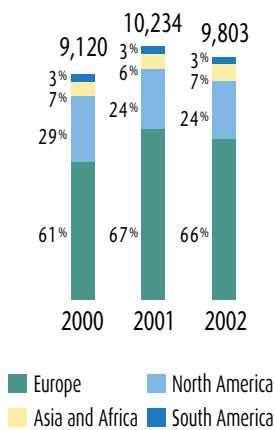


ACTIVITY REPORT

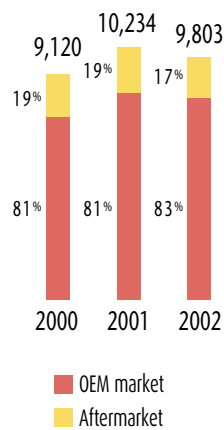
2002

A young girl with dark hair is looking out of a car window. The background is a blurred green, suggesting a forest or park. The car's interior, including the window frame and a seatbelt, is visible. The overall tone is soft and natural.

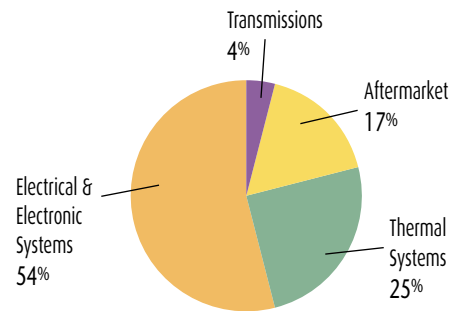
**Valeo**



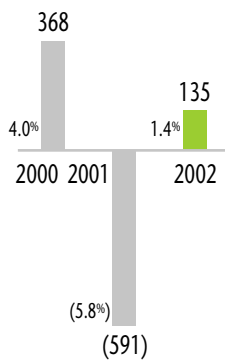
**Sales by region**  
(in million euro and as a % of sales)



**Sales by market**  
(in million euro and as a % of sales)



**Sales by business**

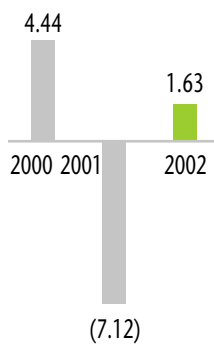


**Net income**  
(in million euro and as a % of sales)

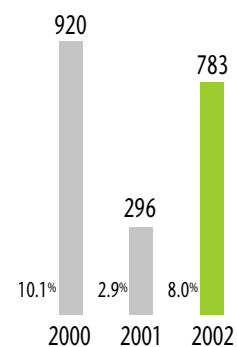
In 2002, Valeo continued to improve its industrial cost base, reinforced its competitiveness and returned to a sound financial situation.

Since the low point reached at the beginning of 2001, progress has been made quarter after quarter on a comparable basis.

This improved operating performance together with a significant reduction in working capital requirements strengthened the Group's balance sheet.

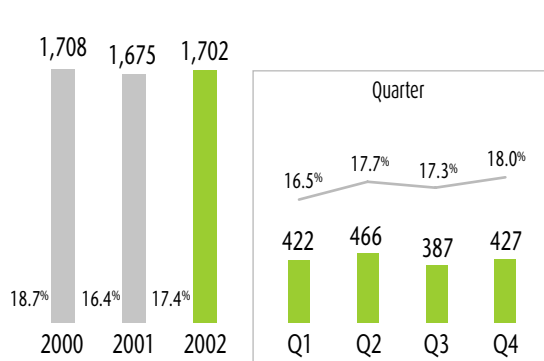


**Net earnings per share**  
(in euro)

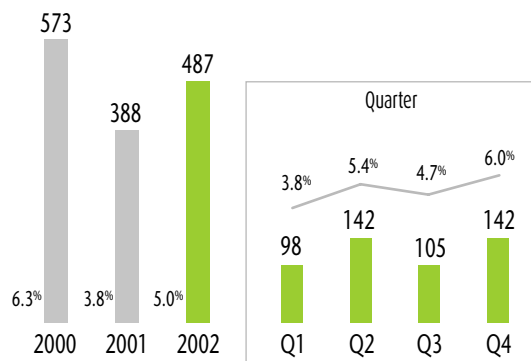


**Cash flow\***  
(in million euro and as a % of sales)

\* Net income + depreciation

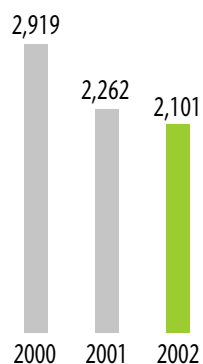


**Gross margin\***  
(in million euro and as a % of sales)

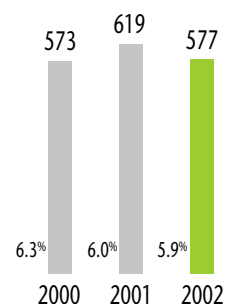


**Operating income\***  
(in million euro and as a % of sales)

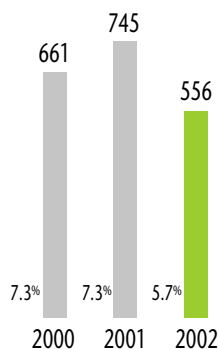
\* Unaudited quarterly financial data



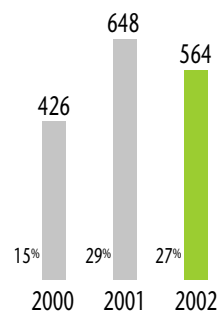
**Shareholders' equity at December 31, 2002**  
(in million euro)



**Research & Development**  
(in million euro and as a % of sales)



**Capital expenditure**  
(in million euro and as a % of sales)



**Net indebtedness**  
(in million euro and as a % of equity)

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For information:

- The Annual Report 2002 is the "reference document". It consists of an Activity Report and a Financial and Legal Section. Only the French version has been filed as a "document de référence" with the "Commission des Opérations de Bourse".
  - The 2002 Annual Report is also available on the **valeo.com** web site.
-

Valeo is an independent international Group fully focused on the design, production and sale of components, integrated systems and modules for cars and trucks, both on the original equipment market and the aftermarket. Valeo ranks among the world's top automotive suppliers. The Group has 140 plants, 54 R&D centers, 9 distribution centers and employs 69,100 people of 45 different nationalities in 25 countries worldwide.

Valeo integrates its profitable growth strategy within a framework of sustainable development.



The start of 2003 sees the emergence of a stronger Valeo after two troubled years.

The Supervisory Board, under my chairmanship, was set up in May 2001 in difficult times. These difficulties have now been overcome thanks to the actions carried out since then. After the next Annual General Meeting of Shareholders, the Supervisory Board will be able to hand over to the newly created Board of Directors with the knowledge that it has fulfilled the missions assigned to it.

The Supervisory Board, in particular, oversaw the formation of a management team led by Thierry Morin. The renewed dynamism of the Group and the regular improvement in its results in 2002 testify to the competence and the motivation of the executive team.

The Supervisory Board, assisted by its different committees, supported Management in its efforts to turn around the Group's financial situation and, in particular, in the integration of the strategic acquisitions made over the past few years in Europe and in the United States. These efforts resulted in significant extra costs due to restructuring charges made necessary in the face of fierce competition, especially in the United States. Nonetheless, in addition to its leadership in Thermal Systems and in Transmissions, the Group is now positioned as one of the leading suppliers in the expanding automotive electrical and electronics market.

At the same time, Valeo, in response to global automaker demands, continues to adapt the deployment of its production resources in Europe, North and South America and Asia. Plants are being built, relocated or outsourced. This continuous process of industrial reconstruction, associating internal resources, customers and suppliers, enables costs to be controlled and improves return on capital employed.

Valeo's capacity to adapt is based on a quality and productivity culture in tune with customer requirements that is constantly being strengthened at all levels and in all functions across the organization.

In the short term, for the shareholder, the major event in 2002 was the recovery in Valeo's results and cash flow together with a strengthening of its balance sheet. 2003 should see a consolidation of this trend and Valeo's share price will eventually end up by reflecting the company's underlying value.

For the long term, the Group has increased its capacity to take technological initiatives which place it at the forefront of innovation in its fields of expertise. This is a guarantee of growth in an automotive industry that is in the process of reinventing itself in an effort to secure its future in a century that will see the end of plentiful oil resources and that will have to better integrate ecological and safety concerns.

Another reason for shareholders to have confidence is the Group's continuing advance in its market as it becomes more and more deeply rooted in Europe and America and as it systematically progresses in the three main Asian economies: Japan, South Korea and China.

I would like to end by thanking my fellow members of the Supervisory Board and the Management Board for their confidence and for their contribution to the development of Valeo.



**Noël Goutard** - Chairman of the Supervisory Board



**Our objective for 2002 was to continuously improve the profitability of your Group and achieve a better return on industrial assets. We identified the way to achieve this objective: pursue the restructuring implemented in 2001, turn around loss-making businesses, optimize our supplier base and reinforce our industrial standardization plan. This program was carried out by a team of highly motivated people who met commitments.**

Operating margins continued to improve reaching 6% of sales in the 4<sup>th</sup> quarter of 2002 and 5% for the full year, up by 1.2 points over the previous year. Industrial asset turnover increased significantly from 3.3 in 2001 to 3.8 in 2002. Consolidated debt was reduced and 1.2 million shares cancelled. With a debt-to-equity ratio standing at 27%, Valeo's balance sheet is stronger and this is a positive sign for the Group's future.

Valeo continued to rationalize its industrial base achieving a better balance between high technology content and low cost manufacturing operations in different parts of the world. 2002 also saw Valeo's troubled subsidiary in North America, Valeo Electrical Systems Inc., conclude agreements with suppliers and trade unions which enabled it to emerge from Chapter 11 in the conditions desired by the Group. Customer service was continuously improved throughout the year and, in line with our commitments, the losses of the Rochester plant were nearly halved.

In 2002, Valeo followed a new direction with the setting up of partnerships with technology companies that are leaders in their field. Valeo is now not only a creator but an importer of technologies and can speed up the time-to-market of its innovations. An example of this is the agreement signed with Raytheon in 2002 which will lead to the integration of radar into automotive applications.

The Group's organization was improved with the regrouping of Branches into Activities to maximize strategic, industrial and technological synergies. Valeo's new aftermarket Activity enables the Group to fully benefit from new regulations through more efficient marketing and logistics.

Valeo's renewed competitiveness and its technology strategy contributed to a 16% increase in order intake compared with 2001. New contracts were won for innovative products such as intelligent lighting, park assist systems and starter-alternators.

The development of Valeo in Asia, marked in 2002 by a 17% growth in sales, will be an essential source of growth in the years to come. Anticipating the boom in vehicle production in China, Valeo has already established eight production facilities there. These operations will be reinforced in 2003.

Sustainable development is an essential part of Valeo's strategy and plays an important part in the Group's success. Respect for the environment is a key factor in the industrial management of Valeo's production sites and in the development of new products, the aim being to better integrate the automobile into society. Concerning people, the Involvement of Personnel is the first of Valeo's 5 Axes which drive the Group's operations. When industrial reorganization is implemented, Valeo takes special care to reduce and manage its impact on employment.

Following recent changes in the Group's shareholder structure, the next Annual General Meeting of Shareholders will be asked to appoint new Board members who will reinforce its independence. New internal governance rules will be

established and the mission of the existing special committees extended. At a time when Noël Goutard has decided to stand down from the chairmanship of the Supervisory Board and shareholders are being asked to approve a new management structure I would like to thank Noël Goutard personally and on behalf of all the Group's employees for the important contribution he has made to Valeo.

Thanks to the confidence of shareholders, customers, employees and suppliers, we have made considerable progress. Our increased room for maneuver, together with the even stronger mobilization of our people in favor of quality, innovation and competitiveness will serve to enhance the value of Valeo in the future.



**Thierry Morin** - Chairman of the Management Board

## The Management Board



Thierry Marin  
Chairman of  
the Management Board



Luc Blériot  
Senior Vice-President,  
Electrical and Electronics  
Activity



Bernard Geymond  
Vice-President,  
Human Resources and  
Administrative Affairs



Géric Lebedoff  
General Counsel



Vincent Marcel  
Vice-President,  
Financial Affairs and  
Strategic Operations

## The Supervisory Board

Chairman : Noël Goutard

Carlo De Benedetti  
Arnaud Fayet  
Yves-André Istel  
Jean-Marc Janodet  
Jean-Bernard Lafonta  
Alain Minc  
Jean-Pierre Souviron  
Erich Spitz

## The Management Committee

The Management Committee comprises the members of the Management Board, the Group's Functional Directors, Activity Vice-Presidents and Branch Vice-Presidents.

### Functional and Activity Vice-Presidents



**Gérard Bouctot**  
Financial Control  
Director



**Jean-Christophe Figueroa**  
Vice-President,  
Purchasing



**André Gold**  
Group Senior  
Vice-President,  
Thermal Systems  
Activity



**Martin Haub**  
Vice-President,  
Product Marketing  
and Research  
& Development



**Duncan Johns**  
Group Vice-President,  
Valeo Service Activity



**Hans-Peter Kunze**  
Senior Vice-President,  
Sales and Business  
Development



**Serge Le Berre**  
Group Technical  
Vice-President



**Edward K. Planchon**  
Advisor to the  
Chairman of the  
Management Board



**Xavier Véret**  
Chairman's Delegate

### Branch Vice-Presidents

(See pages 44 to 65).

Patrice Brion : Vice-President, Security Systems Branch  
 Bernard Clapaud : Vice-President, Climate Control Branch  
 Robert de La Serve : Vice-President, Lighting Systems Branch  
 Jean-Jacques Giambi : Vice-President, Motors & Actuators Branch  
 Michel Giannuzzi : Vice-President, Electrical Systems Branch  
 François Hiriart : Vice-President, Wiper Systems Branch  
 Philippe Huyghe : Vice-President, IAM Branch  
 Claude Leïchlé : Vice-President, Electronics & Connective Systems Branch  
 Alain Marmugi : Vice-President, Engine Cooling Branch  
 Christophe Perillat : Vice-President, Switches & Detection Systems Branch  
 Michael Schwenzer : Vice-President, Transmissions Branch

On the date of filing, Valeo is a joint stock company (société anonyme) with a Management Board and a Supervisory Board. If the proposed new articles are voted by the Annual General Meeting of Shareholders convened on first notice on March 18<sup>th</sup> 2003 and on second notice on March 31<sup>st</sup> 2003, Valeo will become a joint stock company (société anonyme) with a Board of Directors.

### **The Management Board**

The Management Board is invested with extended powers to act in all circumstances in the name of the Company and to define and implement the Group's policies within the limits of the object of the Company and of the powers expressly assigned by law and the Company's by-laws to the Supervisory Board and to Shareholder Meetings. The Company's by-laws stipulate that a certain number of major operations and acts of management require the prior authorization of the Supervisory Board. The Chairman of the Management Board acts for the Company as regards third parties.

The Chairman and the members of the Management Board are appointed for four years by the Supervisory Board. The Chairman can be removed by the Supervisory Board and the members of the Management Board can be discharged by the General Meeting of Shareholders.

At December 31<sup>st</sup> 2002, the Management Board had five members appointed by the Supervisory Board on May 9<sup>th</sup> 2001.

In principle, the Management Board meets once a week. It met forty times during the course of 2002.

### **The Supervisory Board**

The Supervisory Board's mission is to oversee the management of the Company. The Group's strategy defined by the Management Board is subject to the prior authorization of the Supervisory Board. The latter also authorizes the Management Board to carry out operations that may substantially modify this strategy, the financial structure of the Group or its reporting entity and authorizes the signature of significant acts or commitments.

The members of the Supervisory Board are appointed by the General Meeting of Shareholders for six years. They can be natural or legal persons, shareholders of the company, and can be discharged by the General Meeting of Shareholders at any time.

At December 31<sup>st</sup> 2002, the Supervisory Board had nine members. In 2002, it met four times.

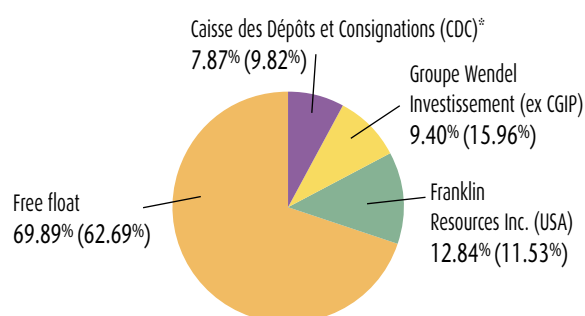
The Supervisory Board is supported by three committees to assist it in its work and decision making:

- Strategic Committee, responsible for examining the medium and long-term strategic orientations, budgets and also for analyzing proposed acquisitions and disposals that could impact the Group's strategy. This committee met eleven times during the course of 2002;
- Audit Committee, responsible notably for ensuring the relevance, the selection and the correct enforcement of the accounting methods used to prepare consolidated or corporate financial statements, the drawing up and the correct application of internal control procedures and for making sure that major operations carried out at Group and Branch levels receive the appropriate accounting treatment. This committee met twice in 2002;
- Remuneration Committee, responsible for submitting proposals for management compensation to the Supervisory Board. This includes proposals relating to the award of stock options to members of the Management Board. This committee met three times during 2002.

At its meeting of February 10<sup>th</sup> 2003, the Supervisory Board evaluated its functioning and concluded that the major issues submitted to it during the course of 2002 were efficiently prepared and debated.

For further information on the organization and the operation of the Management and Supervisory Boards, please see section 2 (page 46) of the chapter "General information about the issuer" in the Financial and Legal Section.

## Shareholders



**At December 31<sup>st</sup> 2002**

In % equity (in % voting rights)

Number of shares: 82,133,728

Number of voting rights: 91,488,242

\* Own account.

In April 2002, CGIP decided to use its stake in Valeo to enhance its investment capacity, notably through a share placement. CGIP placed 8.3 million Valeo shares with institutional investors. Moreover, CGIP has issued bonds redeemable against Valeo shares for an amount of €408.8 million. Subsequent to this operation, Wendel Investissement, the holding company resulting from the merger of CGIP and Marine Wendel, held 9.40% of Valeo's capital (including 7.7 million shares) and 15.96% of voting rights at December 31<sup>st</sup> 2002.

To the best of the Company's knowledge, at December 31<sup>st</sup> 2002, there are no shareholders other than Wendel Investissement, CDC, Franklin Resources Inc. and BNP Paribas group (and State Street Bank and Trust Company and Northern Trust in their capacity as intermediaries), that hold either directly or indirectly 2% or more of the shares or the voting rights of the Company.

## Data per share

(in Euro)	2002	2001	2000	1999	1998
Net income (on average number of shares)	1.63	(7.12)	4.44	6.81	3.45
Dividend	1.00*	0.70	1.35	1.50	1.00
Dividend including tax credit**	1.50*	1.05	2.03	2.25	1.50

\* Dividend of 1 euro to be proposed to the 2003 Annual General Meeting of Shareholders.

\*\* Tax credit equivalent to 45% of the dividend amount paid to legal entities in 1999, 40% in 2000, 25% in 2001 and 15% in 2002 (for the previous year).

## Stock market data

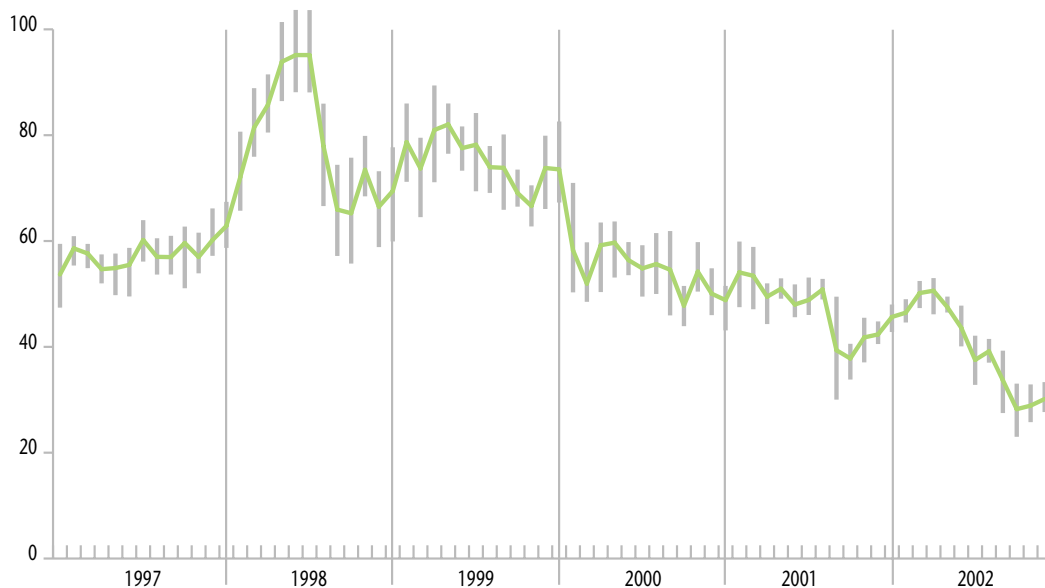
	2002	2001	2000	1999	1998
Market capitalization (end of period in billion euro)	2.46	3.72	3.94	6.34	5.53
Number of shares (end of period)	82,133,728	83,056,603	82,923,403	82,808,128	82,475,628
Highest share price (in euro)	53.00	59.90	82.60	89.40	103.66
Lowest share price (in euro)	23.00	30.02	43.90	59.90	55.72
Average share price (in euro)	40.04	47.17	56.35	74.83	77.32
Share price at end of period (in euro)	29.90	44.80	47.56	76.60	67.14

## Share performance

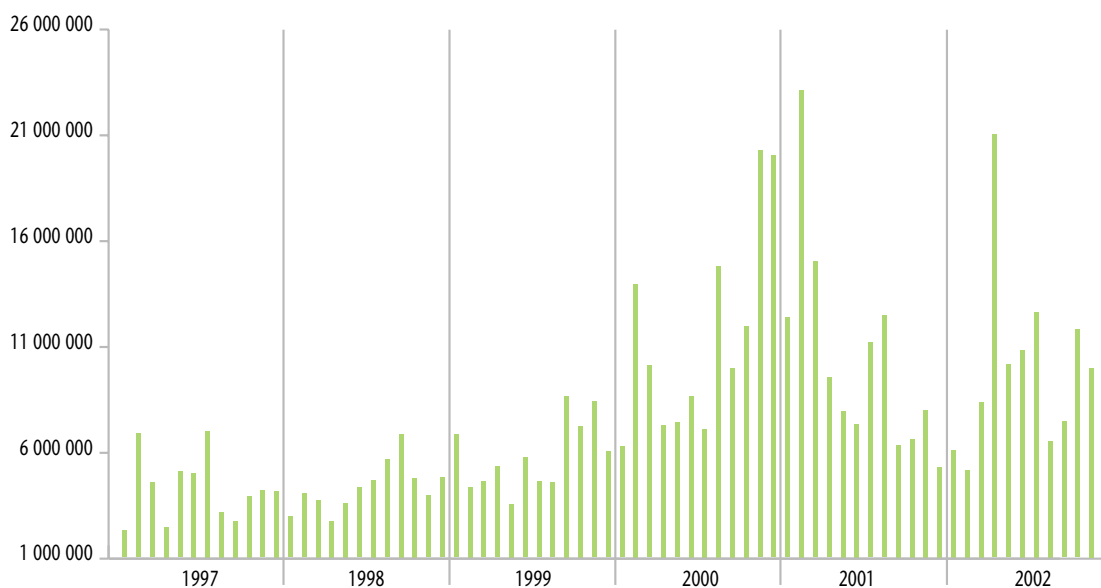
World stock markets declined significantly in 2002: the Paris Bourse's CAC 40 index lost 34%. Over the same period, Valeo's share price followed a similar trend, ending the year down 33% compared with December 31<sup>st</sup> 2001. Since October 17<sup>th</sup> 2002 the date of publication of Valeo's third quarter results, which confirmed the Group's recovery, the share price has dropped 1% while the CAC 40 has lost nearly 4%.

In October 2002, Moody's rating agency raised its outlook on Valeo from negative to stable. Its evaluation was based notably on the on-going turnaround of its US subsidiary, VESI, which emerged from the protection of the US Bankruptcy Code in September 2002. Moody's confirmed Valeo's A3 long-term rating.

### Share price (in euro)



### Monthly trading volume (number of shares)



## Financial Communication

Valeo endeavors to provide regular, clear and fully transparent information to its individual and institutional shareholders, both actual 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 2002 on February 11<sup>th</sup> 2003, making it once again one of the most proactive companies in the world in the early publication of results.

## Individual Shareholders

Valeo has about 80,000 individual shareholders accounting for around 8% of its capital.

A number of tools are used to meet these shareholders' expectations in terms of efficient communication:

- A toll-free phone line, implemented since 1998, which provides shareholders with practical information on the evolution of Valeo's share price, the management of their shares, their rights, current developments within the Group and background data.
- During the redesign of the Group's internet site, **www.valeo.com**, the financial communication section was upgraded to make it more user-friendly for shareholders and investors. The site gives access to all of the Group's financial information: latest share price, the latest resolutions adopted by 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.

Since the end of 2000, Société Générale is the Group's share registrar, offering a privileged channel for dialoguing with individual shareholders. A reduced cost information line (0825 820 000) is available to registered shareholders in France.

## Institutional Shareholders

Valeo's top management is widely involved in communication with investors and analysts. In the course of 2002, it met with around 150 investors in major financial centers around the world in Europe, USA and Asia.

Meetings and conference calls with analysts are organized on the occasion of the publication of annual, semi-annual and quarterly results.

Valeo's Investor Relations Department is available to respond to investor and analyst queries.

## Expected 2003 reporting schedule

Announcement	Provisional date
First quarter 2003 results	April 18 <sup>th</sup> 2003
First half 2003 results	July 25 <sup>th</sup> 2003
Third quarter 2003 results	October 22 <sup>nd</sup> 2003
Annual 2003 results	End January 2004

## Valeo share information

- Quoted on the Paris Bourse under the deferred settlement system.
- A component of the Euronext 100, SBF 120, FTSE All-Share and FTSE4good indices.
- Quoted in the form of sponsored ADRs (American Depositary Receipts) in the U.S.
- Shares may be held in either registered or bearer form, at the shareholder's discretion.
- Double voting rights for registered shares if held for more than four years.

## Financial information

Bruno-Roland Bernard,  
Investor Relations Director

**Internet:** <http://www.valeo.com>

**Toll-free number:** 0 800 814 045  
(France only)





**valeo** added™



## Entering a new era

**In unfavorable conditions in the automotive industry, Valeo continued its operational recovery in 2002 and placed an even greater focus on innovation. This process was supported by the Group's policy of Total Quality and the added technological value of its products.**

**In 2002, Valeo generated results which give it the resources to ambitiously face the future.**

### A global player

Valeo recorded annual sales of €9.8 billion in 2002, (down by 4.2% over 2001 principally due to changes in the reporting entity and currency variations), maintaining its sales at a practically stable level compared with 2001 at constant reporting entity and exchange rates. This figure confirms Valeo's position as one of the world's leading suppliers of automotive systems, modules and components.

A global Group, Valeo's sales figures reflect automotive output in each of the world's major vehicle manufacturing zones: Europe, Asia, North and South America. Valeo notably performed well in Asia, where emerging markets today drive growth.

- **In Europe**

Europe, Valeo's first market accounting for 66% of sales, suffered from weak economic conditions. Valeo's sales were down by 2%, while automotive output and new car registrations fell respectively by 2 and 3%.

- **In North America**

In 2002, the progression of the Group in North America where sales accounted for 24% of Valeo's total sales, was impacted by a more selective approach to new business and the difficulties experienced by its subsidiary Valeo Electrical Systems Inc.. This entity officially emerged from Chapter 11 of the US Bankruptcy Code on October 7<sup>th</sup> 2002, subsequent to the Court's approval of its reorganization plan.

Overall, Valeo's sales progressed by 1% while automotive output increased by 6% due to inventory building by automakers.



### Western Europe

73 production sites  
 39 R&D centers  
 6 distribution centers  
 40,700 employees  
 Belgium, France,  
 Germany, Italy, Netherlands,  
 Portugal, Spain, Sweden,  
 United Kingdom

### Eastern Europe

11 production sites  
 2 distribution centers  
 4,800 employees  
 Czech Republic,  
 Hungary, Poland,  
 Romania, Turkey

### North America

17 production sites  
 11 R&D centers  
 9,600 employees  
 Mexico, USA

### South America

12 production sites  
 1 distribution center  
 2,700 employees  
 Argentina, Brazil

### Asia

16 production sites  
 4 R&D centers  
 3,600 employees  
 China, India,  
 Japan, South Korea

### Africa

11 production sites  
 7,700 employees  
 Morocco, South Africa, Tunisia

● **In Asia**

Taking advantage of its footprint and its experience in this region of the world, Valeo grew its sales by 17%. The dynamism of this market, which saw output rise by 10%, reflects growth in the Chinese market and a recovery in demand in South Korea.

● **In South America**

Having downsized its presence in Argentina, Valeo, whose facilities are now primarily in Brazil, offset the impact of the economic crisis affecting this region. The 5% fall in automotive output throughout South America, including a 2% decline in Brazil, impacted Group sales which were down by 2%.

### Our customers

- BMW
- Daewoo
- DAF
- DaimlerChrysler
- Fiat
- Ford Motor Company
- General Motors
- Honda
- Hyundai
- Man
- Nissan
- Porsche
- PSA Peugeot Citroën
- Renault
- Rover MG
- Toyota
- Volkswagen



### **Valeo, a high technology company**

In an increasingly difficult economic environment, Valeo has channeled the necessary resources into maintaining its positions and enhancing its leadership and has set itself the following objectives:

- become a true partner in technological creativity with its automaker customers;
- gain in flexibility and rapidity of response to customer requirements;
- pursue the rationalization and redeployment of its activities to improve industrial efficiency while controlling the level of capital expenditure.

#### **● Enhancement of technical synergies between the Group's different areas of expertise**

In 2001, Valeo introduced its new approach to innovation, based on 5 Domains: Driveline Systems, Seeing and Being Seen, Electrical Energy Management, Access and Security, Thermal Systems. By organizing the Group's competencies into transversal networks, traditional product, technology and system definitions are transcended, stimulating creativity and enabling future market needs to be anticipated.

The integration of electronics into systems adds greater comfort and safety, releases the driver from routine tasks and lets him or her concentrate on driving.

#### **● A technology importer**

The Group concluded new strategic partnerships with specialists in leading-edge technologies. The aim of "importing" technologies is to differentiate the Group from competitors and apply advanced technologies to the automotive sector that have a proven track record in other fields.

In 2001, the Group concluded partnerships of this nature with Iteris and Ricardo. In the second quarter of 2002 Valeo and Ricardo successfully launched a mild hybrid vehicle known as "I-MoGen" (Intelligent Motor Generator).

In February 2002, Valeo entered into a long-term strategic alliance with International Rectifier to develop advanced power electronics systems for automotive applications and, in September, set up a joint venture with Raytheon, the US radar specialist, to develop new automotive applications using advanced detection systems.

## 2002: regrouping of Branches into Activities

In the first half 2002, to optimize the development of advanced systems and facilitate synergies between its Branches, the Group created two new Activities in addition to its Electrical/Electronics and Transmissions Activities.

- **The Thermal Systems Activity** regroupes Valeo Engine Cooling and Valeo Climate Control, the joint venture, Zexel Valeo Climate Control, Cockpit Modules and Front End

Modules. This Activity provides the Group with the means of increasing productivity in thermal system components by benefiting from synergies across its product lines.

- **The Valeo Service Activity** brings together the sales of replacement parts to automakers and to the independent aftermarket. This new organization reinforces the common marketing and logistics functions to enhance efficiency. Separate customer interfaces between the Independent

Aftermarket (IAM) and Original Equipment Spares (OES) market are maintained so that business teams can better satisfy customer requirements. The IAM Branch includes distributors, garages, auto centers; the OES Branch, dedicated to original equipment spares (car dealerships), is structured by key accounts. Valeo Service is thus in a position to offer customers a wide range of spare parts, timely delivery and new services ranging from diagnostic tools to high level technical training courses.

- **Valeo, an “extended enterprise”**

Employees but also outside partners are essential in building the Valeo of the future. It has therefore reinforced its partnership with its best suppliers. Eighty of them have been appointed “Valeo Integrated Partners” (or “VIPs”). They are closely involved in the development of Valeo’s products and contribute upstream to the continuous improvement process. Valeo and supplier teams work together using common tools, methods and procedures in line with Valeo’s 5 Axes. Valeo can therefore benefit from supplier innovations and technical productivity and suppliers in exchange are awarded a greater amount of business.

- **Pursuit of the industrial restructuring program**

The number of Valeo’s industrial facilities fell from 179 in March 2001 to 140 in December 2002.

In 2002, the Group closed seven sites in North and South America and in Europe.

At the same time five new production units were opened in line with its strategy of redeployment to lower labor cost countries and of supporting new customer operations.

The industrial rationalization program implemented in 2002 resulted in increased standardization of the industrial base and flexibility of installations and machinery.

In line with its program of selective divestments, the Group concluded a partnership in March 2002 with the US company Jabil Circuit Inc. covering the manufacture of printed circuit boards with the transfer of Valeo’s Meung-sur-Loire, France, production facility to Jabil and the closure of its Fort Worth, USA, site. According to the agreement, Valeo retains control over design and development. A three-year supply agreement was also concluded.

- **Optimization of logistics flows**

In order to optimize its capacity to anticipate and to generate gains both in terms of productivity and costs, Valeo has considerably reinforced its logistics expertise both at a central level and at Branch level. Initially efforts have been focused on decreasing the number of carriers and so giving a greater volume of business to selected suppliers. The Group is also negotiating framework agreements with all its logistics partners (storage, handling, packing) so as to better integrate them into Valeo’s operations.



### **“Valeo added”: adding value for automakers and motorists**

As a high technology company, Valeo is committed to always remaining in the lead and to continuously adding real value for all of its customers. The “Valeo added” campaign launched in September 2002 on the occasion of the Paris Mondial Auto Show testifies to this commitment.

A measure of success and a differentiating factor in the face of fierce competition, “Valeo added” expresses the new Group dynamics. The objective is twofold: show the value added by Valeo’s technologies for automakers and highlight their benefits for the consumer.

The “Valeo added” concept is at the heart of Valeo’s sustainable development strategy. It is applicable across its organization.

#### **Valeo adds value when it...**

- **adds greater comfort and safety for motorists:** in 2002, Valeo introduced new radar based detection systems, intelligent lighting which “bends” light around corners, developed the next generation of vehicle keyless access and ignition systems, including a new powered trunk closure system.
- **offers customers more and more innovative products, more rapidly, at the best price:** by optimizing synergies through its five Domains, reinforcing supplier integration, working hand-in-hand with different partners, rationalizing logistics, standardizing processes on a global scale, Valeo improves manufacturing flexibility and shortens time-to-market.
- **develops solutions that are both global and local:** products are manufactured precisely in the same way and to the same exacting quality standards throughout the world using Valeo’s 5 Axes methods. At one and the same time, the Group supports its customers’ operations locally and adapts its products to suit local markets.

**THE 5 AXES**



**Involvement of Personnel**

Involvement implies recognizing skills, enhancing them through training, giving people the means of carrying out their responsibilities, encouraging them to make suggestions for improvement and to participate actively in the running of autonomous teams.

**Valeo Production System (VPS)**

The VPS is designed to improve the productivity and quality of our products and systems. It is a "pull" system based on flexibility of production resources, the elimination of all non-productive operations and stopping 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 is able to benefit from their capacity to innovate, develop productivity plans with them and improve quality. Valeo aims to set up and sustain close, long-term relationships with a limited number of world-class suppliers that are beneficial to both parties.

**Total Quality**

The aim of Total Quality is total customer satisfaction. To meet customer expectations on the quality of products and services, it is implemented by all members of the company together with all suppliers.

- **capitalizes on the experience and know-how of its teams:** Valeo's dynamic training policy together with the variety of its businesses and its worldwide presence enables it to offer employees greater career development opportunities.

- **innovates while protecting the environment:** eliminating hazardous substances, optimizing the end-of-life of its products, certifying sites, designing "generic plants", all contribute to minimizing the impact of Valeo's activities on the environment.



## More skills, more motivation

Valeo operates in a highly competitive market: the involvement, creativity and know-how of Valeo's personnel are therefore essential for the company to move forward. Convinced that the improvement in performance depends on the commitment of all of its employees, the Group is especially attentive to all that stimulates motivation and teamwork.

## Cultivating a sense of responsibility and motivation in teams

With 69,100 people in 25 countries worldwide, decentralization is a daily reality at Valeo.

This is reflected in the organization of its industrial base, in product and process development and also in its Human Resources policy which is designed to promote employee empowerment.

The Group drives strategy, coordinates, controls and encourages synergies between its Branches and Divisions, each of which are autonomous entities. Common working methods, and in particular the 5 Axes, guarantee a coherent, global approach in all of its facilities, at all levels and in all functions.



Valeo provides its teams with the resources they need to always achieve the highest standards. Thus, wherever they are in the world, all Group employees benefit from the same training and human resources management tools so as to be able to enhance their efficiency, their operational performance and their development potential.

**Suggestions for improvement programs** are more and more numerous in all Valeo sites. All employees participate in these programs. In 2002, Valeo's Toluca, Mexico site had a record-breaking 80 improvement suggestions per person per year with an implementation rate exceeding 90%.



### 5 fundamentals of Valeo Human Resources

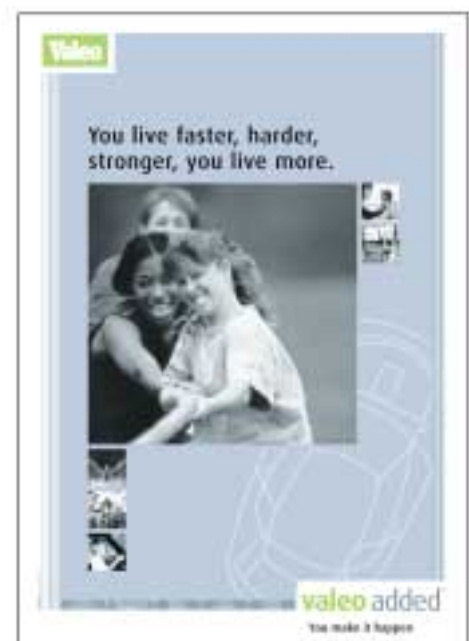
- Promote success
- Encourage internal promotion
- Develop competence
- Stimulate innovation
- Recognize and reward performance and increase motivation

### Among the highlights of 2002 ...

- **A recruitment campaign full of “thrills”.**

In the area of Human Resources, the “Valeo added” concept has been deployed in an innovative recruitment and internal communications campaign. Its ambition is to express the permanent adventure offered by Valeo as an employer, the new challenges to be met in every working day and thereby attract talented people who want to be part of the Group and its culture.

The question “When was your last thrill?” refers to the slogan of the “Valeo added. You make it happen” campaign which expresses the sense of initiative, responsibility and the idea of being able to take charge of one’s future in the working environment offered by Valeo. This global campaign, more specifically aimed at managers but indirectly at all employees, is supported by an internal mobility charter.





- **Internal mobility**

The international footprint of the Group, the variety of the jobs offered and its culture open up numerous career possibilities. The priority is to fill three out of every four senior positions through internal promotion. No less than 1,400 engineers and managers were, nevertheless, recruited in the different sites of the Group.

- **A lower turnover rate**

Manager turnover, which fell by two percentage points in 2001, dropped by a further two percentage points in 2002, standing at 8% at the end of December. These figures illustrate the renewed confidence of employees in the Group's future.

- **ValeoC@mpus: optimized, individual training courses**

Launched in 2002, Valeo's on-line university is the result of close collaboration between Valeo's Human Resources and Information Systems networks. This training program is part of Valeo's skills transfer policy. It is designed to enable all employees to take advantage of cost-effective, targeted, self-training courses adapted to their individual needs.

ValeoC@mpus consists of generic learning modules (office systems, languages) and specific courses developed internally principally on the 5 Axes, how to use "Valeo Collective Memory" (VCM), Valeo's knowledge management system, Personal Development and Finance. Experts from Valeo's technical schools are creating their own training modules in particular on subjects related to transversal expertise such as electronics and thermal systems.

The implementation of e-learning has also resulted in the evolution of the content of 5 Axes training courses. To the greater satisfaction of participants, these courses are now more focused on practical case studies as the theory can be learned on an individual basis on-line.

Valeo is also offering courses in the reinforcement of leadership skills for managers. This is in addition to another approach, which forms part of the Group's culture, concerning interpersonal management skills. Over 150 seminars have taken place on this topic.



Valeo is at the leading edge of e-learning. In 2003, over 80% of sites will be fully equipped. The ramp-up will continue over the next few years and virtual classrooms will be set up in the near future.

### **Restructuring: alternative employment solutions**

In 2002, Valeo had to rationalize its industrial base and this led to the closing of seven facilities. Around 10 sites are currently being closed in Western and Eastern Europe and in South America.

On each occasion, Valeo puts in place a forward-looking employment and skills management procedure and looks into solutions that will provide alternative jobs for people affected by reorganization: transfers within the Group, external individual and collective redeployment, the search for new activities for the site in question and local economic development initiatives.

This was the case for Valeo's Vire and Cahors, France, sites closed in July 2001. Employment offices, operational up until September 30<sup>th</sup> 2002, were instrumental in finding alternative jobs for 80% of employees. In line with its commitments, Valeo offered each employee two in-house job opportunities resulting in 64 transfers to other jobs within Valeo. Valeo's Re-industrialization Fund supported the creation of 270 jobs in the Vire area and 195 jobs in the Cahors area.

Personnel representatives are regularly informed and consulted on these operations on a national scale. Valeo's European Works Committee met on four occasions during 2002.

More detailed information on headcount and the Group's social policy is given in the Financial and Legal Section (Social Indicators - page 14).



## Innovation for market differentiation

Valeo focuses on practical, rapidly applicable research projects so that its innovations satisfy market-driven requirements. Valeo's Research & Development anticipates and meets the expectations of automakers for products that really add value to the driving experience.

### Sustaining R&D investment to win market share through innovation

Technological innovation is a major factor of differentiation. Valeo's R&D expenditure for 2002 stood at 5.9% of sales. These investments enable Valeo to meet current and future challenges: to keep up with the faster pace of new model releases (which mean shorter development lead-times), to continue developing technologies that offer greater safety, comfort, performance, energy savings and respect for the environment.

### Development Efficiency Plan (DEP)

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 obtain a 15% annual improvement in R&D efficiency in order to manage the growing number of development projects while keeping costs under control.

### Developing in-house synergies to innovate and invent

To bring customers the "Valeo added" technologies that make a difference on the market, Valeo reinforced its transversal Domains approach to project development in 2002. This approach to innovation enables Valeo to offer customers global solutions that meet consumer expectations. In 2002, key innovations covered systems for hybrid vehicles, electrical energy management, power electronics, cameras, radar, vehicle thermal management, keyless access systems, powered closure systems and clutch-by-wire.

### R&D, as in “Ride & Drive”

Encouraged by the success of the 2001 Ride & Drive events, Valeo organized several similar operations in 2002. Attended by customer product function and platform managers, Research and Innovation, Product Marketing and Purchasing managers, these events are an opportunity for Valeo to present its products grouped by Domain and for attendees to test innovations

for themselves at the wheel of Valeo’s specially equipped demonstration vehicles. In 2002, Valeo organized four Ride & Drive events, in Europe and the USA.

### Valeo world first: the e-module™

Unveiled at the 2002 Paris Auto Show, the Valeo e-module™ system offers automakers customized integration of all liftgate electrical

and electronic components and systems (lock, wiper, reversing sensors, lights), right from the design phase. Assembly-line costs are minimized, and quality maximized for the automaker, through the use of integrated mechatronic sub-modules (rear-view camera, reversing and ultrasonic sensors) designed for flexibility and precise positioning.

## Showcasing new technologies in action

In 2002, Valeo showcased its new technologies on demonstration vehicles at Ride & Drive events (see box). Innovations were also presented to customers at international auto shows and at special workshops organized with automakers to study specific technologies.

This strategy seeks to increase Valeo’s presence at an early stage in the vehicle development process and to show the value of its innovations.

## Standardizing, for a proactive response to automaker requirements

Technological innovation is useful only if it is rapidly introduced at an acceptable price to consumers. For this reason, Valeo’s innovation teams focus on two concepts: convenience for the motorist and easy implementation for the automaker, for whom Valeo considers itself to be both partner and advisor.

This was the thinking behind Valeo’s 2002 standardization program, which targeted faster time-to-production at a lower cost and with higher quality. For example, the “Pick & Plug” strategy developed in 2002 by the Climate Control Branch led to the standardization of twelve major components of an air-conditioning system (including the fan motor, actuator, heat exchanger and compressor). This made it possible to improve quality and cut costs without affecting integration

flexibility. The new system adapts to different vehicles and at the same time meets automaker specifications worldwide. Similarly, Valeo Electronics & Connective Systems has developed a unique process covering design through manufacturing to maximize standardization. Its “delayed differentiation” method for vehicle wiring harnesses offers an efficient response to the constant increase in the number of electrical and electronic configurations for new vehicle platforms, since standardized harnesses are custom-matched to their vehicles just a few minutes prior to delivery.

### Valeo R&D in 2002

- €577 million
- 54 R&D centers in Europe, USA and Asia
- Over 5,600 engineers and technicians
- Over 550 new patents filed in 2002

## “Importing technologies” to reinforce the Group’s technological offering

Innovation is an increasingly complex and costly activity that demands the pooling of ideas and know-how. For this reason, Valeo stepped up its policy of partnerships in 2002 with specialists that are leaders in their fields.

In 2002, Valeo set up a joint venture with **Raytheon**, a specialist in radar technologies. Potential synergies between Valeo’s pulse radar and Raytheon’s multi-beam system have paved the way for new applications that are optimized in terms of cost and performance. In 2002, detection systems made their entry into the automotive industry.

Valeo’s partnership with **Ricardo**, the UK automotive engineering consultancy, resulted in the presentation of a 42-volt hybrid demonstration vehicle known as i-MoGen featuring a wealth of Valeo advanced technologies. i-MoGen is not only a showcase vehicle, it also plays the role of a fully-fledged development laboratory, through which engineers are able to fine-tune and improve the technologies under test. The project targets driveability as well as reductions in fuel consumption and tail pipe emissions.

Another major agreement was signed with **International Rectifier**, for power electronic modules, in particular for starter-alternators.

The partnership signed with **Jabil Circuit** concerning the production of printed circuit boards allows Valeo’s designers to have access to the component manufacturing processes of one of the world’s leading specialists in this area.

## Adding value for customers

At Valeo, innovation is designed to bring consumers added value, in terms of comfort, convenience and safety.

### ● Keyless access and ignition

In the “Access and Security” Domain, a partnership with Renault resulted in the design of the keyless access and ignition system featured on the Laguna II, Vel Satis and Espace IV. Valeo has also played a pioneering role in powered trunk closure systems, that equip the new E Class and prestigious Maybach from Mercedes-Benz. The use of automatic powered opening/closure systems in particular for trunks and liftgates, is set to be extended across a much broader range of vehicles in the years to come, generating substantial growth in an area where Valeo holds considerable expertise.

### ● Intelligent lighting turns the corner

In the “Seeing and Being Seen” Domain, Valeo continues to build on its reputation for innovation in lighting systems. In 2002, forty years after its revolutionary swiveling headlamps on the Citroën DS, Valeo launched its Intelligent Bending Light system. The systems “turns light into road bends” to improve forward night-time visibility on winding roads and thus reduce driver stress and fatigue. It is the first system of its kind to be fitted on a production model in Europe.

### ● The reversible starter-alternator, for a smooth start, lower fuel consumption and emissions

In the “Electrical Energy Management” Domain, Valeo’s new reversible starter-alternator is managed by an electronic controller. As well as generating electrical energy, it doubles up as an engine starter motor. The engine is cut off automatically when the vehicle is at a temporary standstill (at traffic lights, for example). The reverse motor mode of the alternator enables the engine to start up again instantly as soon as the driver wishes to pull away. In an urban cycle, fuel consumption is reduced by between 5% and 10%.

### ● Passenger well-being and energy savings

In Valeo's "Thermal Systems" Domain, on-board comfort is not just a question of temperature alone but covers new functions such as air quality with particle filters and combined active carbon filters and air quality sensors that activate the HVAC air-recirculation mode, sealing off the passenger compartment from harmful external pollutants. Looking beyond the aspect of protection, Valeo is developing an air purification process using photocatalysis technology and a fragrance diffusion system to create a pleasant atmosphere for occupant comfort.

At the same time, Valeo is developing a new air-conditioning system featuring an externally-controlled compressor and special software that matches power to demand. These new technologies reduce the power consumption of a vehicle's air conditioning system by 30%.

### ● Radars for controlling the vehicle in its environment

In the "Seeing and Being Seen" Domain, the new-generation radars developed with Raytheon will complement or replace existing ultrasonic sensors in a number of applications:

- blind spot detection to alert drivers to the presence of vehicles hidden from view in any of the rear view mirrors, and assistance for reversing and parking maneuvers
- automatic situation-sensitive airbag inflation, with pre-collision sensors analyzing the speed and magnitude of impact (to avoid late or violent inflation, either of which can be an aggravating factor in the event of an accident)

### ● Clutch-by-wire, for smooth gear changing

In the "Driveline Systems" Domain, clutch-by-wire brings significant improvement in driving comfort. The clutch pedal is still there, but the mechanical or hydraulic link between the clutch and pedal are replaced by an electric clutch actuator. Pedal travel and effort are halved compared with a conventional clutch system.

### Awards

- Valeo's Intelligent Bending Light system won second prize in the auto parts category at the prestigious Automechanika Innovation Awards in 2002.
- In June 2002, Valeo's powered trunk closure system won the EPCOS/SIA Automotive Innovation Award in the "life on board, comfort and cockpit" category.



## Electronics, at the heart of the Domains approach

The growing electronic content of vehicles generates increased electrical energy requirements. Electronics are part of global solutions offered to customers. Valeo's expertise in electronics makes it the leader in several of its Domains: "Seeing and Being Seen" (park assist systems, intelligent lighting, wipe and wash systems), "Electrical Energy Management" (starter-alternator, DC/DC converter, etc.) and "Access & Security" (keyless access systems).



## Select, integrate, listen

**Purchasing is essential to enhancing the Group's competitiveness. Valeo has continued to deploy its strategy to integrate the best suppliers who then become the Group's preferred long-term partners.**

### A major challenge

In 2002, procurement, including industrial investments and sub-contracting, amounted to €6.2 billion.

Valeo pursued the strategy implemented in 2001: integrate suppliers as early on as possible in order to optimize both quality and costs.

### Selecting the best suppliers

Valeo's supplier base was further rationalized in 2002 so as to retain the best suppliers in terms of quality, technology and productivity. The "SuRe" supplier reduction program was pursued in 2002. Since the beginning of 2001, the number of suppliers has been cut by a third, down from 4,500 to less than 3,000 at end 2002.

The "VIP" (Valeo Integrated Partners) program designed to select the best suppliers now has 80 members. In exchange for an undertaking to continuously improve operating excellence, Valeo offers its partners greater volumes and business opportunities.

### Integrating suppliers to improve Quality

Purchasing quality significantly improved in 2002. There was a 35% reduction in the number of incidents due to external suppliers over a sliding three month period. These results were driven by the fact that Valeo works together with its suppliers to help them achieve zero defects. The application of "QRSQC" (Quick Response Supplier Quality Control), the deployment of "e@SI" (e-procurement at Supplier Integration) tools and numerous PDCA (Plan Do Check Act) training workshops with suppliers played a major part in improving quality.

## e@SI facilitates relations between Valeo and its suppliers

Launched in 2000, the e@SI or "e-procurement at Supplier Integration" project is designed to optimize sourcing, procurement and supplier integration. Its four solutions facilitate exchanges and strengthen ties with the best suppliers by developing win-win relationships with them. Today e@SI is part of the day-to-day operations of a growing number of suppliers.

- **Bidding On Line** continued to develop in 2002. It is a key tool at the service of the VIP and SuRe programs and sourcing in low-cost countries: only those suppliers that have met strategic and expertise criteria are eligible to participate in on-line bidding. On-line bidding accounted for €1,046 million in volume in 2002 (including €480 million in reverse bidding generating average savings of 9%). This mainly concerned production purchases but the purchase of general expenses, investments and components for projects under development enjoyed significant growth this year.

Valeo's VIP suppliers benefited from greater business volumes while the share of purchases made in low-cost countries was increased. Valeo also trained 400 suppliers in bidding on line to encourage the use of this tool.

- **Purchasing Knowledge Management:** based on the sharing of knowledge and assistance in decision-making, this tool is an essential component of Valeo's supplier management process. It integrates the supplier monitoring data base known as "Advanced SuMo" which rates each supplier according to quality, cost and delivery indicators. Purchasing Knowledge Management enables buyers to have both a global and segmented overview of the purchases made by the Group. This data base was extended to general expenses and investment suppliers in 2002.

- **Web Catalog:** this tool is designed to globalize the purchase of raw materials with selected suppliers on special terms. Suppliers in return benefit from wider access to the Group as a whole. There are at present over 163 product

and service Web catalogs in six languages with 60 suppliers available to 135 Valeo sites all over the world. In all, €23 million worth of business was conducted by some 7,500 users of these applications.

- **Supplier Relationship Management (SRM):** this is a secure extranet range of tools which enable Valeo's teams and suppliers to work closely together by sharing processes. Initially, it allows them to exchange information on quality results, the drawing up and follow-up of improvement plans. Two pilot projects, one in France and the other in the USA, were launched in 2002 to process supplier non-quality on-line so as to shorten the processing time, standardize and professionalize the procedure on both sides. Once an incident is closed, its history is archived in a database so as to capitalize on the experience acquired and thereby resolve any new problems of the same nature that may occur in the future. At a later date, suppliers will have access to their own SRM base enabling them to monitor their performance with all the Group's plants and submit their technical productivity proposals on-line.

Valeo seeks to integrate suppliers early on in the product development process so as to take advantage of their technological expertise. They become full members of the project team to everybody's benefit.

### Listening to suppliers

The constant cost reduction process is optimized and accelerated through ongoing dialog with suppliers aimed at enhancing technical productivity and innovation. The "GAIN" (Give An Idea Now) program was launched to

encourage suppliers to share their suggestions for improvement with Valeo and improve Valeo's processing of their ideas.

### Sourcing in low-cost countries

In 2002, purchasing in low-cost countries accounted for 20% of overall production purchases. As part of its strategy to rationalize its supplier base, Valeo opened a purchasing office in Shanghai in 2001. The links between the Shanghai office and other Group entities around the world were reinforced by the arrival of new teams.



## **At the heart of Valeo's industrial expertise, people and methods**

**In 2002, Valeo continued to improve product quality and at the same time reduce production costs to better serve customers.**

### **Giving people the means to improve performance**

Competence, operational expertise, rigor and discipline characterize Valeo's industrial teams. The Group's industrial, logistics and Valeo Production System networks have all been reinforced. A training program has been implemented to develop the leadership skills of managers and give them the means to efficiently implement the Valeo Production System. The emphasis is placed on a hands-on approach, a sense of observation and comprehension and the elimination of factors that lead to waste.

Disposing of reliable data in real time is essential for them to accurately appraise situations and thus measure the progress recorded. This has now become a key component of Valeo's culture.



Plant directors, Autonomous Production Unit (APU) managers and supervisors have received special attention. A specific program was launched for them in 2002 while a progress recognition program serves to highlight each person's contribution.

### **Improving industrial efficiency**

Valeo continuously monitors the efficiency of its production plants. Throughout the world, Valeo seeks to improve this efficiency through the application of operational standards. All operations are carried out in line with these standards and supervisors are responsible for seeing that they are correctly implemented and continuously improved.

Performance is monitored in real time on the shop floor. Problems identified are immediately processed and seen as opportunities for improvement. The KAIZEN (continuous improvement) mindset is present everywhere.

### Standardize for faster production start-up, lower costs, better quality

The increasing number of product variations produced for automaker customers means that product life cycles are getting shorter. In 2002, to respond more quickly and efficiently to customer demand, Valeo set up a program to standardize processes, components and equipment.

This approach makes it possible to capitalize on experience, cut product development lead-times, stabilize production lines more quickly while avoiding start-up problems, and cut costs at every stage of the process.

Each operation is evaluated in terms of the value it adds to products. Those that add no value are eliminated.

Each Valeo plant is organized around product flow. Proactiveness and flexibility to satisfy customer requirements are fundamental. Actions are being carried out to reduce manufacturing batch sizes for greater flexibility: changes in equipment design, SMED (Single Minute Exchange of Die), making machinery more reliable through the implementation of TPM (Total Productive Maintenance) and adapting the layout of production lines.

### Optimizing logistics

Launched at the end of 2001, the SCALE (Supply Chain And Logistics for Excellence) project was widely deployed this year. By optimizing at one and the same time the data flows (from customer order to billing) and physical flows (movement of raw materials, work-in-process and finished products), it should significantly reduce storage and shipping costs.

In order to facilitate the implementation of the new logistics system, a "tool box" is available to all those involved. It contains the new standards, "Best Practices", the new ERP (Enterprise Resource Planning) system and Valeo Production System tools.

This organization is designed to reduce inventory through a better anticipation of requirements. Pull flow operation implies a very high level of proactiveness and flexibility and is a decisive competitive edge in the eyes of automakers.

### Production organization at the service of the aftermarket

The specific nature of the aftermarket has an impact on the manufacture and the delivery of parts that Valeo's production plants must integrate into their operations.

Original Equipment Spares (OES) are by definition manufactured using the same industrial processes as for original equipment. The greater flexibility of the industrial base, a reduction in batch sizes and pull flow production are the means of responding to this demand. For products for the independent aftermarket (IAM) and parts for vehicles no longer in series production, Valeo has existing dedicated plants. Simple production lines with a low level of automation, adapted to smaller volumes, respond to the needs of this market. Monitoring and maintenance procedures for the specific tooling required to manufacture these products are in place.



## Total Quality, a culture

**Quality is a key demand from consumers and automakers alike. Quality is the cornerstone of Valeo's 5 Axes methods and is an integral part of the Group's culture. Methods are important and but mindset is equally so.**

### **Quality demands total, hands-on involvement**

The aim is to sensitize the entire workforce to non-quality factors and mobilize people Group-wide in an effort to identify and correct them.

- **San Gen Shugi: teamwork on the shop floor**

The San Gen Shugi (or "Three Reals") approach is based on a practical and precise analysis of what really happens on the production line. It requires the "eyes to see the real things" and the "feet to go to the real place".

San Gen Shugi is also based on a common effort. Quick

Response Quality Control (QRQC) meetings are organized to identify and analyze all incidents collectively and quickly.

Daily QRQC is held on each production line, in each Autonomous Production Unit (APU) in all Group plants. Employees from Production, Logistics, Maintenance and Human Resources, are involved. In the event of a quality incident, corrective action is decided and implemented within 24 hours and action is taken to identify the root cause and eliminate it.

The QRQC method is applied to the production function but will be extended to all functions, starting with R&D and Purchasing.

Several plants, including Pianezza in Italy, and San Luis Potosi in Mexico have already achieved good results.



### ● The most demanding quality standards

For a number of years now Valeo, which has its own Quality Audit organization, has designed and implemented its own quality audit standards:

- Valeo 1000 is used to evaluate the quality system and synthesize 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 2002, the Group's plants continued to make progress on these proprietary audit standards, which actually exceed automaker demands via ISO-TS standards and specifications.

### Stronger human resources

Valeo strengthened its teams through outside recruitment, notably of a new Group Technical Vice-President and a Group Quality Director, and by promoting a number of people internally. The idea is to capitalize on Valeo's expertise and at the same time add a new dimension. Specific programs have been implemented to strengthen Valeo's quality culture worldwide.

### San Gen Shugi: a "reality" based approach

- Gen-ba: real place
- Gen-butsum: real parts
- Gen-jitsu: reality

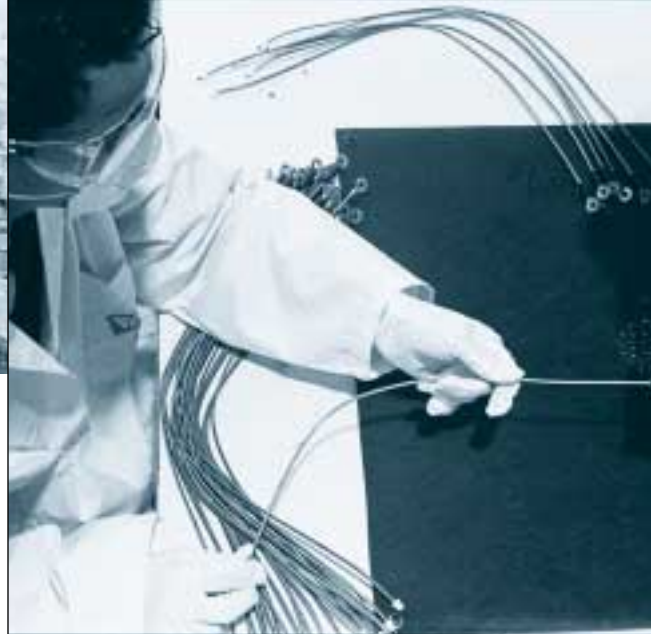
#### **QRQC is a hands-on educational process and a mindset.**

The QRQC method is driven by Quality managers and the entire Quality network to meet the needs and priorities of each plant. In this way, all Group functions can play a part in tackling quality-related problems. Focused on a collective approach, QRQC is a cultural revolution that encourages a common effort, communication and helps people take "ownership" of the method. In order to boost the involvement of all sites in improving quality, a Group-wide QRQC Challenge was launched in October 2002. Each APU of each industrial site was invited to participate in the competition. Candidates were evaluated on the basis of their application of the QRQC methodology and the results obtained. Following a careful selection process at Division and Branch levels, a Group-appointed panel chose the finalists and regional winners in January 2003.





valeo added™



## **The environment: resources to match Valeo's ambitions**

**For over 10 years Valeo has showed its determination to combine growth with the health and safety of its personnel and its installations and the protection of the environment. In 2002, further significant progress was made in this area in all of the Group's industrial facilities.**

Risk control and environmental protection are necessarily long-term commitments. In 2002, Valeo pursued its environmental policy, focusing on two major areas of progress: the health and safety of employees and an even stronger focus on cultural integration within the Group.

### **Promoting a global approach to risk management...**

At Valeo, 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.

### **... and making prevention and training a priority**

Valeo's approach consists in systematically identifying risks, drawing up an "environmental identity card" and then implementing all the necessary means of prevention and protection, the objective being to tend towards "zero risk". All risks are analyzed. In the case of risks related to natural events, for example, the appropriate prevention and protection plans are implemented in existing sites while for potential new sites, exposed areas are identified and automatically excluded in the investment decision-making process.

Valeo's risk management policy is detailed in its "Risk Management Manual". In 2002, this document was supplemented by application guidelines on specific subjects: security of installations, environment, safety. These guidelines are real teaching tools for the practical application of Group procedures at its production sites; they represent real expertise that is proper to Valeo.

A "Travel Attitude Passport" was distributed to all personnel likely to go on business trips. It contains simple rules on prudence that could prove to be useful on a preventive basis or in the case of actual problems; this document is part of Valeo's people protection policy but is also designed to protect Valeo's know-how, of which employees are custodians.

In 2002, health and safety at work were priority objectives for Valeo. Systematic audits were conducted to better evaluate and control risks in this area and Group standards implemented. A specific directive was drawn up concerning the risk posed by Legionnaire's disease based on the highest standards in the matter. Others are under preparation, covering notably carcinogenic, mutagenic and toxic substances and reinforced safety measures applicable to lifting equipment and presses.

### **A demanding, efficient system**

Valeo's strength in risk management lies in its extremely high prevention and protection standards. The Group views all incidents as a failure. 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 allows the cost of insurance premiums to be kept down.

### **Safety like Quality is everybody's responsibility**

In addition to a reinforced training policy which will be further intensified in 2003 with awareness-raising days in all countries, Valeo has implemented a plan to recruit engineers already trained and experienced in this area. They will strengthen teams responsible for Security, Safety, Health and Environment in all of the Group's sites.

In application of Group directives, numerous initiatives proper to each site, driven by local managers in line with identified local requirements, have been implemented.

In 2003, the awareness-raising days, organized with the assistance of outside consultants, will serve to enhance the knowledge of employees in the areas of prevention and protection, existing tools and resources. Practical experiences and lessons to be learnt will also be part of the program.

### **Strict performance monitoring**

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

## **Security, safety, health and environment: the people**

### ***A network of competencies***

To carry out its mission, the Risks, Insurance and Environment department works closely with all the other Group Departments, in particular with the R&D, Human Resources, Purchasing, Quality, Legal, and Industrial Departments. Actions are carried out with suppliers to bring them up to the same standards applicable in Valeo's own sites. In each Valeo site, a Security, Safety, Health and Environment (SSHE) Manager is responsible for applying the procedures described in the "Risk Management Manual".

A network of Branch coordinators provides technical expertise to site SSHE managers and ensures that experiences are communicated to the Risk Management Committee which meets every two months.

### Valeo receives the 2002 Business Week/Architectural Record Award.

Valeo's San Luis Potosi, Mexico, plant was one of eleven international winners of this award which recognizes the achievement of business goals through architectural design. Out of the 164 entries submitted, Valeo's plant was the only industrial project to be honored. Valeo's Thermal Systems Technical Center in Auburn Hills, USA, also won the award in 2000,

which makes Valeo the only company ever to have won this prestigious award twice.

### Valeo Unisia Transmissions' Atsugi-Shi, Japan, site awarded the Building Contractors Society architecture prize

This prize honors excellent works of domestic Japanese architecture based on planning, design, construction, maintenance and teamwork between the architect,

the building contractor and the client.

### Valeo Engine Cooling's, Greensburg, USA, site wins the Governor's Award for Environmental Excellence

Awarded by the Indiana Department of Environmental Management, this award recognizes Valeo's pollution prevention efforts through the elimination of hexavalent chrome in production and in the waste water treatment process.

## Deploying an "environmental culture" in all sites

In 2002, Valeo pursued its ISO 14001 certification policy in all sites. By the end of the year, most major Group sites had been awarded certification on schedule.

Valeo does not merely apply the legislation of the countries in which it operates. It continues to implement in-house standards even more demanding than those required by law. Valeo's objective is not only to avoid polluting the environment but to preserve it by economizing energy and raw materials and ensuring the maximum recyclability of all its products while providing a pleasant working environment for all of its employees. Valeo's environmental policy applies to the management of industrial sites but also to the its products, from design to manufacture.

## A new concept: the "generic plant"

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. All new plant construction or refurbishing projects are carried out according to very detailed specifications concerning:

- site selection,

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

Valeo's sites at Veszprem, Hungary, Skawina, Poland, Zbrak, Czech Republic, Atsugi-Shi, Japan, and lately Bouznika, Morocco, are illustrations of the application of the generic plant concept.

## Integrating the environment into Research & Development

Valeo's environmental approach is integrated into all the stages of a product's life cycle: design, manufacturing, use, end of life.

Since 1998, a group of experts in environmental matters and from R&D from the different Branches of the Group has been working together to reduce the environmental impact of processes and products over their entire life cycle. This research group meets regularly to discuss specific topics: banned and restricted substances, the elimination of hexavalent chrome,



Valeo has participated in the development of the Garches Institute's Wheel Chair Test Center since it was set up in 1988. The mission of the Garches Institute is to facilitate the return home of physically handicapped people after a long stay in hospital and help them live a normal social and professional life.



the elimination of lead and its compounds, the elimination of chlorinated solvents, the use of recycled grades of plastic, etc. Valeo has also created a reference data base called "Banned and Restricted Substances" (BRS) which lists substances, the use of which is banned or restricted in the automotive industry. This data base details the applicable regulations in the different countries where Valeo operates and the requirements expressed by its automaker customers concerning over 600 substances entering the composition of parts, manufacturing and repair processes.

At the same time, the Group is conducting studies into alternative solutions that efficiently meet the constraints of its customers specifications.

### **Improving the environmental performance of products**

In environmental terms, Valeo's Domains strategy results in higher gains being achieved compared with a non-integrated approach. The most remarkable achievements in 2002 involved the reduction of energy consumption and pollutant emissions with i-MoGen, a 42 volt mild hybrid vehicle equipped with Valeo's "Start-Stop" system; the improvement in air quality with Themis™ (Thermal Management Intelligent System), an advanced engine cool-

ing system which optimizes fuel consumption and lowers pollutant emissions.

### **Remanufacturing and re-use of products at the end of their life cycle**

Changes in the aftermarket give a new impetus to Valeo's determination to become a leader in the remanufacturing of automotive parts.

In 2002, its specialized site at Angers, France, remanufactured over a million alternators at the end of their service life. Guaranteed for a year by Valeo, these alternators are already used by most major automotive brands as standard replacement parts.

### **Elimination of asbestos**

Over 10 years ago Valeo decided to cease the manufacture and commercialization of products containing asbestos on a worldwide scale. For several years now, the Group has also undertaken to eliminate asbestos from all its buildings and installations.

More detailed information on the Group's environmental policy is given in the Financial and Legal Section (Environmental Indicators - page 9).

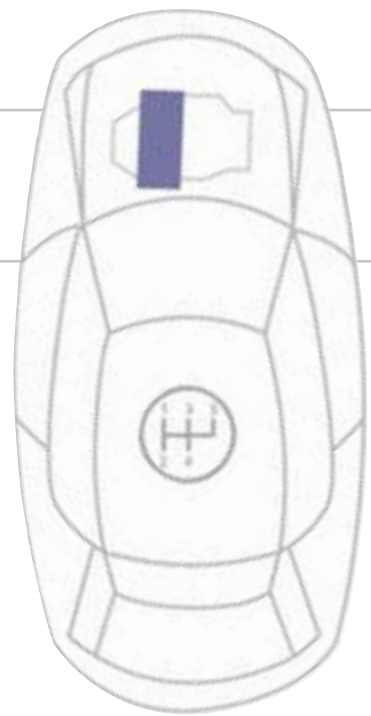




**valeo** added™

Valeo's "Domains" approach is part of its goal to become leader in each of its core businesses and offer automakers global solutions that meet market needs such as comfort, safety, reduced fuel consumption and emissions.

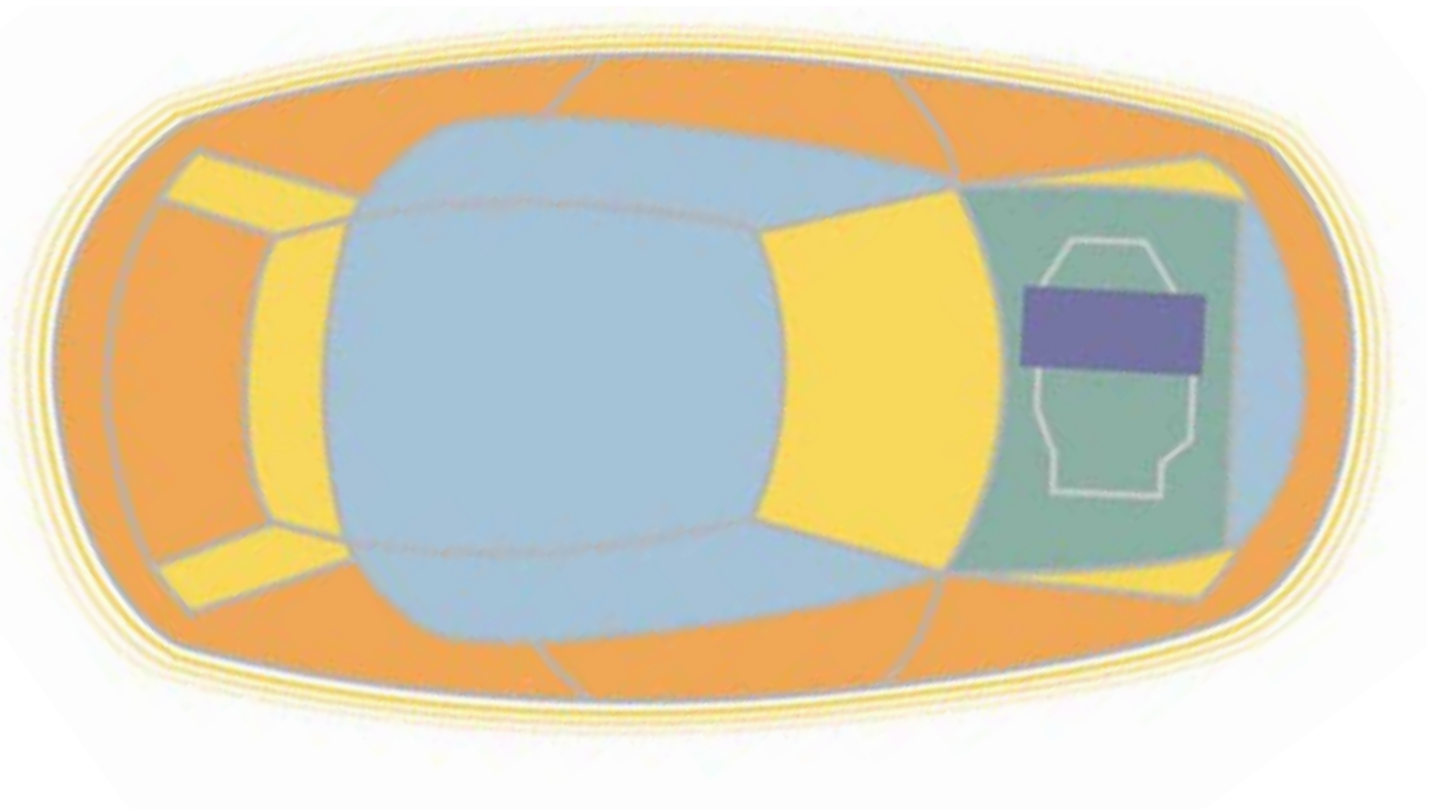
The transversal nature of Valeo's "Domains" generates synergies in Research & Development resulting in shorter development lead-times and products with enhanced functionality that are cost-effective and easier to install.



### Driveline Systems

#### Branches

- ▷ Transmissions
- ▷ Motors & Actuators
- ▷ Electronics & Connective Systems
- ▷ Switches & Detection Systems

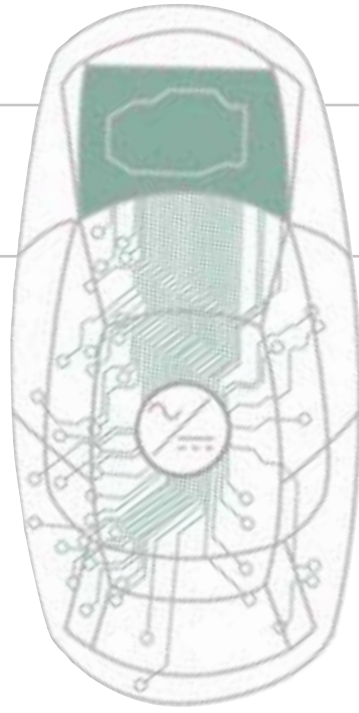




**Thermal Systems**

**Branches**

- ▷ Climate Control
- ▷ Engine Cooling
- ▷ Motors & Actuators
- ▷ Switches & Detection Systems



**Electrical Energy Management**

**Branches**

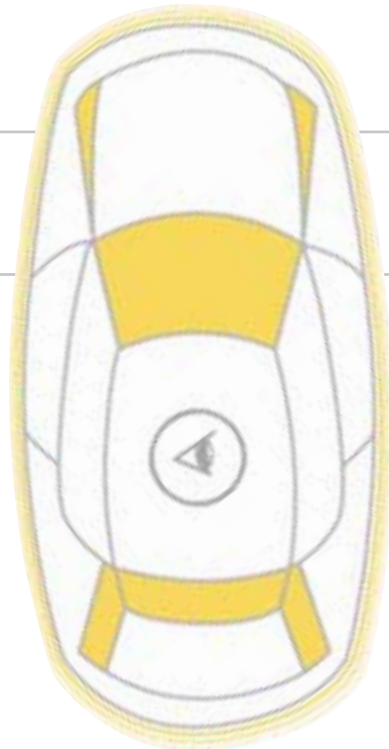
- ▷ Electrical Systems
- ▷ Electronics & Connective Systems
- ▷ Motors & Actuators
- ▷ Transmissions



**Access and Security**

**Branches**

- ▷ Security Systems
- ▷ Electronics & Connective Systems



**Seeing and Being Seen**

**Branches**

- ▷ Lighting Systems
- ▷ Switches & Detection Systems
- ▷ Wiper Systems
- ▷ Climate Control
- ▷ Electronics & Connective Systems