



SMART TECHNOLOGY
FOR SMARTER CARS

SHAREHOLDERS'

LETTER



Dear Shareholders,

The results announced since early 2016 confirm the excellent momentum behind growth and profitability at Valeo and I would like to thank all of our employees for their commitment and professionalism. Their work over the past few years has enabled us to build a new, more innovative, technologically focused, dynamic and profitable Valeo.

Our record order intake in the first half of the year – which was up 20% to 12.8 billion euros – and the 11% like-for-like growth in sales in the first nine months of the year reflect the success of our strategy focused on innovation and R&D, an area in which we invest 6% of our sales.

Our growth remains balanced, both in terms of the customer portfolio – with German customers representing 31% of original equipment sales, Asian customers 26%, American customers 22% and French customers 15% – and in terms of geography – with growth outpacing the market in all production regions in the first nine months of the year.

In the first half of the year, sales growth was accompanied by a 20% increase in our operating margin to 8.0% of sales, and a 23% increase in net income.

These results put Valeo ahead of schedule in terms of the medium-term plan presented at our Investor Day on March 16, 2015, and further strengthen our confidence in achieving our 2016 objectives of market-beating sales growth in our main production regions and an operating margin of around 8% (as a percentage of sales), despite the increase in net R&D expenditure.

On behalf of all our employees at Valeo, I would like to thank you for your continued confidence and support and wish you the very best for 2017.

Jacques Aschenbroich
Chairman and Chief Executive Officer

DECEMBER 2016

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- An innovation strategy focused on intuitive driving and CO₂ emissions reduction
- Valeo, a start-up incubator
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- Third-quarter 2016 original equipment sales

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AN INNOVATION AND R&D STRATEGY FOCUSED ON INTUITIVE DRIVING AND CO₂ EMISSIONS REDUCTION

Valeo unveiled its latest innovations at the Paris Motor Show in October 2016.

INTUITIVE DRIVING

Market surveys show that drivers would like to mitigate the less pleasant aspects of driving, like traffic jams and long journeys, and use this time for entertainment, rest or other activities. To meet these expectations, Valeo has developed the concept of intuitive driving and made it a key part of the Group's strategy. This concept encompasses all technologies that make cars more intuitive, safer, and easier to drive based on the user experience.

Valeo boasts the most wide-ranging portfolio of sensors – including ultrasonic systems, radars, cameras and a laser scanner – in the auto industry. The unique and functional solutions presented below were developed by Valeo from its portfolio of sensors and are highly valuable for vehicle travel range, safety and mobility.

Valeo Cruise4U

Valeo Cruise4U can manage the vehicle's steering, acceleration and braking in real traffic conditions. The driver has the option of taking back control of the vehicle at any time and is notified whenever the system detects the need to return to manual driving mode. Sensors and human-machine interfaces keep the driver constantly informed of the vehicle's surroundings.

This breakthrough innovation in mobility has been achieved by combining Valeo's camera, radar and LiDAR technologies with sophisticated algorithm-based software, enabling the vehicle to understand and monitor its surroundings.



Inside Valeo Cruise4U

- Valeo SCALA® laser scanner
- Radar cocoon
- Camera cocoon
- Algorithm-based software

Driver Monitoring

With Valeo's Driver Monitoring system, a dash-fitted camera pointed at the driver's face detects lapses of concentration, day or night. The system can:

- Alert the driver when it detects signs of drowsiness or distraction.
- Identify the driver.
- Ensure at all times that the driver is actually capable of taking control of the vehicle before switching to manual driving mode.

Park 4U® Remote

Park4U® Remote can perform both perpendicular and parallel parking and even enter and exit garages autonomously and safely. Using twelve ultrasonic sensors located around the car and four cameras, the vehicle constantly monitors the surrounding environment with extreme precision, plans its route and calculates its trajectory until completing the parking maneuver, without any bumps or scratches.



Smart Lighting Experience, for enhanced safety

This technology showcases two smart lighting innovations: High Definition Lighting and Valeo's Kinetic system. High Definition Lighting is a groundbreaking system that projects customized images or messages onto the road in front of the vehicle by altering the shape of the beam. The innovation can, for example, project such information onto the road as directions from a GPS navigation system.



Kinetic rear lights can communicate with the surrounding environment by displaying pictograms or personalized messages. A car in automated driving mode equipped with a Kinetic system can therefore inform the vehicle behind it whenever its sensors detect a hazardous situation.

CO₂ EMISSIONS REDUCTION

Valeo's R&D strategy also aims to assist the transition to low-carbon mobility by reducing CO₂ and pollutant emissions without impacting driving performance or pleasure. Valeo develops innovative technologies that are designed to increase the efficiency of internal combustion engines, electrify powertrains and optimize vehicles' overall weight and thermal management systems. These focuses help increase the efficiency of all engine types.

Valeo develops technological solutions for all levels of powertrain electrification, from low voltage (12V to 48V) to high voltage systems. Two of these solutions are described below.

Electrifying powertrains 48V, a low-voltage solution

48V technology is an efficient, economical hybridization solution offering low to medium output. It is suitable for all vehicle segments, including both diesel and gasoline models, and is particularly well-suited to urban cars and compact sedans – the top-selling vehicles on the European market.



48V integrated belt-driven starter-generator - IBSG

The system works in a very similar way to conventional hybrid powertrains.

The 48V solution is designed to recover braking energy, which is then stored in a 48V battery for various uses, such as:

- Increasing engine torque.
- Maximizing engine power during acceleration and boost phases, using the electric supercharger.
- Driving in all-electric mode and, when on low-grip surfaces, improving road handling by turning the vehicle into a four wheel-drive.

Against a backdrop of increasing vehicle electrification, the 48V completes the already wide range of hybrid innovations from Valeo, the leader in 48V solutions. It joins other such



48V electric supercharger (ESC)

groundbreaking products as Hybrid4All, which delivers an affordable hybrid solution based on the 48V starter-generator, and e4Boost, which combines hybridization and performance by adding the electric supercharger to the starter generator.

Optimizing thermal management Innovative solutions for electric and hybrid vehicles

Vehicle thermal management has become one of the keys to keeping CO₂ emissions down without compromising on passenger comfort.

In a world exclusive, Valeo introduced a series of innovative thermal management technologies for electric and plug-in hybrid vehicles. In urban winter driving conditions, a vehicle in all-electric mode needs almost as much energy for heating as it does for driving. To significantly increase vehicle range, Valeo offers new vehicle thermal management strategies based on a smart thermal network and an individualized, adaptive comfort system rather than focusing on overall cabin comfort.



Individualized, adaptive comfort system

VALEO, A START-UP INCUBATOR

What sets Valeo apart from major groups is that it knows how to build on its start-up spirit.

We have always believed in collaborative innovation and regular, tailor-made interactions with start-ups. Some of these interactions have led to Valeo acquiring the start-up, as was the case in 2007 with Connaught Electronics, which is now the Group's center of excellence for cameras. Others have resulted in the purchase of equity interests, as with LED technology specialist Aledia.

Valeo also strengthened its open innovation ecosystem in 2016 by acquiring interests in several venture capital funds, thereby ensuring worldwide access to thriving local start-up networks in the San Francisco Bay Area, in Shanghai and in France with BPI, for example. This initiative is boosting the Group's visibility and attractiveness among up-and-coming entrepreneurs, and is already generating a deal flow of some 100 opportunities a month.

Top 100 Global Innovators

Valeo is ranked among the 100 most innovative companies in the world¹.

¹ Thomson Reuters 2015 Top 100 Global Innovators.

2016 VALEO INNOVATION CHALLENGE

For the third year running, Valeo invited engineering students from around the world to play an active role in automobile innovation by designing the product or system that will create “smarter, cleaner, more intuitive and fun cars and ways of using them” by 2030.

With participation up from 1,324 registered teams last year, in 2016 1,344 teams from 65 countries signed up for a chance to invent and develop bold, revolutionary solutions in two categories: “idea for new ways of using cars” and “technological innovation”.

In the first quarter of the year, 70 Valeo experts and a number of independent scientists reviewed each of the submissions to select the 24 teams that would continue on to the next stage of the contest. Each of these teams received 5,000 euros to produce a working prototype.

After the second review stage, the names of the eight teams with the most innovative projects were unveiled on September 16, 2016. They were invited to Paris to present their projects to a jury chaired by Valeo Chairman and Chief Executive Officer Jacques Aschenbroich and made up of figures such as: Claudie Haigneré, the first French woman to visit the International Space Station; Cédric Villani, ambassador for French mathematics and winner of the 2010 Fields Medal; Yotam Cohen, Co-Founder of Wibbitz; Bruno Bonnell, an entrepreneur who specializes in the digital and robotics industries; André Chieng, Chairman of Asiatique Européenne de Commerce, inter alia; Jacques Lewiner, physicist, inventor, Professor and Honorary Scientific Director of ESPCI ParisTech; Gérard Feldzer, Chairman of the Ile-de-France Regional Tourism Committee; Jacques Rougerie, visionary French architect

and oceanographer; and for Valeo, Christophe Périllat, Chief Operating Officer; Guillaume Devauchelle, Vice President of Innovation & Scientific Development; and Hans-Peter Kunze, former Senior Vice President, Sales & Business Development.

After careful deliberation, the jury announced the winning teams on October 14, 2016.

In the “Technological innovation” category, the first prize was awarded to both:

- The “Clear and Clever” team from Marmara University in Turkey for their innovative autonomous vehicle project; and
- “The Dows” team from Mines ParisTech engineering school in France for developing a solution for detecting motorcycles and bicycles.

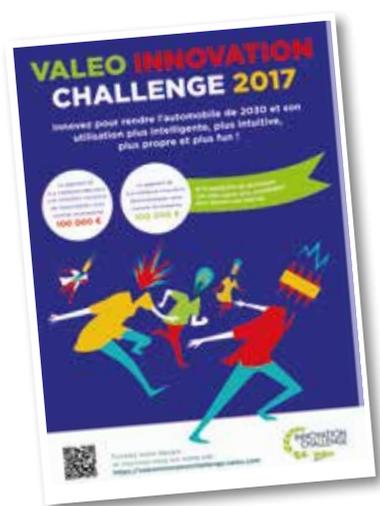
In the “New ways of using cars” category, three teams tied for second place:

- The “Mahuaz” team from Northwestern University in the United States for their project to transform the vehicle cabin into a full-blown gym when the vehicle is driving autonomously in traffic jams;
- The “Globalist” team from the University of Tokyo in Japan for their idea for integrating electric vehicle batteries into the larger ecosystem of electrically powered goods; and
- The “Renovate” team from Istanbul University in

Turkey for their solution for reducing urban traffic congestion with a dynamic system of pre-reserved journeys.



The winning teams were awarded a cash prize of 100,000 euros each, while the runners up took home 10,000 euros each.



Following the ceremony, Valeo kicked off the fourth edition of its global innovation contest

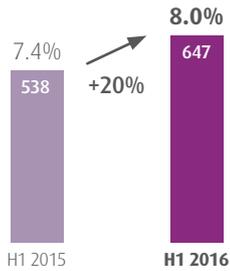
“2017 VALEO INNOVATION CHALLENGE”

Sign up today at: <https://valeoinnovationchallenge.valeo.com/>

IN FIRST-HALF 2016, VALEO'S ORDER INTAKE WAS UP 20% TO 12.8 BILLION EUROS

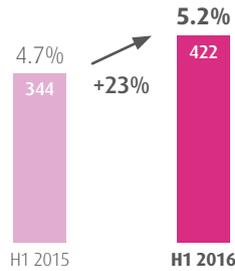
- Operating margin¹ up 20% to 647 million euros, or 8.0% of sales
- Net attributable income up 23% to 422 million euros, or 5.2% of sales
- Free cash flow of 339 million euros, up 11%

▶ OPERATING MARGIN¹ in millions of euros and as a % of sales



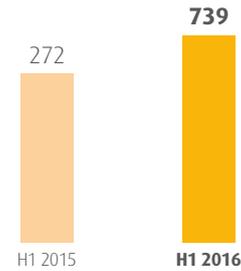
Operating margin for first-half 2016 (before other income and expenses) was up 20% year on year to 647 million euros, or 8.0% of sales.

▶ NET ATTRIBUTABLE INCOME in millions of euros and as a % of sales



In first-half 2016, net attributable income surged 23% year on year to 422 million euros, or 5.2% of sales.

▶ NET DEBT in millions of euros

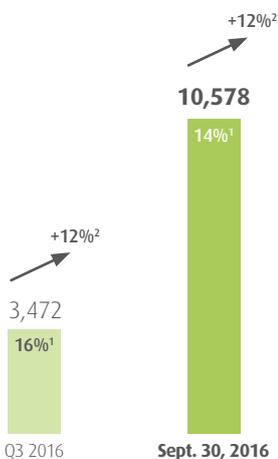


Valeo generated 339 million euros in free cash flow (before interest) in the first half of 2016, up 11% year on year. Consolidated net debt stood at 739 million euros at end-June 2016, after taking into account the acquisition of Spheros and peiker, and the dividend payout.

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

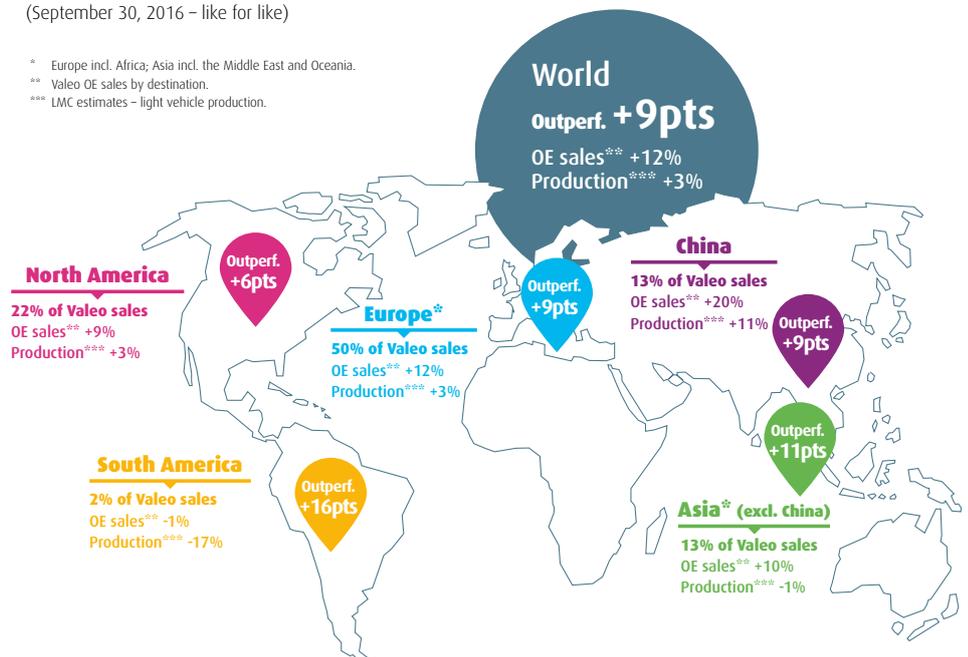
IN THIRD-QUARTER 2016, ORIGINAL EQUIPMENT SALES WERE UP 16% AS REPORTED (UP 12% LIKE FOR LIKE), OUTPACING THE MARKET IN ALL PRODUCTION REGIONS IN THE FIRST NINE MONTHS OF THE YEAR

▶ ORIGINAL EQUIPMENT SALES in millions of euros



- Sustained growth in original equipment sales, generating a 9-point outperformance (September 30, 2016 - like for like)

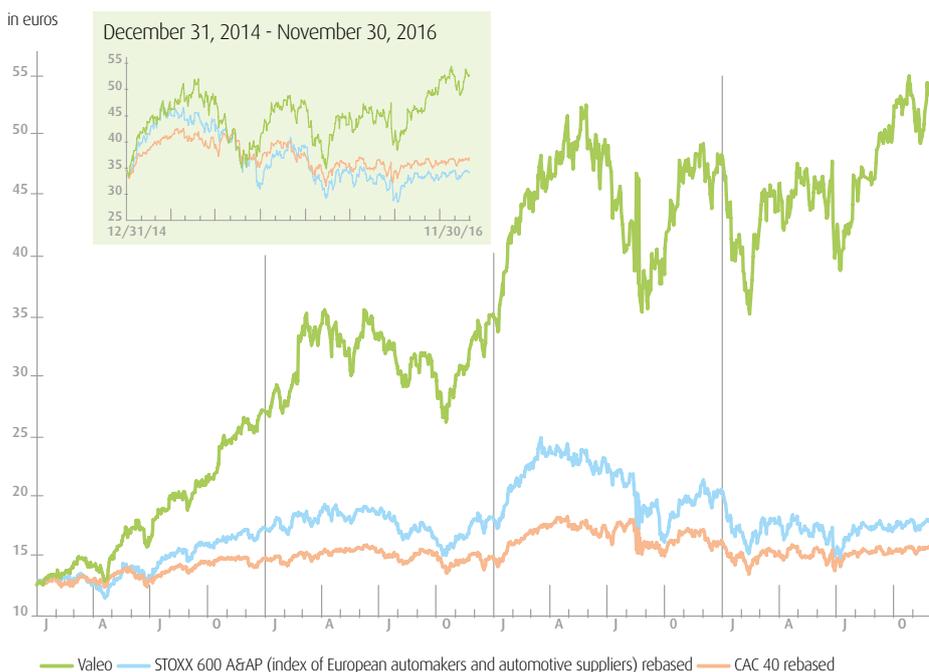
* Europe incl. Africa; Asia incl. the Middle East and Oceania.
** Valeo OE sales by destination.
*** LMC estimates - light vehicle production.



¹ As reported. ² Constant Group structure and exchange rates.

SHARE PRICE

December 31, 2012 - November 30, 2016



STOCK MARKET DATA

	2015	Sept. 30, 2016
Market capitalization at year-end (in billions of euros)	11.33	12.38
Number of shares	238,387,620	238,387,620
Highest share price (in euros)	53.23	51.93
Lowest share price (in euros)	33.20	33.88
Average share price (in euros)	44.26	43.08
Share price at year-end (in euros)	47.52	51.93

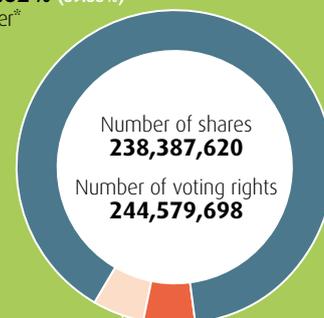
PER SHARE DATA

(in euros)	H1 2015	H1 2016
Earnings per share	1.47	1.79
Earnings per share excluding non-recurring items	1.53	1.91

OWNERSHIP STRUCTURE

SEPTEMBER 30, 2016

89.62% (89.88%)
Other*



5.32% (5.19%)
BlackRock Inc.

5.06% (4.93%)
Lazard Asset
Management LLC

% of share capital (% of voting rights)

* Including 1,386,030 treasury shares (0.58% of the share capital)

CALENDAR

FIRST-QUARTER 2017

- **February 16, 2017**
Full-year 2016 results
- **February 28, 2017**
Investor Day
- **April 26, 2017**
First-quarter 2017 sales

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