income/(loss)	**181**	**135**	**(591)**
Earnings/(loss) per share (in €)	**2.20**	**1.63**	**(7.12)**
Earning before depreciation and amortization [(1)]	**796**	**783**	**296**
Capital expenditure	**453**	**556**	**745**
	December 31, 2003	December 31, 2002	December 31, 2001
Stockholders' equity	**1,980**	**2,101**	**2,262**
Net financial indebtedness	**568**	**564**	**648**
Debt-to-equity ratio	**29%**	**27%**	**29%**
Number of employees	**68,200**	**69,100**	**70,000**

(1) Net income + depreciation + amortization.

Half-yearly trends *(in € millions)*	First half 2003 [(2)]	Second half 2003
Net sales and revenues	**4,846**	**4,388**
Gross margin % sales	**863** 17.8 %	**790** 18.0 %
Operating income % sales	**241** 5.0 %	**224** 5.1 %

(2) The Auditors performed a limited review of the financial statements at June 30, 2003.

CONSOLIDATED STATEMENTS OF INCOME

(in € millions)	2003	2002	2001
NET SALES AND REVENUES (note 18)	**9,234**	**9,803**	**10,234**
Cost of sales	(7,581)	(8,101)	(8,559)
GROSS MARGIN	**1,653**	**1,702**	**1,675**
% sales	17.9%	17.4%	16.4%
Research and development expenditures	(564)	(577)	(619)
Selling expenses	(185)	(186)	(201)
Administrative expenses	(439)	(452)	(467)
OPERATING INCOME	**465**	**487**	**388**
% sales	5.0%	5.0%	3.8%
Net financial expense (note 13)	(41)	(62)	(62)
Other income/expense - net (note 14)	(89)	(74)	(738)
INCOME/(LOSS) BEFORE INCOME TAXES	**335**	**351**	**(412)**
Income taxes (note 15.1)	(55)	(106)	(42)
NET INCOME/(LOSS) FROM CONSOLIDATED COMPANIES	**280**	**245**	**(454)**
Equity in net earnings of associated companies (note 6)	9	7	(1)
Amortization of goodwill (note 3)	(90)	(95)	(120))
NET INCOME/(LOSS) BEFORE MINORITY INTERESTS	**199**	**157**	**(575)**
% sales	2.2%	1.6%	(5.6%)
Minority interests	(18)	(22)	(16)
NET INCOME/(LOSS)	**181**	**135**	**(591)**
% sales	2.0%	1.4%	(5.8%)
Average number of shares outstanding (thousands)	82,134	83,038	82,961
Earnings/(loss) per share (note 1.17) (in €)	**2.20**	**1.63**	**(7.12)**
Diluted earnings/(loss) per share (note 1.17) (in €)	2.20	1.63	(7.12)

The notes on pages 78 to 106 are an integral part of the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

At December 31 *(in € millions)*	2003	2002	2001
ASSETS			
Cash and marketable securities (note 11.1)	860	686	680
Accounts and notes receivable – net (note 8)	1,780	1,752	1,821
Inventories – net (note 7)	570	628	753
Short-term deferred tax assets (note 15.3)	56	56	55
Prepaid expenses and other current assets	185	300	451
Current assets	**3,451**	**3,422**	**3,760**
Property, plant and equipment	5,755	5,652	5,821
Less accumulated depreciation	(3,659)	(3,420)	(3,363)
Property, plant and equipment – net (note 4)	2,096	2,232	2,458
Goodwill – net (note 3)	1,261	1,387	1,596
Other intangibles – net (note 4)	54	43	50
Investments in companies carried at cost (note 5)	3	66	66
Investments in companies at equity (note 6)	76	34	27
Loans and other assets	12	10	10
Investments and other non-current assets	91	110	103
Long-term deferred tax assets (note 15.3)	65	106	124
Fixed assets	**3,567**	**3,878**	**4,331**
TOTAL ASSETS	**7,018**	**7,300**	**8,091**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Short-term debt (note 11.1)	237	579	634
Accounts and notes payable	1,664	1,667	1,685
Current maturities of long-term debt (note 11.1)	28	14	19
Provisions – current portion (note 10)	359	419	776
Other liabilities and deferred income	719	835	985
Current liabilities	**3,007**	**3,514**	**4,099**
Long-term debt (note 11.1)	1,166	657	676
Long-term deferred tax liabilities (note 15.3)	18	25	27
Provisions for contingencies and charges (note 10)	715	869	898
Long-term liabilities	**1,899**	**1,551**	**1,601**
Minority interests	**132**	**134**	**129**
Share capital	246	246	249
Additional paid-in capital	736	736	725
Retained earnings	998	1,119	1,288
Stockholders' equity (note 9)	**1,980**	**2,101**	**2,262**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**7,018**	**7,300**	**8,091**

The notes on pages 78 to 106 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in € millions)	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income/(loss) from consolidated companies	280	245	(454)
Net dividends received from associated companies	2	-	-
Other adjustments to reconcile net income to net cash provided by operating activities			
• depreciation, amortization and provisions for impairment in value	531	554	792
• net charges to/(reversals from) provisions and deferred taxes	(144)	(208)	128
• (gains)/losses - net of tax - on disposals of fixed assets	14	12	69
• other income and deductions with no cash effect	(2)	(4)	(3)
Cash flows	**681**	**599**	**532**
Changes in operating working capital:			
• inventories	63	69	42
• accounts and notes receivable	19	(1)	213
• accounts and notes payable	(64)	29	(71)
• other receivables and payables	23	106	4
Net cash provided by operating activities	**722**	**802**	**720**
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures:			
• property and intangibles	(460)	(606)	(741)
• investments and other non-current assets	(5)	(3)	(2)
Proceeds – net of tax – from disposal of:			
• property and intangibles	14	19	13
• investments and other non-current assets	2	-	-
Impact of changes in scope of consolidation (1) (note 2.3)	(42)	7	(111)
Net cash used in investing activities	**(491)**	**(583)**	**(841)**
Net cash provided/(used) before financing activities	**231**	**219**	**(121)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to parent company stockholders	(81)	(58)	(112)
Equalization tax on dividends	(39)	-	-
Dividends paid to minority interests in consolidated subsidiaries	(13)	(10)	(8)
Proceeds from:			
• issuance of share capital	2	12	5
• cancellation of shares held in treasury stock		(51)	-
• issuance of long-term debt	465	3	504
• capital grants received	7	3	3
Reduction in long-term debt	(13)	(14)	(20)
Net cash provided by/(used in) financing activities	**328**	**(115)**	**372**
Effect of exchange rate changes on cash	(43)	(43)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	**516**	**61**	**251**
Cash and cash equivalents at beginning of year (note 11.1)	**107**	**46**	**(205)**
CASH AND CASH EQUIVALENTS AT END OF YEAR (note 11.1)	**623**	**107**	**46**

(1) including €171 million in 2001 in capital gains tax paid on the disposal of Valeo's 50% stake in LuK in 1999.

The notes on pages 78 to 106 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Number of shares	*(in € millions)*	Share capital	Additional paid-in capital	Translation reserve	Retained earnings	Stock-holders' equity
82,923,403	**Stockholders' equity at December 31, 2000**	**249**	**720**	**49**	**1,901**	**2,919**
	Dividends	-	-	-	(112)	(112)
133,200	Issuance of shares: • through exercise of options	-	5	-	-	5
	Translation adjustment	-	-	41	-	41
	2001 net loss	-	-	-	(591)	(591)
83,056,603	**Stockholders' equity at December 31, 2001**	**249**	**725**	**90**	**1,198**	**2,262**
	Dividends	-	-	-	(58)	(58)
277,125	Issuance of shares: • through exercise of options	1	11	-	-	12
(1,200,000)	Capital reduction: • through cancellation of shares held in treasury stock	(4)	-	-	(47)	(51)
	Impact of application of CRC standard 2000-06 on liabilities	-	-	-	(9)	(9)
	Translation adjustment	-	-	(190)	-	(190)
	2002 net income	-	-	-	135	135
82,133,728	**Stockholders' equity at December 31, 2002**	**246**	**736**	**(100)**	**1,219**	**2,101**
	Dividends	-	-		(81)	(81)
	Equalization tax on dividends (1)	-	-	-	(39)	(39)
	Other movements (2)	-	-	-	(22)	(22)
	Translation adjustment	-	-	(160)	-	(160)
	2003 net income	-	-	-	181	181
82,133,728	**Stockholders' equity at December 31, 2003**	**246**	**736**	**(260)**	**1,258**	**1,980**

(1) This equalization tax has been charged against stockholders' equity pending appropriation by the Annual General Meeting that will be called to approve the financial statements for the year ending December 31, 2003.
(2) Impact of the increase in Valeo's stake in Zexel (see note 2.1).

The notes on pages 78 to 106 are an integral part of the consolidated financial statements.

1 - ACCOUNTING POLICIES

1.1 - The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in France.

The accounting standards and policies applied to prepare the 2003 consolidated financial statements are consistent with those applied in 2002 and 2001 (except for the new 2000-06 standard of the Comité de la Réglementation Comptable (CRC) relating to liabilities, which has been applied since January 1, 2002 - see note 1.2).

In conformity with CRC standard 99-02, Valeo has decided not to adjust the accounting entries for acquisitions recorded before January 1, 2000.

The application of the International Accounting Standards published by the IASB is compulsory for European listed companies from 2005. In preparation for the transition to IAS/IFRS, Valeo has made a preliminary identification of the departures from these standards. This identification process will be continued in 2004.

Valeo already applies certain valuation and accounting requirements of the international standards IAS/IFRS. In particular, Valeo complies with the major provisions of International Accounting Standards concerning the valuation of inventory (IAS 2), the accounting treatment of leases (IAS 17) and property, plant and equipment (IAS 16, historical cost method), accounting for income taxes (IAS 12) and the valuation of liabilities (IAS 37).

However, to date Valeo has identified departures from the following standards and exposure drafts which, if they had been applied, would have had a material effect on the consolidated financial statements. Those standards are as follows:

- IAS 1: all the accounting standards established by the International Accounting Standards Board are not applied in their entirety;
- IAS 8: “Other income/expense – net” corresponding primarily to headcount reduction and restructuring costs, gains and losses on disposals of consolidated subsidiaries and associated companies accounted for by the equity method, and exceptional assets write-downs, are not included in operating income;
- IAS 14: segment reporting;
- IAS 19: certain aspects of the standard relating to employee benefits (including equity compensation benefits and options for first-time adoption);
- IAS 36: Valeo amortizes goodwill on a straight-line basis and exceptional amortization may be recorded where indicators of a lasting impairment in value can be identified. The exposure draft of proposed amendments to IAS 36 provides that goodwill amortization will no longer be compulsory and that systematic annual impairment tests should be carried out;
- IAS 38: Valeo continues to charge development costs to the statement of income when they are incurred;
- IAS 32 and 39: Valeo applies French generally accepted accounting principles in relation to financial instruments.

1.2 - Since January 1, 2002, Valeo has applied the new CRC standard 2000-06 relating to liabilities.

Application of this standard resulted in the cancellation of provisions that did not comply with the new standard, in the amount of €13 million at January 1, 2002 (see note 10), and a €22 million reduction in goodwill on Sylea, net of amortization (see note 3), leading to a €9 million decrease in stockholders’ equity.

If this standard had been applied as of January 1, 2001, “other income/expense – net” for 2001 would have included an additional expense of €17 million, and goodwill amortization would have been reduced by €1 million.

1.3 - Consolidation methods

The consolidated financial statements include the accounts of Valeo and of its majority-owned subsidiaries.

Investments in associated companies in which Valeo has the power to exercise significant influence over financial and operating policies, 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 earnings for the year.

Companies held jointly by Valeo and another partner are accounted for as follows:

- jointly-owned subsidiaries managed de facto by Valeo are fully consolidated;
- those managed either legally or de facto by the partner are accounted for using the equity method;
- only those in which both partners share voting rights, seats on the Board of Directors or equivalent and share management responsibility are consolidated on a proportional basis.

Investments in certain other majority-owned subsidiaries and associated companies that the Group does not intend to hold on a long-term basis or which are not material in relation to the Group as a whole, are not consolidated.

The individual Group companies are consolidated on the basis of their local financial statements, as restated in accordance with the principles applied by the Group.

All significant inter-company transactions are eliminated, including gains on inter-company disposals of assets, inter-company profits included in inventories and inter-company dividends.

Companies acquired during the year are consolidated as from their acquisition date.

1.4 - Intangibles and goodwill

The identifiable assets and liabilities of companies consolidated for the first time are recorded in the consolidated balance sheet at their fair value at the date of acquisition. The excess of the purchase price of the shares in the company concerned over the aggregate fair value of identifiable assets and liabilities at the date of acquisition is recorded as an asset under “Goodwill”. Goodwill is amortized by the straight-line method over the estimated period of benefit, determined on a case-by-case basis, not to exceed twenty years. The fair value of goodwill is reviewed whenever indicators of a lasting impairment in value are identified. Such indicators include significant changes with a lasting adverse effect on the economic environment or the assumptions and objectives applied at the date of acquisition. Impairment losses are measured based on projected future earnings and recorded in the form of exceptional amortization.

Goodwill arising on the acquisition of foreign companies and fair value adjustments to the underlying assets and liabilities of the acquired companies are translated at the year-end exchange rate.

As regards the 1998 acquisition of ITT Automotive Electrical Systems, which was partly financed by a share issuance, goodwill on the portion of the acquisition price funded through equity was recorded as a deduction from the related issue premium.

If this accounting treatment had not been applied to this transaction, stockholders' equity would have been increased by €495 million at December 31, 2003 (by €583 million at December 31, 2002) and net income would have been reduced by €36 million in 2003 (by €39 million in 2002) : see note 3.

Other intangible assets, primarily patents and software, are amortized on a straight-line basis over periods corresponding to the estimated period of benefit.

1.5 - Property, plant and equipment

Property, plant and equipment are carried at cost, excluding interest expense, which is not capitalized. French and foreign legal revaluations are not reflected in the consolidated financial statements.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets concerned. The principal useful lives employed are:

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

Whenever indicators of a lasting impairment in value are identified, a provision is booked to write down property, plant and equipment to their fair value to the Group measured based on projected future earnings.

Assets leased under long-term contracts or other arrangements which transfer substantially all of the benefits and risks of ownership to the Group, are capitalized and depreciated on the basis outlined above and the corresponding obligation is recorded as a liability.

Capital grants received from government agencies to finance manufacturing investments are written back to income over the useful life of the corresponding assets.

Repair and maintenance expenses are charged to income when incurred.

1.6 - Investments and other non-current assets

Investments in companies carried at cost represent shares in companies that are not consolidated.

Where appropriate, these investments are written down to an amount corresponding to their fair value to the Group.

1.7 - Inventories

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

Allowances for obsolescence are recorded where appropriate, based on the rate of turnover of each inventory.

1.8 - Marketable securities

Marketable securities are stated at the lower of cost or market value. They include Valeo shares bought back in order to stabilize the share price or for allocation to employees.

1.9 - Debt issuance costs

Expenditures arising from the issuance of debt are recorded as a deferred charge and amortized on a straight-line basis over the period of debt.

1.10 - Pension and other employee benefits

The cost of providing statutory retirement bonuses, supplementary pension benefits and other post-retirement benefits (payment of healthcare costs and other benefits) is recognized as an expense in the period in which the services entitling employees to the benefits are rendered. Provisions are booked for all benefits due to employees, whether they relate to the period of employment, employee retirement or post-employment period. The estimated future liability is determined at each year-end, taking into account the length of service and the likelihood of each employee remaining with the Group until the retirement date, or the minimum early retirement age, in those cases where certain benefit entitlements vest before that date. The liability is calculated on an actuarial basis, using assumptions concerning future salary levels, retirement age and the return on plan assets at the year-end. The cumulative effects of changes in actuarial assumptions are recognized in the income statement over the average residual working life of active employees, except for variances not exceeding 10% of the total obligation or the market value of plan assets, whichever is higher.

1.11 - Product warranty costs

Provision is made for estimated product warranty costs at the time of sale of the products.

1.12 - Research and development expenditures

Research and development expenditures are charged to expense when incurred. They include all costs related to the development of new products and systems, and research and development for existing products.

1.13 - Income tax expense

Income taxes reported in the income statement include current income taxes and deferred income taxes arising from timing differences between the tax base and book value of assets and liabilities. The main timing differences are related to depreciation of property, plant and equipment, provisions for pension and other employee benefits, other temporarily non-deductible provisions and to tax loss carryforwards. Deferred income taxes are accounted for using the liability method applied to all timing differences and based on the latest enacted tax rates.

Recognition of deferred tax assets arising from timing differences or tax loss carryforwards is limited to the amount of existing deferred tax liabilities, unless it appears probable that taxable profits will be available against which the deferred tax asset can be utilized.

The Group reviews the probability of future utilization of deferred tax assets on a periodic basis and where necessary a valuation allowance is recorded against deferred tax assets recognized in prior years.

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

1.14 - Other income/expense - net

"Other income/expense – net" consist primarily of gains and losses arising on divestment of consolidated businesses and associated companies accounted for by the equity method, costs relating to personnel downsizing or industrial restructuring plans and exceptional assets write-downs.

Costs relating to downsizing plans which are announced to the personnel and costs relating to facilities closing or termination of businesses are provided for as soon as such costs can be estimated with a reasonable degree of accuracy.

1.15 - Foreign currency translation

Transactions in foreign currency are translated using the rate prevailing at the transaction date or the hedging rate, if any. Assets and liabilities denominated in foreign currency are translated at the year-end exchange rate or the hedging rate, if any. 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 the foreign subsidiary are recorded for their amount net of tax in consolidated stockholders' equity under translation reserves.

The financial statements of foreign subsidiaries, with the exception of those operating in countries with highly inflationary economies or of companies whose principal cash flows are denominated in a functional currency different from the local currency, are translated as follows:

- assets and liabilities are translated at the year-end exchange rate;
- income statement accounts are translated using the average exchange rate for the year;
- gains or losses arising from the translation of the financial statements of foreign subsidiaries are recorded through consolidated stockholders' equity (under "translation reserves") for the Group share and in minority interests.

Countries defined as having highly inflationary economies are primarily those whose inflation rate over three years is in excess of 100%. For such countries and for companies which operate in a functional currency different from the local currency:

- all non monetary balance sheet and corresponding income statement items are translated into the functional currency using historical rates;
- monetary balance sheet items are translated using the year-end exchange rate;
- all other income statement items are translated at the average exchange rate for the year.

The functional currency is that in which a company's principal cash flows are denominated or the currency used for consolidation purposes.

1.16 - Financial instruments

Gains and losses on financial instruments used for hedging purposes are determined and accounted for on a symmetrical basis with the losses and gains on the hedged items.

This accounting treatment is also applied to financial instruments acquired as hedges of probable future transactions.

Financial instruments not used as hedges are marked to market at each year-end and the resulting gain or loss is recognized in the statement of income.

1.17 - Diluted earnings per share

Primary 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 when the latter have been deducted from stockholders' equity.

Diluted earnings per share are calculated by including potentially dilutive instruments such as stock options or convertible bonds, taking into account the probability of exercise or conversion based on 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 purpose 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.

2 - CHANGES IN THE SCOPE OF CONSOLIDATION

2.1 - 2003 transactions

2.1.1 - Acquisitions

- Valeo Auto Lighting
  Valeo acquired an additional 24% interest in Hubei Valeo Auto Lighting in China, increasing its stake to 75% in March 2003. The acquisition of this additional stake in the company, which was already fully consolidated did not have any impact on consolidated sales in 2003.

- Ichikoh
  Valeo increased its stake in Ichikoh Industries to 21.6% in 2003. The company was accounted for by the equity method from September 30, 2003 leading to the recognition of €18 million in goodwill at that date.

- Zexel
  Valeo acquired an additional 10% interest in Zexel Valeo Climate Control, increasing its stake in the company to 50% at December 1, 2003. The Climate Control business (managed de facto by Valeo) is fully consolidated and the Compressors business (jointly managed) is proportionally consolidated. Only certain minority interests or those which the Group intends to sell are still accounted for by the equity method.

  This acquisition, which took place on December 1, 2003, contributed €34 million to consolidated sales in 2003. If it had taken place on January 1, 2003 the pro forma impact on consolidated sales for 2003 would have been €424 million.

Based on the fair value of identifiable assets and liabilities on the date of the acquisition, in accordance with CRC standard 99-02, €22 million was recognized as preliminary goodwill (amortized over 20 years) and €22 million was recorded in retained earnings, representing the revaluation of the 40% equity previously held.

- Valeo Raytheon Systems Inc
  Valeo continued to invest in Valeo Raytheon Systems Inc., raising its stake in the company from 47.0% at December 31, 2002 to 58.1% at December 31, 2003.

The total cost of these acquisitions was €34 million.

2.1.2 - Disposals

- Saint-Aubin
  On October 1, 2003, Valeo sold its plastic injection business based at Saint-Aubin d'Arquenay (France) to IMTEC, one of the Group's suppliers. This business had external sales of €1 million in 2002 and 2003 and employed 46 people at October 1, 2003.

- Vénissieux
  On October 31, 2003 Valeo sold its business of rear light and safety accessories for Heavy Goods Vehicles, trailers and buses based at Vénissieux (France). This business reported sales of €30 million and €24 million for 2002 and 2003 respectively, and had 199 employees at October 31, 2003.

2.2 - Main changes in the scope of consolidation in 2002

- Partnership with the US-based Jabil Circuit group for printed circuit board manufacturing.
  Valeo transferred its Meung-sur-Loire facility (750 people) to the world-class electronics manufacturing company Jabil Circuit in July 2002. The transfer of production from the Fort Worth facility in the United States was undertaken as from November 2002. This operation had no material impact on Group sales in 2002 or 2003.

- Creation of Valeo Raytheon Systems Inc.
  Valeo set up a joint venture with Raytheon dedicated to developing and producing new automobile applications using radar technology designed for obstacle detection systems. This business has been fully consolidated since September 2002. It had 17 employees at December 31, 2003 and did not generate any sales in 2002 or 2003.

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

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

Acquisitions less disposals

(in € millions)	2003	2002	2001
Goodwill	42	6	(34)
Fixed assets [1]	110	(30)	(53)
Inventories	26	(16)	(27)
Receivables	114	-	(82)
Stockholders' equity	11	-	48
Minority interests	(6)	-	8
Long-term debt	(72)	2	-
Other liabilities and deferred income	(143)	30	61
Other liabilities [2]	(40)	1	190
Cash absorbed by acquisitions (net of cash provided by disposals of shares in consolidated companies)	**42**	**(7)**	**111**

(1) Including investments in companies at equity.
(2) Including provisions for contingencies and charges.

The impact on Group cash flow of the changes in the scope of consolidation in 2003 (€42 million) was primarily due to the acquisition of the additional stake in Zexel Valeo Climate Control.

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

Group sales stood at €9,234 million in 2003, down 5.8% on the 2002 figure of €9,803 million.

Changes in exchange rates had a 4.7 % unfavorable impact on sales in euros. Based on a comparable structure and at constant exchange rates, sales were 1.4% lower than in 2002.

3 - GOODWILL

Net goodwill can be analyzed as follows:

(in € millions)	2003	2002	2001
Net goodwill, January 1	**1,387**	**1,596**	**1,560**
Acquisitions (1)	43	9	47
Disposals (2)	(1)	-	(52)
Translation adjustment	(82)	(86)	27
Adjustments to fair value of assets and liabilities of companies acquired in prior years	-	(1)	351
Impact of the new standard concerning liabilities (3)	-	(22)	-
Amortization expense	(90)	(94)	(337) (4)
Reversal of a provision set off against goodwill	-	(15)	-
Other	4	-	-
Net goodwill, December 31	**1,261**	**1,387**	**1,596**

(1) see note 2.1.1
(2) see note 2.1.2
(3) see note 1.2
(4) includes exceptional amortization of goodwill relating to certain of the Rochester site's activities (see note 14).

Analysis of goodwill by company:

At December 31 *(in € millions)*	2003	2002
Valeo Electronique et Systèmes de Liaison	365	387
ITT Industries	321	379
Valeo Mando Electrical System Korea	74	95
Valeo Sylvania	55	71
Valeo Sicherheitssysteme	62	67
Zexel Valeo Climate Control	75	61
Other	309	327
Net goodwill at December 31	**1,261**	**1,387**

At December 31, 2003, goodwill related to ITT Automotive Electrical Systems amounted to €321 million. In line with the methodology described in note 1.4, two-thirds of this goodwill, corresponding to the portion of the acquisition financed by the issuance of shares, has been written off to the extent possible against the related premium of €986 million.

The net goodwill amount includes the exceptional write-down of VESI goodwill in 2001 based on an indication of impairment loss arising due to the structural difficulties faced by this company in the North American context and its unfavorable earnings outlook. The amount of the write-down was determined based on the total goodwill recognized at the time of acquisition and partly charged to the income statement (€200 million in 2001) and partly to stockholders' equity (€305 million in 2001), on a prorata basis reflecting the initial allocation between goodwill and stockholder's equity.

Net goodwill at December 31, 2003 concerns the following branches: Climate Control (€192 million), Engine Cooling (€74 million), Lighting Systems (€85 million), Wiper Systems (€219 million), Electrical Systems (€86 million), Security Systems (€86 million), Switches & Detection Systems and Electronics & Connective Systems (€443 million).

4 - INTANGIBLES AND PROPERTY, PLANT AND EQUIPMENT

4.1 - Analysis

At December 31 *(in € millions)*	Cost	Depreciation, amortization and allowances	Net	Net	Net
	2003			2002	2001
Software	79	(54)	25	10	14
Patents and licences	40	(26)	14	16	21
Other intangible assets	29	(14)	15	17	15
Intangible assets	**148**	**(94)**	**54**	**43**	**50**
Land	169	(8)	161	133	143
Buildings	911	(464)	447	438	463
Plant and equipment	4,013	(2,842)	1,171	1,283	1,378
Other	662	(345)	317	378	474
Property, plant and equipment	**5,755**	**(3,659)**	**2,096**	**2,232**	**2,458**
Assets under capital leases included above			37	23	35

4.2 - Main movements

(in € millions)	Intangible assets	Property, plant and equipment	Total
Net at December 31, 2000	**44**	**2,436**	**2,480**
Capital expenditure	27	718	745
Disposals	(3)	(118)	(121)
Depreciation, amortization and allowances	(16)	(557)	(573)
Impact of change in the scope of consolidation	-	(49)	(49)
Translation adjustment	-	26	26
Other	(2)	2	-
Net at December 31, 2001	**50**	**2,458**	**2,508**
Capital expenditure	12	544	556
Disposals	(1)	(69)	(70)
Depreciation, amortization and allowances	(18)	(536)	(554)
Translation adjustment	(1)	(143)	(144)
Other	1	(22)	(21)
Net at December 31, 2002	**43**	**2,232**	**2,275**
Capital expenditure	26	427	453
Disposals	(1)	(43)	(44)
Depreciation, amortization and allowances	(22)	(509)	(531)
Impact of change in the scope of consolidation	5	110	115
Translation adjustment	(1)	(103)	(104)
Other	4	(18)	(14)
Net at December 31, 2003	**54**	**2,096**	**2,150**

Capital expenditure breaks down as follows:

At December 31 *(in € millions*	2003	2002	2001
Intangible assets	26	12	27
Land and buildings	64	68	72
Plant and equipment	269	373	528
Other	94	103	118
Capital expenditure	**453**	**556**	**745**

5 - INVESTMENTS CARRIED AT COST

At December 31	Net book value of shares held		
(in € millions)	2003	2002	2001
Ichikoh [1]	-	61	61
Valeo Services Ltd [2]	1	1	1
Valeo GmbH [2]	1	1	1
Teccom [2]	1	1	1
Other [2]	-	2	2
Investments carried at cost	**3**	**66**	**66**

(1) Interest acquired in connection with the alliance between Valeo's Lighting Systems Branch and Ichikoh Industries, accounted for by the equity method from September 30, 2003 (see note 2.1.1).

(2) Non-material companies which are not consolidated in accordance with CRC standard 99-02.

6 - INVESTMENTS IN COMPANIES AT EQUITY

At December 31	% voting rights			Equity in net assets		
(in € millions)	2003	2002	2001	2003	2002	2001
Zexel [1]	[1]	40 %	40 %	18	20	17
Ichikoh [2]	21.6 %	-	-	44	-	-
Faw Zexel Climate Control	36.5 %	36.5 %	36.5 %	6	7	3
Shanghai Valeo Automotive	-	-	-	-	-	-
Electrical Systems	30 %	30 %	30 %	5	5	5
Other	-	-	-	3	2	2
Investments in companies at equity				**76**	**34**	**27**

(1) Zexel: Valeo held 40% of Zexel until December 1, 2003 when it acquired an additional 10% stake. Since that date the Climate control business (managed de facto by Valeo) has been fully consolidated and the Compressors business (jointly managed) has been proportionally consolidated. Only certain minority interests or those which the Group intends to sell are still accounted for by the equity method.

(2) Ichikoh: accounted for by the equity method from September 30, 2003 (see note 2.1.1).

Investments in companies at equity can be analyzed as follows:

(in € millions)	2003	2002
Investments at equity at January 1	**34**	**27**
Net earnings of investments at equity	9	7
Dividend payments	(3)	-
Impact of change in the scope of consolidation	42	5
Translation adjustment	(6)	(5)
Investments at equity at December 31	**76**	**34**

7 - INVENTORIES

At December 31 *(in € millions)*	2003	2002	2001
Raw materials	244	299	345
Work-in-progress	80	74	94
Finished goods, supplies and specific tooling	351	362	409
Inventories at cost	**675**	**735**	**848**
Less allowances	(105)	(107)	(95)
Inventories - net	**570**	**628**	**753**

8 - ACCOUNTS AND NOTES RECEIVABLE

At December 31 *(in € millions)*	2003	2002	2001
Accounts and notes receivable	1,812	1,785	1,865
Less allowances	(32)	(33)	(44)
Accounts and notes receivable - net	**1,780**	**1,752**	**1,821**

9 - STOCKHOLDERS' EQUITY

9.1 - Share capital

At December 31, 2003, Valeo's share capital totaled €246 million, represented by 82,133,728 shares of common stock with a par value of €3 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 (1,769,500 at December 31, 2003). There were no movements in the Company's share capital in 2003.

The following employee stock option plans approved by the General Shareholders' Meeting were in progress at December 31, 2003:

Year in which plan was set up	Number of shares subject to options	Exercise price (in €) (1)	Number of options outstanding at Dec. 31, 2003	Expiration of exercise period
1999	150,000	67.40	58,250	2004
1999	850,000	70.32	528,000	2005
2000	50,000	60.70	50,000	2006
2000	1,300,000	48.00	948,750	2006/2008
2000	37,500	54.52	35,625	2006
2001	80,000	55.82	80,000	2009
2001	600,000	42.48	600,000	2009
2001	442,875	42.69	395,800	2009
2002	420,000	43.84	321,000	2010
2002	600,000	28.30	540,500	2010
2003	700,000	23.51	687,000	2011
2003	1,280,000 (2)	32.91	1,280,000 (2)	2011
Total	**6,510,375**		**5,524,925**	

(1) Equal to 100% of the average quoted price of Valeo shares for twenty trading days preceding the Board of Directors or Management Board Meeting at which the options were granted.
(2) 780,000 stock subscription options and 500,000 stock purchase options.

At the Extraordinary General Shareholders' Meeting of June 10, 2002, the Management Board was authorized to issue various financial instruments. This authorization was transferred to the Board of Directors by the General Shareholders' Meeting held on March 31, 2003. The long-term financing opportunities offered to the Board under these authorizations were taken up in 2003 through the issue of €463 million worth of bonds convertible or exchangeable for new and/or outstanding shares (OCEANE) : see note 11.3.1.

The exercise of all outstanding stock options and the conversion into new shares of all of the OCEANEs would result in Valeo's share capital being increased to €291 million, representing 97,134,407 shares.

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.

At the time of acquisition of ITT Automotive Electrical Systems, goodwill on the portion of the acquisition price funded through equity (€957 million in 1998 and €29 million in 1999) was recorded as a deduction from the issue premium.

9.3 - Translation reserve

The translation reserve at December 31, 2003 primarily includes gains and losses arising from the translation of the net assets of the US, Mexican, Brazilian, Swedish, Korean and Japanese subsidiaries.

9.4 - Retained earnings

Consolidated retained earnings comprise net income for the year before appropriation of €1.05 per share (total of €85 million) to dividends proposed at the General Shareholders' Meeting (2002 dividend €1 per share, i.e. a total of €81 million; 2001 dividend €0.7 per share, i.e. a total of €58 million).

Distribution by the parent company of the balance of its retained earnings (€1,457 million after appropriation of 2003 net income) would result in additional tax of €477 million.

10 - PROVISIONS FOR CONTINGENCIES AND CHARGES

Changes in provisions for contingencies and charges can be analyzed as follows:

	Provisions for reorganization expenses	Provisions for pension and other employee benefits	Other provisions for contingencies and charges	Total provisions for contingencies and charges	O/w short-term
Provisions at January 1, 2001	**488**	**563**	**241**	**1,292**	**631**
Expenses charged to the provisions during the year	(270)	(34)	(101)	(405)	
Impact of change in the scope of consolidation	(7)	(10)	(6)	(23)	
Translation adjustment	12	12	1	25	
Increase recorded against goodwill	142	-	87	229	
Additions/recoveries - net	375	96	103	574	
Other movements	-	(20)	2	(18)	
Provisions at December 31, 2001	**740**	**607**	**327**	**1,674**	**776**
Expenses charged to the provisions during the year	(193)	(83)	(103)	(379)	
Impact of change in the scope of consolidation	-	(2)	-	(2)	
Translation adjustment	(40)	(48)	(23)	(111)	
Provisions reclassified (1)	(133)	83	(21)	(71)	
Impact of the new standard concerning liabilities	(13)	-	-	(13)	
Additions/recoveries - net	4 (2)	59	101	164	
Other movements	-	26	-	26	
Provisions at December 31, 2002	**365**	**642**	**281**	**1,288**	**419**
Expenses charged to the provisions during the year	(163)	(85)	(73)	(321)	
Impact of change in the scope of consolidation	7	8	22	37	
Translation adjustment	(17)	(55)	(9)	(81)	
Provisions reclassified (1)	(10)	43	(31)	2	
Additions/recoveries - net	21 (2)	84	48 (3)	153	
Other movements	-	(4)	-	(4)	
Provisions at December 31, 2003	**203**	**633**	**238**	**1,074**	**359**

(1) of which €83 million and €38 million reallocated from provisions for reorganization expenses to provisions for pension and other employee benefits for the Rochester facility in 2002 and 2003 respectively, with the balance mainly reflecting asset write-downs.
(2) of which €16 million in recoveries in 2003 (€28 million in 2002).
(3) of which €20 million in recoveries.

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 implemented at the Rochester site (USA);
- specific severance payments (CATS) applicable at certain French sites, in accordance with the industry agreement signed in March 2001.

10.2 - Provision for pension and other employee benefits

The Group's main pension commitments concern its French, German, American and Italian subsidiaries.

The French companies are subject to two types of obligations, which are due and paid only after employees retire from the company:

- statutory retirement bonuses;
- supplementary pension benefits: since 1987, pension contributions have been made to an external fund, which in turn makes payments to the retirees. The Group continues to pay pensions to employees who retired before 1987.

The American companies provide their employees with pension benefits and pay some of their medical and life insurance costs. They make contributions to outside funds that manage all or part of these benefits.

The German companies grant supplementary pension benefits to their employees. The related obligations are not externally funded.

The Italian companies are required by law to pay contract termination indemnities to their employees.

"Provision for pension and other employee benefits" also includes other long-term benefits, primarily long-service awards in France.

The costs relating to all of the above-mentioned benefits are accounted for in accordance with the method described in note 1.10.

Assumptions regarding mortality rates, employee turnover and future salary levels take into account the specific economic conditions of each country or Group company. The main discounting rates used at December 31, 2003 to calculate the present value of future commitments were as follows:

- France: 5.5%
- Other European countries: 5 to 6%
- North America: 6%

The Group's pension and other employee benefits obligations can be analyzed as follows:

(in € millions)	France	Other European countries	North America	Other countries	Total
Obligations at January 1, 2003	**118**	**274**	**437**	**22**	**851**
Service cost	7	12	9	5	33
Interest expense	7	14	33	2	56
Benefits paid	(21)	(16)	(27)	(2)	(66)
Changes in assumptions	24	(6)	109 (1)	5	132
Plan amendments	10	(1)	(8)	-	1
Impact of changes in scope of consolidation	(1)	1	3	2	5
Other	9	(2)	43	(1)	49
Translation adjustment	-	(4)	(99)	(4)	(107)
Obligations at December 31, 2003	**153**	**272**	**500**	**29**	**954**
Plan assets at fair value	(2)	(27)	(113)	-	(142)
Unrecognized prior period service cost	(17)	-	9	-	(8)
Unrecognized actuarial gains and losses	(16)	(5)	(149)	(1)	(171)
Provisions at December 31, 2003	**118**	**240**	**247**	**28**	**633**

(1) primarily representing the reduction in the discounting rate applied and an amended growth rate relating to healthcare expenses.

(in € millions)	France	Other European countries	North America	Other countries	Total
Provisions at January 1, 2003	**108**	**236**	**277**	**21**	**642**
Expenses charged to the provisions during the year	(21)	(16)	(46)	(2)	(85)
Impact of changes in scope of consolidation	(1)	1	-	8	8
Reclassification from provision for reorganization expenses	8	(2)	38	(1)	43
Other	-	(3)	1	(2)	(4)
Translation adjustment	-	-	(52)	(3)	(55)
Provisions for the year (expense):					
• Service cost	7	12	9	5	33
• Interest expense	7	14	33	2	56
• Prior-period service cost	13	-	(9)	-	4
• Return on plan assets	-	-	(8)	-	(8)
• Other items	(3)	(2)	4	-	(1)
Provision at December 31, 2003	**118**	**240**	**247**	**28**	**633**
O/w short-term	**20**	**13**	**40**	**2**	**75**

10.3 - Other provisions for contingencies and charges

At December 31 *(in € millions)*	**2003**	**2002**	**2001**
Provisions for product warranties	90	95	99
Capital grants	15	11	14
Provisions for other contingencies	133	175	214
Other provisions for contingencies and charges	**238**	**281**	**327**

Provisions for other contingencies mainly concern contractual, social, environmental or tax risks and litigation.

11 - NET INDEBTEDNESS

11.1 - Breakdown of net indebtedness

Net indebtedness can be analyzed as follows:

At December 31 *(in € millions)*	**2003**	**2002**	**2001**
Long-term debt (note 11.3.1)	1,166	657	676
Current maturities of long-term debt	28	14	19
Long-term loans	(3)	-	(1)
Total long-term debt	**1,191**	**671**	**694**
Short-term debt (note 11.4)	237	579	634
Cash and marketable securities (note 11.5)	(860)	(686)	(680)
Net cash and cash equivalents	**(623)**	**(107)**	**(46)**
Net indebtedness	**568**	**564**	**648**

11.2 - Analysis of net indebtedness by currency

Net indebtedness can be analyzed as follows by currency:

At December 31 *(in € millions)*	2003	2002	2001
Euro	620	701	908
US dollar	(44)	(56)	(203)
Other currencies	(8)	(81)	(57)
Total	**568**	**564**	**648**

11.3 - Long-term debt

11.3.1 - Analysis of long-term debt

At December 31 *(in € millions)*	2003	2002	2001
Bond issue	500	500	500
OCEANEs	463	-	-
Syndicated loans	127	127	127
Lease obligations	27	14	25
Other borrowings	77	30	43
Long-term debt	**1,194**	**671**	**695**

Long-term debt includes:

- €500 million 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.
- €463 million 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 each. The interest on these bonds is 2.375% per annum payable in arrears on January 1 with the first payment in 2004. The bonds will be redeemed in full at par on January 1, 2011. Bondholders may convert or exchange their bonds at any time at a ratio of one share per bond.
- two fixed-rate syndicated loans in an amount of €127 million, due on June 24, 2005, and managed using variable rate swaps on a notional value equal to the total amount of the loans.

11.3.2 - Maturities of long-term debt

At December 31 *(in € millions)*	2005	2006	2007	2008	2009	2010 and beyond	Total
Bond issue	-	500	-	-	-	-	500
OCEANEs	-	-	-	-	-	463	463
Syndicated loans	127	-	-	-	-	-	127
Lease obligations	11	5	1	-	-	1	18
Other borrowings	30	20	4	1	1	2	58
Total	**168**	**525**	**5**	**1**	**1**	**466**	**1,166**

11.4 - Short-term debt

Short-term debt can be analyzed as follows:

At December 31 *(in € millions)*	2003	2002	2001
Commercial paper	50	440	483
Short-term loans and overdrafts	169	138	150
Accrued interest	18	1	1
Short-term debt	**237**	**579**	**634**

11.5 - Cash and marketable securities

At December 31 *(in € millions)*	2003	2002	2001
Marketable securities	(516)	(406)	(219)
Cash	(344)	(280)	(461)
Cash and marketable securities	**(860)**	**(686)**	**(680)**

The portfolio of marketable securities at December 31, 2003 primarily consists of money market mutual funds, whose market value is close to their book value, and €30 million of shares held in treasury stock.

11.6 - Credit lines

At December 31, 2003 Valeo had obtained several confirmed lines of credit with an average maturity of two years, for a total of €1.3 billion. No drawdowns had been made on these lines at that date. These credit lines contain contractual covenants relating to debt-to-equity ratios. At December 31, 2003 the ratio stood at 29%, significantly below the thresholds set by these covenants.

11.7 - Financing programs

The Group has a medium and long-term Euro Medium Term Notes financing program representing a maximum of €2 billion. No notes have been issued under this program, which was set up on October 28, 2002 and renewed on November 20, 2003.

The Group also has a short-term commercial paper financing program with a ceiling of €1.2 billion.

12 - NUMBER OF EMPLOYEES AND OPERATING EXPENSES

At December 31	2003	2002	2001
Total employees[1]	68,200	69,100	70,000

The statement of income presents operating expenses by function. Operating expenses primarily include:

(in € millions)	2003	2002	2001
Personnel costs [1]	2,283	2,430	2,601
Rent	56	50	55
Depreciation and amortization:			
• property, plant and equipment	503	536	534
• intangibles	22	18	16

(1) including temporary staff.

13 - NET FINANCIAL EXPENSE

(in € millions)	2003	2002	2001
Net interest expense	(40)	(49)	(47)
Currency gains and losses - net	(5)	(10)	(10)
Other [(1)]	4	(3)	(5)
Net financial expense	**(41)**	**(62)**	**(62)**

(1) In 2003 this item includes €8 million in interest received from the French tax authorities in connection with a tax rebate (see note 15).

14 - OTHER INCOME/EXPENSE - NET

(in € millions)	2003	2002	2001 [(1)]
Gains/(losses) on disposals of shares in consolidated or equity-accounted companies (note 2.1.2)	10	-	(33)
Exceptional goodwill amortization	-	1	(217)
Reorganization expenses	(71)	(41)	(447)
Other expenses – net	(28)	(34)	(41)
Other income/expense - net	**(89)**	**(74)**	**(738)**

(1) Other income/expense - net for 2001 mainly included costs relating to the Rochester reorganization plan and exceptional amortization of the goodwill relating to certain activities at that facility.

15 - INCOME TAXES

15.1 - Income tax expense

(in € millions)	2003	2002	2001
Current taxes	(24)	(101)	(62)
Deferred taxes	(31)	(5)	20
Income tax expense	**(55)**	**(106)**	**(42)**

The net tax charge for 2003 includes an €88 million tax rebate received from the French tax authorities during the year, corresponding to a portion of the tax paid in 2001 on the gain from the 1999 disposal of the Group's 50% interest in LuK. The €8 million in interest also received from the French tax authorities in connection with this rebate have been recorded in "Net financial expense". Valuation allowances have been recorded in respect of certain deferred tax assets, based on the Group's revised estimate at December 31, 2003 of the probability of their being recovered.

15.2 - Effective tax rate

The difference between the French standard corporate income tax rate and the effective tax rate of the Group can be analyzed as follows:

(% of income before tax)	2003	2002	2001
Standard tax rate in France	(35.4 %)	(35.4 %)	(36.4 %)
Impact of:			
• income taxed at other rates	0.5 %	6.0 %	(9.4 %)
• unutilized tax losses (current year) and unrecognized deferred tax assets	(36.4 %)	(14.1 %)	64.0 %
• utilized tax losses (prior years)	12.3 %	5.4 %	(6.4 %)
• permanent differences between book income and taxable income	12.6 %	6.5 %	(1.1 %)
• tax credits	30.0 %	1.4 %	(0.7 %)
Effective Group tax rate	**(16.4 %)**	**(30.2 %)**	**10.0 %**

15.3 - Deferred tax assets/liabilities

At December 31 *(in € millions)*	2003	2002	2001
Long-term deferred tax assets	65	106	124
Short-term deferred tax assets	56	56	55
Long-term deferred tax liabilities	(18)	(25)	(27)
Net deferred tax assets	**103**	**137**	**152**

15.4 - Loss carryforwards and tax credits

Future tax benefits resulting from the utilization of unrecorded accumulated tax loss carryforwards and other unrecognized deferred tax assets represent a potential asset of €617 million at December 31, 2003 (€525 million at December 31, 2002 and €412 million at December 31, 2001).

Due to the uncertainty of their utilization, these potential credits will be recognized only when their recovery seems probable in the short or medium term. The table below sets out the expiry dates for these potential credits.

At December 31 *(in € millions)*	Base	Potential tax saving
Expiration date: 2004 to 2007	166	55
Expiration date: 2008 and beyond	387	110
Available indefinitely	587	209
Current tax loss carryforwards	**1,140**	**374**
Unrecognized deferred tax assets (timing differences)	-	243
Total unrecognized tax loss carryforwards and deferred tax assets		**617**

15.5 - Group tax relief

Valeo SA and its main French subsidiaries elected to qualify for Group tax relief for the years 1998 to 2002 and 2003 to 2007.

The Group's foreign subsidiaries have also elected to apply for Group tax relief or similar schemes, wherever this is allowed under local tax law (Germany, Spain, the United Kingdom and the United States).

16 - COMMITMENTS AND CONTINGENCIES

To the best of Valeo's knowledge, no other 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.

16.1 - Lease commitments

Minimum future rentals payable under leasing contracts existing at December 31, 2003 (excluding capitalized leases) are as follows (by maturity date):

At December 31	2003			2002		
(in € millions)	Less than one year	More than one year	Total	Less than one year	More than one year	Total
Future rents	49	33	82	24	19	43

16.2 - Other commitments

In the course of its ordinary business, Valeo has the following unrecorded commitments:

At December 31	2003			2002		
(in € millions)	Less than one year	More than one year	Total	Less than one year	More than one year	Total
Counterguarantees on contracts	-	-	-	-	-	-
Receivables sold	-	-	-	14	-	14
Pledges, mortgages and collateral	5	54	59	13	-	13
Guarantees given	25	13	38	26	23	49
Other commitments given	9	47	56	19	5	24
Total	**39**	**114**	**153**	**72**	**28**	**100**

Commitments regarding pensions and other employee benefits are disclosed in note 10.2. Commitments less plan assets at fair value amount to €812 million, of which €633 million are provided for. Commitments regarding financial instruments are disclosed in note 17.

In connection with its strategic alliances, the Valeo Group has granted call options on less than 15% of the capital of the companies concerned. The corresponding stockholders' equity amounts are as follows:

At December 31, 2003 *(in € millions)*	Less than one year	More than one year	Total
Commitments given	20	-	20

16.3 - Claims and litigation

Known claims and litigation involving Valeo or its subsidiaries have been reviewed by legal counsel 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.

17 - OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

17.1 - Hedging of foreign currency risks

Certain entities may be subject to some degree of currency risk on purchases of products, sales billed in currencies other than their reporting currencies, or investments carried out in foreign countries. The Group companies' exposure to these currency risks is hedged primarily with Valeo SA, which in turn hedges the Group's net positions with external counterparties.

Current and future transactions of Group companies (sales and investments) are generally hedged over periods not exceeding six months.

The main hedging instruments generally used by Valeo are currency forwards, swaps and options.

At December 31, 2003 the Group's net position in the main foreign currencies was as follows:

At December 31 *(in € millions)*	USD	GBP	JPY	Other
Total assets	52	7	3	53
Total liabilities	(73)	(14)	(19)	(43)
Net position before hedging	**(21)**	**(7)**	**(16)**	**10**
Forward sales	(32)	(6)	-	(11)
Forward purchases	104	-	3	15
Options	-	-	-	-
Off-balance sheet position	**72**	**(6)**	**3**	**4**
Net position after hedging	**51**	**(13)**	**(13)**	**14**

The net position after hedging essentially corresponds to forecast transactions for 2004.

The market value of currency instruments was €(1) million at December 31, 2003.

17.2 - Hedging of interest rate risks

At December 31 *(in € millions)*	Less than one year	1 to 5 years	Over 5 years
Financial assets	(833)	-	-
Financial liabilities	275	689	467
Position before hedging	**(558)**	**689**	**467**
Off balance sheet	127	(127)	-
Position after hedging	**(431)**	**562**	**467**

The Group's average borrowing cost amounted to 5.3% in 2003 (5.9% for 2002 and 2001). At December 31, 2003, 88% of long-term debt was at fixed rates (80% at December 31, 2002 and 2001). Valeo has very low exposure to interest rate risks due to the high proportion of its long-term debt at fixed rates.

The market value of the swap relating to syndicated loans was €1 million at December 31, 2003.

17.3 - Hedging of commodity risks

In order to reduce the Group's exposure to fluctuations in base metals prices, Valeo hedges its future purchases of base metals over periods generally not exceeding six months. The materials concerned (aluminum, copper, zinc and tin) are quoted on official markets. The Group favors hedging instruments which do not involve the physical delivery of the underlying commodity, i.e. swaps and options based on the average monthly commodity price.

At December 31, 2003, commodity price risks were hedged by forward purchases totaling €52 million. The estimated market value of instruments outstanding at December 31, 2003 was €5 million.

18 - SEGMENT REPORTING

18.1 - Reporting by business

(in € millions)	Sales and revenues	Property, plant and equipment and intangibles (net at December 31)	Capital expenditure for the year	Number of employees (at December 31)
2003				
Transmissions	720	203	41	4,550
Climate Control (1)	1,321	281	45	7,210
Engine Cooling	1,454	277	46	8,090
Lighting Systems	1,140	239	55	7,650
Electrical Systems	919	242	49	5,140
Wiper Systems	1,235	323	70	8,280
Motors & Actuators	367	83	20	1,880
Security Systems	652	94	32	4,020
Switches & Detection Systems	855	200	68	5,950
Electronics & Connective Systems	737	117	21	14,110
Distribution	518	32	2	1,070
Holding companies	-	59	14	250
Eliminations	(684)	-	(10)	-
Total	**9,234**	**2,150**	**453**	**68,200**
2002				
Transmissions	731	225	49	4,660
Climate Control	1,385	198	56	5,320
Engine Cooling	1,559	334	57	8,400
Lighting Systems	1,168	271	51	8,430
Electrical Systems	915	277	62	5,140
Wiper Systems	1,395	338	101	8,020
Motors & Actuators	573	104	24	2,740
Security Systems	645	90	28	4,000
Switches & Detection Systems	829	181	68	5,980
Electronics & Connective Systems	953	148	48	15,160
Distribution	535	36	4	1,000
Holding companies	-	73	8	250
Eliminations	(885)	-	-	-
Total	**9,803**	**2,275**	**556**	**69,100**
2001				
Transmissions	982	245	59	4,460
Climate Control	1,398	219	68	5,150
Engine Cooling	1,686	410	105	8,320
Lighting Systems	1,172	304	80	7,770
Electrical Systems	854	303	126	4,780
Wiper Systems	1,377	339	88	7,910
Motors & Actuators	665	123	32	3,570
Security Systems	650	95	31	3,920
Switches & Detection Systems	783	172	58	6,570
Electronics & Connective Systems	1,141	175	66	16,300
Distribution	476	40	6	960
Holding companies	-	83	26	290
Eliminations	(950)	-	-	-
Total	**10,234**	**2,508**	**745**	**70,000**
(1) Including Zexel Compressors activity	11	58	4	1,040

18.2 - Reporting by geographical area

	Sales and revenues	Operating income	Property, plant and equipment and intangibles (net at December 31)	Capital expenditure for the year	Number of employees (at December 31)
2003					
Europe	6,908	308	1,578	352	52,300
Rest of world	2,431	157	572	102	15,900
Eliminations	(105)	-	-	(1)	-
Total	**9,234**	**465**	**2,150**	**453**	**68,200**
2002					
Europe	6,918	314	1,680	441	53,200
Rest of world	3,035	173	595	115	15,900
Eliminations	(150)	-	-	-	-
Total	**9,803**	**487**	**2,275**	**556**	**69,100**
2001					
Europe	7,255	328	1,708	561	53,500
Rest of world	3,137	59	800	184	16,500
Eliminations	(158)	1	-	-	-
Total	**10,234**	**388**	**2,508**	**745**	**70,000**

The above figures are by original areas of production and not by market.

Sales by geographical market are as follows:

(in € millions)	2003	2002	2001
Europe	6,579	6,586	6,946
Rest of world	2,655	3,217	3,288
Total	**9,234**	**9,803**	**10,234**

CONSOLIDATED AND ASSOCIATED COMPANIES AT DECEMBER 31, 2003

Companies	Countries	2003		2002	
		% voting rights	% interest	% voting rights	% interest
Transmissions					
Valeo Embrayages	France	100	100	100	100
Valeo Matériaux de Friction	France	100	100	100	100
Valeo Espana (1)	Spain	100	100	100	100
Valeo Materiales de Friccion	Spain	100	100	100	100
Valeo Spa (1)	Italy	99.9	99.9	99.9	99.9
Valeo Otomotiv Sistemleri Endutrisi (1)	Turkey	100	100	100	100
Valeo Embrayages Tunisie	Tunisia	100	100	100	100
Valeo Inc (1)	USA	100	100	100	100
Valeo Friction Materials Inc	USA	100	100	100	100
Valeo Sistemas Automotivos (1)	Brazil	100	100	100	100
Valeo Embragues Argentina	Argentina	68	68	68	68
Emelar	Argentina	100	68	100	68
Valeo Materiales de Friccion de Mexico	Mexico	100	100	100	100
Valeo Pyeong Hwa	South Korea	50	50	50	50
Valeo Pyeong Hwa Distribution	South Korea	50	50	50	50
Valeo Unisia Transmissions	Japan	66	66	66	66
Nanjing Valeo Clutch	China	50	50	50	50
Amalgamations Valeo Clutch	India	50	50	50	50
Valeo Friction Materials India	India	60	60	60	60
Climate Control					
Valeo Climatisation (1)	France	93	93	93	93
Valeo Switches and Detection Systems (1)	France	100	100	100	100
Valeo Klimasysteme	Germany	100	93	100	93
Valeo Autoklimatizace	Czech Republic	100	93	100	93
Valeo Climatizacion	Spain	100	93	100	93
Valeo Sistemi di Climatizzazione Spa	Italy	100	93	100	93
Valeo Climate Control Ltd	UK	100	93	100	93
Valeo Climate Control Corp. (1)	USA	100	93	100	93
Valeo Acustar Thermal Systems	USA	51	47.4	51	47.4
Valeo Climatizacao Brasil	Brazil	100	93	100	93
Mirgor (2)	Argentina	50	24.2	50	24.2
Interclima (2)	Argentina	50	24.2	50	24.2
Valeo Climate Control de Mexico	Mexico	100	93	100	93
Valeo Automotive Air Conditioning Hubei	China	55	30.7	55	30.7
FAW Zexel Climate Control Syst. (2)	China	36.5	20.4	36.5	20.4
Moduko Co. Ltd (3)	Japan	50	50		
Zexel Valeo Climate Control - Compressors (4)	Japan	50 (3)	46.5 (3)	40 (2)	37.2 (2)
Zexel Valeo Climate Control - HVAC (4)	Japan	50	46.5	40 (2)	37.2 (2)
Zexel Logitec Company (2) (4)	Japan	50	46.5		
PT Zexel AC Indonesia (2) (4)	Indonesia	49	22.8		
Huada Zexel Automotive Air Conditioner (2) (4)	China	30	14		
Siam Zexel Co (2) (4)	Thailand	39	18.1		
Zexel Clutches Co (3) (4)	Thailand	50	44.4		
Zexel Sales Thailand (2) (4)	Thailand	15.6	7.25		
Zexel Valeo Compressor Czech (3) (4)	Czech Republic	50	46.5		
Zexel Valeo Compressor Europe GmbH (3) (4)	Germany	50	46.5		
Zexel Valeo Compressor USA Corp (3) (4)	USA	50	46.5		

Companies	Countries	2003 % voting rights	2003 % interest	2002 % voting rights	2002 % interest
Selective Technology Inc (3) (4)	USA	50	46.5		
Zexel Valeo Climate Control Korea Co (3) (4)	Korea	50	46.5		
Zexel Valeo Compressors (3) (4)	Thailand	50	43.7		
Engine Cooling					
Valeo Climatisation (1)	France	93	93	93	93
Valeo Thermique Moteur	France	100	100	100	100
Valeo Plastic Omnium (3)	France	50	50	50	50
Valeo Termico	Spain	100	100	100	100
Valeo Iluminacion (1)	Spain	99.7	99.7	99.7	99.7
Valeo Plastic Omnium (3)	Spain	50	50	50	50
Valeo Spa (1)	Italy	99.9	99.9	99.9	99.9
Valeo Vymeniky Tepla	Czech Republic	100	93	100	93
Valeo Autosystemy (1)	Poland	100	100	100	100
Valeo Engine Cooling A.B.	Sweden	100	100	100	100
Valeo Systems South Africa	South Africa	51	51	51	51
Valeo Inc (1)	USA	100	100	100	100
Valeo Climate Control Corp. (1)	USA	100	93	100	93
Valeo Sistemas Automotivos (1)	Brazil	100	100	100	100
Valeo Termico Argentina	Argentina	100	100	100	100
Valeo Termico (1)	Mexico	100	100	100	100
Valeo Tek Inc.	South Korea	100	100	100	100
Valeo Zexel Engine Cooling	Japan	80	78.6	76	74.9
Lighting					
Valeo Vision	France	100	100	100	100
Valeo Auto Electric KG (1)	Germany	100	100	100	100
Valeo Beleuchtung Deutschland	Germany	100	100	100	100
Valeo Vision Belgique	Belgium	100	100	100	100
Valeo Iluminacion (1)	Spain	99.7	99.7	99.7	99.7
Valeo Spa (1)	Italy	99.9	99.9	99.9	99.9
Valeo Autosystemy (1)	Poland	100	100		
Ichikoh Industries (2)	Japan	21.6	21.6		
Valeo Sylvania LLC (3)	USA	50	50	50	50
Valeo Sistemas Automotivos (1)	Brazil	100	100	100	100
Cibie Argentina	Argentina	100	100	100	100
Valeo Sylvania Iluminacion (3)	Mexico	50	50	50	50
Hubei Valeo Autolighting	China	75	75	51	51
Electrical systems					
Valeo Equipements Electriques Moteur	France	100	100	100	100
Valeo Four Seasons	France	50	50	50	50
Telma	France	100	100	100	100
Telma Retarder Espana	Spain	100	100	100	100
Telma Retarder Ltd	UK	100	100	100	100
Telma Retarder Italia	Italy	100	100	100	100
Telma Retarder Deutschland	Germany	100	100	100	100
Sylea Poland (1)	Poland	100	100	100	100
Valeo Otomotiv Sistemleri Endutrisi (1)	Turkey	100	100	100	100
Telma Retarder Inc	USA	100	100	100	100
Telma Retarder de Mexico SA de CV	Mexico	100	100	100	100
Valeo Sistemas Electricos (1)	Mexico	100	100	100	100

Companies	Countries	2003 % voting rights	2003 % interest	2002 % voting rights	2002 % interest
Valeo Sistemas Automotivos [(1)]	Brazil	100	100	100	100
Telma Retarder do Brasil Comercial	Brazil	100	100	100	100
Valeo Mando Electrical Systems Korea Ltd	South Korea	100	100	100	100
Shanghai Valeo Automotive Electrical Systems [(2)]	China	30	30	30	30
Wipers Systems					
Valeo Systèmes d'Essuyage [(1)]	France	100	100	100	100
Paul Journée [(1)]	France			100	100
Valeo Auto Electric KG [(1)]	Germany	100	100	100	100
Valeo Schalter und Sensoren [(1)]	Germany	100	100	100	100
Valeo Wischersysteme [(1)]	Germany	100	100	100	100
Valeo Sistemas Electricos	Spain	100	100	100	100
Valeo Autosystemy [(1)]	Poland	100	100	100	100
Valeo Electrical Systems [(1)]	USA	100	100	100	100
Valeo Sistemas Electricos [(1)]	Mexico	100	100	100	100
Delmex de Juarez [(1)]	Mexico	100	100	100	100
Valeo Sistemas Automotivos [(1)]	Brazil	100	100	100	100
Valeo Wenling Automotive Systems	China	55	55	55	55
Valeo Shanghai Automotive Electric Motors	China	50	50	50	50
Motors and Actuators					
Valeo Systèmes d'Essuyage [(1)]	France	100	100	100	100
Valeo Auto Electric KG [(1)]	Germany	100	100	100	100
Valeo Schalter und Sensoren [(1)]	Germany	100	100	100	100
Valeo Motoren und Aktuatoren [(1)]	Germany	100	100	100	100
Valeo Componentes Automoviles	Spain	100	100	100	100
Valeo Electrical Systems [(1)]	USA	100	100	100	100
Delmex de Juarez [(1)]	Mexico	100	100	100	100
Valeo Automotive Electrical Systems de Mexico	Mexico			100	100
Security Systems					
Valeo Sécurité Habitacle	France	100	100	100	100
Antivols Simplex	France			100	100
Valeo Sicherheitssysteme GmbH	Germany	100	100	100	100
Valeo Sistemas de Seguridad y de Cierre	Spain	100	100	100	100
Valeo Sicurezza Abitacolo	Italy	100	99.9	100	99.9
Valeo Security Systems Ltd	UK	100	100	100	100
Valeo Investment Holding [(1)]	USA	100	100	100	100
Valeo Neiman Argentina	Argentina			100	100
Valeo Termico [(1)]	Mexico	100	100	100	100
Valeo Sistemas Automotivos [(1)]	Brazil	100	100	100	100
Switches and Detection Systems					
Valeo Switches and Detection Systems [(1)]	France	100	100	100	100
DAV [(1)]	France	100	100	100	100
SC2N	France	100	100	100	100
Valeo Cablaggi e Commutazione [(1)]	Italy	100	100	100	100
Valeo Schalter und Sensoren [(1)]	Germany	100	100	100	100
Valeo Auto Electric KG [(1)]	Germany	100	100	100	100
Valeo Auto Electric Hungary	Hungary	100	100	100	100

Companies	Countries	2003		2002	
		% voting rights	% interest	% voting rights	% interest
DAV Tunisie	Tunisia	100	100	100	100
Valeo Raytheon Systems Inc	USA	58.1	58.1	47	47
Valeo Switches and Detection Systems Inc.	USA	100	100	100	100
Valeo Sistemas Electronicos (1)	Mexico	100	100	100	100
Valeo Sistemas Automotivos (1)	Brazil	100	100		
DAV Argentina	Argentina	100	100	100	100
Electronics and Connective Systems					
Valeo Electronique et Systèmes de Liaison	France	100	100	100	100
Valeo Liaisons Electriques	France	100	100	100	100
Cablea	France	100	100	100	100
DAV (1)	France	100	100	100	100
Valeo Sistemas de Conexion Electrica	Spain	100	100	100	100
Cablinal Portuguesa	Portugal	100	100	100	100
Cablagens do Ave	Portugal	100	100	100	100
Valeo Cablaggi e Commutazione (1)	Italy	100	100	100	100
Cavisud	Italy	100	100	100	100
Cablauto	Italy	100	100	100	100
Sylea GmbH	Germany	100	100	100	100
Labauto Ltd	UK	100	100	100	100
Sylea Tchequia	Czech Republic	100	100	100	100
Sylea Poland (1)	Poland	100	100	100	100
EKO	Slovenia	98.9	98.9	98.9	98.9
Valeo Kabli	Slovenia	100	100	100	100
Valeo Electronice Si Sisteme de Conectare Romania	Romania	100	100	100	100
Nursan OK (2)	Turkey	40	40	40	40
Nursan ED (2)	Turkey	40	40	40	40
Cablea	Tunisia	100	100	100	100
STC	Tunisia	100	100	100	100
Sylea	Tunisia	100	100	100	100
Cabelec	Morocco	100	100	100	100
Cablinal	Morocco	100	100	100	100
Cablea Maroc	Morocco	100	100	100	100
Valeo Bouznika	Morocco	100	100	100	100
TCA (2)	Argentina	20	20	20	20
TCA (2)	Brazil	20	20	20	20
Sylea Automotive Limited	India			100	100
Distribution					
Valeo Service	France	100	100	100	100
Equipement 7	France	100	100	100	100
Paul Journée (1)	France			100	100
Valeo Service Deutschland GmbH	Germany	100	100	100	100
Valeo Wischersysteme (1)	Germany	100	100	100	100
Valeo Service Belgique	Belgium	100	100	100	100
Valeo Service Espana	Spain	100	100	100	100
Valeo Service Italia	Italy	100	99.9	100	99.9
Valeo Service Eastern Europe	Poland	100	100	100	100
Valeo Service Benelux	Netherlands	100	100	100	100
Valeo Service (UK) Limited	UK	100	100	100	100

Companies	Countries	2003		2002	
		% voting rights	% interest	% voting rights	% interest
Valeo Otomotiv Dagitim	Turkey	100	100	100	100
Valeo Aftermarket Inc.	USA	100	100	100	100
Valeo Sistemas Automotivos (1)	Brazil	100	100	100	100
Holding companies					
Valeo	**France**		**parent company**		
Valeo Management Services	France	100	100	100	100
Société de Participations Valeo	France	100	100	100	100
Valeo Finance	France	100	100	100	100
Valeo Bayen	France	100	100	100	100
Valeo Thermique Habitacle	France	100	100	100	100
Financière Cablea	France	100	100	100	100
Valeo Zexel China Climate Control	France	60	55.8	60	55.8
Valeo Holding Deutschland GmbH	Germany	100	100	100	100
Valeo Germany Holding GmbH	Germany	100	100	100	100
Valeo Auto-Electric KG (1)	Germany	100	100	100	100
Valeo Auto-Electric Beteiligung GmbH	Germany	100	100	100	100
Valeo Espana (1)	Spain	100	100	100	100
Valeo Spa (1)	Italy	99.9	99.9	99.9	99.9
Coreval	Luxembourg	100	100	100	100
Valeo International Holding	Netherlands	100	100	100	100
Valeo Holding Netherlands	Netherlands	100	100	100	100
Valeo (UK) Limited	UK	100	100	100	100
Valeo Inc (1)	USA	100	100	100	100
Valeo Electrical Systems (1)	USA	100	100	100	100
Valeo Investments Holding	USA	100	100	100	100
Valeo Nova Scotia	Canada	100	100	100	100
Il Tevere (2)	Argentina	50	46.5	50	46.5
Zexel Valeo Climate Control (4)	Japan	50	46.5		

(1) company operating in several segments.
(2) company accounted for by the equity method.
(3) company accounted for by the proportional method.
(4) company previously consolidated through Zexel Valeo Climate Control accounts.

AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Free translation from the original French language report

In compliance with the assignment entrusted to us by the General Shareholders' Meeting, we have audited the consolidated financial statements of Valeo for the year ended December 31, 2003 as presented on pages 74 through 106 of this document.

The financial statements were approved by the Board of Directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the professional standards applied 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Valeo and its subsidiaries and their assets and liabilities as of December 31, 2003, and of the results of their operations for the year then ended in accordance with French accounting principles and regulations.

In accordance with the justification obligation set down in paragraph 2 of article L.225-235, of the French Commercial Code (Code de Commerce), we draw your attention to the following:

- as stated in Note 1.4 to the consolidated financial statements, the Group reviews indicators which may point to a lasting impairment in value of goodwill. As part of our assessment of significant estimates used for the preparation of the financial statements, we reviewed the elements relied upon to justify the fact that there was no lasting impairment in value of goodwill at December 31, 2003. We did not identify any significant matters that affect the estimates used by the Group at December 31, 2003;

- the Group has updated the probability of future utilization of certain deferred tax assets as described in Note 1.13 to the consolidated financial statements. As part of our assessment of the significant estimates used for the preparation of the financial statements, we reviewed the assumptions used to justify the amount of deferred tax assets recognized at December 31, 2003. We did not identify any significant matters that affect the estimates used by the Group at December 31, 2003.

We have also reviewed the information given in the Group's management report. We have no comments to make as to its fair presentation and its conformity with the consolidated financial statements.

Paris, February 10, 2004

The Statutory Auditors

PricewaterhouseCoopers Audit	RSM Salustro Reydel
Serge Villepelet	Jean-Pierre Crouzet

LEGAL SECTION

> AUBURN HILLS NORTH (Michigan, United States)

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.

Legal form and governing law

Valeo is a joint-stock company ("société anonyme") with a Board of Directors, governed by the provisions of Book II of the French Commercial Code and Decree 67-236 of March 23, 1967.

Date of incorporation and term

The Company was incorporated on February 10, 1923 and its term of existence was extended for a further 99 years on February 10, 1972.

Corporate purpose

The 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 whatsoever (industrial, commercial, financial, investment, acquisition, disposal, etc.) 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 period of twelve months from January 1 to December 31.

Consultation of legal documents

Legal documents pertaining to the Company may be consulted at the registered office in accordance with the conditions stipulated by law and by the Company's bylaws.

Auditors

Statutory auditors

- PricewaterhouseCoopers Audit SA, represented by Serge Villepelet – 32, rue Guersant – 75017 Paris.
  First appointed: March 31, 2003.
  Term of office: 9 months, expiring at the General Shareholders' Meeting held to approve the 2003 financial statements.

- RSM Salustro Reydel, represented by Jean-Pierre Crouzet – 8, avenue Delcassé -75008 Paris.
  First appointed: May 27, 1998.
  Term of office: 6 years, expiring at the General Shareholders' Meeting held to approve the 2003 financial statements.

Alternate statutory auditors

- Jean-Louis Mullenbach – 8, avenue Delcassé – 75008 Paris.
  First appointed: May 27, 1998.
  Term of office: 6 years, expiring at the General Shareholders' Meeting held to approve the 2003 financial statements.

The term of office of the Statutory Auditors is due to expire at the General Shareholders' Meeting scheduled to be held on March 26, 2004 on first call, or April 5, 2004 on second call.
Shareholders will be asked to renew the terms of office of PricewaterhouseCoopers Audit SA part of the PricewaterhouseCoopers network and RSM Salustro-Reydel part of the RSM International network as Statutory Auditors and to appoint Yves Nicolas, of 32 rue Guersant, 75017 Paris and Philippe Arnaud, of 8 avenue Delcassé, 75008 Paris, as Alternate Statutory Auditors for a term of 6 years, expiring at the General Shareholders' Meeting held to approve the 2009 financial statements.

In the last two years, the auditors recommended for appointment have not verified the business transfers or mergers carried out by Valeo or companies controlled by Valeo.

Appropriation and distribution of earnings - Dividends

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. The General Shareholders' Meeting may decide, subject to the provisions of the law, to distribute amounts taken from available reserves.

The Board of Directors may decide to distribute an interim dividend before the financial statements are approved.

The General Shareholders' Meeting called to approve the financial statements may offer each shareholder a stock dividend alternative representing all or part of the dividend, or interim dividend.

Dividends unclaimed after a period of five years from the date they were made payable shall fall to the French government.

General Shareholders' Meetings

General Shareholders' Meetings are called as prescribed by French 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.

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 1992 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 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 (article 23 of the Company's bylaws). Double voting rights may be removed by an Extraordinary Shareholders' Meeting subject to the approval of a Special meeting of those shareholders entitled to double voting rights.

2 - CORPORATE GOVERNANCE

2.1 - Executive Management

The Group Executive Management includes the Chairman and Chief Executive Officer, and Valeo's Functional and Operational Directors.

Executive Management:

Thierry Morin
Chairman and Chief Executive Officer. Term of office started on March 31, 2003 and expiring at the General Shareholders' Meeting called to approve the 2006 financial statements).

Functional Directors:

Bruno-Roland Bernard
Investor Relations Director

François Blanc
Information Systems Director

Gérard Bouctot
Financial Control Director

Robert Charvier
Finance Director, Electrical and Electronics Activity

Jean-Christophe Figueroa
Vice-President, Purchasing

Bernard Geymond
Vice-President, Human Resources and Administrative Affairs

Martin Haub
Vice-President, Research & and 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
Technical Vice-President

Vincent Marcel
Vice-President, Financial Affairs and Strategic Operations

Kate Philipps
Communications Director

Xavier Véret
Chairman's Delegate

Operational Directors:

Luc Blériot
Senior Vice-President, Electrical and Electronics Activity

Robert de La Serve
Vice-President, Lighting Systems Branch

Jean-Jacques Giambi
Vice-President, Motors & Actuators Branch

Michel Giannuzzi
Vice-President, Wiper Systems Branch

Claude Leïchlé
Vice-President, Electronics and Connective Systems Branch

Christophe Périllat-Piratoine
Vice-President, Switches & Detection Systems Branch

Orazio Ragni
Vice-President, Electrical Systems Branch

Michel Serre
Vice-President, Security Systems Branch

André Gold
Senior Vice-President, Thermal Systems Activity

Bernard Clapaud
Vice-President, Climate Control Branch

Alain Marmugi
Vice-President, Engine Cooling Branch

Patrice Brion
Vice-President, Valeo Service

Philippe Huyghe
Vice-President, Independent Aftermarket Branch

Norbert Schneider
Vice-President, Original Equipment Spares Branch

Michael Schwenzer
Vice-President, Transmissions Branch

2.2 - Board of Directors

Members	Other positions held
Thierry Morin Chairman and Chief Executive Officer Start of term of office: March 31, 2003 (first appointed on March 21, 2001) Term of office expiring at the General Shareholders' Meeting called to approve the 2006 financial statements	**Valeo Group** 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 (UK) Limited, Valeo International Holding B.V. Legal manager of: Valeo Management Services, Valeo Auto-Electric Beteiligungs GmbH, Valeo Germany Holding GmbH, Valeo Grundvermögen Verwaltung GmbH, Valeo Holding Deutschland GmbH, Valeo Verwaltungs-Beteiligungs GmbH. Director of: Valeo Electronique & Systèmes de Liaison, Valeo Climatisation, Valeo Service España, S.A., Valeo Iluminacion, S.A., Valeo Services Limited, Valeo Termico, S.A.
Noël Goutard Honorary Chairman Start of term of office: March 31, 2003 (first appointed on January 1, 1987) Term of office expiring at the General Shareholders' Meeting called to approve the 2006 financial statements	Chairman of the Supervisory Board of: NG Investments. Partner and member of the Management Board of LBO France. Director of: Valeo (UK) Limited, Vocatif SA, Materis, Medextend.
Carlo De Benedetti Start of term of office: March 31, 2003 (first appointed on July 4, 1986) Term of office expiring at the General Shareholders' Meeting called to approve the 2006 financial statements	Chairman of the Board of Directors of: CIR SpA. **Cofide-CIR Group:** Chairman of the Board of Directors of: Cofide SpA, Sogefi SpA. Director of: Gruppo Editoriale L'Espresso SpA. **Outside the Cofide-CIR Group:** Chairman of the Board of Directors of: CDB Web Tech SpA. Director of: Pirelli SpA.
François Grappotte Start of term of office: March 31, 2003 (first appointed on March 31, 2003) Term of office expiring at the General Shareholders' Meeting called to approve the 2006 financial statements	Chairman of: Legrand S.A. **Legrand Group:** Chairman of: B.Ticino, Legrand S.A.S., Lumina Management. Chief Executive Officer and Director of: Legrand Holding S.A. Director of: Bufer Elektrik, Eltas Elektrik, Legrand Española, Lumina Parent, Pass & Seymour, The Wiremold Company. **Outside the Legrand Group:** Director of: BNP Paribas. Member of the Supervisory Board of: Michelin. Member of: the Banque de France Consultative Committee and the Administrative Board of F.I.E.E.C. (Fédération des Industries Electriques, Electroniques et de Communication).
Philippe Guédon Start of term of office: March 31, 2003 (first appointed on March 31, 2003) Term of office expiring at the General Shareholders' Meeting called to approve the 2006 financial statements	Legal manager of: Espace Développement.

Members	**Other positions held**
Yves-André Istel Start of term of office: March 31, 2003 (first appointed on January 29, 1992) Term of office expiring at the General Shareholders' Meeting called to approve the 2006 financial statements	Senior Advisor to: Rothschild Inc. **Rothschild Group:** Director of: Banque Rothschild & Cie. **Outside the Rothschild Group:** Director of: Compagnie Financière Richemont AG, Chalone Wine Group, Imperial Sugar.
Jean-Bernard Lafonta Start of term of office: March 31, 2003 (first appointed on December 7, 2001) Term of office expiring at the General Shareholders' Meeting called to approve the 2006 financial statements	Executive Vice-President of: Wendel Investissement. **Wendel Group:** Member of the Supervisory Board of: Oranje-Nassau Groep B.V. Director of: Wendel Investissement, Legrand Holding S.A., Legrand S.A., Lumina Parent. Permanent representative of: Sofu, on the Supervisory Board of Bureau Veritas **Outside the Wendel Group:** Legal manager of: Granit (Sarl).
Alain Minc Start of term of office: March 31, 2003 (first appointed on July 4, 1986) Term of office expiring at the General Shareholders' Meeting called to approve the 2006 financial statements	Chairman of: A.M. Conseil. Chairman of the Supervisory Board of: Le Monde. Member of the Supervisory Board of: Pinault-Printemps-Redoute. Director of: Fnac, Vinci.
Véronique Morali Start of term of office: March 31, 2003 (first appointed on March 31, 2003) Term of office expiring at the General Shareholders' Meeting called to approve the 2006 financial statements	Executive Vice-President of: Fimalac. **Fimalac Group:** Director and 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. **Outside the Fimalac Group:** Director of: Eiffage. Member of the Board of: Tesco PLC
Erich Spitz Start of term of office: March 31, 2003 (first appointed on June 24, 1987) Term of office expiring at the General Shareholders' Meeting called to approve the 2006 financial statements	Advisor for: Thales. **Thales Group:** Chairman of: Thales Avionics Lcd. Director of: Thales Corporate Ventures. **Outside the Thales Group:** Chairman of the Supervisory Board of: Riber. Member of the Management Board of: ERA (Czech Republic). Correspondent member of the Académie des Sciences. Member of the Académie des Technologies. Honorary Chairman of: European Industrial Research Management Association (EIRMA).

Valeo's Board of Directors met six times in 2003.

ORGANIZATIONAL STRUCTURE OF THE BOARD OF DIRECTORS

The attendance rate at the Board of Directors' meetings in 2003 was 85%. The average period of notice of Board of Directors' meetings in 2003 was approximately two weeks. The Board meetings are chaired by the Chairman of the Board or, in his absence, by a Vice-Chairman or a director appointed for the role by the Board of Directors. The six meetings held in 2003 were chaired by the Chairman. The Chairman provided directors with information in a sufficient time frame enabling them to fully carry out their appointed roles. Each director receives or is able to obtain the necessary information for completing his or her duties. For more details on this point please refer to the Chairman's report on page 45 relating to the conditions for preparing and organizing work conducted by the Board and to internal control procedures.

The Board of Directors examined the position of each of the directors with respect to the independence criteria set out in the Board's internal rules of operation.

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 when a director:

1. is not an employee or a corporate officer of Valeo, nor an employee or Director of a company consolidated by Valeo, and has not been so in the past five years.
2. is not a corporate officer in a company in which Valeo directly or indirectly holds a corporate officer's position, or in which an employee appointed for that role or a corporate officer of Valeo (current or in the past 5 years) holds a directorship,
3. 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.
4. does not have a close family link with a corporate officer;
5. who has not been an auditor of the Company in the past five years;
6. has not been a director of the Company for more than twelve years from the date when 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 holding 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, the Board of Directors noted that:

- one director exercises the responsibilities of Chief Executive Officer of the Company: Thierry Morin;
- four directors have been members of Valeo's Board of Directors and previously the Supervisory Board for over 12 years: Noël Goutard, Carlo De Benedetti, Alain Minc and Erich Spitz;
- five directors are independent with respect to the criteria set forth in the internal rules (in accordance with the recommendations set out in the September 2002 report produced by the AFEP-MEDEF working group chaired by Daniel Bouton, aimed at improving corporate governance in French listed companies): François Grappotte, Philippe Guédon, Yves-André Istel, Jean-Bernard Lafonta and Véronique Morali.

No directors are elected by employees and there are no non-voting directors.

Article 14 of the Company's bylaws provides that each director must hold at least 100 Valeo shares.

On accepting their position, each director agreed to a code of conduct related to securities transactions. This code recalls the fact that under applicable regulations, it is forbidden for Directors to relay privileged information that they may hold or to carry out or authorize transactions on Valeo shares on the basis of such information. This is reinforced by there being periods of time during which the Group's Executive Management and members of the Board of Directors cannot carry out transactions on the Company's shares.   Lastly, the Company must be informed of transactions carried out by the members of the Board of Directors. This information is published in an aggregate and anonymous form.

The Board has adopted internal rules of conduct. The purpose of these rules is to prescribe the operating procedures of the Board of Directors, in addition to the legal and regulatory requirements and the provisions of the Company's bylaws. They comply with the recommendations set out in the September 2002 report produced by the AFEP-MEDEF working group chaired by Daniel Bouton, aimed at improving corporate governance in French listed companies.

Valeo has four committees to assist the Board with the preparation of its decisions: an Audit Committee, a Strategy Committee, a Nomination Committee and a Remuneration Committee.

An Audit Comittee, composed of: Jean-Bernard Lafonta (Chairman), François Grappotte and Yves-André Istel.

The roles and responsibilities of the Audit Committee are:

- to oversee the choice and correct application of the accounting and financial methods used for the preparation of the consolidated financial statements, as well as the appropriate accounting treatment of transactions carried out at Branch and Group level.
- to check that internal procedures are defined for gathering and controlling financial and accounting information in order to ensure its reliability and guarantee rapid reporting, as well as to review the Group's internal audit plan and Management's related responses, and to examine the Group's internal and external audits and Management's related responses;
- to express an opinion on the choice of statutory auditors or the renewal of their terms of office;
- to review any financial or accounting issues referred to it by the Chairman of the Board of Directors, as well as any conflict of interest issues of which it is aware.

The Audit Committee reviewed the financial statements of the Company and the Group for 2003, as well as the interim accounts and material risks and off-balance sheet commitments. It also oversaw the process of appointing and renewing the terms of office of the Statutory Auditors and Alternate Statutory Auditors to be recommended to the General Shareholders' Meeting due to be held on March 26, 2004 on first call or April 5, 2004 on second call. The Statutory Auditors and the Financial Controller attended the Audit Committee meetings during the year. The Committee has never had to enter any reservations about the financial statements presented to it.

The Audit Committee met twice in 2003 with an 83% attendance rate.

A Strategy Committee, composed of: Noël Goutard (Chairman), Philippe Guédon, Jean-Bernard Lafonta, Alain Minc, Thierry Morin and Erich Spitz.

The roles and responsibilites of this 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;
- analyze the Group's annual budgets and interim reviews, as well as its medium- and long-term strategic development plans.

The Committee's role also includes examining and expressing an opinion to the Board on issues submitted to it concerning major transactions related to acquisitions, disposals, financing and debt.

The Strategy Committee oversaw the monitoring of the preparatory work for the Valeo 2010 strategic plan. It noted the steps taken by the Group to rationalize production, procurement and the supply chain and confirmed that these efforts should be followed up by an appropriate action plan.

The Strategy Committee met eleven times in 2003 with an 89% attendance rate.

A Nomination Committee, composed of: Alain Minc (Chairman), Véronique Morali, Noël Goutard, François Grappotte, Philippe Guédon and Thierry Morin.

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 of operation adopted by the Board of Directors.

The Nomination Committee did not meet in 2003. It did, however, meet before publication of the 2003 annual report in order to review the position of each of the Directors and to submit its proposals to the Board for the latter to review the position of each party concerned.

A Remuneration Committee, composed of: Alain Minc (Chairman), Noël Goutard, François Grappotte and Philippe Guédon.

The role 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 rights issues.

The Remuneration Committee recommended to the Board of Directors that the overall amount of attendance fees should be maintained, as set by the General Shareholders' Meeting of March 31, 2003 and that the existing rules for distributing the attendance fees be maintained.

The Remuneration Committee met three times in 2003 with a 90% attendance rate.

3 - INTERESTS OF EXECUTIVE MANAGEMENT AND MEMBERS OF THE BOARD OF DIRECTORS

The Executive Management and members of the Board of Directors hold less than 1% of Valeo's capital in a personal capacity.

Up until March 31, 2003, no transaction other than arm's length transactions took place with members of the Management Board and Supervisory Board, nor with Directors of the Company since that date. No former Management Board or Supervisory Board members or current Company directors are beneficiaries of loans or guarantees extended by the Company or the Group.

3.1 - Executive Management

Total gross compensation paid to Thierry Morin, Chairman and Chief Executive Officer (excluding attendance fees paid by Valeo) came to €1,683,375 in 2003. The amount paid by Valeo directly came to €1,569,269, including €17,780 in benefits in kind. He also received compensation in an amount of €114,106 from companies controlled by Valeo (within the meaning of article L.233-16 of the French Commercial Code), of which there were no benefits in kind.

Compensation allocated to other Group executive managers in 2003 totaled €10,093,389. This total includes €585,932 in payments to Luc Blériot, Géric Lebedoff, Bernard Geymond and Vincent Marcel – members of the Management Board until March 31, 2003 – received between January 1, and March 31, 2003.

Supplementary pension scheme for the Chairman and Chief Executive Officer and members of the former Management Board

Further to a recommendation made by the Remuneration Committee on October 17, 2002, at the Supervisory Board Meeting of the same date, the Board decided to implement a supplementary pension scheme for the members of the Management Board.

- the scheme will be used to top up existing pension benefits (Social Security, Arrco, Agirc, etc.) to enable beneficiaries to acquire benefits representing 2% of their end-of-career salary per year of service within the Group. The total amount of pension benefits may not exceed 60% of a beneficiary's end-of-career salary.
- the supplementary pension scheme will apply to beneficiaries who have a minimum of 15 years' service in the Valeo Group and for whom Valeo or one of its subsidiaries was their last employer at their retirement date.
- the supplementary pension scheme is funded with Cardif Entreprises.

The supplementary pension scheme is still applicable to Thierry Morin.

3.2 - Supervisory Board

Total attendance fees paid to members of the Supervisory Board up until March 31, 2003 amounted to €60,000.

Members of the Supervisory Board:	Attendance fees *(in euros)*
Noël Goutard	15,000
Carlo De Benedetti	0
Arnaud Fayet	0
Yves-André Istel	5,000
Jean-Marc Janodet	0
Jean-Bernard Lafonta	5,000
Alain Minc	10,000
Jean-Pierre Souviron	15,000
Erich Spitz	10,000

3.3 - Board of Directors

Total attendance fees paid to members of the Board of Directors in 2003 amounted to €293,750.

Attendance fees were allocated as follows:

- €150,000 to Noël Goutard in his capacity as Honorary Chairman, Chairman of the Strategy Committee, member of the Remuneration Committee, member of the Nomination Committee and as director;
- €20,000 to each director and an additional €15,000 for each director who is a member of one of the four committees.

Attendance fees are paid every six months. They are not, however, paid to directors if their average attendance at Board of Directors Meetings or Committee meetings is lower than 50% during the six months in question.

Members of the Board of Directors	Attendance fees *(in euros)**
Thierry Morin	26,250
Noël Goutard	112,500
Véronique Morali	15,000
Carlo De Benedetti	0
François Grappotte	22,500
Philippe Guédon	26,250
Yves-André Istel	12,500
Jean-Bernard Lafonta	26,250
Alain Minc	26,250
Erich Spitz	26,250

** Calculated as prorata for the year based on the start of term of office on 31 March 2003*

The members of the Board of Directors did not receive any compensation other than attendance fees from the Group, apart from the Chairman and Chief Executive Officer (see above 3.1, “executive management”) and Noël Goutard, who received total gross compensation in 2003 of €190,176 (including €1,196 in benefits in kind and €74,605 from companies controlled by Valeo as defined in article L. 233-16 of the French Commercial Code).

3.4 - Information concerning stock options

Stock options granted to or exercised by members of the Management Board and the Supervisory Board until March 31, 2003, and directors from that date	Number of options granted/exercised	Exercise price	Date of Shareholders' / Board of Directors' / Supervisory Board meeting
Options granted in 2003 by Valeo and other Group companies			
Thierry Morin	100,000 100,000	23.51 32.91	AG = 03/31/2003 Board of Directors' meeting = 03/31/2003 and 11/06/2003
Noël Goutard	None		
Carlo De Benedetti	None		
Yves-André Istel	None		
Jean-Bernard Lafonta	None		
Alain Minc	None		
Erich Spitz	None		
Options exercised in 2003:			
Thierry Morin	None		
Noël Goutard	None		
Carlo De Benedetti	None		
Yves-André Istel	None		
Jean-Bernard Lafonta	None		
Alain Minc	None		
Erich Spitz	None		

Stock options granted to or exercised by Directors who were not corporate officers before March 31, 2003	Number of options granted/exercised	Exercise price	Date of Shareholders' / Board of Directors' / Supervisory Board meeting
Options granted in 2003 by Valeo or other Group companies:			
Véronique Morali	None		
François Grappotte	None		
Philippe Guédon	None		
Options exercised in 2003:			
Véronique Morali	None		
François Grappotte	None		
Philippe Guédon	None		

Stock options granted to or exercised by members of the Management Board or Supervisory Board until March 31, 2003	Number of options granted/exercised	Exercise price	Date of Shareholders' / Board of Directors' / Supervisory Board meeting
Options granted in 2003 by Valeo or other Group companies:			
Luc Blériot	None		
Géric Lebedoff	None		
Bernard Geymond	None		
Vincent Marcel	None		
Jean-Marc Janodet	None		
Jean-Pierre Souviron	None		
Arnaud Fayet	None		
Options exercised in 2003			
Thierry Morin	None		
Luc Blériot	None		
Géric Lebedoff	None		
Bernard Geymond	None		
Vincent Marcel	None		
Jean-Marc Janodet	None		
Jean-Pierre Souviron	None		
Arnaud Fayet	None		

Information concerning stock options

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	Date of Shareholders' / Board of Directors' / meeting
Options granted in 2003 by Valeo* or other Group companies to the ten employees of Valeo or other Group companies receiving the highest number of options	104,000 127,000 (15 persons concerned**)	€23.51 €32.91	03/31/2003 11/06/2003
Options exercised in 2003 by the ten employees of Valeo or other Group companies exercising the highest number of options	None		

** Valeo was the only Group company to award stock options during the year.*
*** Several beneficiaries received the same number of options in tenth position*

4 - REGULATED AGREEMENTS

On April 16, 2002, the Supervisory Board authorized regulated agreements concerning non-exclusive license agreements for Valeo brands entered into with Valeo Matériaux de Friction and Valeo Embrayages.

These licenses were granted without consideration for a tacitly renewable 10-year period.

No regulated agreements authorized and entered into in prior years remained in force during 2003.

5 - CLAIMS, LITIGATION AND RISKS

5.1 - Market risks

The Divisions enjoy a high degree of autonomy for cash management purposes (collection of receivables, supplier payments, etc.). However, the management of market risks, including interest rate, currency and commodity prices risks, as well as external financing, are centralized and respect rules defined by the Group's Executive Management.

The centralized structure co-ordinates cash management for the Branches and Divisions. It is divided into two teams. One team manages the cash pool and centralizes requests for financing and currency risk and commodity price risk hedges. It acts as the sole counterparty for this type of decentralized cash transactions (to the extent possible and in accordance with the local regulations). In this way, it can carry out consolidated financing and hedging positions on the financial markets.

The other team reviews transaction types and applicable ceilings for financial instruments and counterparties, and monitors compliance with Group cash management rules. It carries out a monthly reporting, which it relays to the Group's Executive Management.
In addition, the Internal Audit Department monitors the application of internal procedures, particularly for decentralized cash management departments.

Exchange rate risks

A sizeable portion of Valeo's business is conducted outside the Euro Zone. Therefore, significant fluctuations in the exchange rate between the euro and the US dollar, Brazilian real, Japanese yen, Mexican peso or Korean won could impact Valeo's results and equity.

Based on allocation by currency of consolidated assets and liabilities at December 31, 2003 a 1% increase in the euro exchange rate against all the other currencies concerned would result in a decrease of around €11 million (i.e. 0.6%) in the Group's consolidated shareholders' equity.

Sensitivity of Group sales to currency risk is also due to sales invoiced in US dollars or contractually indexed to the dollar. Based on the sales structure for 2003, a 1% increase in the exchange rate of the euro against the US dollar would result in a sales decline in the region of €17 million (representing 0.2% of the Group's consolidated sales).

Valeo hedges part of its exposure to exchange rate risks on operating cash flows to reduce sensitivity to such fluctuations. Details of the Group's net position after hedging are provided in Note 17.1 to the consolidated financial statements.

Risks relating to commodity prices

The main raw materials used by the Valeo Group are aluminum, steel, copper, zinc and plastics. Valeo hedges future purchases of raw materials in order to reduce its exposure to fluctuations in base metal prices. Details of the Group's hedging commitments at December 31, 2003 are provided in Note 17.3 to the consolidated financial statements.

Interest rate risks

Net income may also be affected by changes in interest rates as they have a direct impact on borrowing costs and investment yields for the Valeo Group. Borrowing costs increase if interest rates on amounts payable by Valeo rise and the yield on investments is lower if interest rates on amounts loaned or invested decrease.

At December 31, 2003, Valeo's net indebtedness stood at €568 million, representing total borrowings of €1,428 million, less €860 million in cash and marketable securities. A significant portion of the total indebtedness is made up of €500 million worth of bonds issued in 2001, with a fixed interest rate of 5.625%, maturing in 2006, and €463 million worth of "Océane" bonds convertible for new shares or exchangeable for existing shares, issued in 2003 and maturing in 2011, bearing a fixed interest rate of 2.375%.

At December 31, 2003, the net portion of the Group's net debt that would be impacted by a change in short-term interest rates amounted to €431 million (see Note 17.2 to the consolidated financial statements). Therefore, a 1% change in interest rates would increase or reduce the Group's financial costs by €4 million.

Consolidated net interest expense totaled €40 million in 2003.

Equity risks

As stated in Note 11.5 to the consolidated financial statements, Valeo's portfolio of marketable securities primarily consists of money market mutual funds. However, Valeo does have exposure to stock market fluctuations on shares held in treasury stock (1,018,618 shares at December 31, 2003). A 10% increase in Valeo's share price in relation to the price on December 31, 2003 would result in a gain of €6 million, whereas a 10% decrease would give rise to a loss of less than €1 million. In accordance with the resolutions voted by various Shareholders' Meetings (see para. 2 "Stabilizing the share price" in the section "Market for the Company's Shares"), the Board of Directors is responsible for decisions concerning treasury stock such as purchases, sales, cancellations or other uses.

5.2 - Exceptional events and litigation

Asbestos-related risks

A provision is set aside for expenses relating to litigation in connection with the exposure of the Group's employees to asbestos or asbestos-based products. Valeo considers that this provision adequately covers the overall financial risk that can be reasonably estimated based on the current legal situation. In addition, Valeo has not manufactured or sold any products containing asbestos in North America.

Other claims and litigation and exceptional events

To the best of Valeo's knowledge no other claims, litigation, arbitration or exceptional events exist that are likely to have a material impact on the business, financial position, results or assets and liabilities of the Company and the Group.

5.3 - Industrial and environmental risks

Liability for products and services sold

Valeo is exposed to risks for claims from customers under warranties or general liability concerning products and services sold. Current risks have been reasonably provisioned. Valeo is also subject to liability claims in relation to product or service defects which lead to property damage or injury. Valeo has taken out insurance to cover the financial consequences of any such claims (see paragraph 5.4 "Insurance").

Environmental risks

Valeo is subject to various forms of environmental regulations with different scopes of application depending on the country in which the Group operates its businesses. These regulations are constantly evolving, imposing increasingly strict environmental protection standards on the Group, especially concerning air-borne emissions, the use of dangerous substances and waste disposal. In line with these developments, Valeo has set up a database providing a list of banned and restricted substances in the automotive industry. Valeo's environmental policy aims to control and reduce environmental risks as far as possible. Valeo invests heavily every year in environmental protection measures.

5.4. - Insurance – risk coverage

Valeo has taken out insurance policies with first-rate insurance companies for all major risks which could have a material impact on its business, results or assets and liabilities.

The amount and form of cover reflect standard practice in the automotive sector:

- the risks covered include property damage, business interruption, merchandise and equipment transportation, third party liability, occupational illnesses and accidents;
- insured values are subject to ceilings by risk group.

The table below provides details of the coverage limits by type of risk.

Type of insurance	Coverage limit *(in euros)*
General liability and product liability	130 million
Property damage/ business interruption	1 billion
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 one year's "lost" margin.

In 2003, insurance premiums paid out by the Group in connection with its insurance coverage totaled €9.9 million.

5.5 - Other risks and labor relations

Dependence on the automotive sector and customers

Valeo's revenues depend directly on the level of automotive production throughout the world, and particularly in Europe and North America. Production may be affected by the general economic situation, specific governmental programs – such as vehicle purchase incentive schemes – commercial agreements, changes in regulations, or labor relations problems such as strikes or stoppages.

Valeo provides its products and services to the automobile sector in which the number of major players is limited. However, as Valeo has business relations with all of the major automakers, decreases in market share with one are generally offset by increases with another. Valeo's most significant automaker customer represents approximately 18% of consolidated sales and its five most important customers represent some 69%. The average customer payment period is approximately 68 days.

Dependence on new vehicle models

Equipment supply agreements for vehicle models generally take the form of open orders without any volume guarantees. Separate agreements are entered into for each function of a particular vehicle and they are generally valid for the life of the model. The Group's sales, results, and financial position can therefore all be impacted if a particular model is not a commercial success and/or if Valeo is not chosen as the supplier for a new generation of a vehicle model. However, these risks are largely diluted as Valeo offers a wide range of products and services for many different types of vehicle.

Intellectual property risks (patents)

Where possible and when justified by strategic technological considerations, Valeo registers patents to protect the intellectual property relating to industrial know-how and innovations from Group research. The geographical scope and duration of patent protection reflect standard practice in the automotive sector and are tailored to the requirements of the industrial Branches concerned. Patents are systematically and regularly reviewed. This approach provides the Group with a strong legal weapon against patent infringements. Valeo also relies on its production know-how to protect its technological advances. This know-how is leveraged to achieve the lowest possible production costs and in turn limit commercial opportunities for similar or competing products.

Contractual dependence

Valeo works with many different customers and suppliers and offers a wide range of products and services, thus significantly reducing the risk of its results being over-dependent on a particular contract or specific contractual clause.

Labor relations

Valeo considers that its labor relations are generally good. However, although the Group's policy aims to minimize the risks of labor disputes they cannot be ruled out, and the Group's business is necessarily susceptible to events such as strikes.

6 - EMPLOYEE PROFIT SHARING AND INCENTIVE SCHEMES

Further to the creation of subsidiaires for Valeo's Clutches and Friction Materials activities at the beginning of 2002, commitments relating to employee incentive agreements previously signed by Valeo were transferred to the new subsidiaries.

The following amounts were paid out under Valeo employee incentive schemes over the past five years.

Year	Amount *(in thousands of euro)*
2003	-
2002	-
2001	1,671
2000	2,139
1999	-

No amounts were paid out under profit-sharing ("participation") schemes over the past five years.

FEES PAID BY THE GROUP TO THE AUDITORS AND MEMBERS OF THEIR NETWORKS

2003 *(in € thousands)*	PricewaterhouseCoopers	%	RSM Salustro Reydel	%
AUDIT				
Statutory audit and contractual audits	4,008		1,681	
Other engagements	1,101		531	
Sub-total: audit	**5,109**	**93%**	**2,212**	**95%**
OTHER SERVICES				
Legal and tax advisory services	359		50	
Other	42		66	
Sub-total: other services	**401**	**7%**	**116**	**5%**
TOTAL	**5,510**	**100%**	**2,328**	**100%**

2002 *(in € thousands)*	PricewaterhouseCoopers	%	RSM Salustro Reydel	%
AUDIT				
Statutory audit and contractual audits	4,277		1,790	
Other engagements	1,724		616	
Sub-total: audit	**6,001**	**91%**	**2,406**	**96%**
OTHER SERVICES				
Legal and tax advisory services	471		48	
Other	107		59	
Sub-total: other services	**578**	**9%**	**107**	**4%**
TOTAL	**6,579**	**100%**	**2,512**	**100%**

GENERAL INFORMATION ABOUT THE CAPITAL

1 - CHANGES IN CAPITAL

At December 31, 2003, Valeo's capital stock was represented by 82,133,728 common shares with a par value of €3.

Changes in capital since December 31, 1999 are as follows:

Year	Type of operation	Changes *(en millions d'euros)*			Number of shares	New number of shares
		Par value	Premium	Total		
1999	Issuance of shares upon exercise of stock options	1	12	13	332,500	**82,808,128**
2000	Issuance of shares upon exercise of stock options	1	4	5	115,275	**82,923,403**
2001	Issuance of shares upon exercise of stock options	-	5	5	133,200	**83,056,603**
2002	Issuance of shares upon 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**

2 - AUTHORIZED, UNISSUED CAPITAL

Authorizations granted by the General Shareholders' Meeting of June 10, 2002:

Securities concerned Date of Shareholders' Meeting (duration and expiry of authorization)	Maximum amount of issue	Maximum capital increase	Utilization of authorizations
Issues with pre-emptive subscription rights Capital increase – all securities (A) AGM of June 10, 2002 (maximum 26 months, expiring on August 10, 2004)	€1.52 billion of debt securities (A) + (C) ceiling = €2 billion	€76.22 million (A) + (B) + (C) ceiling = €100 million	None
Capital increase paid up by capitalizing income, retained earnings or additional paid-in capital (B) AGM of June 10, 2002 (maximum 26 months, expiring on August 10, 2004)	-	€76.22 million (A) + (B) + (C) ceiling = €100 million	None
Issues without pre-emptive subscription rights Capital increase – all securities (C) AGM of June 10, 2002 (maximum 26 months, expiring on August 10, 2004)	€1.52 billion of debt securities (A) + (C) ceiling = €2 billion	€76.22 million (A) + (B) + (C) ceiling = €100 million	None
STOCK OPTIONS*			

** See para. 4 "Stock options" below, in the "Ownership structure" section.*

3 - OTHER SECURITIES

The General Shareholders' Meeting of June 10, 2002 granted the Management Board a five-year authorization ending on June 10, 2006 to issue bonds subject to a ceiling of €2 billion.

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%. The bonds are quoted on the Luxembourg stock exchange.

In October 2002 Valeo set up a €2 billion Euro Medium Term Notes (EMTN) program, which was renewed on November 20, 2003. No notes were issued by the Company under this program during 2003.

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 for new shares or exchangeable for existing shares (OCEANEs) with a total nominal value of €462,874,985.60. The conversion/ exchange ratio applicable to these bonds is one Valeo share (subject to the adjustments provided for) for one bond. The bonds mature on January 1, 2011 and have an annual interest rate of 2.375%. They are quoted on the premier marché of Euronext Paris S.A.

OWNERSHIP STRUCTURE

1 - CHANGES IN OWNERSHIP STRUCTURE SINCE 1999

	Wendel Investissement Group	CDC**	Franklin Resources, Inc (USA)	Treasury stock	Public
December 31, 1999					
Number of shares	16,688,977	6,958,935		5,257	59,154,960
%	20.15	8.40		0.01	71.44
Number of voting rights*	16,688,977	8,547,075			63,178,433
%	18.88	9.67			71.44
December 31, 2000					
Number of shares	16,688,977	6,732,669		270,654	59,231,103
%	20.13	8.12		0.33	71.42
Number of voting rights*	27,647,985	8,320,809			63.527.541
%	27.79	8.36			63.85
December 31, 2001					
Number of shares	16,688,977	7,266,919	6,675,969	539,827	51,884,911
%	20.09	8.75	8.04	0.65	62.47
Number of voting rights*	27,695,087	8,855,059	6,675,969		56,112,747
%	27.88	8.91	6.72		56.49
December 31, 2002					
Number of shares	7,724,045	6,466,767	10,545,587	605,130	56,792,199
%	9.40	7.87	12.84	0.74	69.15
Number of voting rights*	14,600,490	8,981,251	10,545,587		57,360,914
%	15.96	9.82	11.53		62.69
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

Shares registered in the name of the same shareholder for a minimum of 4 years carry double voting rights.

** *Shares held by Caisse des Dépôts et Consignations (CDC) on its own behalf*

*** *Franklin annonced that their shareholding fell below the 10% threshold on 23 February 2004; their holding is 8,149,880 shares representing 9,92% of the capital and 9,83% of the voting rights.*

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, 2003 were Wendel Investissement, CDC, Franklin Resources, Inc. (USA) and BNP Paribas.

In April 2002, the Wendel Investissement Group (formerly CGIP) sold €8.3 million-worth of Valeo shares to institutional investors through the market. In addition, the Wendel Investissement Group issued €408.8 million worth of three-year bonds exchangeable for Valeo shares on a one-for-one basis.

In July 2003, Franklin Resources, Inc. (USA) declared that it held 10.77% of the Company's capital, thus reducing its interest by a multiple of the 2% statutory disclosure threshold (compared to its previous declaration of December 27, 2003).

In September 2003, Caisse des Dépôts et Consignation (CDC) declared that it had reduced its interest to below 8% of the Company's capital.

On March 6, 2003, Valeo was notified that Wendel Investissement had reduced its interest in the Company's voting rights to below 10% due to the loss of double voting rights. During 2003, Valeo was also notified of the following stakes held by intermediaries on behalf of third parties.

- State Street Bank and Trust Company (USA) held 4,072,643 shares in custody at March 24, 2003, representing 4.959% of Valeo's capital stock at December 31, 2003.
- Northern Trust (USA) held 1,591,226 shares in custody at May 20, 2003, representing 1.94% of Valeo's capital stock at December 31, 2003.

To the best of the Company’s knowledge, the only shareholders directly or indirectly holding 2% or more of the Company’s capital or voting rights at December 31, 2003 were the Wendel Investissement group, the CDC group, Franklin Resources Inc. (USA) and the BNP Paribas group, (and State Street Bank and Trust Company (USA) and Northern Trust (USA), acting as intermediaries).

Based on an identification request filed by Valeo, the Company had 79,812 identifiable holders of bearer stock at December 31, 2003.

Group employees do not hold Valeo shares through any specific employee savings funds. At December 31, 2003, directors and officers held a total of 4,000 registered shares.

No registered shares held by Valeo’s main shareholders have been pledged.

2 - DISCLOSURE THRESHOLDS

Article 9 of the Valeo bylaws states that, in addition to the thresholds laid down by article L.233-7 of the Commercial Code, 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, is required to disclose to the Company by registered letter with return receipt requested that the said disclosure threshold has been exceeded. Said disclosure must be made within a specific time period 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. The fifteen day period originally set down in the bylaws was reduced to 5 trading days by the French Financial Security Law of August 1, 2003 (law no. 2003-706). This disclosure obligation also applies to the acquisition of any additional 2% interest in the Company's capital or voting rights, as well as to the reduction of a shareholding to below 2% or any multiple thereof.

Non-compliance with the above obligations shall incur the penalties set forth in article L.233-14 of the 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 - IDENTIFICATION OF SHAREHOLDERS

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 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 in article L. 228-2 et seq. of the Commercial Code.

In accordance with the applicable laws and regulations, the Company is entitled to request, at any time, from the central depository of financial instruments, in exchange for a fee, the name – or, in the case of corporate shareholders, the registered name –, nationality, year of birth – or, in the case of corporate shareholders, the year of incorporation – and address of holders of bearer shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at Shareholders' Meetings, together with details of the number of shares held by each such shareholder and of any restrictions applicable to the securities concerned.

Based on the list provided by the above-mentioned organization, where the Company considers that shares may be held on behalf of third parties, it may request, in accordance with the same conditions, either through the organization or directly from the parties mentioned on the list, the same information concerning the holders of the shares. If one of the parties mentioned on the list is a bank, broker or other intermediary, it must disclose the identity of the shareholders for whom it is acting. The information shall be provided directly to the financial intermediary managing the Company's share account, which shall pass on said information either to the Company or the share clearing organization, as applicable.

For registered shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares, any intermediary holding the shares on behalf of a third party must disclose the identity of the shareholder for whom it is acting, upon simple request by the Company or its representative, which may be made at any time.

The Company may also request from any corporate shareholder holding over 2.5% of the Company's capital or voting rights, information concerning the identity of persons or companies holding either directly or indirectly over one third of the corporate shareholder's capital or voting rights.

If an individual or corporate shareholder is asked to provide information in accordance with the above conditions and fails to provide it by the applicable deadline, or provides incomplete or incorrect information, the shares or other securities redeemable, exchangeable, convertible or otherwise exercisable for shares recorded in the shareholder's account shall be stripped of voting rights for all Shareholders' Meetings held until the identification request has been fulfilled, and the payment of any corresponding dividends shall also be deferred until that date.

In addition, if an individual or company registered in the Company's shareholders' account deliberately ignores their obligations, the Company or one or more shareholders holding at least 5% of the Company's capital may apply to the court of the place in which the Company's registered office is located to obtain an order to totally or partially strip the shares concerned of their voting rights and the corresponding dividend, for a maximum period of five years.

4 - STOCK OPTIONS

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Date of the Shareholders' Meeting	06/12/1995 500,000 (5 years and 3 months)	05/21/1996 500,000 (5 years and 3 months)	05/21/1997 500,000 (5 years and 3 months)	05/27/1998 500,000 (6 years)	05/25/1999 500,000 (6 years)	05/25/2000 800,000 (8 years)	05/09/2001 1,000,000 (8 years)	06/10/2002 1,500,000 (8 years)	03/31/2003 1,500,000 (8 years)
Date of the Board of Directors/Supervisory Board/Management Board meeting	1-10/15/1997 2-09/15/1998	2-09/15/1998 3-01/21/1999 4-10/14/1999	4-10/14/1999	4-10/14/1999 5-04/12/2000 6-05/25/2000 7-10/17/2000	7 - 10/17/2000	7 - 10/17/2000 8 - 03/21/2001 9 - 12/07/2001	9 - 12/07/2001 10 - 12/10/2001	11 - 07/01/2002 12 - 11/25/2002 13 - 03/31/2003	13 - 03/31/2003 14 - 11/06/2003
Aggregate number of shares to be subscribed or purchased	1-300,000 2-160,375	2-289,625 3-150,000 4-60,375	4-500,000	4-289,625 5-37,500 6-50,000 7-122,875	7 - 500,000	7 - 677,125 8 - 80,000 9 - 42,875	9 - 557,125 10 - 442,875	11 - 420,000 12 - 600,000 13 - 480,000	13 - 220,000 14 - 1,280,000
including conditional :				5-35,625			9 - 300,000		
including number of shares to be subscribed or purchased by management (excluding corporate officers) Number of persons concerned: 29	1-0 2-0	2-0 3-10,000 4-0	4-91,500	4-0 5-0 6-0 7-0	7 - 4,000	7 - 189,000 8 - 0 9 - 0	9 - 400,000 10 - 137,500	11 - 2,500 12 - 143,500 13 - 77,000	13 - 35,750 14 - 193,250
including number of shares to be subscribed or purchased by the first fifteen employee beneficiaries (6 persons with an equal number in tenth position)	1 - 0 2 - 0	2 - 0 3 - 5,000 4 - 0 7-0	4-65,250	4-0 5-0 6-0	7 - 4,000	7 - 138,000 8 - 0 9 - 0	9 - 400,000 10 - 91,500	11 - 0 12 - 78,000 13 - 72,000	13 - 32,000 14 - 127,000
Start date of exercise period	1 & 2 : 50%-2 years ; 100%-3 years	2, 3 & 4 : 50%-2 years ; 100%-3 years	4 : 50%-2 years ; 100%-3 years	5 : 100% conditional 6 : 100% immediate 4 & 7 : 50%-2 years ; 100%-3 years	7 : 50%-2 years ; 100%-3 years	7 : 50%-2 years ; 100%-3 v 8 : 100% immediate 9 : 50% immediate ; 50% conditional	9 : 50% immediate ; 50% conditional 10 : 50%-2 years ; 100%-3 years	11, 12 & 13 : 50%-2 years ; 100%-3 years	13 & 14 : 50%-2 years ; 100%-3 years
Expiry date	1 - 01/14/2003 2 - 12/14/2003	2 - 12/14/2003 3 - 04/20/2004 4 - 01/13/2005	4-01/13/2005	4 - 10/13/2005 5 - 04/11/2006 6 - 05/24/2006 7 - 10/16/2006	7 - 10/16/2006	7 - 10/16/2008 8 - 03/20/2009 9 - 12/06/2009	9 - 12/06/2009 10 - 12/09/2009	11 - 06/30/2010 12 - 11/24/2010 13 - 03/30/2011	13 - 03/30/2011 14 - 11/05/2011
Subscription price	1 – FRF 385.00 (€58.69) 2 – FRF 478.00 (€72.87)	2 – FRF 478.00 (€72.87) 3 - €67.40 4 - €70.32	4 - €70.32	4 - €70.32 5 - €54.52 6 - €60.70 7 - €48.00	7 - €48.00	7 - €48.00 8 - €55.82 9 - €42.48	9 - €42.48 10 - €42.69	11 - €43.84 12 - €28.30 13 - €23.51	13 - €23.51 14 - €32.91
Terms and conditions of exercise	-	-	-	-	-	-	-	-	-
Number of shares subscribed at Dec. 31, 2003 (total)	0	0	0	0	0	0	0	0	0
Stock options cancelled during the fiscal year	1 - 214,250 2 - 53,375	3 - 289,625 4 - 3,500	4 - 30,500	4 - 15,250 5 - 0 6 - 0	7 - 53,000	7 - 40,000 8 - 0	9 - 0 10 - 35,250	11- 28,500 12 - 36,000 13 - 8,000	13 - 5,000 14 - 0
Outstanding stock options at Dec. 31, 2003	1 - 0 2 - 0	2- 0 3 - 58,250 4 - 0	4 - 342,750	4 - 185,250 5 - 35,625 6 - 50,000 7-0	7 - 441,750	7 - 507,000 8 - 80,000 9 - 42,875	9 - 557,125 10 - 395,800	11 - 321,000 12 - 540,500 13 - 472,000	13 - 215,000 14 - 1,280,000

MARKET FOR THE COMPANY'S SHARES

1 - VALEO'S SHARE PERFORMANCE OVER 18 MONTHS

Date	Price (in euros)			Trading	Trading volume
	High	Low	Closing (average)	volume (share)	*(Value – in millions of euro)*
July-02	42.11	32.81	37.53	12,595,040	478.41
August-02	41.50	37.03	39.16	6,483,406	255.41
September-02	39.29	27.50	33.70	7,412,559	242.95
October-02	33.05	23.00	28.23	11,771,345	337.85
November-02	32.90	25.77	28.89	9,945,316	289.54
December-02	33.35	27.70	30.13	6,091,698	185.28
January-03	31.50	25.50	28.43	5,352,629	153.28
February-03	27.63	24.33	26.29	8,345,012	218.24
March-03	26.49	20.01	23.01	6,084,726	139.30
April-03	25.90	19.75	23.24	13,208,302	308.36
May-03	27.42	22.94	25.30	14,715,088	365.12
June-03	30.45	23.26	30.20	17,386,113	471.90
July-03	35.24	27.80	32.64	21,871,014	707.56
August-03	35.00	31.15	32.95	8,682,255	287.90
September-03	36.40	31.35	34.28	10,878,976	374.31
October-03	35.10	30.72	32.21	11,008,855	358.35
November-03	33.62	30.58	32.39	7,262,113	234.33
December-03	32.79	30.22	31.20	7,532,902	235.34

Source: EURONEXT PARIS

2 - STABILIZING THE SHARE PRICE

In the fifth resolution of the Combined Shareholders' Meeting held on second call on March 31, 2003, the shareholders granted the Board of Directors an eighteen-month authorization to purchase the Company's shares in accordance with the provisions of article L.225-209 et seq. of the Commercial Code. Under the authorization the shares may be bought back on one or more occasions, by any method including over the counter or the implementation of options strategies, based on market opportunities.

This authorization superseded, for the unexpired period, the unused portion of the authorization granted in the seventh resolution of the Combined Shareholders' Meeting held on June 10, 2002.

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 and the sale price must not be less than €30 per share.

The objectives of the share buyback program are as follows in order of priority:

- to stabilize the share price by systematically trading against stock market trends;
- for attribution (in payment of assets, in exchange for shares in another company or otherwise) in connection with external growth transactions;
- to attribute shares on redemption, conversion, exercise or exchange of share equivalents;
- to purchase shares with a view to canceling all or some of them in accordance with the authorization granted by the General Shareholders' Meeting of March 31, 2003;
- for allocation under stock option plans in accordance with articles L.225-177 et seq. of the Commercial Code;
- to award shares to employees under employee share issues on the terms and by the methods provided for by law, including articles L.443-1 et seq of the Labor Code;

- or to hold, sell or transfer the shares in connection with the management of the Company's assets and liabilities and its financial position.

In the eleventh resolution of the same meeting, the shareholders' confirmed the authorization granted in the eighth resolution of the Combined Shareholders' Meeting of June 10, 2002, enabling the Board of Directors to cancel shares acquired under the above mentioned share buyback program, provided that the aggregate number of shares canceled in any given period of twenty four months does not exceed 10% of the Company's capital. This authorization, given for a period of eighteen months, renewed that granted by the General Shareholders' Meeting of May 9, 2001.

The 2003 renewal of the share buyback program was described in an information memorandum approved by the French stock exchange authorities ("Commission des Opérations de Bourse") on February 25, 2003 (visa. no. 03-098).

In 2003, Valeo carried out a number of transactions under the above mentioned share buyback program. A total of 821,369 shares were purchased at an average price of €28.95, and 407,881 shares were sold at an average price of €32.51.

At December 31, 2003, the Group held 1,018,618 of its own shares, purchased at an average price of €29.10 (1.24% of capital stock). None of these shares have been pledged.

At the General Shareholders' Meeting to be held on March 26, 2004, on first call, or on April 5, 2004 on second call, the Board of Directors will invite shareholders to vote the following resolutions:

"Seventh resolution
(Authorization granted to the Board of Directors to trade in the Company's shares)

Having reviewed the report of the Board of Directors and the information memorandum approved by the French Financial Markets Authority (Autorité des Marchés Financiers), in accordance with the provisions of articles L.225-209 et seq. of the Commercial Code, the General Shareholders' Meeting authorizes the Board of Directors to purchase Valeo shares, based on market opportunities, for the following purposes (inter alia):
- to stabilize the share price by systematically trading against stock market trends;
- for attribution (in payment of assets, in exchange for shares in another company or otherwise) in connection with acquisition transactions;
- to attribute shares on redemption, conversion, exercise or exchange of share equivalents;
- to cancel all or some of the shares provided the Extraordinary General Meeting votes the thirteenth resolution set out below;
- for allocation under stock option plans in accordance with articles L.225-177 et seq. of the 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);
- or to hold, sell or transfer the shares in connection with the management of the Company's assets and liabilities and its financial position.

The limits 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 – ie. for information purposes, 8,213,373 shares at December 31, 2003;
- the number of Valeo shares held by the Company at any one time may not represent over 10% of the Company's capital stock.

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 (including during a public tender offer), by any appropriate method on the market or over-the-counter, including by means of a block purchase or sale of shares, 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.

The maximum purchase price for shares acquired under this resolution shall be €70 per share (or the euro equivalent thereof). This ceiling shall be applicable for acquisitions decided after the date of this Meeting and for forward transactions entered into before said date providing for acquisitions of shares after the date of the Meeting.

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 month's 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 prices 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, with a power of delegation in accordance with the law, 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, carry out any and all filing and other formalities with the Autorité des Marchés Financiers or any other institution, and generally do whatever is necessary.

Thirteenth resolution
(Authorization granted to the Board of Directors to reduce the Company's capital by canceling shares)

The Extraordinary Shareholders' Meeting, having reviewed the report of the Board of Directors and the Statutory Auditors' special report, authorizes the Board of Directors to reduce the Company's capital on one or more occasions, at the times and in the proportions that it thinks fit, by canceling Valeo shares, subject to the limits prescribed by law, in accordance with articles L. 225-209 et seq. of the Commercial Code.

The number of shares cancelled during any period of 24 months may not exceed 10% of the Company's issued capital, as adjusted to take into account any transactions impacting the Company's capital stock subsequent to this General Shareholders' Meeting.

This authorization cancels and replaces, with immediate effect, the unused portion of all earlier authorizations given to the Board of Directors to reduce the Company's capital by canceling shares. It is given for a period of twenty six months as from the date of this Meeting.

The Extraordinary Shareholders' Meeting grants full powers to the Board of Directors, and, by delegation, to any person duly authorized by the Board, to cancel shares and reduce the Company's capital in accordance with this authorization, to make the required amendments to the Company's bylaws and to carry out all formalities.

3 - DIVIDENDS

Dividends per share over the past five years were as follows:

	1998	1999	2000	2001	2002
Gross dividend per share (in euro)*	1.50	2.25	2.03	1.05	1.50
Net dividend per share (in euro)	1.00	1.50	1.35	0.70	1.00
"Avoir fiscal" tax credit (in euro)*	0.50	0.75	0.68	0.35	0.50
Total dividend (excluding tax credit – in millions of euro)	82	124	112	58	81

** for shareholders entitled to a 50% tax credit*

In view of the Group's results in 2003, at the Annual General Meeting held to approve the accounts for the year, the Board of Directors will recommend a net dividend of €1.05 per share (€1.57 including the "avoir fiscal" tax credit for individual shareholders) compared to a net dividend of €1.00 in 2002.

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.

MAIN INDUSTRIAL AND COMMERCIAL ENTITIES

Direct and indirect stakes by country (% of interest)

Industrial   Commercial

European Union	France	VALEO EMBRAYAGES 100	VALEO MATERIAUX DE FRICTION 100	VALEO SWITCHES & DETECTION SYSTEMS 100	VALEO EQUIPEMENTS ELECTRIQUES MOTEUR 100	VALEO SECURITE HABITACLE 100	VALEO SYSTEMES D'ESSUYAGE 100	VALEO THERMIQUE MOTEUR 100	VALEO PLASTIC OMNIUM SNC 50	VALEO VISION 100	VALEO CLIMATISATION 93
	Germany	VALEO AUTO ELECTRIC KG 100	VALEO BELEUCHTUNG DEUTSCHLAND GmbH 100	VALEO SCHALTER UND SENSOREN GmbH 100	TELMA RETARDER DEUTSCHLAND GmbH 100	VALEO WISCHER-SYSTEME GmbH 100	VALEO SICHERHEITS-SYSTEME GmbH 100	VALEO KLIMASYSTEME GmbH 93	VALEO MOTOREN UND AKTUATOREN GmbH 100	ZELEX VALEO COMPRESSOR EUROPE GmbH 46,5	VALEO SERVICE DEUTSCHLAND GmbH 100
	Belgium Netherlands Sweden	VALEO VISION BELGIQUE (Belgium) 100	VALEO SERVICE BELGIQUE (Belgium) 100	VALEO SERVICE BENELUX B.V. (Netherlands) 100	VALEO ENGINE COOLING A.B. (Sweden) 100						
	Italy Spain Portugal	VALEO S.p.a. (Italy) 99,9	VALEO SICUREZZA ABITACOLO S.p.a. (Italy) 99,9	VALEO SISTEMI DI CLIMATIZZA-ZIONE S.p.a. (Italy) 93	TELMA RETARDER ITALIA Srl (Italy) 100	VALEO CABLAGGI E COMMUTA-ZIONE Srl (Italy) 100	CABLAUTO Srl (Italy) 100	CAVISUD Srl (Italy) 100	VALEO SERVICE ITALIA S.p.a. (Italy) 99,9	VALEO ESPANA S.A. (Spain) 100	VALEO MATERIALES DE FRICCION S.A. (Spain) 100
	United-Kingdom	TELMA RETARDER LIMITED 100	VALEO CLIMATE CONTROL LIMITED 93	VALEO SERVICE UK LIMITED 100							
Other European countries		VALEO AUTO ELECTRIC HUNGARY LLC (Hungary) 100	VALEO VYMENIKY TEPLA Sro (Czech Rep.) 93	VALEO AUTOKLIMATI-ZACE Sro (Czech Rep.) 93	SYLEA TCHEQUIA Sro (Czech Rep.) 100	ZEXEL VALEO COMPRESSOR CZECH (Czech Rep.) 46,5	VALEO KABLI d.o.o. (Slovenia) 100	SYLEA POLAND Sp.zo.o. (Poland) 100	VALEO AUTOSYSTEMY Sp.zo.o. (Poland) 100	VALEO SERVICE EASTERN EUROPE Sp.zo.o. (Poland) 100	VALEO OTOMO-TIV SISTEMLERI ENDUSTRISI A.S. (Turkey) 100
North America	United States	VALEO INC. 100	VALEO FRICTION MATERIALS INC. 100	VALEO INVESTMENT HOLDINGS INC. 100	VALEO ELECTRICAL SYSTEMS INC. 100	VALEO CLIMATE CONTROL CORP. 93	VALEO SYLVANIA LLC 50	VALEO ACUSTAR THERMAL SYSTEMS INC. 47,4	TELMA RETARDER INC. 100	VALEO AFTERMARKET INC. 100	VALEO SWITCHES & DETECTION SYSTEMS INC. 100
	Mexico	VALEO MAT. DE FRICCION DE MEXICO SA de CV 100	VALEO SISTEMAS ELECTRICOS SA de CV 100	VALEO TERMICO SA de CV 100	DELMEX DE JUAREZ S. de R.L. de CV 100	VALEO SISTEMAS ELECTRONICOS S. de R.L. de CV 100	VALEO CLIMATE CONTROL DE MEXICO SA de CV 93	VALEO SYLVANIA ILUMINACION S. de R.L. de CV 50	TELMA RETARDER DE MEXICO SA de CV 100		
South America		VALEO SISTEMAS AUTOMOTIVOS Ltda (Brazil) 100	VALEO CLIMATIZACAO BRASIL Ltda (Brazil) 93	TELMA RETAR-DER DO BRASIL COMERCIAL (Brazil) 100	TCA S.A. (Brazil) 20	VALEO EMBRAGUES ARGENTINA S.A. (Argentina) 68	EMELAR S.A. (Argentina) 68	CIBIE ARGENTINA S.A. (Argentina) 100	VALEO TERMICO ARGENTINA S.A. (Argentina) 100	DAV ARGENTINA S.A. (Argentina) 100	MIRGOR SACIFIA (Argentina) 24,2
Africa		CABELEC (Morocco) 100	CABLINAL MAROC S.A. (Morocco) 100	CABLEA MAROC (Morocco) 100	VALEO BOUZNIKA, S.A. (Morocco) 100	CABLEA TUNISIE (Tunisia) 100	SOCIETE TUNISIENNE DE CABLAGES (Tunisia) 100	SYLEA TUNISIE (Tunisia) 100	VALEO EMBRAYAGES TUNISIE S.A. (Tunisia) 100	DAV TUNISIE (Tunisia) 100	VALEO SYSTEMS SOUTH AFRICA (Proprietary) Ltd (South Africa) 51
Asia	South Korea	VALEO MANDO ELECTRICAL SYSTEMS KOREA Ltd 100	VALEO PYEONG HWA Co. Ltd 50	VALEO PYEONG HWA DISTRIBUTION Co. Ltd 50	ZEXEL VALEO CLIMATE CONTROL KOREA Co. Ltd 46,5						
	China	VALEO WENLING AUTO.SYSTEMS COMPANY LIMITED 55	HUBEI VALEO AUTOLIGHTING COMPANY Ltd 75	VALEO AUTO. AIR CONDITIONING HUBEI Co. Ltd 30,7	FAW ZEXEL CLIMATE CON-TROL SYSTEMS CO. Ltd 20,4	NANJING VALEO CLUTCH CO. Ltd 50	VALEO SHANGHAI AUTO.ELECTRIC MOTORS & WIPER SYSTEMS Co. Ltd 50	SHANGHAI VALEO AUTO. ELECTRICAL SYSTEMS COMPANY LIMITED 30	HUADA ZEXEL AUTOMOTIVE AIR CONDITIONNER Co. Ltd 14		
	Japan	VALEO ZEXEL ENGINE COOLING CORPORATION 78,6	VALEO UNISIA TRANSMIS-SIONS K.K. 66	ZEXEL VALEO CLIMATE CONTROL CORPORATION 46,5	ZEXEL LOGITEC COMPAGNY 46,5	MODUKO Co. Ltd 50	ICHIKOH INDUSTRIES 21,6				
	India	VALEO FRICTION MATERIALS INDIA LIMITED 60	AMALGAMA-TIONS VALEO CLUTCH (PRIVA-TE) LIMITED 50								
	Thailand Indonesia	ZEXEL SALES (THAILAND) Co. Ltd 7,3	SIAM ZEXEL Co. Ltd (Thailand) 18,1	ZEXEL VALEO COMPRESSOR (THAILAND) Co. Ltd 43,7	ZEXEL CLUTCH (THAILAND) Co. Ltd 44,4	PT ZEXEL AC INDONESIA 22,8					

VALEO ELECTRONIQUE & SYSTÈMES DE LIAISON	D.A.V.	VALEO LIAISONS ELECTRIQUES	SC2N	CABLEA	VALEO FOUR SEASONS	TELMA	VALEO SERVICE
100	100	100	100	100	50	100	100

VALEO COMPONENTES AUTOMOVILES S.A. (Spain)	VALEO TERMICO S.A. (Spain)	VALEO ILUMINACION S.A. (Spain)	VALEO PLASTIC OMNIUM S.L. (Spain)	TELMA RETARDER ESPANA S.A. (Spain)	VALEO SISTEMAS ELECTRICOS S.L. (Spain)	VALEO SISTEMAS DE SEGURIDAD Y DE CIERRE S.A. (Spain)	VALEO CLIMATIZACION S.A. (Spain)	VALEO SISTE-MAS DE CON-EXION ELECTRI-CA S.L. (Spain)	VALEO SERVICE ESPANA S.A. (Spain)	CABLINAL PORTUGUESA (Portugal)	CABLAGENS DO AVE (Portugal)
100	100	99,7	50	100	100	100	93	100	100	100	100

VALEO OTOMOTIV DAGITIM A.S. (Turkey)	NURSAN ED (Turkey)	NURSAN OK (Turkey)	VALEO ELECTRO-NICE SI SISTEME DE CONECTARE ROMANIA SRL (Romania)
100	40	40	100

VALEO RAYTHEON SYSTEMS INC.	ZEXEL VALEO COMPRESSOR USA CORP.	SELECTIVE TECHNOLOGY INC.
58,1	46,5	46,5

INTERCLIMA S.A. (Argentina)	TCA S.A. (Argentina)
24,2	20

STATEMENT BY THE PERSON RESPONSIBLE FOR THE "REFERENCE DOCUMENT"

To the best of my knowledge, the information contained in the "document de référence" (Reference Document) is correct. It includes all the information required by investors to form an opinion concerning the assets and liabilities, business, financial position, results and outlook of the Company and no information has been omitted that would be likely to alter an investor's opinion.

Paris, March 9, 2004

Chairman and Chief Executive Officer
Thierry MORIN

STATEMENT BY THE AUDITORS OF THE FINANCIAL STATEMENTS OF THE COMPANY AND THE GROUP

(Free translation of the original french text for information purposes only)

In our capacity as Statutory Auditors of Valeo ("the Company") and as required by the rule COB 98-01 of the Autorité des Marchés Financiers, we have examined in accordance with French professional standards the information about the financial position and the historical accounts included in the "document de référence" (the Reference Document).

The Reference Document is the responsibility of the Chairman and Chief Executive Officer of Valeo. Our responsibility is to express an opinion on the fairness of the information about the financial position and the accounts contained in this document.

Our procedures, which were performed in accordance with French professional standards, consisted in assessing the fairness of the information about the financial position and the accounts and verifying that this information agrees with the audited financial statements, reading the other information contained in the Reference Document in order to identify any material inconsistencies with the information about the financial position and the accounts, and reporting any manifestly incorrect information that came to our attention, based on our overall knowledge of the Company, as acquired during our assignment. The Reference Document does not contain any forward-looking information determined according to a structured process.

We audited the financial statements of the Company and the Group for the year ended December 31, 2003 as approved by the Board of Directors, and for the years ended December 31, 2002 and 2001 as approved by the Management Board. Our audits were performed in accordance with auditing standards generally accepted in France. Our reports on these financial statements were free of qualifications and emphasis of matter, except for the report for the year ended December 31, 2002 in which – without qualifying our opinion – we drew shareholders' attention to the impact on the consolidated accounts of the application of the new French CRC rule 2000-06 relating to liabilities, effective from January 1, 2002.

In addition, pursuant to the provisions of article L.225-235 of the French Commercial Law (Code de Commerce) in connection with the justification of our assessments:

- in our report on the consolidated financial statements for the year ended December 31, 2003, we drew shareholders' attention to the following matters which do not affect our opinion:
  (i) as stated in Note 1.4 to the consolidated financial statements, the Group reviews indicators, which may point to a lasting impairment in value of goodwill. As part of our assessment of significant estimates used for the preparation of the financial statements, we reviewed the elements relied upon to justify the fact that there was no lasting impairment in value of goodwill at December 31, 2003. We did not identify any significant matters that affect the estimates used by the Group at December 31, 2003.

  (ii) the Group has updated the probability of future utilization of certain deferred tax assets as described in Note 1.13 to the consolidated financial statements. As part of our assessment of the significant estimates used for the preparation of the financial statements, we reviewed the assumptions used to justify the amount of deferred tax assets recognized at December 31, 2003. We did not identify any significant matters that affect the estimates used by the Group at December 31, 2003.

- in our report on the annual financial statements of the Company for the year ended December 31, 2003, we drew shareholders' attention to the following matter which does not affect our opinion:

  as stated in Note 1.2 to the financial statements of the Company, provisions for depreciation of investments are based on the value of the investments to the Company and by reference to criteria, which relate to characteristics of each investment. As part of our assessment of the significant estimates used for the preparation of the financial statements, we reviewed that the above-mentioned methodology was applied and verified the accuracy of the calculations of the provisions for depreciation. We did not identify any significant matters that affect the evaluation of provisions for depreciation of investments at December 31, 2003.

Based on the procedures described above, we have nothing to report with respect to the fairness of the information about the financial position and the financial statements contained in the Reference Document.

Paris, March 9, 2004

The Statutory Auditors

PricewaterhouseCoopers Audit	RSM Salustro Reydel
Serge Villepelet	Jean-Pierre Crouzet

CHECKLIST

The French version of the annual report has been filed as a “document de référence” with the Autorité des Marchés Financiers. The following checklist shows certain sections which must be included in a “document de référence” in accordance with Autorité des Marchés Financiers rules and the page numbers on which the corresponding information is provided.

AMF

In application of rule 98-01, the French version of the “document de référence” was filed with the “Autorité des Marchés Financiers” on March 9, 2004. It may not be used in connection with a financial transaction unless it is accompanied by an Information Memorandum approved by “Autorité des Marchés Financiers”

Design and production : Harrison & Wolf
Texts of "The Group's Activities": Corine Delahaye
Credits : cover photos: Uwe Breitkopf
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