

CORPORATE GOVERNANCE

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Report of the Chairman of the Board of Directors relating to the conditions of preparation and organization of the Board's work, the possible limitations to the powers of the Chief Executive Officer and the internal control procedures put in place by the Valeo Group

1. Preparation and organization of the work of the Board of Directors

On March 31, 2003, the Board of Directors adopted Internal Rules in line with the recommendations of the Bouton Report on corporate governance, aimed at precisely defining the operating procedures of the Board, in addition to legal and regulatory requirements and the provisions of the Company's bylaws. These Internal Rules were amended on July 24, 2006 in order to authorize Directors to participate in Board meetings by videoconference, or by any other telecommunication means that enables them to be identified and ensures that they actually participate in the meeting. On December 14, 2006 the Internal Rules were further amended following the merger of the Nomination and Remuneration Committees, and the dissolution of the Strategy Committee (see "Committees created by the Board" below).

1.1. Rules specific to the functioning and organization of the Board and their application

1.1.1. Composition of the Board of Directors

The bylaws provide that the Board of Directors must have between 3 and 18 members. Following the appointment of Daniel Camus and Jérôme Contamine as Directors at the General Shareholders' Meeting held on May 17, 2006 and the resignation of Carlo De Benedetti effective from July 13, 2006, the Board currently has 11 members.

Details concerning the composition of the Board of Directors are set out in the appendix to this report.

In accordance with the independence criteria set out in the Board's Internal Rules, the Board of Directors has reviewed whether or not its members continue to classify as independent. Under these rules, independent Directors are those who have no relations whatsoever with the Company, the Group or the

Group's management that may compromise his or her ability to exercise freedom of judgment.

In particular, a Director is presumed to be independent if he/she:

- is not an employee or a corporate officer of the Company, or an employee or Director of one of its consolidated subsidiaries, and has not been in such a position for the previous five years;
- is not a corporate officer of a company in which the Company holds a directorship, either directly or indirectly, or in which an employee appointed in that role, or a corporate officer of the Company (currently in office or having held such office in the past five years), is a Director;
- is not a customer, supplier, investment banker or commercial banker that is material for the Company or Group, or for which the Company or Group represents a significant portion of the business of the Director concerned;
- is not related by close family ties to a corporate officer;
- has not been an auditor of the Company in the past five years;
- has not been a Director of the Company for more than twelve years on the date when he/she was appointed to his/her current term of office.

For Directors holding in excess of 10% of the Company's capital and/or voting rights, or representing a business that holds such a stake, the classification as independent takes into account the Company's ownership structure and any potential conflict of interests.

In application of these criteria, the Board of Directors noted that:

- one Director is both Chairman and Chief Executive Officer of the Company: Thierry Morin;
- three Directors have been members of the Board of Directors (and previously the Supervisory Board) for over twelve years: Yves-André Istel, Alain Minc, and Erich Spitz;

- seven Directors are independent with respect to the criteria set forth in the Internal Rules and in accordance with the recommendations set out in the Bouton Report on corporate governance: Pierre-Alain De Smedt, François Grappotte, Philippe Guédon, Jean-Bernard Lafonta and Véronique Morali, as well as Daniel Camus and Jérôme Contamine, following their appointment by the General Shareholders' Meeting on May 17, 2006.

1.1.2. Average period of notice for calling Board meetings

In accordance with the Internal Rules, each Director is notified of the dates of Board meetings at the beginning of each fiscal year at the latest. The average period of notice for calling Board of Directors' meetings is approximately two weeks.

1.1.3. Representation of Directors

A Director may be represented at meetings of the Board of Directors by another Director. The proxy must be given in writing. During the 2006 fiscal year, eight Directors used the possibility of being represented at Board meetings.

1.1.4. Chairman of Board meetings

The Board meetings are chaired by the Chairman of the Board or, in his/her absence, by a Vice-Chairman or a Director designated by the Board of Directors. All ten Board meetings held during the 2006 fiscal year were chaired by the Chairman.

1.1.5. Directors' participation in Board meetings

Following the General Shareholders' Meeting held on May 17, 2006, article 16 of the Company's bylaws and the Internal Rules were amended in order to authorize Directors to participate in Board meetings by any telecommunication technology that enables them to be identified and ensures that they actually participate in the meeting. Accordingly, Directors who take part in Board meetings through such means are deemed to be present for the purposes of calculating the quorum and majority, except at meetings dedicated to the preparation of the annual Company and consolidated financial statements and the related management reports (as provided for in articles L. 232-1 and L. 233-16 of the French Commercial Code). The Chairman is required to state in the relevant notice of meeting if these methods can be used for certain meetings. Directors wishing to participate in a Board meeting by these methods must contact the Board Secretary at least 2 (two) working days before the meeting date (except in an emergency situation) in order to ensure that the relevant technical information can be exchanged and tests performed before the meeting takes place.

1.2. Directors' access to information

1.2.1. Directors' access to information

Each Director is given all the information required to perform his or her duties and can ask for any document he or she deems useful. The Chairman provided this information within a sufficient timeframe in 2006.

1.2.2. Guests of the Board

During the year, the Group Financial Control Director attended all Board meetings except those held on March 3, 2006 and November 20, 2006 which were attended by the Financial Controller of the Industrial Branches. The lawyers and bankers representing Valeo as well as the Vice-President, Financial Affairs participated in the Board meeting held to review the merger between Valeo and Visteon.

1.3. Frequency of Board meetings and average attendance rates of the Directors

In accordance with the Internal Rules of the Board, the Board of Directors meets at least four times a year. The Board of Directors met on ten occasions in 2006.

The average attendance rate of the members of the Board of Directors (in person or via proxy) during 2006 was 92%. The average attendance rate of the members of the Board of Directors in person during 2006 was 80%.

1.4. Role of the Board

The principal role of the Board of Directors is to determine the business strategies of the Company and oversee their implementation.

In 2006 the Board of Directors analyzed the 2005 financial statements of the Company and the Group, assessed the performance of the Board, reviewed whether the Directors were still classified as independent in accordance with the criteria set out in the Board's Internal Rules, examined the management forecasts and budget for 2006, reviewed the Group's strategic transactions (particularly disposals and acquisitions), heard the reports on the work carried out by the various Board Committees, merged the Nomination and Remuneration Committees, dissolved the Strategy Committee, authorized the Chairman to issue bonds (either under a renewed EMTN program or otherwise) and granted stock options and consideration-free shares to the employees and corporate officers who had been the most directly involved in the Group's development.

1.5. Committees created by the Board

In 2003, the Board created four committees to improve its functioning and provide effective assistance for preparing its decisions: the Strategy Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee.

At the Board meeting of December 14, 2006, the Nomination Committee was merged with the Remuneration Committee and the Strategy Committee was dissolved. The Board therefore currently has two standing committees – the Audit Committee and the Nomination and Remuneration Committee.

The work of the Strategy, Audit, Remuneration and Nomination Committees was presented to the Board of Directors throughout the year in the form of reports and is summarized below.

1.5.1. Audit Committee

The Audit Committee has four members including a Chairman, appointed by the Board of Directors. All members of the Audit Committee are independent Directors as defined by the criteria in the Internal Rules.

The members of the Audit Committee are Pierre-Alain De Smedt, François Grappotte, Jean-Bernard Lafonta and Daniel Camus (since November 20, 2006). The Audit Committee is chaired by Pierre-Alain De Smedt.

The Committee's roles and responsibilities are:

- to ensure the relevance and due application of the accounting and financial methods adopted to prepare the consolidated financial statements, as well as the appropriate accounting treatment of transactions at both product-family and Group level;
- to check that internal procedures are defined for compiling and controlling financial and accounting information in order to ensure its reliability and guarantee rapid reporting, to review the Group's internal audit plan and Management's related comments, and to keep informed of the Group's internal and external audits and Management's related comments;
- to express an opinion on the choice of Statutory Auditors or the renewal of their terms of office;
- to review any financial or accounting matter referred to it by the Chairman of the Board of Directors as well as any conflict of interest issue of which it is aware.

The Audit Committee met four times in 2006 with a 66% attendance rate. During these meetings, the Committee reviewed the consolidated financial statements for the year ended December 31, 2005 and the interim financial statements for first-half 2006. The Committee particularly focused on the application of International Financial Reporting Standards (IFRS) which were adopted for the first time in 2005, as well as the restatement of 2004 data. The members of the Audit Committee also reviewed the operations carried out by the Internal Audit Department in 2006 as well as the methodology used for risk mapping and the internal audit work schedule for 2007.

The Audit Committee's work was conducted in line with its objectives. The Statutory Auditors and the Group Financial Controller (or, where applicable, the Financial Controller of the Industrial Branches) attended all of the meetings held in 2006. The Committee was also assisted by the work carried out by the Internal Audit Department. The presentations made by the Statutory Auditors mainly related to the findings of their audit of the annual financial statements of the Company and the Group and their limited review of the interim financial statements. The Audit Committee did not have any reservations concerning the annual consolidated and Company financial statements or the interim financial statements presented to it.

1.5.2. Nomination and Remuneration Committee

The Nomination Committee and the Remuneration Committee – which were set up in 2003 – were merged on December 14, 2006 and renamed the Nomination and Remuneration Committee. The work carried out by the separate committees during 2006 is set out below.

1.5.2.1. The work of the Remuneration Committee in 2006

Prior to its merger with the Nomination Committee, the Remuneration Committee had three members appointed by the Board of Directors, including a Chairman and two Directors classified as independent in accordance with the criteria in the Internal Rules: Alain Minc (Chairman), François Grappotte and Philippe Guédon.

The Remuneration Committee met on two occasions in 2006, with a 100% attendance rate. The roles and responsibilities of this Committee were:

- to study and make recommendations concerning compensation paid to corporate officers;
- to recommend to the Board the rules for allocating attendance fees; and
- to examine any issues submitted to it by the Chairman, including plans to launch employee share issues.

During its meetings, the Committee drew up proposals relating to the compensation to be paid to the Chairman and Chief Executive Officer and recommended to the Board that Thierry Morin should be granted 150,000 stock options and 50,000 shares free of consideration (see "Compensation paid to the Chairman and Chief Executive Officer"). This recommendation was approved by the Board of Directors on March 3, 2006. During its meeting of November 20, 2006 the Board also approved the proposal by the Remuneration Committee to grant a total of 1,309,250 stock options to the employees and corporate officers who had been the most directly involved in the Group's development and 100,000 consideration-free shares to high potential junior managers.

1.5.2.2. The work of the Nomination Committee in 2006

Prior to its merger with the Remuneration Committee on December 14, 2006, the Nomination Committee had five members appointed by the Board of Directors, including a Chairman and three Directors classified as independent in accordance with the criteria in the Internal Rules: Alain Minc (Chairman), François Grappotte, Philippe Guédon, Thierry Morin and Véronique Morali.

The Nomination Committee met twice in 2006, with a 90% attendance rate.

During the year, the Committee examined whether the Directors were still classified as independent in accordance with the criteria set out in the Board's Internal Rules. It also reviewed the composition of the Company's corporate governance bodies and recommended to the Board that Daniel Camus and Jérôme Contamine should be put forward as directorship candidates at the General Shareholders' Meeting of May 17, 2006.

1.5.2.3. Merger of the Nomination Committee and the Remuneration Committee into a single Nomination and Remuneration Committee

At its December 14, 2006 meeting, the Board of Directors decided to merge the separate Nomination and Remuneration Committees into a single Nomination and Remuneration Committee. The members of this new committee are Alain Minc (Chairman), François Grappotte, Philippe Guédon and Véronique Morali.

According to its Internal Rules, the roles and responsibilities of the Nomination and Remuneration Committee include the following:

- Concerning remuneration:
 - studying and making recommendations concerning the compensation paid to corporate officers (particularly in relation to the variable portion of their compensation),
 - recommending to the Board an aggregate amount of attendance fees payable to Directors and the individual amounts payable to each Director,
 - providing recommendations to the Board of Directors on the Group's general stock option policy and specific stock option grants;
- Concerning selections and nominations:
 - preparing the composition of the Company's corporate governance bodies by making recommendations for the appointment of corporate officers and Directors,
 - reviewing the position of each Director in relation to the independence criteria set out in paragraph 1.2(b) of the Board's Internal Rules.

1.5.3. Strategy Committee

Before it was dissolved on December 14, 2006, the Strategy Committee had five members appointed by the Board of Directors, including a Chairman and two independent Directors as defined by the criteria set forth in the Internal Rules: Philippe Guédon

(Chairman), Jean-Bernard Lafonta, Alain Minc, Thierry Morin and Erich Spitz.

The roles and responsibilities of the Strategy Committee were:

- to express an opinion to the Board concerning the strategic goals of the Company and the Group and any other major strategic issue referred to the Committee by the Board or the Chairman;
- to analyze annual budgets and interim reviews, as well as the medium- and long-term strategic development plans of the Group.

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

The Strategy Committee met three times during 2006 with a 93% attendance rate. During its meetings, the Committee reviewed the Group's results, studied certain planned acquisitions and reviewed the strategy, roles and responsibilities of each of Valeo's three Domains.

At its December 14, 2006 meeting, the Board of Directors decided that strategic issues concerning the Group will henceforth be discussed in full Board meetings and tasked Philippe Guédon with carrying out any preparatory work required to facilitate such discussions during these meetings.

1.6. Evaluation of the Board of Directors

In accordance with the Internal Rules, the Board carries out a self-assessment to review its *modus operandi* and to ensure that its meetings are properly organized.

In 2006, this assessment was performed with the assistance of an external firm during the last quarter of the year. A detailed questionnaire was sent to all Directors concerning their assessment of the way in which the Board operates and suggestions for improvement. The topics covered included the operation and composition of the Board, Directors' access to information, the choice of issues discussed, as well as the quality of the discussions and the general functioning of the Board Committees.

The Directors' replies were analyzed and the findings presented at the meeting of the Board held on February 12, 2007. The vast majority of the Directors stated that the organization of the Board's work and the quality of its discussions had improved since the last evaluation, enabling members of the Board to be involved in all key decisions relating to the Group's future. They did however put forward a number of recommendations on how to improve the way the Board operates.

1.7. Shareholdings and securities transactions

Each Director must hold at least 100 Valeo shares during his or her entire term of office.

On accepting their position, members of the Board of Directors and the Executive Management of the Group agreed to a Code of Conduct in relation to trading in the Company's securities. This Code was updated twice by the Board of Directors in 2006. Under the terms of the Code, Directors must declare to the Group's General Counsel any transactions that they have entered into involving the Company's securities, within a maximum of five trading days following the transaction. In accordance with applicable regulations, this information must then be disclosed to the French securities regulator (*Autorité des Marchés Financiers*) and subsequently made public.

1.8. Agreements governed by Article L. 225-38 of the French Commercial Code

At its meeting of October 18, 2004, the Board of Directors authorized a number of transactions governed by the procedures concerning regulated, related-party agreements. The agreements concerned – which were entered into between the Company and its Spanish subsidiaries as part of the implementation of the 2004 Valeorizon international employee stock ownership plan – remained in force during 2006.

The agreements authorized by the Board of Directors at its December 15, 2005 meeting – which were entered into between the Company and the Group's operating subsidiaries in connection with trademark royalties agreements – also remained in force during the year.

At its meeting of October 6, 2006 the Board of Directors authorized the signature of a consulting agreement with Yves-André Istel, covering assistance and advisory services provided in connection with the study group's possible merger with Visteon.

1.9. Authorization granted regarding sureties, endorsements and guarantees governed by Article L. 225-35 of the French Commercial Code

During the year the Board of Directors authorized the Chairman, who is entitled to delegate this authority, to issue sureties, endorsements and guarantees in the Company's name up to a maximum amount of 23 million euros, and to maintain in effect the sureties, endorsements and guarantees previously issued.

This authorization, which was granted for a 12-month period, expires on February 9, 2007. No new commitments were given by the Chairman under this authorization during 2006.

1.10. General management of the Company and limitations on the powers of the Chief Executive Officer

The Company's Board of Directors has chosen to combine the positions of Chairman of the Board of Directors and Chief Executive Officer.

The Board of Directors has not imposed any specific limits on the powers of the Chief Executive Officer. The Chairman and Chief Executive Officer therefore has the widest possible powers to act in any circumstances in the Company's name. He exercises his powers within the scope of the Company's corporate purpose and subject to the powers that the law specifically grants to Shareholders' Meetings or the Board of Directors. The Chairman and Chief Executive Officer represents the Company in its relations with third parties.

1.11. Compensation paid to the Chairman and Chief Executive Officer

1.11.1. Compensation paid during 2006

Acting on the recommendation of the Remuneration Committee, at its February 9, 2006 meeting the Board of Directors approved the principles for calculating the compensation and benefits-in-kind granted to the Chairman and Chief Executive Officer.

Fixed compensation

The total gross fixed compensation paid to Thierry Morin for 2006 was set at 1,519,538 euros, breaking down as 1,500,288 euros in gross compensation (including travel expenses), and 19,251 euros in benefits-in-kind.

Exceptional bonus

Thierry Morin did not receive any exceptional compensation in 2006 for 2005.

At its meeting of February 9, 2006, the Board of Directors decided that any exceptional bonus to be awarded to the Chairman and Chief Executive Officer for 2006 would be exclusively contingent on the level of gross margin and operating margin achieved by the Group, and would be subject to a ceiling set by the Board.

Attendance fees

In 2006, Thierry Morin received 35,000 euros in attendance fees in his capacity as a Director of Valeo.

Compensation paid by companies controlled by Valeo

In 2006 Thierry Morin received total gross compensation of 120,883 euros from companies controlled by Valeo (as defined in article L. 233-16 of the French Commercial Code). This total was made up of 45,750 euros in attendance fees and 75,133 euros in contributions to a pension fund. Thierry Morin did not receive any benefits in kind in 2006 from companies controlled by Valeo.

Stock options and shares awarded free of consideration (share awards)

- In view of the prohibited periods set down by French stock exchange regulations, the Board of Directors did not grant any stock options or share awards to Thierry Morin during 2005. At its March 3, 2006 meeting, the Board granted Thierry Morin 150,000 stock options and 50,000 shares free of consideration, in accordance with the following terms and conditions:
 - the purchase price of the shares to be issued on exercise of the options is set at 33.75 euros. Half of the options granted may be exercised as from March 3, 2008 and all of the options may be exercised as from March 3, 2009. The shares obtained on exercise of the options may not be sold before March 3, 2010. If the options are not exercised they will be forfeited on March 2, 2014;
 - the vesting date for the shares awarded free of consideration was set by the Board of Directors at June 3, 2008 subject to the following conditions: (i) Thierry Morin must still hold an employment contract or a corporate officer's position within the Valeo Group at June 3, 2008, and (ii) the achievement of certain performance criteria concerning operating margin targets for 2006 and 2007 (applicable to the vesting of 30,000 of the total shares awarded).
- In 2006, Thierry Morin did not exercise any options granted in previous years.

1.11.2. Pension scheme

Thierry Morin is still a member of the supplementary pension scheme set up for executives who were formerly members of Valeo's Management Board, as approved by the Supervisory Board on October 17, 2003. This system is designed to top up existing pension benefits (statutory pension, ARRCO, AGIRC, etc.) to enable beneficiaries to acquire benefits representing 2% of their final salary per year of service with the Group. The total amount of pension benefits may not exceed 60% of a beneficiary's final salary and the scheme will only apply to beneficiaries who have a minimum of 15 years' service in the Valeo Group when they retire and for whom Valeo or one of its subsidiaries was their last employer at their retirement date.

1.11.3. Termination benefits

In the event that Thierry Morin leaves the Company, either by way of a decision of the Board of Directors, or at his own initiative following a difference of opinion concerning the strategy implemented by the Board further to a public tender offer, the amount of his termination benefits will represent three times his last annual compensation, excluding bonuses. Such termination benefits will not be payable in the event of gross misconduct (*faute grave*).

2. Internal control procedures

This report was presented to the Audit Committee on February 12, 2007.

2.1. Definition and aims of internal control procedures

Internal control as defined by the Valeo Group is the process implemented by Management and employees to provide reasonable assurance regarding the achievement of objectives in the following categories:

- reliability of financial and management data;
- compliance with laws and regulations;
- safeguarding of assets;
- effectiveness and efficiency of operations.

Valeo has adopted a definition of internal control in line with that provided by the COSO (Committee Of Sponsoring Organization of the Treadway Commission), the findings of which were published in 1992 in the United States.

As with any control system, Valeo's internal control procedures can only provide reasonable assurance – and not an absolute guarantee – that the Group's objectives will be achieved and that risks will be avoided. The objective of the system put in place by Valeo is to reduce the probability of risks occurring.

2.2. The components of Valeo's internal control procedures

Valeo's internal control procedures are based on the following five interrelated components defined in the COSO framework.

Control Environment

The control environment sets the tone of an organization, influencing the level of awareness of its people to be need for controls.

Valeo's decentralized structure enables it to respond swiftly and locally to customer needs, which in turn enables the Group to expand in its markets. Against this backdrop, the Group has set up operating principles and rules applicable in all of its companies. One example is the Code of Conduct, which is sent out to all of the Group's managers and sets out principles on how employees are required to act and behave. This Code is available on the Intranet and forms the basis of detailed procedures which must be applied by all of the Group's companies. It was updated in 2004 to include new processes relating to human resources management.

Risk Assessment

Risk assessment is the identification and analysis of risks that may impact the objectives set by the Group, forming a basis for determining how the risks should be managed. The Group's main risks are described in section 9 of the Management Report ("Risks and uncertainties").

Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out. They occur throughout the organization, at all levels and in all functions. In this context, the Group's Administrative and Financial Manual has been the benchmark for Valeo's financial and management operations for over 15 years. The manual is used on a daily basis by all operational staff and comprises two parts:

- part one concerns the rules governing management and internal control;
- part two defines how the main items of the balance sheet and statement of income should be measured and presented.

Every year, the Director and Financial Control Director of each Division sign a letter of representation in which they undertake to ensure compliance with the manual's rules.

Specific rules and procedures have also been put in place by the Group's various corporate divisions, in line with the Administrative and Financial Manual. These include:

- the Constant Innovation Charter, which provides a strict definition of the management principles applicable to development projects;
- marketing procedures and sales practices;
- human resources procedures;
- purchasing procedures, aimed at reducing the number of listed suppliers in order to facilitate quality control;
- the Risk Management Manual and implementation guides in relation to security, safety and the environment, together with the Insurance Manual. Valeo has undertaken to comply with local regulations concerning safety and the environment at a minimum and, in certain cases, to comply with even higher standards;
- legal procedures that set down the principles with which the Group must comply. These mainly concern the laws and regulations applicable in the countries where the Group operates as well as respecting contractual obligations and protecting the Group's intellectual property.

Substantially all of the information concerning these rules and procedures is accessible on the Group's Intranet by the staff concerned.

In terms of quality, Valeo has set its own benchmarks – Valeo 1000 and Valeo 5000. In addition, the QRQC (Quick Response Quality Control) method ensures the prompt implementation of corrective action, and the Lesson Learned Card (LLC) process

enables the Group to monitor best practices and explore avenues for improvement.

Valeo has launched a certification program for its manufacturing sites in accordance with the ISO 14001 standard relating to environmental management and the OHSAS 18001 standard concerning occupational health and safety. At December 31, 2006, these two standards had been awarded to 125 and 71 sites respectively, out of a total of 129 sites.

Information and Communication

Pertinent information must be identified, captured and communicated in a form and timeframe that enable all of the Group's people to carry out their responsibilities and perform the controls required of them.

Group Financial Control is responsible for preparing the financial statements of the Company and the Group, and reports to the Chairman and Product Family Directors on this process. The budget and monthly reporting procedure is a critical tool for Valeo in managing its operations. Any variances can be identified, analyzed and dealt with during the year, thereby increasing the reliability of the interim and annual accounts closing process. The same information system is used for the consolidation and reporting processes, thus ensuring that the Group has constant control over the preparation and processing of financial information.

The Group has put in place an integrated software application, which is gradually being rolled out to all of its operating units. As well as providing a structured framework, this software application enables user profiles to be defined and access controls to be monitored, enabling the Group to comply with regulations concerning the segregation of tasks.

Monitoring internal control procedures

The Group's General Management team oversees the internal control system and delegates responsibility to the Financial Control, and Risk, Insurance and Environment Departments as well as to the individual Product Families for the management of issues within their remit. The internal control system is audited by the Valeo Internal Audit Department, whose task is to carry out assignments within the Group to ensure that the procedures set up function properly. Based on observations made during these assignments, recommendations are put forward to the audited operating units, which are subsequently required to implement appropriate action plans. The Internal Audit team is also called upon at regular intervals to carry out audits of performance indicators at various manufacturing sites and Divisions, and to coordinate the updates to the Group's financial and management procedures.

The application of Valeo's quality standards is regularly checked via "VAQ" (Valeo Assurance Quality) audits, and the environmental and safety aspects are overseen by the Risk, Insurance and Environment Department.

2.3. Review of work carried out in previous years

Valeo carried out the following tasks at Group level in previous years:

- an analysis of the existing internal control procedures in light of the five main components defined in the COSO Framework (control environment, risk assessment, control activities, information and communication, and monitoring);
- a preliminary mapping of major risks and processes based on interviews with the Group's main operational and administrative managers;
- the identification of material accounts and their interaction with the processes, as well as an inventory of existing internal control procedures relating to the preparation of the financial statements.

The Group has put in place a specific project designed to improve internal control in relation to the reliability of financial information. Over the long term, Valeo's aim is to be able to assess the relevance and correct implementation of its internal control procedures in relation to the reliability of financial information.

In order to achieve this, 132 key control points have been identified in relation to the seven processes set out below:

- sales, receivables management and payments received;
- procurement, payables management and payments made;
- monitoring of assets;
- monitoring of inventory;
- payroll;
- cash flow;
- accounts closing policies.

Rules relating to documentation and testing – particularly regarding the size of the sample used – have been defined to ensure uniformity between the sites. The process was initially implemented at a number of pilot sites in order to enable the approach to be validated, forecasts of required resources to be finetuned, and documentation and testing for all the sites to be standardized. The approach was then rolled out to the Group's other operating units. A specific database of best internal control practices has been created and posted on the Group's Intranet. In addition, Valeo has set up a new tool for reporting the findings of its internal control self-assessment procedures, in order to centralize documentation relating to the controls and tests performed in connection with the French Financial Security Act (LSF project). This tool, which is overseen by the Internal Audit team, is also used by the Group's financial controllers to monitor in real time the action plans implemented to enhance the internal control system.

In parallel, Valeo has set up a procedure aimed at reviewing the user profiles and access controls for the SAP software, which has been progressively rolled out to all the Group's main sites. The underlying aim of this process is to establish consistent internal

control practices across all of the operating units. On the basis of matrices showing incompatibilities for each of the processes, optimized standard user profiles have been identified. SAP user profiles and access controls have been deployed at 18 of the Group's most important sites.

The LSF project also included the "Corporate" functions, and the internal control procedures for the Valeo Internal Bank (BIV) were documented as part of this process.

The Group's standards on quality, manufacturing, project management and safety have been updated as part of the Valeo 5000 quality certificate.

2.4. Work carried out in 2006

During 2006 the Group continued its twin objectives of improving internal control in relation to the relevance of financial information and applying a self-assessment approach in all of its operating units. The Internal Audit team continued to implement its quality controls in relation to documentation and tests performed at the operating units. The Group's Statutory Auditors also carried out a review of the work performed by certain divisions.

SAP user profiles and access controls have now been rolled out to substantially all of the Group's operating units, with accompanying manuals and incompatibility matrices drawn up by Internal Audit in conjunction with each division. During the year the Group also carried out a centralized review of the SAP automatic and manual controls, as well as management procedures for the corresponding access rights. At the same time, it reviewed the security of its information systems.

As part of its risk assessment process the Group updated and enriched its risk mapping process. The risks concerned were assessed in terms of their impact and how they are controlled by the Group's main operating and administrative managers. The Group also identified the people responsible for controlling its main risks, monitoring corrective action and performing independent reviews of the coverage of the risks concerned. The risk mapping process formed a major component of the work undertaken to prepare the audit plan, which was presented to the Audit Committee in November 2006.

2.5. Outlook for 2007 and 2008

A two-year audit plan (2007/2008) has been drawn up for the Group's main risks, based on the findings from the risk mapping process and the work conducted by the Internal Audit team. The plan covers both cross-business and technical risks.

The key controls, user documentation, test procedures and the internal control reporting system will be reviewed and updated in order to factor in changes in the Group and its accounting policies.

A specific review will be carried out on the access controls and user profiles of sites that do not use SAP, and reporting tools and monitoring procedures will be put in place. The central review performed concerning the Group's internal control procedures and the security of the SAP application will be supplemented by a review within each operating unit. This review will include an analysis of how the centrally defined key controls are applied at a local level and a verification of the manual controls performed by local users.

A documentation plan will be drawn up for the "Corporate" functions, together with a definition of the applicable key controls and a test plan based on defined samples, notably for

specific holding company processes and for financial consolidation procedures.

On a general level, the Group will pursue its ongoing efforts to improve its internal control procedures, with the underpinning aim of constantly adapting its management and control tools in line with changes in the Group's structure and its objectives.

These efforts are wholly supported by the Group's General Management team.

Thierry Morin

Chairman of the Board of Directors

Composition of the Board of Directors at December 31, 2006

Name	First appointed	End of term of office	Main position held within the Company	Main position held outside the Company	Other directorships and positions held in all companies in 2006
Thierry Morin	March 31, 2001	General Shareholders' Meeting to be called to approve the 2006 financial statements	Chairman and Chief Executive Officer		<ul style="list-style-type: none"> • Chairman of Société de Participations Valeo, Valeo Bayen, Valeo Service, Valeo Finance, Valeo Thermique Habitacle, Valeo España, S.A., Valeo SpA, Valeo Japan Co. Ltd, and Valeo (UK) Limited • Legal Manager of Valeo Management Services, Valeo Auto-Electric Beteiligungs GmbH, Valeo Germany Holding GmbH, Valeo Grundvermögen Verwaltung GmbH, and Valeo Holding Deutschland GmbH • Director of Valeo Electronique & Systèmes de Liaison, Valeo Service España S.A., Valeo Iluminacion, S.A., and Valeo Termico, S.A. • Director of CEDEP and Arkema
Carlo De Benedetti (until July 13, 2006)	July 4, 1986	July 13, 2006		Chairman of the Board of Directors of CIR SpA	<p>Cofide-CIR Group</p> <ul style="list-style-type: none"> • Chairman of the Board of Directors of Cofide SpA and CIR SpA • Director of Gruppo Editoriale L'Espresso SpA and Sogefi SpA <p>Outside the Cofide-CIR Group</p> <ul style="list-style-type: none"> • Chairman of the Board of Directors of CDB Web Tech SpA • Chairman of the Supervisory Board of M&C Management & Capitali SpA • Director of Pirelli SpA and Banca Interbancaria SpA
Daniel Camus	May 17, 2006	General Shareholders' Meeting to be called to approve the 2009 financial statements		Chief Operating Officer in charge of finance and international development in the EDF Group	<p>EDF Group</p> <ul style="list-style-type: none"> • Chairman of the Board of Directors of EDF Energy (United Kingdom) and EDF International • Director of Edison (Italy) and Transalpina di Energia (Italy) • Member of the Supervisory Board of EnBW (Germany) <p>Outside the EDF Group</p> <ul style="list-style-type: none"> • Member of the Supervisory Board of Dalkia and Morphosys (Germany)
Jérôme Contamine	May 17, 2006	General Shareholders' Meeting to be called to approve the 2009 financial statements		Senior Executive Vice-President of Veolia Environment	<p>Veolia Group</p> <ul style="list-style-type: none"> • Director of VE Services-Ré, Veolia Transport, Veolia Propreté, Veolia Environmental Services Plc (United Kingdom), Veolia ES Holdings Plc (United Kingdom), and Veolia UK (United Kingdom) • Member of the Supervisory Board of Veolia Eau and Dalkia France • Member of Dalkia's A and B Supervisory Boards <p>Outside the Veolia Group</p> <ul style="list-style-type: none"> • Chairman of Venao (United States) • Director of Rhodia and Venac (United States)

Name	First appointed	End of term of office	Main position held within the Company	Main position held outside the Company	Other directorships and positions held in all companies in 2006
Pierre-Alain De Smedt	March 7, 2005	General Shareholders' Meeting to be called to approve the 2006 financial statements		Chairman of FEBIAC (the Belgian Federation of the Car and Two-wheeler Industries) and director of various companies in Belgium	<ul style="list-style-type: none"> • Director of Belgacom, C.N.P. (Compagnie Nationale à Portefeuille/A. Frère Group), Deceuninck Plastics, and Alcopa • Member of the Executive Committee and Director of FEBIAC (Belgian Federation of the Car and Two-wheeler Industries) • Member of the Management Committee of FEB (Belgian Business Federation)
François Grappotte	March 31, 2003	General Shareholders' Meeting to be called to approve the 2006 financial statements		Honorary Chairman of Legrand S.A.	<p>Legrand Group</p> <ul style="list-style-type: none"> • Chairman of Legrand S.A.S., Lumina Management S.A.S., and Legrand S.A. • Director and Chief Executive Officer of Legrand Holding S.A. and Lumina Parent (Luxembourg) • Director of B. Ticino (Italy) and Legrand Española (Spain) <p>Outside the Legrand Group</p> <ul style="list-style-type: none"> • Director of BNP Paribas • Member of the Supervisory Board of Michelin • Member of the Banque de France Consultative Committee, the Administrative Board of F.I.E.E.C. (Fédération des Industries Électriques, Électroniques et de Communication), the Administrative Board of Gimelec (Groupement des industries de l'équipement électrique, du contrôle-commande et des services associés), and the Board of Promotelec (Promotion de l'installation électrique dans les bâtiments neufs et anciens)
Philippe Guédon	March 31, 2003	General Shareholders' Meeting to be called to approve the 2006 financial statements		Managing Partner of Espace Développement	
Yves-André Istel	January 29, 1992	General Shareholders' Meeting to be called to approve the 2006 financial statements		Senior Advisor to Rothschild, Inc.	<ul style="list-style-type: none"> • Director of Compagnie Financière Richemont AG, Imperial Sugar Company, and Tiedemann Trust Company

Name	First appointed	End of term of office	Main position held within the Company	Main position held outside the Company	Other directorships and positions held in all companies in 2006
Jean-Bernard Lafonta	December 7, 2001	General Shareholders' Meeting to be called to approve the 2006 financial statements		Chairman of the Management Board of Wendel Investissement	Wendel Group <ul style="list-style-type: none"> • Chairman of the Supervisory Board of Editis Holding • Chairman of the Supervisory Board of Bureau Veritas • Member of the Supervisory Board of Oranje-Nassau Groep B.V. • Director of Legrand Holding and Legrand S.A. Outside the Wendel Group <ul style="list-style-type: none"> • Chairman of the Board of Directors of Winvest S.A. (Luxembourg) • Legal Manager of Granit (SARL), JBMN (Luxembourg), and Winvest Conseil (Luxembourg)
Alain Minc	July 4, 1986	General Shareholders' Meeting to be called to approve the 2006 financial statements		Chairman of A.M. Conseil	<ul style="list-style-type: none"> • Chairman of the Supervisory Board of Le Monde • Director of Fnac and Vinci
Véronique Morali	March 31, 2003	General Shareholders' Meeting to be called to approve the 2006 financial statements		Director and Chief Operating Officer of Fimalac	Fimalac Group <ul style="list-style-type: none"> • Sole Director of FCBS GIE • Member of the Board of Fimalac Inc., Fitch Ratings, Inc., and Fitch Risk Management, Inc. Outside the Fimalac Group <ul style="list-style-type: none"> • Director of Eiffage, Club Méditerranée, and Algorithmics (Canada)
Erich Spitz	June 24, 1987	General Shareholders' Meeting to be called to approve the 2006 financial statements		Advisor to Thales	Thales Group <ul style="list-style-type: none"> • Chairman of Thales Avionics Lcd • Director of Thales Corporate Ventures Outside the Thales Group <ul style="list-style-type: none"> • Chairman of the Supervisory Board of Novaled and Riber • Member of the Management Board of ERA • Correspondent member of the Académie des Sciences • Member of the Académie des Technologies • Honorary Chairman of European Industrial Research Management Association (EIRMA)

Statutory Auditors' Report prepared in accordance with article L.225-235 of the French Commercial Code (*Code de commerce*) on the report of the Chairman of the Board of Directors on internal control procedures relating to the preparation and processing of financial and accounting information

Year ended December 31, 2006

This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Valeo

43, rue de Bayen
75017 Paris

To the Shareholders,

In our capacity as statutory auditors of Valeo, and in accordance with article L. 225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of your Company in accordance with article L. 225-37 of the French Commercial Code for the year ended December 31, 2006.

It is for the Chairman to give an account, in his report, notably of the conditions in which the duties of the Board of Directors are prepared and organized and of the internal control procedures in place within the company.

It is our responsibility to report to you our observations on the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the Chairman's report;
- obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the report of the Chairman of the Board, prepared in accordance with the last paragraph of article L. 225-37 of the French Commercial Code.

Neuilly-sur-Seine and Paris, February 12, 2007

The Statutory Auditors

Salustro Reydel
Member of KPMG International

PricewaterhouseCoopers Audit

Jean-Pierre Crouzet

Emmanuel Paret

Serge Villepelet

Jean-Christophe Georghiou

