

## Shareholders' Letter

December 2014 ■■■■■■



Electrical Systems, Powertrain Systems Business Group, Campinas, Brazil

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### Dear Shareholders,

The results announced since early 2014 confirm the excellent momentum behind growth and profitability at Valeo.

In the first half, order intake rose by 25% from the year-earlier period to 9.1 billion euros, while sales were up 10% on a like-for-like basis (constant Group structure and exchange rates) and operating margin reached 7%.

Fueled by strong order intake over the past few years, sales have continued to outpace the market as a whole in the main automotive production regions. In the first nine months of the year, original equipment sales increased by 32% in China, by more than 9% in Europe and by nearly 8% in North America, outpacing global automotive production by over 7 percentage points.

These good results confirm the effectiveness of our growth strategy based on our innovative CO<sub>2</sub> emissions reduction and intuitive driving technologies. Our solid growth and improved results also reflect our positioning in relation to German and Asian automakers, as well as our geographic repositioning with a focus on the fastest growing automotive production regions.

For full-year 2014, we are aiming to outpace market growth in the main automotive production regions and lift operating margin to slightly above 7%.



“ Thanks to this robust performance and the Group’s promising outlook, Valeo returned to the benchmark CAC 40 index on June 23, 2014, securing its status as a blue chip stock. ”

Thanks to this robust performance and the Group’s promising outlook, Valeo returned to the benchmark CAC 40 index on June 23, 2014, securing its status as a blue chip stock.

I would like to thank you once again for your continued confidence and support and, on behalf of everyone at Valeo, wish you all the best for 2015.

Jacques Aschenbroich  
Chief Executive Officer



Paris Motor Show, October 4-19, 2014

## Valeo: a major role in creating the car of tomorrow

Motorists are looking for vehicles that are fuel efficient, easy to use and fun to drive. Valeo meets these expectations with innovative technologies designed to reduce carbon emissions and promote intuitive driving.

### Innovation for intuitive cars that are smarter, safer and more connected

#### ■ InBlue the world's first smartphone-compatible smart key

In a world first and in cooperation with Safran-Morpho, a global leader in electronic security solutions, and Vulog, a recognized expert in car-sharing technologies, Valeo is launching an innovation that transforms an ordinary smartphone into a connected key system that allows motorists to lock, unlock and start their vehicles, remotely access vehicle data and share their cars easily by sending a digital key to another driver.

Practically speaking, the smartphone communicates with the vehicle using a virtual key stored in the phone via the secure InBlue platform, offering security on a level with mobile payment systems. The InBlue system is based on Bluetooth® Smart technology. With InBlue, not only can motorists leave the car keys in their pockets or even at home when they want to use their vehicle, but they can also check vehicle readings such as tire pressure and fuel level remotely and get a host of information, including distance to the next service station and last location parked.

There is no longer any need to find a hiding place for the key or hand over a copy when lending out their vehicle. Instead, the motorist will be able to transmit a temporary or permanent key remotely at any time, wherever they may be. All they need to do is send a digital key to the person who is borrowing the car using a smartphone. The person receiving the key will be authorized to use their smartphone to unlock, lock and start the vehicle.

Thanks to Bluetooth® Smart technology, this new passive entry and start system is compatible with Remote Park4U® and Valet Park4U®.

A first vehicle equipped with Valeo InBlue technology could be launched in 2016.

#### ■ Connected Valet Park4U® a new step towards the driverless car

Connected Valet Park4U® communicates directly with car park infrastructure, reserving a space on departure for the time of arrival through the car park's space identification system.

Drivers also have the option of ordering the car to pick them up in the same place or in another location in the car park by indicating the exact location and desired time of pick-up



on the map. At the scheduled time, the car maneuvers out of the parking space and heads to the location specified by the driver.

Valeo first presented its Valet Park4U® automated parking system in 2013. Valet Park4U® allows drivers to get out of the vehicle at the entrance of a car park and let it find a space and park by itself by activating the remote automated parking system on their smartphones.

### ■ Sightstream the rearview mirror becomes a camera

Valeo is committed to offering high-technology solutions with improved ergonomics that make driving safer, easier and more natural.



As part of this commitment, Valeo teams have developed Sightstream, a new system that replaces conventional interior and exterior rearview mirrors with cameras. In other words, what used to be seen outside the car is now seen on the inside. This considerably improves vehicle aerodynamics and reduces drag, thereby saving fuel and lowering CO<sub>2</sub> emissions by 1.3 grams per kilometer.

In addition, because it can detect other vehicles, motorbikes or bicycles, Sightstream can embed such features as blind spot detection and door opening assistance and help the driver during lane changes or overtaking by providing information on the Sightstream display.

EU legislation will authorize the replacement of side mirrors by cameras in 2016.

### ■ Optimal cabin air quality thanks to a filter with anti-allergen properties

In industrialized nations, the proportion of the population suffering from pollen-related allergies has doubled over the last 30 years. Current estimates predict that by 2040, 40%<sup>(1)</sup> of Europeans will have an allergic predisposition. Sneezing, watery eyes and itching are not only uncomfortable – they can also affect a driver's concentration.

Valeo produces combination air filters with activated carbon layers that absorb harmful gases and unpleasant odors. It has taken this a step further by launching Europe's first cabin filter with anti-allergen properties.

This Valeo-patented filter, featuring a polyphenol-based surface treatment, is designed for all drivers and passengers, no matter what their sensitivity to airborne allergens.

<sup>1</sup> European Academy of Allergy and Clinical Immunology

## Innovation for more effective, fuel-efficient vehicles

### ■ Electric supercharger to boost engine performance without increasing fuel consumption

To comply with regulations calling for a reduction in vehicle CO<sub>2</sub> emissions in Europe (for 2021) and the United States (for 2025), carmakers and OEMs must pursue and accelerate their downsizing efforts. In line with its strategy of developing solutions that reduce CO<sub>2</sub> emissions, Valeo was the first automotive supplier to offer its customers a range of electric superchargers that improve the dynamic response of 1- to 4-liter gasoline and diesel engines at low speeds, with or without a turbocharger.

Unlike turbochargers powered by exhaust gases, the electric supercharger, which is driven by an electric motor, responds instantly. This enhances engine torque and acceleration while eliminating turbo lag. The system enables considerable downsizing of internal combustion engines, which is an important factor in lowering fuel consumption.

The electric supercharger can reduce fuel consumption by 8 to 10%.



### ■ Hybrid4All affordable hybrids

Valeo's Hybrid4All system was developed to find the best trade-off between price and performance, making hybrid technology affordable to everyone. It is suitable for all types of vehicles, particularly those in the entry-level and mid-range segments.

Hybrid4All is compatible with gasoline and diesel engines and is one of the technological solutions that will enable carmakers to meet the future European objective of 95 grams of CO<sub>2</sub> per kilometer in 2021.

The Hybrid4All architecture is based on a compact motor-generator that uses a low-voltage electrical system. This solution integrates Valeo's Stop-Start system, which shuts off the engine automatically when the vehicle is at a standstill; it also integrates the regenerative braking and torque assist functions, enabling downsizing of the combustion engine and downspeeding of the gearbox.

Hybrid4All generates fuel savings of up to 15% at half the cost of current hybrid solutions.

### ■ A high efficiency on-board charger for electric and hybrid vehicles

At the 2014 Paris Motor Show, Valeo presented a 3.5kW on-board charger with an 8-hour recharge time and minimal energy loss.

Valeo's on-board charger offers optimum charging time for electric or hybrid vehicles. Thanks to its efficient technology, the charger features an industry-leading 96% power conversion efficiency, which means virtually no energy is lost.

As a specific regulation is currently being defined, it is already certain that carmakers

will have to provide information on chargers' power conversion efficiency, just like they do for CO<sub>2</sub> emissions. Labeling should become mandatory in the next few years.

Valeo's high efficiency on-board charger is currently being produced for the Volvo S60.

### ■ A greener heating and air conditioning system

As part of its focus on preserving the environment and to limit the use of non-renewable resources, Valeo has been working on recycled and green materials such as polypropylene mixed with natural fibers.

Under European regulations that came into force in 2006, at least 85% of a vehicle's components must be recycled. The percentage will rise to 95% in 2015 in accordance with Directive 2000/53/EC. As a result, carmakers will have to ensure that all components, including the heating and air conditioning units, are recyclable.

## Valeo Innovation Challenge

In 2014, Valeo launched a new contest open to engineering students around the world, who were invited to play an active role in automobile innovation by designing the product or system that would make the cars of 2030 smarter and more intuitive.

Nearly 1,000 teams from 55 countries signed up for a chance to invent and develop bold, revolutionary solutions for the automobile of 2030.

A vast number of original, varied and innovative projects were reviewed by Valeo experts. The submitted technical solutions reflected each country's prevailing societal concerns, from energy efficiency and road safety in India to smart cars and connectivity in Europe, the United States and China.

After nearly a year of work and review, in October the jury chaired by Valeo Chief Executive Officer Jacques Aschenbroich and comprising eminent figures from the world of science as well as Valeo executives, selected the three winning teams and announced the kick-off of the second Valeo Innovation Challenge.

First prize, with a cash award of 100,000 euros, went to the Brazilian team from Universidade Federal de Minas Gerais, whose project reinvents the mechanical transmission system.

The two Canadian teams, one from the University of Ottawa and the other from the University of Waterloo, tied for second place and took home 10,000 euros each.

Valeo has kicked off the second edition of its global innovation contest  
**The 2015 Valeo Innovation Challenge**

Sign up today at:

<https://valeoinnovationchallenge.valeo.com/>

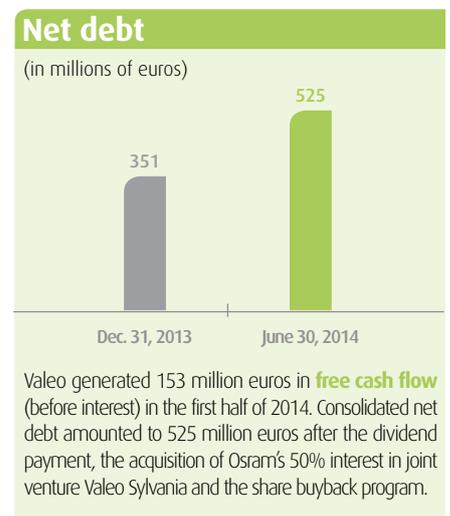


# 2014 results



## In first-half 2014, Valeo reported a 25% surge in order intake to 9.1 billion euros

- Sales came in at 6.3 billion euros, up 10% like for like (7% as reported)
- Operating margin<sup>(1)</sup> up 15% to 442 million euros, or 7.0% of sales
- Net income up 38% to 262 million euros, or 4.1% of sales
- Free cash flow of 153 million euros, up 15%



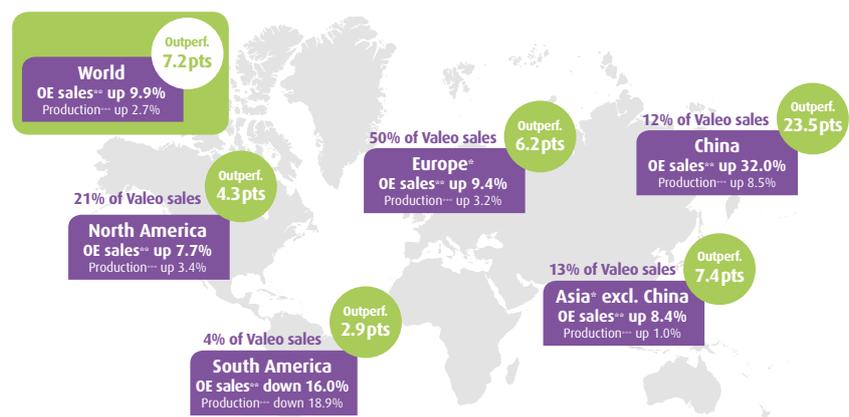
(1) Including share in net earnings of equity-accounted companies.

## In third-quarter 2014, Original equipment sales advanced 13% on a reported basis (up 7% on a like-for-like basis), building on the momentum of the past few quarters



(2) Like-for-like (constant Group structure and exchange rates)

- Original equipment sales growth outpaced the global market by seven points (September 30 - Proforma 2014 sales at constant Group structure and exchange rates)



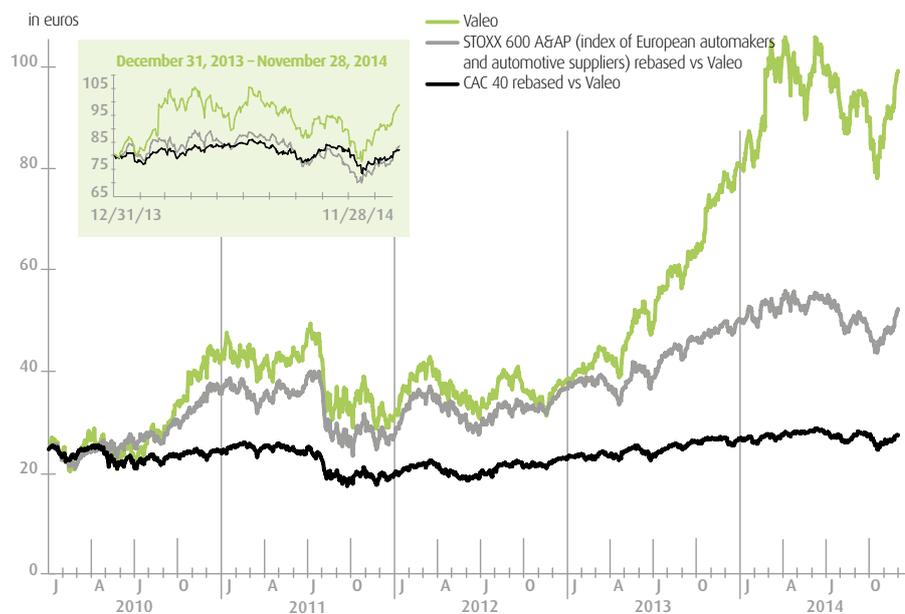
\* Europe and Africa; Asia and the Middle East \*\*\* Valeo OE sales by destination \*\*\* LMC estimates - light vehicle production

# Valeo at a glance



## Share price

December 31, 2009 – November 28, 2014



## Stock market data

|                                                            | 2012       | 2013       | Nov. 28, 2014 |
|------------------------------------------------------------|------------|------------|---------------|
| Market capitalization at period-end (in billions of euros) | 2.99       | 6.39       | 7.86          |
| Number of shares                                           | 79,462,540 | 79,462,540 | 79,462,540    |
| Highest share price (in euros)                             | 43.31      | 81.15      | 106.05        |
| Lowest share price (in euros)                              | 29.80      | 37.25      | 73.94         |
| Average share price (in euros)                             | 36.30      | 55.22      | 93.29         |
| Share price at period-end (in euros)                       | 37.64      | 80.43      | 98.95         |

## Per share data

| (in euros)                                       | June 30, 2012 | June 30, 2013 | June 30, 2014 |
|--------------------------------------------------|---------------|---------------|---------------|
| Earnings per share                               | 2.56          | 2.48          | 3.37          |
| Earnings per share excluding non-recurring items | 2.79          | 3.00          | 3.57          |

| (in euros)         | 2012 | 2013                |
|--------------------|------|---------------------|
| Dividend per share | 1.50 | 1.70 <sup>(1)</sup> |

(1) Eligible for the 40% tax allowance provided for in Article 158-3-2° of the French Tax Code (Code général des impôts) and subject to a 21% flat-rate tax prepayment on distributed revenues, deducted at source by the paying agent (Article 117 quater 1.1 of said Code and Article 9 of the French Finance Law for 2013).

These figures are provided for information purposes only. Please contact your financial advisor to discuss the specific tax and social security treatment of your shares.

## New

### Have our publications sent right to your mailbox

We can deliver all our publications by e-mail, keeping you right up to date with events at Valeo. This easy solution facilitates communication with our shareholders. If you opt for e-mail delivery, you will receive an electronic version of our Shareholders' Letter, quarterly e-Newsletter, financial and other press releases, etc. Going electronic is also good for the environment.

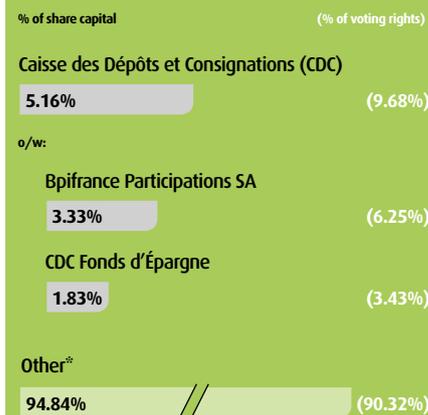
To subscribe, go to <http://valeo.relations-actionnaires.com>

## Ownership structure

at November 28, 2014

Number of shares: 79,462,540

Number of voting rights: 84,666,333



\* Including 1,770,277 treasury shares (2.23% of the share capital)

## First-half 2015 calendar

**February 24, 2015**  
Full-year 2014 results

**April 23, 2015**  
First-quarter 2015 sales

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