



5.24.2011

Le Président

Valeo

Response to ISS' recommendation concerning Valeo's Resolution 26 (Performance Share Plan) at its 2011 General Meeting

Dear Valeo Shareholder,

We are writing to you as a Valeo investor to reiterate your board's recommendation that shareholders vote in favour of Resolution 26 to implement a performance share plan despite a negative recommendation from ISS.

Our group studied closely the voting policies of ISS, those of other proxy advisors and France's AFEP-MEDEF Code of Corporate Governance in the preparation of the stock option plan and the performance share program. We believe that the requested authorisations meet stringent qualitative standards and are in line with best practices currently in place in France.

In the same way as with Resolution 25 (resolution to implement a stock option plan which is supported by ISS), the conditions granting the performance shares in Resolution 26 follow best governance practices:

- The authorisation specifies that the awards will be conditioned on clearly disclosed quantitative and qualitative performance requirements;
- The performance conditions are measured over a period of several consecutive years (3 years) and include relative targets;
- The performance conditions are stringent;
- The number of performance shares granted to corporate officer are limited both in terms of their proportion to total salary and to proportion to the total size of the performance share plan.

We would like to underline that the restricted stock plan's purpose is to foster loyalty and create incentives for employees, and to strengthen Valeo's position in both historic and emerging markets, which is essential to the Group's continued growth. Even if the proposed plan is in excess of ISS' guidelines on capital employed for long-term incentive schemes, it is counterbalanced, as noted in ISS' approval of the item 25 relating to the stock option plan, by stringent performance conditions to which the allotment of performance shares is submitted.

We would also like to discuss the capital employed for the plans presented in Resolutions 25 and 26. As of December 31, 2010, stock options and performance shares in circulation represented 7.3% of capital; if one were to exclude the stock option plans funded by treasury shares (for which the exercise price has always been superior to the average acquisition cost of treasury shares held at the moment of grant), the stock options and performance shares funded by newly created shares in circulation as of December 31, 2010 would only represent 1.7 % of capital. In the case that all new requested plans proposed at the General Meeting were fully used, these percentages would grow to 7.6 % and 1.8 % of capital. Therefore, we believe that the level of actual dilution of capital is very reasonable.

Valeo believes that the reasons that permit ISS to recommend that investors vote in favour of Resolution 25 should also be valid for Resolution 26 because both the stock option plan and the performance share program are based on the same vesting and performance conditions.

Valeo urges all its shareholders to vote FOR Resolution 26.

Best regards,

Pascal Colombani  
Chairman of the Board