

Valeo Sourcing Strategy

Michel Paglia
Valeo Group Asia Purchasing Director



Good afternoon, ladies and gentlemen.

It is a great pleasure to present the Valeo sourcing strategy to you.

Firstly, let me introduce to you the main topics of my presentation:

- Group Profile
- Group Purchasing Activity and Organization
- Group Sourcing Strategy towards LCC...
- Supplier Quality Aptitude Evaluation
- Illustration of Sourcing Strategy with Electrical Components
- Conclusion: Why a Shanghai-based Asia Purchasing Office?

Group Profile

- The Group in automotive sector
- Key figures
- Global presence
- Leading market positions

Valeo is an independent global industrial group fully focused on the design, production and sale of components, integrated systems and modules for cars and trucks, in both the OEM and aftermarket segments.



Key Figures

€ 9,439* million sales

67,300 people

129 plants**

70 nationalities

65 R&D centers

26 countries



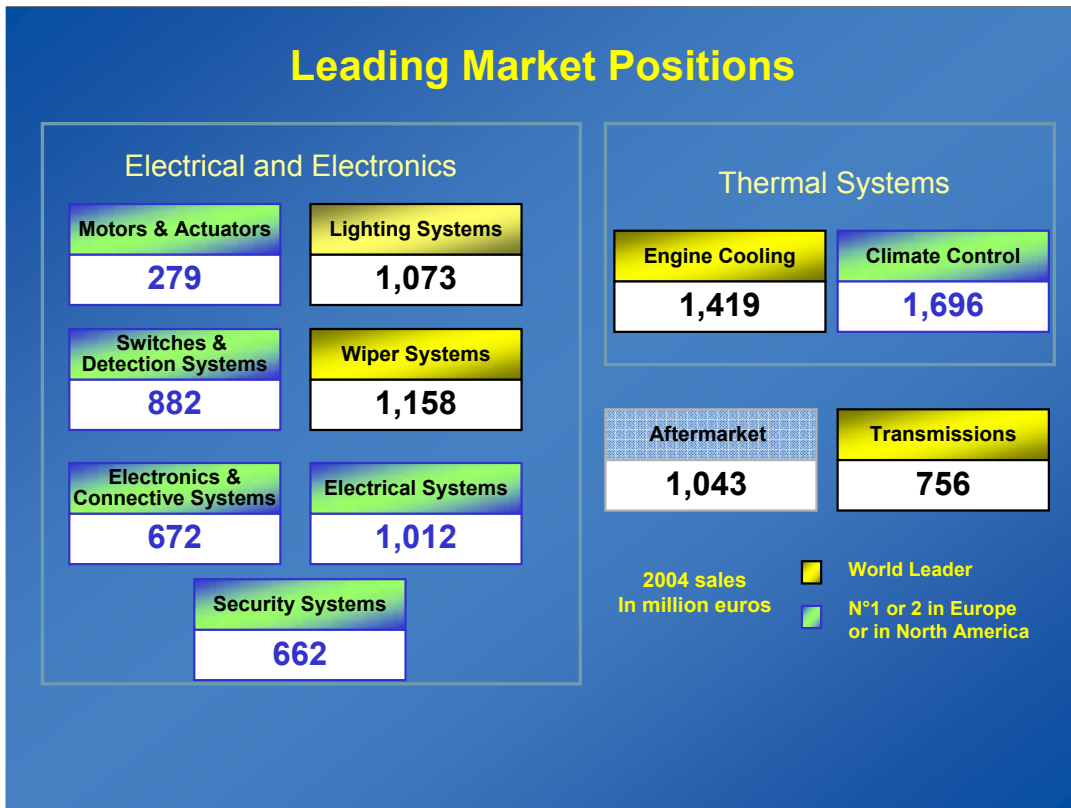
* At 31 Dec. 2004

Global Presence



As we are historically a European-based company nearly half of our production sites and employees are still based in Western Europe
Currently 27 we have production sites in North & South Americas with a total of 10,000 employees

As you can see on this map, the places we are heading now, for new operations are Asia (mainly China), Eastern Europe and North Africa.



Here you can see our sales breakdown by branch which is primarily focused in 2 domains :

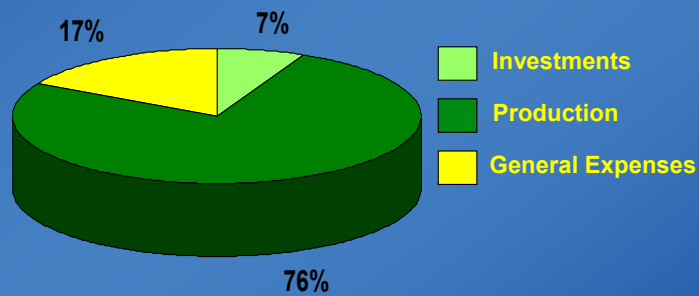
- Electrical and Electronics
- Thermal Systems
- The yellow color shows where Valeo is the world leader such as Lighting & Wiper systems, Engine Cooling and Transmissions .
- The green color is showing that we are number 1 or 2 in Europe or North America such as Climate Control, Electrical Systems, Switches & Detection Systems, Electronics & Connective Systems, Security Systems and finally Motors and Actuators.

On the next slides you will see our **group purchasing activities**:

- Purchasing key figures
- Strategic commodities
- Purchasing organization

Purchasing Key Figures

Total purchases: **7.93 bil US\$**
(65% of Valeo turnover)



At 31 Dec. 2004

You can see on this graph the distribution of our total purchasing amount in 2004.

Nearly US\$ 8 billions divided in 3 parts:

76% for Production Components

17% for Overheads

7% for Investments



In terms of production components, Valeo purchases 9 strategic commodities, which represent 85 % of this business, of which 4 represent more than 50%.

- Plastic and rubber parts, around 16%.

- Metallic components such as turned parts, stamping and forging parts, sintering parts, around 15%.

- PCB assemblies, around 11%.

- Electrical motors & components such as magnets, commutators, bearings, lamination stakes, brush holders, around 9%.

- Then wire harnesses, mechanical components, aluminum and iron castings, raw material and electronics components.

Purchasing Organization



As you know, the organization of the Valeo Group is decentralized: Each division is managed in autonomous manner .

Purchases within the Group are coordinated by :

- MARKETS, through the Group Commodity Leaders
- SUPPLIERS, through the Group Lead Buyers.

Anyway I will not go into details about it and if you need to find out more about the chart, I invite you to visit our website:

valeo.com then click on supplier rubric.

Sourcing Strategy towards LCC...

To strongly increase purchases from
countries with competitive production costs
(mainly in Eastern Europe and Asia)

Objective 2005: 35% of total external purchases

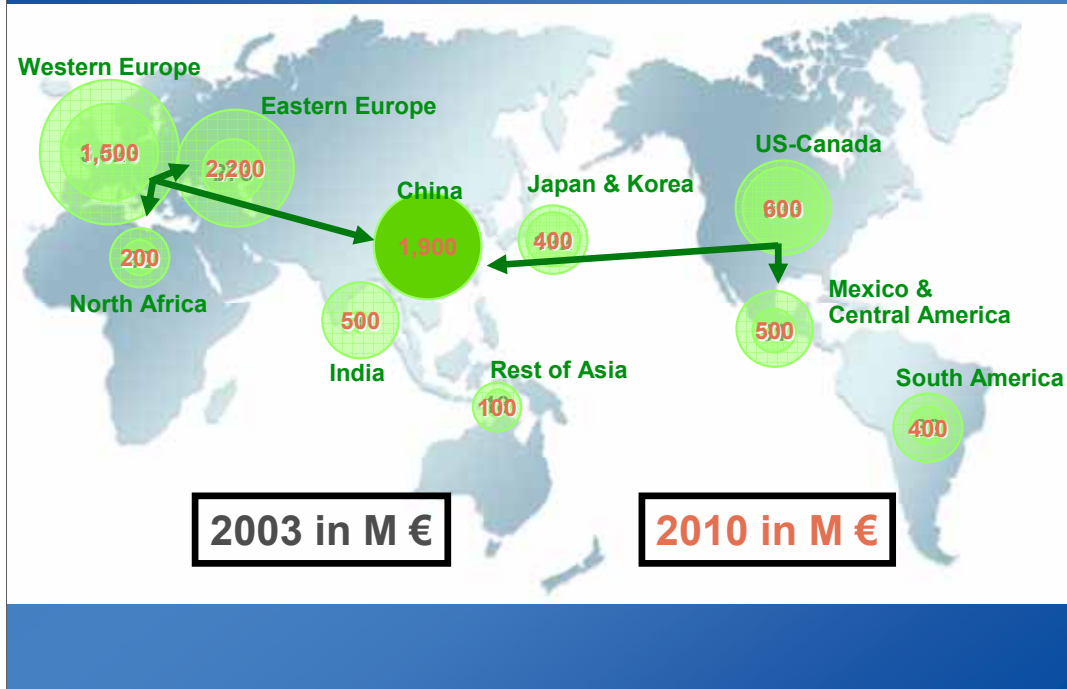
By 2010 we intend to achieve 70% of our purchasing amount in Low Cost Countries (LCC).

What does it mean for our current supplier panel?

No doubt, a radical transformation!

We already started this process with our current supplier panel 2 years ago!

Supplier Panel: a radical transformation...



Look at 2003 Valeo Purchasing map in million Euro currency:

70% was coming from Western Europe and 18% from North America, only 6% from Asia and 5% from Eastern Europe!

Now let us have a look at our vision for 2010 and the main changes.

- Eastern Europe should represent 26% of our purchases
- Asia 35%, including China at 23%,

A total of 70% will come from various low production cost countries.

Next let us look at our **supplier quality aptitude evaluation**:

While reducing the cost of our supplies through LCC sourcing, we refuse to compromise on the quality!

So we are implementing rigorous selection processes for new suppliers, using the same Valeo standards and tools everywhere in the world such as:

- Evaluation tool for a general assessment of the newcomers
- Pre-Audit process
- V1000 Audit for a quality system evaluation similar to ISO TS 16949

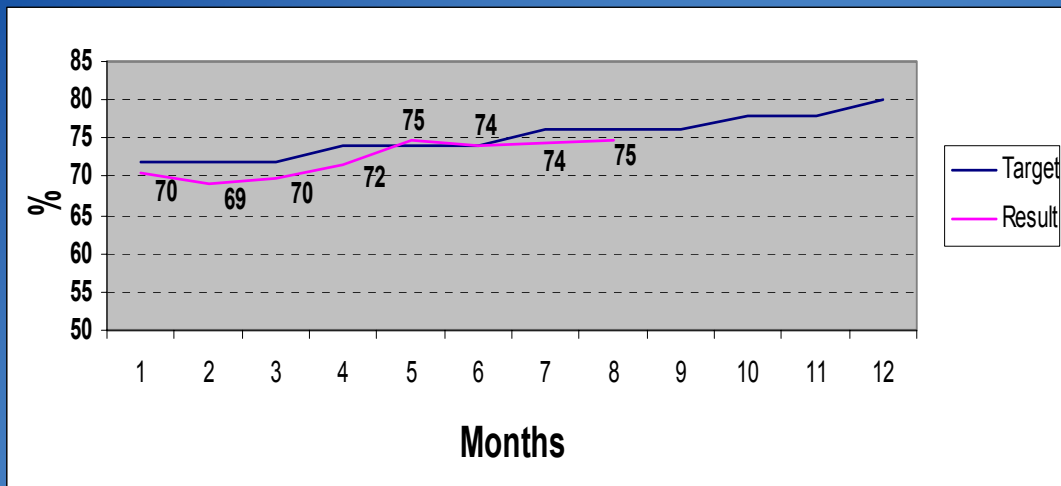
Valeo Quality Requirements for Supplier Selection

<p>Out of selection</p> <p>Supplier is not selected Supplier is eliminated from the panel</p> <ul style="list-style-type: none"> • EVAL < 70 or • Pre-audit Process < 70 • No certification or V 1000 C 	<p>II (within the applicable scope)</p> <ul style="list-style-type: none"> • Eval ≥ 70% and • Pre-audit process ≥ 70% and • Certification for one of the following <ul style="list-style-type: none"> - V1000 (M) A or B - ISO TS 16949 Current Edition - VDA6.1 - QS 9000 - ISO 9001 – 2000 • Eval and/or expired quality certification 	<p>I (within the applicable scope)</p> <p>Eval ≥ 80% and</p> <ul style="list-style-type: none"> • Pre-audit process ≥ 80% and • Certification for one of the following <ul style="list-style-type: none"> - V1000 (M) A - ISO TS 16949 Current Edition - VDA6.1 - QS 9000
---	---	---

Regarding the results of those 3 audits, the potential supplier will be ranked in 3 categories :

- Category 1 (green color): Supplier is selected
- Category 2 (yellow color): Supplier is selected but under strict controls from Valeo about its action plan implementation
- Category 3 (red color): Supplier is not selected

Supplier Valeo Quality System Results in LCC Asia



To illustrate our current Quality System Status with our LCC Asian suppliers, please have a look at this graph.

It shows that at the end of August of this year, our suppliers achieved 75% V1000 A rated. This result is similar to that of our Western and historical suppliers!

The target is 80% by the end of this year.

Next let us talk about the **sourcing strategy for electronic components**:

As one of the main topics presented at your congress this year is China's role in the global cable industry, I want to show you a short example of the trend and development of magnet copper wire consumption in electrical and motor components for automotive market in China in the very near future.

Development will be due to the growth of the internal automotive market but also their suitability for export to High Cost Countries. So we expect that there will be more and more products with a high quality level.

Electrical Components in our LCC Sourcing Strategy

Today: Mainly parts such as magnets, commutators, brush holders, shafts, bearings and minimotors are being provided by Asian suppliers.

But after several market studies we can confirm that in the very near future more and more Valeo electrical motors will be produced in our Chinese operations or buy in this country such as fan motors, ABS motors, window lift motors and wire harnesses too.

Tomorrow: More and more complete products will be produced in Asia...



Fan Motors



ABS Motors



Wiring Harnesses



Windowlift Motors

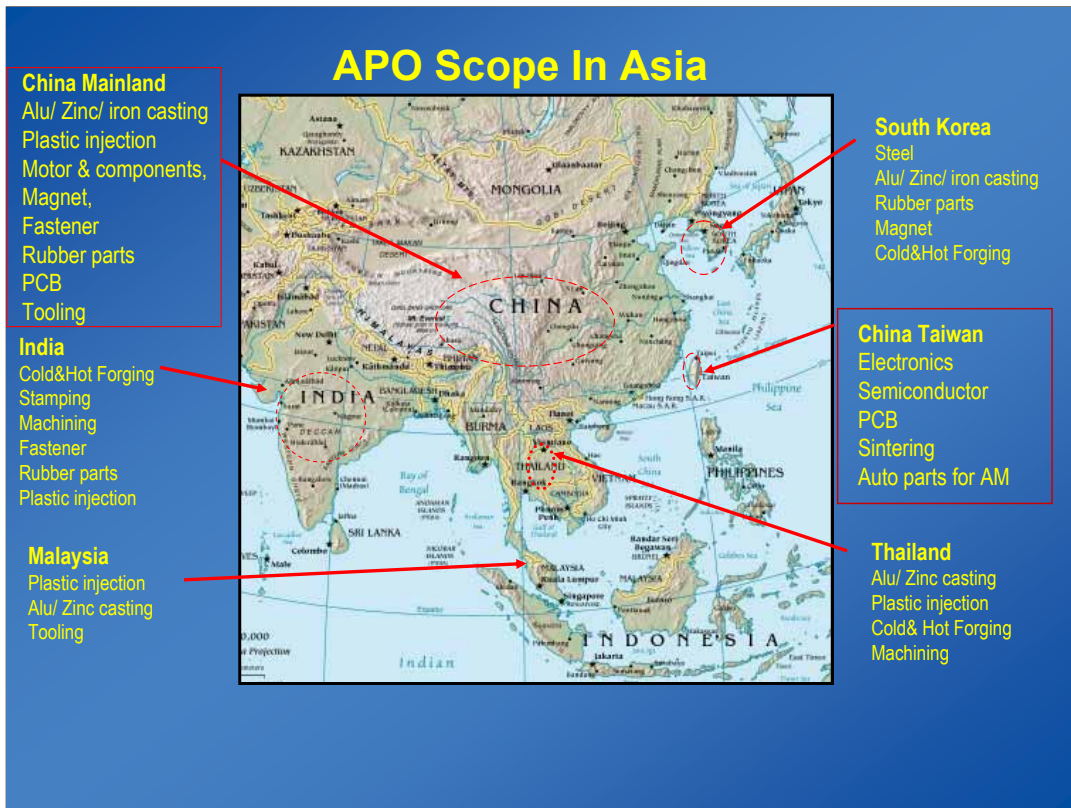
Conclusion

Why a Shanghai-based Asia Purchasing Office?

In the middle of 2001 Valeo Group, decided to launch its Asian Purchasing Office at Shanghai in order to boost the LCC sourcing for delivery to Europe or North America. It will contribute to achieving 70% of purchasing amount by 2010.

Our **main missions in Asia** are:

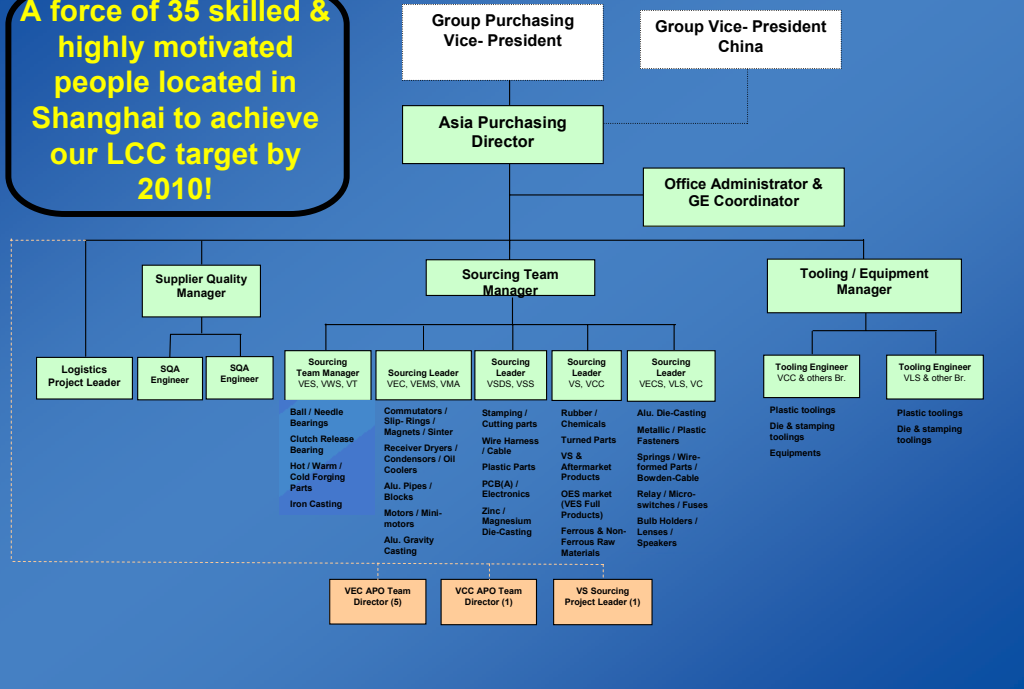
- Identify and evaluate the supplier base in Asia according to Valeo needs and segments
- Help suppliers to make continuous progress in term of quality, logistics and productivity through corporate training & regular audits
- Be the access gate to all Valeo oversea business
- Gradually transfer sourcing to LCC in Asia



Let me show you our sourcing perimeter relating to our purchasing segments and commodities, with the main focus on the mainland China and the Taiwan markets.

APO Organization Chart

A force of 35 skilled & highly motivated people located in Shanghai to achieve our LCC target by 2010!



Our matrix organization (by industrial branch and commodity) is composed of 4 main teams :

- An advanced sourcing team
- A system quality team
- A tooling engineer team
- A technical and process expert team dedicated to several branches to support and boost starts of production

A force of 35 people today and 55 in 2006.

Thank you for your attention!