

2010 Consolidated financial statements



Contents

A.	Consolidated statements of income	2
B.	Consolidated statements of comprehensive income.....	3
C.	Consolidated statements of financial position	4
D.	Consolidated statements of cash flows	5
E.	Consolidated statement of changes in stockholders' equity	6
F.	Notes to the consolidated financial statements	8
	1. Accounting policies.....	8
	2. Changes in the scope of consolidation	19
	3. Segment reporting	19
	4. Notes to the statements of income.....	22
	5. Notes to the statements of financial position.....	27
	6. Additional disclosures.....	45
	7. List of consolidated companies	58
G.	Statutory auditors' report on the consolidated financial statements	63
	1. Opinion on the consolidated financial statements.....	63
	2. Justification of our assessments.....	64
	3. Specific verification.....	64

A. Consolidated statements of income

(In millions of euros)	Notes	2010	2009
Continuing operations			
NET SALES	4.1	9,632	7,499
Cost of sales	4.2	(7,897)	(6,361)
GROSS MARGIN		1,735	1,138
% of net sales		18.0%	15.2%
Research and Development expenditure, net	4.4	(537)	(473)
Selling expenses		(171)	(156)
Administrative expenses		(410)	(376)
OPERATING MARGIN		617	133
% of net sales		6.4%	1.8%
Other income and expenses	4.5	(27)	(49)
OPERATING INCOME		590	84
Interest expense	4.6	(83)	(69)
Interest income	4.6	16	9
Other financial income and expenses	4.7	(32)	(57)
Equity in net earnings (losses) of associates	5.4	(1)	(34)
INCOME (LOSS) BEFORE INCOME TAXES		490	(67)
Income taxes	4.8	(104)	(79)
INCOME (LOSS) FROM CONTINUING OPERATIONS		386	(146)
Discontinued operations			
Income (loss) from discontinued operations, net of tax		(2)	-
NET INCOME (LOSS) FOR THE YEAR		384	(146)
Attributable to:			
• Owners of the Company		365	(153)
• Minority interests		19	7
Earnings (loss) per share:			
• Basic earnings (loss) per share (in euros)	4.9.1	4.86	(2.04)
• Diluted earnings (loss) per share (in euros)	4.9.2	4.86	(2.04)
Earnings (loss) per share from continuing operations:			
• Basic earnings (loss) per share (in euros)		4.89	(2.04)
• Diluted earnings (loss) per share (in euros)		4.89	(2.04)

The notes are an integral part of the consolidated financial statements.

B. Consolidated statements of comprehensive income

(In millions of euros)	2010	2009
Net income (loss) for the year	384	(146)
Translation adjustment	164	48
<i>o/w income taxes</i>	-	-
Actuarial gains (losses) on defined benefit plans	(20)	(13)
<i>o/w income taxes</i>	10	3
Cash flow hedges:		
• gains (losses) taken to equity	10	12
• (gains) losses transferred to income (loss) for the period	(14)	8
<i>o/w income taxes</i>	-	(2)
Remeasurement of available-for-sale financial assets	(1)	4
<i>o/w income taxes</i>	-	-
Other comprehensive income for the year, net of tax	139	59
Total comprehensive income (loss) for the year	523	(87)
Attributable to:		
• Owners of the Company	496	(93)
• Minority interests	27	6

The Notes are an integral part of the consolidated financial statements.

C. Consolidated statements of financial position

(In millions of euros)	Notes	Dec. 31, 2010	Dec. 31, 2009
ASSETS			
Goodwill	5.1	1,210	1,146
Other intangible assets	5.2	544	535
Property, plant and equipment	5.3	1,655	1,665
Investments in associates	5.4	104	94
Non-current financial assets		107	74
Deferred tax assets	5.5	198	117
Non-current assets		3,818	3,631
Inventories	5.6	621	482
Accounts and notes receivable	5.7	1,449	1,251
Other current assets ⁽¹⁾		200	180
Taxes recoverable		10	15
Other non-current financial assets		24	13
Assets held for sale		2	1
Cash and cash equivalents	5.10.4	1,316	860
Current assets		3,622	2,802
TOTAL ASSETS		7,440	6,433

(In millions of euros)	Notes	Dec. 31, 2010	Dec. 31, 2009
LIABILITIES AND EQUITY			
Share capital	5.8.1	236	235
Additional paid-in capital	5.8.2	1,412	1,402
Retained earnings and other	5.8.4	60	(404)
Stockholders' equity		1,708	1,233
Minority interests	5.8.7	62	51
Stockholders' equity including minority interests		1,770	1,284
Provisions - long-term portion	5.9	806	749
Debt - long-term portion	5.10.2	1,097	1,526
Subsidies and grants - long-term portion		19	25
Deferred tax liabilities	5.5	22	25
Non-current liabilities		1,944	2,325
Accounts and notes payable		1,987	1,648
Provisions - current portion	5.9	377	364
Subsidies and grants - current portion		9	13
Taxes payable		53	18
Other current liabilities ⁽¹⁾		703	663
Current portion of long-term debt	5.10.2	505	40
Other current financial liabilities:		15	5
Short-term debt	5.10.3	77	73
Current liabilities		3,726	2,824
TOTAL LIABILITIES AND EQUITY		7,440	6,433

⁽¹⁾ The presentation of the statements of financial position at December 31, 2009 is different from that published in February 2010. VAT recoverable and payable have been adjusted to reflect the net position of each legal entity.

The Notes are an integral part of the consolidated financial statements.

D. Consolidated statements of cash flows

(In millions of euros)	Notes	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) for the year		384	(146)
Equity in net earnings (losses) of associates		1	34
Net dividends received from associates		4	2
Expenses (income) with no cash effect	5.11.1	524	445
Cost of net debt		67	60
Income taxes (current and deferred)		104	79
Gross operating cash flows		1,084	474
Income taxes paid		(118)	(89)
Changes in working capital	5.11.2	31	214
Net cash provided by operating activities		997	599
CASH FLOWS FROM INVESTING ACTIVITIES			
Outflows relating to acquisitions of intangible assets		(153)	(150)
Outflows relating to acquisitions of property, plant and equipment		(323)	(304)
Inflows relating to disposals of property, plant and equipment		12	10
Net change in non-current financial assets		(26)	(43)
Impact of changes in scope of consolidation	5.11.3	22	(10)
Net cash from (used in) investing activities		(468)	(497)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		-	-
Dividends paid to minority interests in consolidated subsidiaries		(13)	(7)
Issuance of share capital		8	1
Sale (purchase) of treasury stock		(36)	8
Issuance of long-term debt		28	228
Interest paid		(65)	(52)
Interest received		13	4
Repayments of long-term debt		(11)	(6)
Acquisition of minority interests		(8)	-
Net cash from (used in) financing activities		(84)	176
Effect of exchange rate changes on cash		7	14
NET CHANGE IN CASH AND CASH EQUIVALENTS		452	292
Net cash and cash equivalents at beginning of year		787	495
Net cash and cash equivalents at end of year		1,239	787
O/w: • Cash and cash equivalents		1,316	860
• Short-term debt		(77)	(73)

The Notes are an integral part of the consolidated financial statements.

E. Consolidated statement of changes in stockholders' equity

Number of shares (In millions of euros)	Share capital	Additional paid-in capital	Translation adjustment	Retained earnings	Stockholders' equity including minority interests		
					Stockholders' equity	Minority interests	Total
75,557,498							
Stockholders' equity at January 1, 2010	235	1,402	74	(478)	1,233	51	1,284
Dividends	-	-	-	-	-	(14)	(14)
(886,519) Treasury stock	-	-	-	(31)	(31)	-	(31)
Capital increase	1	10	-	-	11	-	11
419,181 Share-based payment	-	-	-	6	6	-	6
Other movements	-	-	-	(7)	(7)	(2)	(9)
Transactions with owners	1	10	-	(32)	(21)	(16)	(37)
Net income (loss) for the year	-	-	-	365	365	19	384
Other comprehensive income (loss), net of tax:							
Translation adjustment	-	-	156	-	156	8	164
Actuarial gains and losses	-	-	-	(20)	(20)	-	(20)
Gain (loss) on cash flow hedges recognized in equity	-	-	-	10	10	-	10
(Gain) loss on cash flow hedges taken to income (loss) for the year	-	-	-	(14)	(14)	-	(14)
Remeasurement of available-for-sale financial assets	-	-	-	(1)	(1)	-	(1)
Total other comprehensive income (loss)	-	-	156	(25)	131	8	139
Total comprehensive income (loss)	-	-	156	340	496	27	523
75,090,160							
Stockholders' equity at December 31, 2010	236	1,412	230	(170)	1,708	62	1,770

Number of shares (In millions of euros)	Share capital	Additional paid-in capital	Translation adjustment	Retained earnings	Stockholders' equity including minority interests		
					Stockholders' equity	Minority interests	Total
Stockholders' equity at 75,067,118 January 1, 2009	235	1,402	25	(351)	1,311	51	1,362
Dividends	-	-	-	-	-	(7)	(7)
490,380 Treasury stock	-	-	-	8	8	-	8
Capital increase	-	-	-	-	-	1	1
Share-based payment	-	-	-	7	7	-	7
Other movements	-	-	-	-	-	-	-
Transactions with owners	-	-	-	15	15	(6)	9
Net income (loss) for the year	-	-	-	(153)	(153)	7	(146)
Other comprehensive income (loss), net of tax:							
Translation adjustment	-	-	49	-	49	(1)	48
Actuarial gains and losses	-	-	-	(13)	(13)	-	(13)
Gain (loss) on cash flow hedges recognized in equity	-	-	-	12	12	-	12
(Gain) loss on cash flow hedges taken to income (loss) for the year	-	-	-	8	8	-	8
Remeasurement of available-for-sale financial assets	-	-	-	4	4	-	4
Total other comprehensive income (loss)	-	-	49	11	60	(1)	59
Total comprehensive income (loss)	-	-	49	(142)	(93)	6	(87)
Stockholders' equity at 75,557,498 December 31, 2009	235	1,402	74	(478)	1,233	51	1,284

The Notes are an integral part of the consolidated financial statements.

F. Notes to the consolidated financial statements

1. Accounting policies

The consolidated financial statements of the Valeo Group for the year ended December 31, 2010 include the accounts of Valeo, its subsidiaries, and the Group's share of associates and jointly controlled entities.

Valeo is an independent Group fully focused on the design, production and sale of components, integrated systems and modules for the automobile sector. It is one of the world's leading automotive suppliers.

Valeo is a French legal entity listed on the Paris Stock Exchange, whose head office is at 43, rue Bayen, 75017 Paris.

Valeo's consolidated financial statements were authorized for issue by the Board of Directors on February 24, 2011.

They will be submitted for approval to the next Annual General Meeting of shareholders.

1.1. Accounting standards applied

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and endorsed by the European Union. The IFRS as adopted by the European Union can be consulted on the European Commission website¹.

1.1.1. Standards, amendments and interpretations adopted by the European Union and obligatorily applicable for reporting periods beginning on or after January 1, 2010

■ **IFRS 3 (revised) – “Business Combinations” and IAS 27 (revised) – “Consolidated and Separate Financial Statements”**

IFRS 3 – “Business Combinations” is applicable prospectively to all business combinations for which the designated acquisition date is on or after December 31, 2009. IAS 27 (revised) – “Consolidated and Separate Financial Statements” is effective as from January 1, 2010. The application of these two revised standards does not have a material impact on the Group's financial statements at December 31, 2010.

■ **Other amendments and interpretations obligatorily applicable for reporting periods beginning on or after January 1, 2010 as well as the annual improvements to IFRS published in April 2009, do not have a material impact on the Group's financial statements.**

1.1.2. Standards, amendments and interpretations published by the International Accounting Standards Board (IASB) but not obligatorily applicable for reporting periods beginning on or after January 1, 2010 and not early adopted by the Group

The Group has not early adopted any standards, amendments or interpretations published by the IASB but not obligatorily applicable as of January 1, 2010. No such standards, amendments or interpretations are expected to have a material impact on the Group's financial statements.

¹ http://ec.europa.eu/internal_market/accounting/ias/standards_en.htm

1.1.3 Overview of IFRS 1 transition options

On its transition to IFRS in 2005, and in accordance with IFRS 1, the Group chose not to retrospectively restate:

- business combinations carried out prior to January 1, 2004 (IFRS 3);
- pensions and other employee benefits (IAS19). As a result, the balance of actuarial gains and losses previously recognized under French GAAP was reset to zero as of January 1, 2004;
- the translation of financial statements of foreign operations (IAS 21), leading to the elimination of cumulative translation adjustments as of January 1, 2004;
- equity instruments, with the exception of those granted after November 7, 2002 that had not yet fully vested at January 1, 2005 (IFRS 2).

1.2. Basis of preparation

The financial statements are presented in euros and are rounded to the closest million.

They have been prepared in accordance with the general accounting principles of IFRS:

- true and fair view;
- going concern;
- accrual basis of accounting;
- consistency of presentation;
- materiality and aggregation.
- no offsetting

Preparation of the financial statements requires Valeo to make estimates and assumptions which could have an impact on the reported amounts of assets, liabilities, income and expenses. These estimates and assumptions concern both risks specific to the automotive supply business such as those relating to quality and safety (see section 3.1.2 of the management report in Chapter 3), as well as more general risks to which the Group is exposed on account of its industrial operations across the globe. After a 12% drop in worldwide automotive production in 2009, the industry saw a significant upturn in 2010, with a 25% jump in worldwide output. In this far more upbeat environment, many of the Group's indicators have improved.

The Group exercises its judgment based on past experience and other factors considered to be decisive given the circumstances, and reviews the resulting estimates and assumptions on a continuous basis. Given the uncertainties inherent in any assessment, the amounts reported in Valeo's future financial statements may differ from the amounts resulting from these estimates.

Key estimates and assumptions adopted by the Group to prepare its financial statements for the year ended December 31, 2010 chiefly concern:

- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 4.5.3);
- the amount of provisions (see Note 5.9), particularly regarding restructuring costs and employee benefits obligations;
- the measurement of deferred tax assets (see Note 5.5).

1.3. Consolidation methods

The consolidated financial statements include the accounts of Valeo and companies under its direct and indirect control.

The proportionate consolidation method is used when the contractual arrangements for control of a company specify that it is under the joint control of at least two venturers. Companies of this type are called joint ventures. In this case, the Group's share of each asset and liability and each item of income and expenses is aggregated, line-by-line, with similar items of fully integrated companies in its consolidated financial statements.

All significant inter-company transactions are eliminated (for joint ventures the elimination is made to the extent of the Group's ownership interest in the company), as are gains on inter-company disposals of assets, inter-company profits included in inventories and inter-company dividends.

Companies over which Valeo exercises significant influence (associates) are accounted for by the equity method. Valeo is presumed to exercise significant influence over companies in which it owns more than 20% of the voting rights. The equity method consists of replacing the carrying amount of the investments with the initial cost of the acquisition, plus or minus the Group's equity in the associate's earnings after the acquisition date, adjusted where appropriate in order to comply with Group accounting principles.

Companies acquired during the period are consolidated as from the date the Group exercises (sole or joint) control or significant influence.

1.4. Foreign currency translation

■ Foreign currency financial statements

The Group's consolidated financial statements are presented in euros.

The financial statements of each consolidated Group company are presented in its functional currency. The functional currency is the currency of the principal economic environment in which it operates, and is generally the local currency.

The financial statements of foreign subsidiaries whose functional currency is not the euro are translated into euros as follows:

- statements of financial position items are translated at the year-end exchange rate;
- income statement items are translated into euros at the exchange rates applicable at the transaction dates or, in practice, at the average exchange rate for the period, as long as this is not rendered inappropriate as a basis for translation by major fluctuations in exchange rates during the period;
- unrealized gains and losses arising from the translation of the financial statements of foreign subsidiaries are recorded through other comprehensive income.

■ Foreign currency transactions

Transactions carried out in a currency other than the company's functional currency are translated using the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Non-monetary assets and liabilities denominated in foreign currency are recognized at the historical exchange rate prevailing at the transaction date.

Differences arising from the translation of foreign currency transactions are recognized in income, with the exception of differences relating to loans and borrowings which are in substance an integral part of the net investment in a foreign subsidiary. These are recorded under translation adjustment in other comprehensive income, within consolidated stockholders' equity, for their net-of-tax amount until the net investment is disposed of, at which time they are recognized in income.

1.5. Net sales

Net sales primarily include sales of finished goods and all tooling revenues. Sales of finished goods and tooling revenues are recognized at the date on which the Group transfers substantially all the risks and rewards of ownership to the buyer and retains neither continuing managerial involvement nor effective control over the goods sold. In cases where the Group retains control of future risks and rewards related to tooling, any customer contributions are recognized over the duration of the project over a maximum period of four years.

1.6. Gross margin, operating margin and operating income

Gross margin is defined as the difference between net sales and cost of sales. Cost of sales primarily corresponds to the cost of goods sold.

Operating margin is equal to the gross margin less net Research and Development expenditure and selling and administrative expenses.

Net Research and Development expenditure is equal to the costs incurred during the period, including amortization charged against capitalized development costs, less contributions received from customers in respect of development expenditure, sales of prototypes, research tax credits and the portion of research and development subsidies granted to the Group and taken to income. Contributions received from customers are taken to income over the period during which the corresponding products are sold, within a maximum period of four years. Subsidies and grants received are recognized in income in line with the stage of completion of the projects to which they relate.

Operating income includes all income and expenses other than:

- interest income and expense;
- other financial income and expenses;
- equity in net earnings of associates
- income taxes;
- income / (loss) from discontinued operations.

In order to facilitate interpretation of the statement of income and Group performance, unusual items that are material to the consolidated financial statements are presented separately within operating income under "Other income and expenses".

1.7. Financial income and expenses

Financial income and expenses comprise interest expense, interest income and other financial income and expenses.

Interest expense corresponds to interest paid on debt and interest income to interest earned on cash and cash equivalents.

Other financial income and expenses notably include:

- gains and losses interest rate hedging transactions;
- gains and losses on foreign exchange or commodity transactions that do not meet the definition of hedges under IAS 39 – "Financial Instruments: Recognition and Measurement";
- write-downs taken in respect of credit risk as well as the cost of credit insurance;
- the effect of unwinding discounts on provisions to reflect the passage of time, including the discount on provisions for pensions and other employee benefits;
- the expected return on pension and other employee benefit plan assets.

1.8. Current and deferred taxes

Income tax expense includes current income taxes and deferred taxes of consolidated companies. Deferred taxes are accounted for using the liability method for all temporary differences between the tax base and the carrying amount of assets and liabilities in the consolidated financial statements and for all tax loss carry forwards. The main temporary differences relate to provisions for pensions and other employee benefits, other temporarily non-deductible provisions and capitalized development expenditure. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the temporary differences reverse, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Taxes relating to items recognized directly in other comprehensive income are also recognized in other comprehensive income and not in income.

Deferred tax assets are only recognized to the extent that it appears probable that the Valeo Group will generate future taxable profits against which these tax assets will be able to be recovered.

The Group reviews the probability of future recovery of deferred tax assets on a periodic basis for each tax entity. This review can, if necessary, lead the Group to no longer recognize deferred tax assets that it had recognized in prior years.

Taxes payable and tax credits receivable on planned dividend distributions by subsidiaries are recorded in the statement of income.

Deferred tax assets and liabilities are offset when a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities concern income taxes levied by the same taxation authority. In France, Valeo elected for tax consolidation. The tax group includes the parent company and its principal French subsidiaries that are eligible for tax consolidation.

Valeo also elected for tax consolidation for its subsidiaries in other countries where this is permitted by local legislation (Germany, Italy, Spain, the United Kingdom and the United States).

In France, the 2010 Finance bill approved in December 2009 introduced a new tax called *Contribution Economique Territoriale* (CET) to replace the former business tax. There are two components to the CET: the *Contribution Foncière des Entreprises* (CFE) and the *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE). Valeo considers that the CVAE component meets the definition of income tax provided by IAS 12 and the IFRIC, insofar as value added represents the intermediate level of income systematically used as the tax base in calculating the amount of CVAE due in accordance with French tax rules.

1.9. Earnings per share

Basic earnings per share (before dilution) are calculated by dividing consolidated net income (loss) for the period by the weighted average number of shares outstanding during the year, excluding the average number of shares held in treasury stock.

Diluted earnings per share are calculated by including equity instruments such as stock subscription options and convertible bonds when these have a potentially dilutive impact. This is particularly the case for stock subscription options when their exercise price is below the market price (average Valeo share price over the period). When funds are received on the exercise of these rights (as is the case with subscription options), they are deemed to be allocated in priority to the purchase of shares at market price. This calculation method – known as the treasury stock method – serves to determine the “unpurchased” shares to be added to the shares of common stock outstanding for the purposes of computing the dilution. When funds are received at the date of issue of dilutive instruments (such as for convertible bonds), net income is adjusted for the net-of-tax interest savings which would result from the conversion of the bonds into shares.

1.10. Business combinations and transactions with shareholders

The acquisition price corresponds to the fair value, at the date of exchange, of the assets transferred, liabilities assumed and equity instruments issued by the acquirer. This does not include acquisition-related costs, which are included in expenses in the period in which they are incurred.

All identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at their fair value at the date control is transferred to the Group (acquisition date). Fair value is calculated in the currency of the acquiree. Any excess of the acquisition cost over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the acquisition date, is recorded in assets as goodwill. Goodwill arising on the acquisition of associates is included in the carrying amount of shares in associates. Goodwill is not amortized but is tested for impairment at least once a year and whenever there is an indication that it may be impaired. Impairment tests are carried out as described in Note 1.13. Impairment losses recognized against goodwill in the income statement cannot be reversed.

The revised IAS 27 has modified the accounting treatment applicable to minority interests. Changes in minority interests that do not result in a change of control are now recognized in equity. In the event of an acquisition of additional shares in an entity already controlled by the Group, the difference between the acquisition price of the shares and the additional interest acquired by the Group in consolidated equity is recorded in stockholders' equity. The value of the entity's identifiable assets and liabilities (including goodwill) for consolidation purposes remains unchanged.

1.11. Intangible assets

Separately acquired intangible assets are initially recognized at cost in accordance with IAS 38. Intangible assets acquired in a business combination are recognized at fair value separately from goodwill. Intangible assets are subsequently carried at cost, less accumulated amortization and accumulated impairment losses.

Intangible assets are tested for impairment using the methodology described in Note 1.13.

Innovation can be analyzed as either Research or Development. Research is planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research findings with a view to creating new products, before the start of commercial production.

Research costs are recognized in expenses in the period in which they are incurred.

Development expenditure is capitalized where the Group can demonstrate:

- that it has the intention, and the technical and financial resources to complete the development;
- that the intangible asset will generate future economic benefits; and
- that the cost of the intangible asset can be measured reliably.

Capitalized development costs therefore correspond to projects for specific customer applications that draw on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization as described above.

They are subsequently amortized on a straight-line basis over a maximum period of four years as from the start of volume production.

Other intangible assets are amortized on a straight-line basis over their expected useful lives:

- software 3 to 5 years
- patents and licenses based on their useful lives
- other intangible assets (excluding customer relationships) 3 to 5 years
- customer relationship intangibles up to 25 years

1.12. Property, plant and equipment

Property, plant and equipment are carried at cost less any depreciation and impairment losses recognized. Cost includes expenses directly attributable to the acquisition of the asset and the estimated cost of the Group's obligation to rehabilitate certain assets, where appropriate. Material revaluations, recorded in accordance with laws and regulations applicable in countries in which the Group operates, have been eliminated in order to ensure that consistent valuation methods are used for all fixed assets in the Group.

Tooling specific to a given project is subjected to an economic analysis of contractual relations with the automaker in order to determine which party has control over the associated future risks and rewards. Tooling is capitalized in the statements of financial position when Valeo has control over these risks and rewards, or is carried in inventories (until it is sold) if no such control exists.

Any financing received from customers in respect of tooling is recognized in statement of financial position liabilities and taken to income proportionately to the depreciation charged against the related assets.

Finance leases transferring substantially all the risks and rewards related to ownership of the leased asset to the Group, are accounted for as follows:

- the leased assets are recognized in property, plant and equipment in the Group's statements of financial position at the inception of the lease, at an amount equal to the lower of their fair value and the present value of future minimum lease payments. This amount is then reduced by depreciation and any impairment losses recognized as described in Note 1.13;
- the corresponding financial obligation is recorded in debt;
- minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

Leases in which the lessor retains substantially all the risks and rewards related to ownership of the leased asset to the Group are classified as operating leases. Lease payments under an operating lease are recognized as an operating expense on a straight-line basis over the lease term.

All property, plant and equipment except land are depreciated over their estimated useful lives using the components approach. Depreciation is calculated on a straight-line basis over these estimated useful lives:

- buildings 20 years
- fixtures and fittings 8 years
- machinery and tooling 4 to 8 years
- other property, plant and equipment 3 to 8 years

1.13. Impairment of assets

Property, plant and equipment and intangible assets with definite useful lives are tested for impairment whenever objective indicators exist that they may be impaired. The main impairment indicators used by the Group for Cash-Generating Units (CGUs) are described in Note 4.5.3. Goodwill, other intangible assets with indefinite useful lives and intangible assets not yet ready to be brought into service are tested for impairment at least once a year and whenever there is an indication that they may be impaired.

■ Impairment tests

Impairment tests compare the recoverable amount of a non-current asset with its net carrying amount. If the asset's carrying value is greater than its recoverable amount, it is written down to its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell and its value in use.

■ **Cash-Generating Units (CGUs)**

CGUs are operating entities generating independent cash flows. Based on the Group's organizational structure in 2010, CGUs generally correspond to groups of production sites belonging to the same Product Line or Product Group.

Since the fair value less costs to sell of Group CGUs can seldom be reliably estimated, Valeo applies value in use (unless otherwise specified) to calculate the recoverable amount of a CGU, in accordance with paragraph 20 of IAS 36. Value in use corresponds to the present value of future cash flows expected to derive from the use of an asset or CGU.

Impairment tests are carried out as follows:

- the value in use of CGUs is calculated using post-tax cash flow projections covering a period of five years, prepared on the basis of the budgets and medium-term plans drawn up by Group entities. The projections are based on past experience, macroeconomic data for the automotive market, order books and products under development;
- cash flows beyond the five-year period are extrapolated using a perpetuity growth rate;
- cash flows are discounted based on a rate which reflects current market assessments of the time value of money and the risks specific to the asset (or group of assets). This rate corresponds to a post-tax weighted average cost of capital (WACC). The use of a post-tax rate results in recoverable amounts that are similar to those that would have been obtained by applying pre-tax rates to pre-tax cash flows.

The growth rates and discount rates used for impairment testing in the period are set out in Note 4.5.3.

Any impairment recognized against the assets in the CGU is allocated first, to reduce the carrying amount of any goodwill allocated to the CGU, and then to the other CGU assets in proportion to their carrying amounts.

■ **Goodwill**

Due to changes in the Group's organizational structure in 2010, the Group tested goodwill for impairment at the level of the Business Groups defined in Note 3 on segment reporting.

Goodwill is tested for impairment using the same methodology and assumptions as those described above for CGUs.

■ **Reversal of impairment**

Impairment losses recognized on goodwill can never be reversed.

Impairment losses recognized on assets other than goodwill may only be reversed if there are indicators that the impairment may no longer exist or may have decreased. If this is the case, the carrying amount of the asset is increased to its revised estimated recoverable amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset.

1.14. Financial assets and liabilities

Recognition and measurement principles regarding financial assets and liabilities are defined in IAS 32 and IAS 39.

1.14.1. Available-for-sale financial assets

This category includes shares in non-consolidated companies.

Available-for-sale financial assets are recognized at fair value upon initial recognition, with any subsequent changes in fair value recognized through other comprehensive income or in income for the period in the event of a significant or prolonged decline in fair value. The fair value of investments listed on an active market is their market value.

Unlisted investments whose fair value cannot be estimated reliably are carried at cost, and are classified in non-current financial assets.

1.14.2. Long-term loans and receivables

This category consists essentially of long-term loans, which are measured on an amortized cost basis using the effective interest rate. They are shown on the statements of financial position as non-current financial assets.

1.14.3. Other non-current financial assets

Other non-current financial assets are measured at fair value, with changes in fair value recognized in income.

1.14.4. Current financial assets and liabilities

Current financial assets and liabilities include trade receivables and payables, derivative financial instruments, and cash and cash equivalents.

■ Trade receivables and payables

Trade receivables and payables are initially recognized at fair value and subsequently carried at amortized cost. The fair value of accounts receivable and accounts payable is deemed to be their nominal amount, since periods to payment are generally less than three months.

Accounts receivable may be written down for impairment. If an event triggering a loss is identified during the financial year subsequent to initial recognition of the receivable, the write-down will be calculated by comparing the estimated future cash flows discounted at the original effective interest rate to the carrying amount in the statements of financial position. Impairment is recognized in operating income or other financial expenses if it relates to a risk of insolvency of the debtor.

■ Derivative financial instruments

Derivatives are recognized in the statements of financial position at fair value under other current financial assets or other current financial liabilities. The accounting impact of changes in the fair value of derivatives depends on whether or not hedge accounting is applied.

When hedge accounting is applied:

- for fair value hedges of recognized assets and liabilities, the hedged item of these assets or liabilities is stated at fair value. The change in fair value relating to the effective portion of the hedge is recognized through income and offset by symmetrical changes in the fair value of the hedging instrument;
- for future cash flow hedges, the change in fair value of the derivatives relating to the effective portion of the hedge is recognized directly in other comprehensive income, while the ineffective portion is taken to other financial income and expenses;

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognized in other financial income and expenses.

■ Foreign currency derivatives

Although they act as hedges for the Group, foreign currency derivatives do not always meet the criteria for hedge accounting. In these cases, changes in the fair value of the derivatives are recognized in other financial income and expenses and are offset, as applicable, by changes in the fair value of the underlying receivables and payables.

The Group applies hedge accounting to a limited number of highly probable future transactions generally considered significant. In these cases, changes in the fair value of the derivatives are recognized in other comprehensive income for the effective portion of the hedge, and subsequently taken to operating income when the hedged item itself affects operating income. The ineffective portion of the hedge is recognized in other financial income and expenses.

■ Metals derivatives

In principle, the Group applies cash flow hedge accounting. The effective portion of the hedge is reclassified from other comprehensive income to operating income when the hedged position itself affects income. The ineffective portion of the hedge is recognized in other financial income and expenses. Where a forecast transaction is no longer highly probable, the cumulative gains and losses carried in other comprehensive income are transferred immediately to financial income and expenses.

■ Interest rate derivatives

The Group generally applies fair value hedge accounting when it uses interest rate derivatives swapping fixed-rate debt for variable-rate debt. Changes in the fair value of debt attributable to changes in interest rates, and symmetrical changes in the fair value of the interest rate derivatives, are recognized in other financial income and expenses for the period.

Variable interest rate hedges protect the Group against the impact of fluctuations in interest rates on its interest payments. These hedges are eligible for cash flow hedge accounting. The hedging instrument is measured at fair value and recognized in the statements of financial position. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income, while changes relating to the ineffective portion are recognized in income. Amounts carried in other comprehensive income in respect of the effective portion of the hedge are taken to income as the interest expenses hedged themselves affect income.

Certain interest rate derivatives are not designated as hedging instruments within the meaning of IAS 39. Changes in the fair value of these derivatives are recognized in other financial income and expenses for the period.

■ **Cash and cash equivalents**

Cash and cash equivalents are comprised of marketable securities such as money-market funds with a low price volatility risk; deposits and very short-term risk-free securities maturing within three months which can be readily sold or converted into cash; and cash at bank.

These current financial assets are carried at fair value through income and are held with a view to being sold in the short term.

1.14.5. Debt

■ **Bonds and other loans**

Bonds and loans are valued at amortized cost. The amount of interest recognized in financial expenses is calculated by applying the loan's effective interest rate to its carrying amount. Any difference between the expense calculated using the effective interest rate and the actual interest payment impacts the value at which the loan is recognized.

Hedge accounting is generally applied to debt hedged by interest rate swaps. The debt is remeasured to fair value, reflecting changes in interest rates.

■ **OCEANE bonds**

Bonds convertible into new shares and/or exchangeable for existing shares ("OCEANE") grant bearers an option for conversion into common Valeo shares. These bonds constitute a hybrid financial instrument which must be split into its two components in accordance with IAS 32:

- the value of the debt component is calculated by discounting the future contractual cash flows at the market rate applicable at the bond issue date (taking account of credit risk at the issue date) for a similar instrument with the same characteristics but without a conversion option;
- the value of the equity component is calculated as the difference between the proceeds of the bond issue and the amount of the debt component.

■ **Short-term debt**

This caption mainly includes credit balances with banks and commercial paper issued by Valeo for its short-term financing needs. Commercial paper has a maximum maturity of three months and is valued at amortized cost.

1.15. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes the cost of raw materials, labor and other direct manufacturing costs on the basis of normal activity levels. These costs are determined by the "First-in-First-out" (FIFO) method which, due to the rapid inventory turnover rate, approximates the latest cost at the end of the reporting period.

Impairment losses are recognized on the basis of the net realizable value.

As indicated in Note 1.12, tooling specific to a given project is recorded in inventories until it is sold, when control over the future economic benefits and risks associated with the assets are transferred back to the constructor. A provision is made for any potential loss on the tooling contract (corresponding to the difference between the customer's contribution and the cost of the tooling) as soon as the amount of the loss is known.

1.16. Share-based payment

Some Group employees receive compensation in the form of share-based payment. Employee stock option and free share plans lead to the recognition of a personnel expense. This expense corresponds to the fair value of the instrument issued, and is recognized over the applicable vesting period. Fair value is estimated on the basis of valuation models adapted to the characteristics of the instruments (Black-Scholes-Merton model for options, etc.). The Group regularly reviews the number of potentially exercisable options. Where appropriate, the impact of any changes in these estimates is recorded in income.

1.17. Pensions and other employee benefits

Pensions and other employee benefits are measured in accordance with IAS 19.

■ Short-term benefits

Group employees are entitled to short-term benefits such as paid annual leave, paid sick leave, bonuses and other benefits (such as termination benefits), payable within 12 months of the end of the period in which the corresponding services are rendered by employees.

These benefits are recorded in current liabilities.

■ Post-employment and other long-term benefits

These cover two categories of employee benefits:

- post-employment benefits, which include statutory retirement bonuses, supplementary pension benefits, and coverage of certain medical costs for retirees and early retirees;
- other long-term benefits payable (during employment), corresponding primarily to long-service bonuses.

Benefits offered to each employee depend on local legislation, collective bargaining agreements, or other agreements in place in each Group entity.

These benefits are broken down into:

- defined contribution plans, under which the employer pays fixed contributions on a regular basis and has no legal or constructive obligation to pay further contributions: these are recognized in expenses based on calls for contributions;
- defined benefit plans, under which the employer guarantees a future level of benefits.

An obligation is recognized in respect of defined benefit plans under liabilities in the statements of financial position.

The provision for pensions and other employee benefits is equal to the present value of Valeo's future benefit obligation less, where appropriate, the fair value of plan assets in funds allocated to finance such benefits and any adjustments made in respect of unrecognized past service cost. An asset is only recognized on overfunded plans if it represents future economic benefits that are available to the Group.

The provision for long-term benefits is equal to the present value of the benefit obligations. The expected cost of these benefits is recorded in personnel expenses over the employee's working life in the company.

The calculation of these provisions is based on valuations performed by independent actuaries using the projected unit credit method and final salaries. These valuations incorporate both macroeconomic assumptions specific to each country in which the Group operates (discount rate, expected long-term return on plan assets, and increases in salaries and medical costs) and demographic assumptions, including rate of employee turnover, retirement age and life expectancy.

Discount rates are determined by reference to market yields at the valuation date on high quality corporate bonds with a term consistent with that of the employee benefits concerned. Expected long-term returns on plan assets are estimated taking into account the structure of the investment portfolio for each country. The rates for 2010 are disclosed in Note 5.9.2.

The effects of differences between previous actuarial assumptions and what has actually occurred (experience adjustments) and the effect of changes in actuarial assumptions (assumption adjustments) give rise to actuarial gains and losses. Actuarial gains and losses arising on long-term benefits payable during employment are recognized immediately in income. However, actuarial gains and losses arising on post-employment benefits are taken directly to other comprehensive income net of deferred tax, in accordance with the option available under IAS 19.

Past service costs may arise on the adoption of or change in a defined benefit plan. Past service costs relating to long-term employee benefits are recognized immediately in income. Past service costs arising on vested pension obligations are recognized in income, while past service costs relating to non-vested obligations are amortized on a straight-line basis over the average period remaining until the corresponding rights are vested by employees.

The expense recognized in the income statement includes:

- service cost for the period, the amortization of past service cost, and the impact of any plan curtailments or settlements recorded in operating income;
- the impact of unwinding the discount on the obligation and the expected return on plan assets recognized in financial income and expenses.

1.18. Provisions

A provision is recognized when the Group has a legal or constructive obligation resulting from a past event, where it is probable that future outflows of resources embodying economic benefits will be necessary to settle the obligation, and where the obligation can be estimated reliably. Provisions are measured in accordance with IAS 37 and taking into account assumptions deemed most probable.

Commitments resulting from restructuring plans are recognized when an entity has a detailed formal plan and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or by announcing its main features.

A provision for warranties is set aside to cover the estimated cost of returns of goods sold, on a statistical basis or based on specific quality risks. Statistical warranty provisions cover risks related to contractual warranty obligations, and are determined based on both historical data and probability calculations. Provisions for specific quality risks cover costs arising in specific situations not covered by usual warranties. The corresponding expense is recognized in cost of sales.

A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received by the Group under said contract.

This caption includes provisions intended to cover commercial, labor and tax risks arising in the ordinary course of operations.

When the effect of the time value of money is material, the amount of the provision is discounted using a rate that reflects the market's current assessment of this value and the risks specific to the liability concerned. The increase in the provision related to the passage of time (termed "unwinding") is recognized through income in other financial income and expenses.

1.19. Subsidies and grants

This caption comprises aid received from public bodies to help finance costs incurred by the Group mainly in its Research and Development and investment projects, and includes benefits in the form of financing granted at reduced interest rates.

These subsidies and grants are initially recognized in liabilities in the statements of financial position and subsequently taken to income under operating margin as the costs to which they relate materialize.

1.20. Assets held for sale and discontinued operations

When the Group expects to recover the value of an asset or a group of assets through its sale rather than through continuing use, such assets are presented separately under "Assets held for sale" in the statements of financial position. Any liabilities related to such assets are also presented under a separate caption in statements of financial position liabilities. Assets classified as held for sale are valued at the lower of their carrying amount and their estimated sale price less costs to sell, and are therefore no longer subject to depreciation and amortization. Any impairment losses or proceeds from the disposal of these assets are recognized through operating income.

In accordance with IFRS 5, discontinued operations represent a separate major line of business of the Group; an operation that forms part of a single coordinated plan to dispose of a separate major line of business; or a company acquired solely with a view to resale. Classification as a discontinued operation occurs at the date of sale or at an earlier date if the business meets the criteria to be recognized as an asset held for sale. Income or losses generated by these operations, as well as any capital gains or losses on disposal, are presented net of tax on a separate line of the income statement. To provide a meaningful year-on-year comparison, the same treatment is applied to the previous year.

1.21. Restatement of prior year financial information

IFRS requires previously published comparative periods to be retrospectively restated in the event of:

- operations meeting the criteria set out in IFRS 5 on non-current assets held for sale and discontinued operations;
- business combinations (recognition of the definitive fair value of the assets acquired and liabilities and contingent liabilities assumed if fair value had been estimated on a provisional basis at the end of the previous reporting period);
- changes in accounting policies (subject to the transitional provisions applicable upon the first-time adoption of new standards);
- corrections of accounting errors.

2. Changes in the scope of consolidation

2.1. Transactions carried out in 2010

2.1.1. Acquisition of minority interests in Indian Electrical Systems firm

On May 19, 2010, Valeo increased its take in the Indian Electrical Systems firm based in Pune to 100%. This firm was previously 66.7%-owned by Valeo and 33.3%-owned by N.K. Minda, and was already fully consolidated in the Group's financial statements. The entity manufactures starters and alternators for passenger vehicles, and has changed its name to Valeo Engine and Electrical Systems India Private Ltd. In accordance with the revised IAS 27, this acquisition of minority interests led to a decrease of 8 million euros in consolidated equity at December 31, 2010.

2.1.2. Sale of headlamp levelers business

At June 30, 2010, Valeo sold its lighting modules business – consisting primarily of headlamp levelers – to European investment fund Syntegra Capital. This transaction generated a capital gain of 7 million euros, recorded under the caption "Other income and expenses". The business contributed 9 million euros to consolidated net sales for the first six months of 2010 (12 million euros for the year ended December 31, 2009).

2.1.3. Sale of speed controller business

On August 31, 2010, Valeo sold Telma, a manufacturer of electromagnetic retarders, to Torque Industry (Holding) Limited. The sale did not have a material impact on the Group's financial statements. The business contributed 30 million euros to consolidated net sales in the first eight months of 2010 (39 million euros in the year to December 31, 2009).

2.2. Transactions carried out in 2009

2.2.1. Acquisition of an interest in Valeo Fawer Compressor (Changchun) Co., Ltd

On November 2, 2009, Valeo acquired an additional interest in Valeo Fawer Compressor (Changchun) Co., Ltd, a company based in Changchun which develops and manufactures compressors, bringing the Group's total interest in this company to 100%. The new company was fully consolidated as from November 2009 and is now known as Valeo Compressor (Changchun) Co., Ltd. Prior to the acquisition, Valeo and Fawer respectively held 60% and 40% of the acquired entity, which was proportionately consolidated in the Group's previous financial statements. This acquisition did not have a material impact on the Group's financial statements for the year ended December 31, 2009.

3. Segment reporting

In accordance with IFRS 8 – "Operating Segments" effective as from January 1, 2009, the Group's segment information is presented on the basis of internal reports that are regularly reviewed by the Group's executive management in order to allocate resources to the segments and assess their performance. Executive management represents the chief operating decision maker within the meaning of IFRS 8.

Four reportable segments were identified, corresponding to Valeo's organization into Business Groups. This organization, set up in 2009, was rounded out in 2010 with the creation of 16 Product Groups. There is no aggregation of operating segments.

The Group's four reportable segments are:

- Comfort and Driving Assistance Systems, comprising four Product Groups: Driving Assistance, Interior Controls, Interior Electronics and Access Mechanisms. These systems improve safety and driving comfort by offering easy access and enhanced 360° visibility around the vehicle, while creating an ergonomic, intuitive relationship with one's environment.
- Powertrain Systems, comprising five Product Groups: Electrical Systems, Transmission Systems, Engine Management Systems, Air Management Systems and Hybrid and Electric Vehicle Systems. This Business Group develops innovative solutions to reduce fuel consumption and CO₂ emissions, while maintaining driving pleasure. These solutions include a complete range of products for the electrification and hybridization of vehicles.
- Thermal Systems, comprising four Product Groups: Climate Control, Powertrain Thermal Systems, Compressors and Front-End Modules. The technologies developed by this Business Group contribute to optimizing cabin comfort and to reducing energy consumption.
- Visibility Systems, comprising three Product Groups: Lighting Systems, Wiper Systems and Wiper Motors. These systems offer better visibility solutions for all weather and driving conditions. The systems developed by this Business Group contribute to safety by improving the visibility of both the vehicle and the driver, while saving energy.

Each of these Business Groups is also responsible for the manufacture and for part of the distribution of products for the aftermarket. Accordingly, income and expenses for Valeo Service, which sells almost exclusively products manufactured by the Group, have been reallocated among the Business Groups identified.

Holding companies, disposed businesses and eliminations between the four operating segments defined above are shown in the "Other" segment.

The key performance indicators for each segment are:

- net sales;
- EBITDA, which represents operating income (loss) before depreciation and amortization of property, plant and equipment and intangible assets, impairment losses recorded in operating margin, and other income and expenses (see Note 1.6);
- net Research and Development expenditure;
- investments in property, plant and equipment and intangible assets;
- segment assets, comprising property, plant and equipment and intangible assets (including goodwill), and inventories.

3.1. Key segment performance indicators

The key performance indicators for each segment are shown below:

2010

(In millions of euros)	Comfort and Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Net sales						
· segment (excluding Group)	1,675	2,660	2,910	2,326	61	9,632
· intersegment (Group)	29	23	23	28	(103)	-
EBITDA	196	297	367	264	26	1,150
Research and Development expenditure, net	(140)	(146)	(133)	(121)	3	(537)
Investments in property, plant and equipment and intangible assets	127	158	88	89	6	468
Segment assets	862	1,170	1,033	929	36	4,030

2009

(In millions of euros)	Comfort and Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Net sales						
• segment (excluding Group)	1,315	1,999	2,243	1,922	20	7,499
• intersegment (Group)	29	12	15	16	(72)	-
EBITDA	106	207	180	146	31	670
Research and Development expenditure, net	(118)	(126)	(124)	(110)	5	(473)
Investments in property, plant and equipment and intangible assets	112	167	86	110	4	479
Segment assets	800	1,127	908	959	34	3,828

3.2. Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating income:

(In millions of euros)	2010	2009
EBITDA	1,150	670
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses ⁽¹⁾	(533)	(537)
Other income and expenses	(27)	(49)
Operating income	590	84

⁽¹⁾ Impairment losses recorded in operating margin only.

Total segment assets reconcile to total Group assets as follows:

(In millions of euros)	2010	2009
Segment assets	4,030	3,828
Accounts and notes receivable	1,449	1,251
Other current assets	200	180
Taxes recoverable	10	15
Assets held for sale	2	1
Financial assets	1,551	1,041
Deferred tax assets	198	117
Total Group assets	7,440	6,433

3.3 Reporting by geographic area

2010

(In millions of euros)	External net sales by market	Net sales by production area	Non-current assets ⁽¹⁾
France	1,360	2,476	746
Other European countries and Africa	4,424	3,693	721
North America	1,215	1,099	237
South America	756	721	147
Asia	1,877	1,947	452
Eliminations	-	(304)	-
TOTAL	9,632	9,632	2,303

2009

(In millions of euros)	External net sales by market	Net sales by production area	Non-current assets ⁽¹⁾
France	1,208	2,161	785
Other European countries and Africa	3,704	3,046	753
North America	752	675	206
South America	575	554	145
Asia	1,260	1,265	405
Eliminations	-	(202)	-
TOTAL	7,499	7,499	2,294

⁽¹⁾ Non-current assets consist of property, plant and equipment and intangible assets (excluding goodwill) and investments in associates. Goodwill balances cannot be broken down by geographical area as they are allocated to Business Groups which belong to several areas.

3.4 Breakdown of sales by major customer

Three major global auto makers represent 43.6% of the Group's sales (45.5% in 2009), and each of these individually accounts for more than 10% of the Group's sales.

4. Notes to the statements of income

4.1. Net sales

Group net sales rose 28.4% to 9,632 million euros in 2010 from 7,499 million euros in 2009. Sales growth results chiefly from the rise in worldwide automotive production. It includes a negative impact of 0.2% resulting from changes in the scope of consolidation and a positive foreign currency impact of 4.6%.

On a comparable Group structure and exchange rate basis, consolidated net sales for 2010 climbed 24.0% year-on-year.

4.2. Cost of sales

Cost of sales can be analyzed as follows:

(In millions of euros)	2010	2009
Raw materials consumed	(5,365)	(4,115)
Labor	(1,297)	(1,125)
Direct production costs and production overheads	(883)	(764)
Depreciation and amortization ⁽¹⁾	(357)	(365)
Other	5	8
Cost of sales	(7,897)	(6,361)

⁽¹⁾ This amount does not include amortization charged against capitalized development costs, which is recognized in net Research and Development expenditure.

4.3. Personnel expenses

	2010	2009
Total employees at December 31 ⁽¹⁾	57,930	52,110

⁽¹⁾ Including temporary staff.

The statements of income present operating expenses by function. Operating expenses include the following personnel-related expenses:

(In millions of euros)	2010	2009
Wages and salaries ⁽¹⁾	1,638	1,451
Social charges	404	358
Share-based payment	6	7
Pension expenses under defined contribution schemes	71	79

⁽¹⁾ Including temporary staff.

Pension expenses under defined benefit schemes are set out in Note 5.9.2.

4.4 Research and Development expenditure, net

(In millions of euros)	2010	2009
Research and Development expenditure	(754)	(688)
Contributions received and subsidies	197	182
Capitalized development expenditure	143	147
Amortization and impairment of capitalized development expenditure	(123)	(114)
Research and Development expenditure, net	(537)	(473)

4.5. Other income and expenses

(In millions of euros)	2010	2009
Claims and litigation	(8)	(19)
Restructuring costs	(18)	(4)
Impairment of fixed assets	(9)	(23)
Other	8	(3)
Other income and expenses	(27)	(49)

4.5.1. Claims and litigation

The amount of 8 million euros recognized on the "Claims and litigation" line for the year ended December 31, 2010 mainly includes additions to provisions for disputes with current or former employees.

4.5.2. Restructuring costs

In March 2010, the Group announced that its new-look organization based around four Business Groups, new shared service centers and the more prominent role given to National Directorates, would lead to a restructuring plan. Most staff departures under this plan will take place in 2011. Restructuring costs associated with this plan were recorded in first-half 2010 and partially offset by a write-back of the remaining provisions set aside for the worldwide staff reduction plan launched in December 2008.

4.5.3. Impairment of fixed assets

■ Property, plant and equipment and intangible assets (excluding goodwill)

Year ended December 31, 2010

The main impairment indicators used by the Group as the basis for impairment tests of Cash-Generating Units (CGUs) include a negative operating margin for 2010 or a fall of more than 20% in sales between 2009 and 2010. The scope of the CGUs to be tested for impairment is defined at the end of October and may be extended at the end of the period if events occur that could have an adverse impact on the assets concerned.

The tests are carried out using the following assumptions:

- perpetuity growth rate of 1%: this rate is the same as that used in 2009, and remains below the average long-term growth rate for the Group's business sector;
- post-tax discount rate (WACC) of 8.9% (8.5% in 2009): this rate was calculated using the method defined in 2007 by an independent expert, and is based on a sample selection of 20 automotive suppliers.

No impairment losses were recognized by the Group as a result of these tests.

Impairment for a total of 9 million euros in 2010 chiefly results from impairment tests carried out on specific intangible assets belonging to the Engine Management Systems Product Group for which impairment losses were identified.

Year ended December 31, 2009

The Group recorded net write-downs of 16 million euros against CGUs as a result of impairment tests in 2009, concerning mainly:

- property, plant and equipment and intangible assets (excluding goodwill) relating to three CGUs within the Wiper Systems product family in Western Europe (11 million euros);
- impairment losses recognized against Lighting Systems and Interior Controls CGUs based in Europe (4 million euros).

■ Sensitivity of CGU impairment tests to the discount rate

An increase and a decrease of 1% in the discount rate would not have had a material impact on the results of these impairment tests in 2010 and 2009.

■ **Goodwill**

No impairment losses were recognized against goodwill for the year ended December 31, 2010 as a result of impairment tests.

In light of the planned sale of the electromagnetic retarders business at December 31, 2009 (see Note 2.1.3), a 7 million euro write-down had been recognized against a portion of goodwill allocated to this CGU in order to reflect the entity's market value.

■ **Sensitivity of goodwill impairment tests to the discount rate**

A 1% increase in the discount rate or a one-year push-back in medium-term business plans would have no impact on the results of goodwill impairment tests in the year ended December 31, 2010.

4.5.4. Other

In 2010, this item mainly includes capital gains on the disposal of the headlamp levelers business (see Note 2.1.2).

4.6. Cost of net debt

(In millions of euros)	2010	2009
Interest expense ⁽¹⁾	(83)	(69)
Interest income	16	9
Cost of net debt, net	(67)	(60)

⁽¹⁾ Including 9 million euros in 2010 finance costs on undrawn credit lines.

The cost of net debt increased in 2010 despite the fall in debt over the period. This reflects a sharpe wise in the carry rate due to the decline in risk-free returns on the Group's liquidity.

4.7. Other financial income and expenses

(In millions of euros)	2010	2009
Interest expense on unwinding of discount on pension obligations ⁽¹⁾	(48)	(48)
Expected return on plan assets ⁽¹⁾	20	16
Currency gains (losses) on cash flow hedges	-	-
Currency gains (losses) on other transactions	(2)	(12)
Gains (losses) on commodity transactions (trading and ineffective portion)	1	(5)
Gains (losses) on fair value hedges (interest rate)	-	-
Additions to provisions for credit risk	(2)	(3)
Gains (losses) on disposals of financial assets	-	-
Unwinding of discount on provisions (excluding pension obligations)	(1)	(4)
Miscellaneous	-	(1)
Other financial income and expenses	(32)	(57)

⁽¹⁾ See Note 5.9.2.

4.8. Income taxes

4.8.1. Income tax expense

(In millions of euros)	2010	2009
Current taxes	(173)	(75)
Deferred taxes	69	(4)
Income taxes	(104)	(79)

4.8.2. Effective tax rate

The Group recognized income tax expense of 104 million euros in 2010.

(In millions of euros)	2010	2009
Net income (loss) before income taxes excluding equity in net earnings (losses) of associates	491	(33)
Standard tax rate in France	(34.4)	(34.4)
Theoretical income taxes	(169)	11
Impact of:		
• Unrecognized deferred tax assets and unused tax losses (current year) ⁽¹⁾	20	(110)
• Income taxed at other rates	40	22
• Utilization of prior-year tax losses	3	9
• Permanent differences between book income and taxable income	8	(6)
• Tax credits	6	4
• Other impacts ⁽²⁾	(12)	(9)
Group income taxes	(104)	(79)

⁽¹⁾ No deferred tax assets are recognized in France and in the United States. The income tax expense for 2010, reflecting an effective tax rate of 21.2%, takes into account deferred tax assets recognized in certain countries for 69 million euros due to legal restructuring measures or an improvement in economic outlook.

⁽²⁾ At the end of 2009, Valeo considered that the *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE) tax met the definition of income tax set out in IAS 12. Accordingly, a provision for deferred tax was set aside against income for 9 million euros in the year ended December 31, 2009. Income tax in 2010 includes a net expense of 12 million euros in respect of the CVAE.

4.9. Earnings per share

4.9.1. Basic earnings per share

	2010	2009
Net income (loss) attributable to owners of the company <i>(in millions of euros)</i>	365	(153)
Weighted average number of ordinary shares outstanding <i>(in thousands of shares)</i>	75,168	75,312
Basic earnings (loss) per share <i>(in euros)</i>	4.86	(2.04)

4.9.2. Diluted earnings per share

	2010	2009
Net income (loss) attributable to owners of the company <i>(in millions of euros)</i>	365	(153)
Weighted average number of shares outstanding <i>(in thousands of shares)</i>	75,168	75,312
Stock options <i>(in thousands of options)</i>	49	-
OCEANE bonds <i>(in thousands of options)</i>	2	-
Weighted average number of shares used for the calculation of diluted earnings (loss) per share <i>(in thousands of shares)</i>	75,219	75,312
Diluted earnings (loss) per share <i>(in euros)</i>	4.86	(2.04)

4.10. Income (loss) from discontinued operations

Discontinued operations did not have a material impact on consolidated income in either 2010 or 2009.

5. Notes to the statements of financial position

5.1. Goodwill

<i>(In millions of euros)</i>	2010	2009
Net goodwill at January 1	1,146	1,154
Acquisitions during the year	-	1
Price adjustments in respect of acquisitions made in previous years	1	-
Disposals, net ⁽¹⁾	(5)	-
Translation adjustment	68	(2)
Impairment losses	-	(7)
Net goodwill at December 31	1,210	1,146
Including accumulated impairment losses at December 31	-	(7)

⁽¹⁾ See Note 2.1.3.

Year-on-year changes in goodwill chiefly result from translation adjustment due to fluctuations in the Japanese yen and US dollar.

The impairment loss recognized in 2009 related to the planned divestment of the electromagnetic retarders business, which had a carrying amount that was 7 million euros above its estimated market value at the end of that year.

The main goodwill balances are broken down as follows:

<i>(In millions of euros)</i>	2010	2009
Comfort and Driving Assistance Systems	311	305
Powertrain Systems	271	267
Thermal Systems	343	301
Visibility Systems	284	272
Other	1	1
TOTAL	1,210	1,146

5.2. Other intangible assets

(In millions of euros)	2010			2009
	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
Software	185	(170)	15	21
Patents and licenses	84	(57)	27	24
Capitalized development expenditure	1,018	(630)	388	360
Customer relationship intangibles and other intangible assets	179	(65)	114	130
Intangible assets	1,466	(922)	544	535

Customer relationship intangibles were valued within the context of acquisitions mostly carried out in 2005. Similarly, patents and licenses include assets relating to technology acquired. Impairment losses were recognized in 2010 on certain assets acquired as part of a business combination (see Note 4.5.3).

Changes in intangible assets in 2010 and 2009 are analyzed below:

2010

(In millions of euros)	Software	Patents and licences	Capitalized development expenditure	Other intangible assets	Total
Gross at January 1, 2010	177	63	865	182	1,287
Accumulated amortization and impairment	(156)	(39)	(505)	(52)	(752)
Net at January 1, 2010	21	24	360	130	535
Acquisitions	2	-	143	5	150
Disposals	-	-	(1)	(1)	(2)
Changes in scope of consolidation	-	-	(1)	-	(1)
Impairment	1	(2)	(17)	(9)	(27)
Amortization	(11)	(7)	(106)	(8)	(132)
Translation adjustment	1	1	10	9	21
Reclassifications	1	11	-	(12)	-
Net at December 31, 2010	15	27	388	114	544

2009

(In millions of euros)	Software	Patents and licences	Capitalized development expenditure	Other intangible assets	Total
Gross at January 1, 2009	170	62	757	191	1,180
Accumulated amortization and impairment	(142)	(34)	(436)	(43)	(655)
Net at January 1, 2009	28	28	321	148	525
Acquisitions	3	-	147	5	155
Disposals	-	-	(2)	-	(2)
Changes in scope of consolidation	-	-	(2)	2	-
Impairment	(1)	-	(14)	-	(15)
Amortization	(14)	(5)	(100)	(10)	(129)
Translation adjustment	-	-	2	(2)	-
Reclassifications	5	1	8	(13)	1
Net at December 31, 2009	21	24	360	130	535

5.3. Property, plant and equipment

(In millions of euros)	2010			2009
	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	164	(14)	150	137
Buildings	1,057	(669)	388	390
Plant and equipment	3,671	(2,951)	720	711
Specific tooling	1,308	(1,183)	125	153
Other tangible assets	420	(365)	55	63
Tangible assets in progress	220	(3)	217	211
TOTAL	6,840	(5,185)	1,655	1,665

No material amounts of property, plant and equipment had been pledged as security as December 31, 2010.

Finance leases included within property, plant and equipment can be analyzed as follows:

(In millions of euros)	2010	2009
Land	-	-
Buildings	-	-
Plant and equipment	5	5
Specific tooling	-	-
Other	2	2
Non-current assets in progress	-	-
TOTAL	7	7

Changes in property, plant and equipment in 2010 and 2009 are analyzed below:

2010

(In millions of euros)	Land	Buildings	Plant and equipment	Specific tooling	Other tangible assets	Tangible assets in progress	Total
Gross carrying amount at January 1, 2010	151	1,001	3,471	1,298	415	214	6,550
Accumulated depreciation and impairment	(14)	(611)	(2,760)	(1,145)	(352)	(3)	(4,885)
Net carrying amount at January 1, 2010	137	390	711	153	63	211	1,665
Acquisitions	-	12	96	35	13	162	318
Disposals	(3)	(2)	(1)	(2)	-	(3)	(11)
Changes in scope of consolidation	-	(1)	(5)	(1)	-	(1)	(8)
Impairment	-	-	-	(1)	-	(1)	(2)
Depreciation	(1)	(46)	(217)	(90)	(27)	-	(381)
Translation adjustment	16	19	34	7	3	10	89
Reclassifications	1	16	102	24	3	(161)	(15)
Net carrying amount at December 31, 2010	150	388	720	125	55	217	1,655

2009

(In millions of euros)	Land	Buildings	Plant and equipment	Specific tooling	Other tangible assets	Tangible assets in progress	Total
Gross carrying amount at January 1, 2009	151	935	3,339	1,234	426	267	6,352
Accumulated depreciation and impairment	(15)	(569)	(2,599)	(1,077)	(353)	-	(4,613)
Net carrying amount at January 1, 2009	136	366	740	157	73	267	1,739
Acquisitions	-	7	87	50	12	168	324
Disposals	-	(1)	(3)	(2)	(1)	(3)	(10)
Changes in scope of consolidation	-	-	3	(1)	-	-	2
Impairment	2	-	(18)	(1)	1	(2)	(18)
Depreciation	(1)	(44)	(222)	(91)	(33)	-	(391)
Translation adjustment	(1)	6	11	1	1	2	20
Reclassifications	1	56	113	40	10	(221)	(1)
Net carrying amount at December 31, 2009	137	390	711	153	63	211	1,665

In accordance with IFRS 5, buildings for which the Group is actively seeking buyers are classified in "Assets held for sale" in the statements of financial position.

5.4. Investments in associates

Changes in the "Investments in associates" caption can be analyzed as follows:

(In millions of euros)	2010	2009
Investments in associates at January 1	94	133
Share in net earnings (losses) of associates	(1)	(34)
Dividend payments	(4)	(3)
Impact of changes in scope of consolidation	-	-
Translation adjustment ⁽¹⁾	17	(6)
Other	(2)	4
Investments in associates at December 31	104	94

⁽¹⁾ In 2010, translation adjustments mainly reflect the impact of the appreciation in the yen on interests in Ichikoh.

	Ownership interest (%)		Carrying amount (in millions of euros)	
	2010	2009	2010	2009
Ichikoh	31.6	31.6	70	63
Faw Valeo Climate Control	36.5	36.5	28	25
Other	-	-	6	6
Investments in associates	-	-	104	94

Ichikoh industries Ltd. is listed on the Tokyo Stock Exchange. The market value of Valeo's interest in Ichikoh is 66 million euros at December 31, 2010 (33 million euros at December 31, 2009). The carrying amount of the investment is justified by its value in use for Valeo.

Summarized financial data in respect of associates are set out below:

(In millions of euros)	2010	2009
Total assets	722	618
Total liabilities	536	495
Net sales	981	731
Net income (loss) for the year	(4)	(109)

5.5. Deferred taxes

Deferred taxes broken down by temporary differences are shown below:

(In millions of euros)	2010	2009
Loss carryforwards	894	846
Capitalized development expenditure	(98)	(93)
Pensions and other employee benefits	162	147
Other provisions	91	87
Inventories	27	25
Provisions for reorganization costs	32	38
Tooling	-	1
Non-current assets	(2)	(14)
Other	100	80
Deferred taxes, gross	1,206	1,117
Unrecognized deferred tax assets	(1,030)	(1,025)
Deferred taxes	176	92
O/w:		
• Deferred tax assets	198	117
• Deferred tax liabilities	(22)	(25)

At December 31, 2010, deferred tax assets not recognized by the Group can be analyzed as follows:

(In millions of euros)	Tax basis	Potential tax saving
Tax losses available for carryforward from 2011 through 2014	17	4
Tax losses available for carryforward in 2015 and thereafter	1,108	418
Tax losses available for carryforward indefinitely	1,241	425
Current tax loss carryforwards	2,366	847
Unrecognized deferred tax assets on temporary differences	-	183
Total unrecognized deferred tax assets	-	1,030

The unrecognized deferred tax assets shown above chiefly concern France and the United States.

5.6. Inventories

At December 31, 2010, inventories break down as follows:

(In millions of euros)	2010			2009
	Gross carrying amount	Impairment	Net carrying amount	Net carrying amount
Raw materials	274	(46)	228	162
Work-in-progress	73	(9)	64	49
Finished goods, supplies and specific tooling	382	(53)	329	271
Inventories, net	729	(108)	621	482

Impairment losses taken against inventories amounted to 108 million euros at December 31, 2010 (105 million euros at December 31, 2009) including an allowance (net of reversals) of 10 million euros. Allowances to provisions for impairment of inventories net of reversals in 2009 amounted to 14 million euros.

5.7. Accounts and notes receivable

(In millions of euros)	2010	2009
Accounts and notes receivable, gross	1,471	1,277
Impairment	(22)	(26)
Accounts and notes receivable, net	1,449	1,251

At December 31, 2010, gross accounts and notes receivable not yet due and less than one month past due totaled 1,400 million euros and 39 million euros, respectively, and represent 98% of total gross accounts and notes receivable (see Note 6.2.3.).

5.8. Stockholders' equity:

5.8.1. Share capital

At December 31, 2010, share capital totaled 236 million euros, comprising 78,628,798 shares of fully paid-up common stock with a par value of 3 euros. Shares that have been registered in the name of the same holder for at least four years carry double voting rights (2,299,257 shares at December 31, 2010).

Valeo's share capital would rise to 239 million euros (79,581,590 shares) in the event that the stock subscription options granted to Valeo Group employees were exercised.

The Group seeks to maintain a solid capital base in order to retain the confidence of investors, creditors and the market, and to secure its future development. Its objective is to strike a balance between levels of debt and equity, and to prevent the net debt to equity ratio from exceeding 100% on a long-term basis.

The Group may be required to buy back treasury stock on the market to cover its obligations with regard to stock option plans and free share awards, as well as company savings plans and the liquidity contract (see section 3.D.2.2 of the management report in Chapter 3).

- The following employee stock subscription, stock purchase and free share plans approved by the Group's Annual General Meeting were outstanding at December 31, 2010:

Terms and conditions of stock subscription option plans

Year in which plan was set up	Number of shares subject to options	Exercise price of options (in euros) ⁽¹⁾	Number of shares not yet issued at December 31, 2010 ⁽²⁾	Expiration date
2003	700,000	23,51	161,259	2011
2003	780,000	32,91	282,490	2011
2004	1,123,200	28.46	509,043	2012
TOTAL	2,603,200		952,792	

⁽¹⁾ Exercise price equal to 100% of the average Valeo share price over the 20 trading days preceding the meeting of the Board of Directors granting the stock subscription options.

⁽²⁾ The number of shares includes the impact of the public share buyback offer and simplified public tender offer in 2005, which increased the share allocation ratio to 1.01 Valeo share from 1 Valeo share.

Terms and conditions of stock purchase option plans

Year in which plan was set up	Number of shares subject to options	Exercise price of options (in euros) ⁽¹⁾	Number of shares not yet issued at December 31, 2010 ⁽²⁾	Expiration date
2003	500,000	32.91	188,519	2011
2004	280,800	32.74	144,081	2012
2005	650,000	32.32	323,730	2013
2006	187,000	33.75	187,000	2014
2006	1,309,250	32.63	759,007	2014
2007	250,000	36.97	250,000	2015
2007	1,677,000	36.82	1,194,500	2015
2008	426,750	31.41	343,500	2016
2010	1,000,000 ⁽³⁾	24.07	984,450	2018
TOTAL	6,280,800		4,374,787	

⁽¹⁾ Exercise price equal to 100% of the average Valeo share price over the 20 trading days preceding the meeting of the Board of Directors granting the stock subscription options.

⁽²⁾ The number of shares includes the impact of the public share buyback offer and simplified public tender offer in 2005, which increased the share allocation ratio to 1.01 Valeo share from 1 Valeo share.

⁽³⁾ Including 611,635 shares granted contingent on the Group meeting performance conditions.

Terms and conditions of free share awards

Year in which plan was set up	Number of free shares	Number of shares not yet issued at December 31, 2010	Year of vesting
2010	400,000 ⁽¹⁾	388,494	2012/2014
TOTAL	400,000	388,494	

⁽¹⁾ Including 178,112 shares granted contingent on the Group meeting performance conditions.

- Movements in these plans can be analyzed as follows:

2010

	Number of options and free shares granted	Weighted average exercise price
Options not exercised at January 1, 2010	5,513,419	32.68
Options granted / Free shares to be issued	1,400,000	17.19
Options cancelled	(148,191)	27.42
Options expired	(209,740)	41.06
Options exercised	(852,552)	27.95
Options not exercised / Free shares not issued at December 31	5,702,936	29.34
Options which can be exercised at December 31, 2010	3,986,492	33.33

2009

	Number of options and free shares granted	Weighted average exercise price
Options not exercised at January 1, 2009	6,634,464	33.43
Options granted / Free shares to be issued	-	-
Options cancelled	(416,445)	32.12
Options expired	(638,850)	44.24
Options exercised	(65,750)	-
Options not exercised / Free shares not issued at December 31 ⁽¹⁾	5,513,419	32.68
Options which can be exercised at December 31, 2009	3,672,669	31.93

⁽¹⁾ The number of shares does not include the impact of the public share buyback offer and simplified public tender offer in 2005.

- The principal data and assumptions underlying the valuation of equity instruments at fair value are provided below for 2010 only, since no new plan was awarded in 2009:

	2010				
	Free shares			Stock options	
	France	Italy	Other countries	France	Other countries
Share price at grant date (euros)	23.81	23.81	23.81	23.81	23.81
Expected volatility (%)	-	-	-	40.9	40.9
Risk-free rate (%)	1.3	1.3	1.8	1.8	1.3
Dividend rate (%)	2.3	2.4	-	1.8	1.3
Duration of the option (years)	-	-	-	8	8
Fair value of equity instruments (euros)	21.3	20.1	22.1	6.9	5.2

Expected volatility is determined as being the implicit volatility at the grant date. The maturity used (four years for options allotted to employees in France and two years for other options) corresponds to the period during which the availability of options is restricted by tax legislation, and is considered to represent the life of the option.

An expense of 6 million euros was booked in 2010 in respect of stock options plans and free share awards (7 million euros in 2009).

5.8.2. Additional paid-in capital

Additional paid-in capital represents the net amount received by Valeo, either in cash or in assets, in excess of the par value on issuance of Valeo shares.

5.8.3. Translation adjustment

At December 31, 2010, this caption primarily includes gains arising from the translation of the net assets of Valeo's Brazilian and Japanese subsidiaries.

5.8.4. Retained earnings

Retained earnings include income for the year of 384 million euros prior to appropriation.

5.8.5. Dividends per share

The balance of the parent company's distributable retained earnings amounts to 1,540 million euros in 2010 (1,455 million euros in 2009), before appropriation of 2010 net income.

No dividends were paid in either 2010 or 2009.

5.8.6. Treasury stock

At December 31, 2010, Valeo owns 3,538,638 of its own shares, representing 4.5% of share capital (December 31, 2009: 2,652,119 shares, representing 3.4% of share capital).

5.8.7. Minority interests

Changes in minority interests can be analyzed as follows:

(In millions of euros)	2010	2009
Minority interests at January 1	51	51
Equity in net earnings	19	7
Dividends paid	(14)	(7)
Capital increase	-	1
Translation adjustment	8	(1)
Changes in scope of consolidation	(2)	-
Minority interests at December 31	62	51

5.9. Provisions

Changes in provisions can be analyzed as follows:

(In millions of euros)	Provisions for restructuring costs	Provisions for pensions and other employee benefits	Other provisions	Total
Provisions at January 1, 2009	314	611	302	1,227
Amounts used during the year	(151)	(61)	(68)	(280)
Impact of changes in scope of consolidation	-	-	-	-
Translation adjustment	(2)	(3)	4	(1)
Reclassification	-	2	4	6
Additions	31	22	126	179
Unwinding of discount	3	32	-	35
Reversals	(31)	(9)	(29)	(69)
Actuarial gains and losses recognized through equity	-	16	-	16
Provisions at December 31, 2009	164	610	339	1,113
Amounts used during the year	(69)	(59)	(56)	(184)
Impact of changes in scope of consolidation	-	(2)	(1)	(3)
Translation adjustment	4	23	16	43
Reclassification	(8)	-	10	2
Additions	53	26	165	244
Unwinding of discount	1	28	-	29
Reversals	(38)	(5)	(48)	(91)
Actuarial gains and losses recognized through equity	-	30	-	30
Provisions at December 31, 2010	107	651	425	1,183
Of which current portion (less than 1 year)	69	63	245	377

5.9.1. Provisions for restructuring costs

Provisions for restructuring costs amount to 107 million euros at December 31, 2010 and 164 million euros at December 31, 2009. The decrease in this caption over the period mainly reflects expenses and write-backs of residual amounts set aside in respect of the announced plan to cut 5,000 jobs worldwide, for which a provision had been set aside at the end of 2008.

5.9.2. Provisions for pensions and other employee benefits

■ Description of the plans in force within the Group

The Group's commitments in relation to pensions and other employee benefits primarily concern the following defined benefit plans:

- termination benefits (France, Italy, South Korea);
- supplementary pension benefits (France, Germany, Japan, United Kingdom, United States) which top up the statutory pension schemes in force in those countries;
- the payment of certain medical and life insurance costs for retired employees (United States);
- certain of the above-mentioned benefits granted specifically under early retirement schemes (France, Germany, United States);
- other long-term benefits (long-service bonuses in France, Germany, Japan and South Korea).

Costs relating to all of these benefits are recognized in accordance with the accounting policy described in Note 1.17.

■ **Actuarial assumptions**

To calculate discount rates for the year ended December 31, 2010, the Group used the same benchmarks as in previous years. The discount rates used in the countries representing the Group's most significant obligations were as follows:

Benchmark	(%)	2010	2009
		Basis	Basis
iBoxx Euro-Corporate AA 10-year+	Euro zone	4.8	5.3
iBoxx £-Corporate AA 15-year+	United Kingdom	5.5	5.7
Citigroup Pension Discount Curve	United States	5.2	5.7
10-year government bonds	Japan	1.5	2.0
10-year government bonds	South Korea	4.5	5.3

The sensitivity of the Group's main obligations to a 0.5% rise or fall in discount rates is set out below.

Expected long-term returns on plan assets are estimated taking into account the structure of the investment portfolio for each country, and are as follows for the Group's principal plans:

(%)	2010	2009
United States	7.3	8.0
United Kingdom	5.7	6.7
Japan	2.2	2.7

The weighted average long-term salary inflation rate was 3.5% at December 31, 2010, unchanged from December 31, 2009.

The rate of increase for medical costs in the United States used to value the Group's main obligations at December 31, 2010 was 9.9% in 2010 and 9.7% in 2011, gradually reducing to 5% by 2032. This assumption is largely similar to that used in 2009.

■ **Breakdown of obligations**

2010

(In millions of euros)	France	Other European countries	North America	Asia	Total
Present value of unfunded obligations	133	249	102	45	529
Present value of funded obligations	19	64	323	53	459
Market value of plan assets	(3)	(42)	(245)	(40)	(330)
Deficit	149	271	180	58	658
Unrecognized past service cost	(7)	-	-	-	(7)
Provisions recognized at December 31, 2010	142	271	180	58	651
Permanent employees at December 31, 2010 ⁽¹⁾	12,180	16,858	4,837	8,949	42,824

2009

(In millions of euros)	France	Other European countries	North America	Asia	Total
Present value of unfunded obligations	125	229	91	41	486
Present value of funded obligations	17	56	281	46	400
Market value of plan assets	(2)	(37)	(197)	(33)	(269)
Deficit	140	248	175	54	617
Unrecognized past service cost	(7)	-	-	-	(7)
Provisions recognized at December 31, 2009	133	248	175	54	610
Permanent employees at December 31, 2009 ⁽¹⁾	13,072	16,588	3,931	7,047	40,638

⁽¹⁾ Permanent employees shown in the tables above do not include permanent staff in South America, for whom no obligation was recognized in respect of pensions or other long-term benefits in 2009 or 2010. The Group's pension obligations in North America are significant, since a significant portion of these obligations relate to retired personnel or employees having left the Group.

■ Movements in provisions

(In millions of euros)	France	Other European countries	North America	Asia	Total
Provisions at January 1, 2009	120	217	220	54	611
Actuarial gains and losses recognized through equity	11	29	(24)	-	16
Amounts used during the year	(12)	(15)	(24)	(10)	(61)
Impact of changes in scope of consolidation	-	-	-	-	-
Reclassification	2	-	-	-	2
Translation adjustment	-	1	(6)	2	(3)
Expenses (income) for the year:	12	16	9	8	45
• Service cost	8	3	1	7	19
• Interest cost	8	15	22	3	48
• Past service cost	(1)	-	-	-	(1)
• Expected return on plan assets	-	(2)	(13)	(1)	(16)
• Other	(3)	-	(1)	(1)	(5)
Provisions at December 31, 2009	133	248	175	54	610
Actuarial gains and losses recognized through equity	6	19	11	(6)	30
Amounts used during the year	(9)	(15)	(28)	(7)	(59)
Impact of changes in scope of consolidation	(2)	-	-	-	(2)
Reclassification	-	-	-	-	-
Translation adjustment	-	1	14	8	23
Expenses (income) for the year:	14	18	8	9	49
• Service cost	8	6	1	9	24
• Interest cost	7	15	23	3	48
• Past service cost	4	-	-	(2)	2
• Expected return on plan assets	-	(3)	(16)	(1)	(20)
• Other	(5)	-	-	-	(5)
Provisions at December 31, 2010	142	271	180	58	651
Of which current portion (less than 1 year)	16	13	29	5	63

An expense of 49 million euros was recognized in 2010 in respect of pensions and other employee benefits (45 million euros in 2009). In accordance with the method described in Note 1.17, 24 million euros were included in operating items and 28 million euros in other financial income and expenses. Other income and expenses include a write-back of 3 million euros on pension obligations in France following the restructuring plan announced in 2010 (Note 4.5.2).

■ **Movements in obligations**

2010

(In millions of euros)	France	Other European countries	North America	Asia	Total
Benefit obligations at January 1, 2010	142	285	372	87	886
Service cost	8	6	1	9	24
Interest cost	7	15	23	3	48
Benefits paid	(8)	(16)	(21)	(7)	(52)
Actuarial gains and losses	6	21	21	(7)	41
Impact of changes in scope of consolidation	(2)	-	-	-	(2)
Reclassification	(1)	-	-	-	(1)
Other	-	-	-	(2)	(2)
Translation adjustment	-	2	29	15	46
Benefit obligations at December 31, 2010	152	313	425	98	988

Changes in actuarial gains and losses, resulting in an increase in the benefit obligation, stem mainly from the fall in interest rates in countries where the Group's obligations are the most significant, in particular the United States, Germany, France and the United Kingdom.

2009

(In millions of euros)	France	Other European countries	North America	Asia	Total
Benefit obligations at January 1, 2009	128	246	377	92	843
Service cost	4	3	1	7	15
Interest cost	8	15	22	3	48
Benefits paid	(11)	(14)	(21)	(15)	(61)
Actuarial gains and losses	11	32	7	1	51
Impact of changes in scope of consolidation	-	-	-	-	-
Reclassification	2	-	-	-	2
Other	-	-	(1)	(1)	(2)
Translation adjustment	-	3	(13)	-	(10)
Benefit obligations at December 31, 2009	142	285	372	87	886

■ **Movements in plan assets**

2010

(In millions of euros)	France	Other European countries	North America	Asia	Total
Plan assets at January 1, 2010	2	37	197	33	269
Expected return on plan assets	-	3	16	1	20
Contributions paid to external funds	2	3	21	3	29
Benefits paid	(1)	(4)	(14)	(3)	(22)
Actuarial gains and losses	-	2	10	(1)	11
Translation adjustment	-	1	15	7	23
Plan assets at December 31, 2010	3	42	245	40	330

The fair value of plan assets continued to rise in 2010, reflecting equity market trends and translation adjustment mainly recognized on assets in the United States and Japan for 23 million euros. The actual return on plan assets was 31 million euros in 2010 compared to 51 million euros in 2009. Experience adjustments generated on plan assets in an amount of 11 million euros reflect the difference between actual and estimated returns on these assets. These actuarial differences were credited to equity at December 31, 2010.

Contributions of 29 million euros were paid to external funds in 2010. Contributions in 2011 are estimated at 28 million euros.

The Group is not exposed to margin calls on its pension obligations due to the nature of its plan assets.

2009

(In millions of euros)	France	Other European countries	North America	Asia	Total
Plan assets at January 1, 2009	1	29	157	38	225
Expected return on plan assets	-	2	13	1	16
Contributions paid to external funds	2	3	16	4	25
Benefits paid	(1)	(2)	(13)	(9)	(25)
Actuarial gains and losses	-	3	31	1	35
Translation adjustment	-	2	(7)	(2)	(7)
Plan assets at December 31, 2009	2	37	197	33	269

■ Breakdown of plan assets

(In millions of euros)	France	Other European countries	North America	Asia	Total
Cash at bank	-	-	12	7	19
Shares	3	26	144	13	186
Government bonds	-	8	32	20	60
Corporate bonds	-	8	57	-	65
Breakdown of plan assets at December 31, 2010	3	42	245	40	330
Cash at bank	-	-	4	6	10
Shares	2	25	125	10	162
Government bonds	-	6	10	17	33
Corporate bonds	-	6	58	-	64
Breakdown of plan assets at December 31, 2009	2	37	197	33	269

■ Data for previous financial years

Obligations, financial assets and actuarial gains and losses for previous financial years can be analyzed as follows:

(In millions of euros)	2010	2009	2008	2007	2006
Obligations	988	886	843	933	1,074
Financial assets	(330)	(269)	(225)	(300)	(301)
Net obligations	658	617	618	633	773
Actuarial (losses) gains recognized in other comprehensive income ⁽¹⁾	(30)	(16)	(56)	79	27

⁽¹⁾ Actuarial gains and losses recognized in other comprehensive income in 2010 for 30 million euros mainly include 49 million euros of actuarial losses due to changes in assumptions regarding pension obligations and 11 million euros of actuarial gains due to experience adjustments on financial assets.

■ Sensitivity of obligations to discount rates and the rate of increase in medical costs

The discount rates applied in each region have a significant impact on the amount of the Group's benefit obligations. A 0.5% rise in discount rates would reduce the projected benefit obligation by around 57 million euros and service cost by around 2 million euros in 2011. A 0.5% fall in discount rates would increase the projected benefit obligation by around 62 million euros and service cost by around 2 million euros in 2011.

A 1% rise or fall in the rate of increase for medical costs in the US would not have a material impact on the obligation or expense for the period.

■ Sensitivity of plan assets to rates of return

A decrease of 1% in the expected return on plan assets would reduce the financial income recognized on these assets in 2011 by around 3 million euros. An increase of 1% in the expected return on plan assets would have the opposite effect.

5.9.3. Other provisions

(In millions of euros)	2010	2009
Provisions for product warranties	170	156
Other	255	183
Other provisions	425	339

In 2010, the "Other" caption includes provisions for tax risks (79 million euros) and provisions for site rehabilitation or environmental obligations (22 million euros). The balance of this caption is intended to cover disputes with current or former employees, commercial litigation and other operational risks.

5.10. Debt

5.10.1. Gross debt

At December 31, 2010, the Group's gross debt can be analyzed as follows:

(In millions of euros)	2010	2009
Long-term debt (Note 5.10.2)	1,097	1,526
Current portion of long-term debt (Note 5.10.2)	505	40
Short-term debt (Note 5.10.3)	77	73
Gross debt	1,679	1,639

5.10.2. Long-term debt

■ Analysis of long-term debt

(In millions of euros)	2010	2009
Bonds	598	597
OCEANE bonds	463	453
Syndicated loans	223	223
European Investment Bank loan	201	197
Lease obligations	8	7
Other borrowings	81	61
Accrued interest	28	28
Long-term debt	1,602	1,566

Long-term debt includes:

- 600 million euros worth of eight-year bonds issued by Valeo on June 24, 2005 and paying a fixed coupon of 3.75%. These bonds were issued in the context of the Euro Medium Term Notes program. The effective interest rate on these bonds is 3.89%;
- 463 million euros worth of bonds convertible for new shares and/or exchangeable for existing shares ("OCEANE") issued on August 4, 2003, representing 9,975,454 bonds with a nominal value of 46.4 euros each. The interest on these bonds was 2.375% per annum payable in arrears on January 1 of each year. Bearers of the bonds could request conversion and/or exchange into common stock until December 23, 2010, on the basis of 1.013 Valeo share for one bond. The effective interest rate of the OCEANE bonds is 4.54% (4.46% excluding the call). These bonds were redeemed in full on January 3, 2011;
- two seven-year syndicated loans for a total amount of 225 million issued on July 29, 2005. These loans were renegotiated in June 2009. Based on a quantitative and qualitative analysis of the changes in these loans, the Group did not consider that its initial debt had been extinguished and it was therefore maintained in the statements of financial position. These loans and the related hedges have the following characteristics:

- the first loan is at a variable rate and incorporates a floor and a cap limiting the interest rate to between 5.51% and 7.71% at all times. The loan is hedged by a swap offsetting the optional position on the loan, placing Valeo as a net variable-rate borrower (3-month Euribor + 4%),
- the second loan is at a variable rate, hedged by a derivative which has identical characteristics to those of the loan, placing Valeo as a net variable-rate borrower (3-month Euribor + 4%);
- a 225 million euro loan taken out with the European Investment Bank (EIB) at the end of July 2009. The loan is for a seven-year term, repayable in four equal annual installments as from 2013, and bears variable interest (6-month Euribor + 2.46%). An interest rate swap was taken out in respect of this new loan, exchanging Euribor for a fixed rate of 3.37%. This EIB reduced-rate loan was granted as part of funding for costs incurred by the Group in research projects looking at ways to reduce fuel consumption and CO₂ emissions and improve active safety. In accordance with IAS 20, a subsidy was calculated as the difference between the market interest rate for a similar loan at the date the loan was granted, and the interest rate granted by the EIB. The subsidy was estimated at 28 million euros and was recognized within liabilities in the statements of financial position. It is booked against Research and Development expenditure at the same time as the completion of the projects it is intended to finance. The impact on income in 2010 is 3 million euros. The loan is carried at amortized cost for an amount of 201 million euros at December 31, 2010, and has an effective interest rate of 6.10%.

Covenants relating to borrowings and debt are detailed in Note 6.2.2.

■ Maturities of long-term debt

(In millions of euros)	2012	2013	2014	2015	2016 and beyond	Total
Bonds	-	598	-	-	-	598
Syndicated loans	223	-	-	-	-	223
EIB loan	-	38	53	55	55	201
Lease obligations	1	1	1	1	-	4
Other borrowings	28	5	6	7	25	71
TOTAL	252	642	60	63	80	1,097

■ Current portion of long-term debt

(In millions of euros)	2010	2009
OCEANE	463	-
Lease obligations	4	2
Other borrowings	10	10
Accrued interest	28	28
Current portion of long-term debt	505	40

The current portion of long-term debt relates mainly to OCEANE bonds for 463 million euros, redeemed in January 2011, and accrued interest not yet due of 28 million euros, of which 12 million euros relates to bonds and 11 million euros to the OCEANE bond issue.

5.10.3. Short-term debt

(In millions of euros)	2010	2009
Commercial paper	13	5
Short-term loans and overdrafts	64	68
Short-term debt	77	73

The 64 million euros recorded on the "Short-term loans and overdrafts" line are mainly overdraft facilities.

5.10.4. Cash and cash equivalents

(In millions of euros)	2010	2009
Marketable securities	981	633
Cash	335	227
Cash and cash equivalents	1,316	860

Marketable securities consist of money market funds (SICAV) for 981 million euros.

5.10.5. Net debt

Net debt is defined as all long-term debt, short-term debt and bank overdrafts, less loans, other non-current financial assets and cash and cash equivalents.

■ Breakdown of net debt

(In millions of euros)	2010	2009
Long-term debt (Note 5.10.2)	1,097	1,526
Current portion of long-term debt (Note 5.10.2)	505	40
Loans and other non-current financial assets	(85)	(57)
Long-term debt	1,517	1,509
Short-term debt (Note 5.10.3)	77	73
Cash and cash equivalents (Note 5.10.4)	(1,316)	(860)
Net cash and cash equivalents	(1,239)	(787)
Net debt	278	722

Loans and other non-current financial assets relate mainly to investments in Brazil, consisting of certificates of deposits maturing after three months.

5.10.6. Analysis of net debt by currency

Net debt can be analyzed as follows by currency:

(In millions of euros)	2010	2009
Euro	528	876
US dollar	(26)	(35)
Yen	(13)	4
Brazilian real	(81)	(67)
Korean won	(59)	(21)
Chinese yuan	(27)	(24)
Other currencies	(44)	(11)
TOTAL	278	722

5.11. Breakdown of cash flows

5.11.1. Expenses (income) with no cash effect

(In millions of euros)	2010	2009
Expenses (income) with no cash effect		
Depreciation, amortization and impairment of non-current assets	543	560
Net additions to (reversals from) provisions	(21)	(127)
Losses (gains) on sales of non-current assets	(4)	5
Expenses related to share-based payment	6	7
TOTAL	524	445

5.11.2. Changes in working capital

(In millions of euros)	2010	2009
Changes in working capital		
Inventories	(110)	69
Accounts and notes receivable	(138)	(79)
Accounts and notes payable	275	193
Other receivables and payables	4	31
TOTAL	31	214

5.11.3. Impact of changes in the scope of consolidation

Changes in the scope of consolidation in 2010 had a positive impact of 22 million euros on consolidated cash flows. This amount relates mainly to sales of the headlamp levelers business (Note 2.1.2) and the electromagnetic retarders business (Note 2.1.3).

At December 31, 2009, changes in the scope of consolidation had a negative impact of 10 million euros. This amount mainly resulted from:

- cash outflows of 7 million euros on the sale of the Wiring Harness activity in December 2007, which had no impact on income (loss) for 2009;
- acquisition of the entire capital stock of Valeo Fawer Compressor (Changchun) Co., Ltd in November 2009. This company was previously proportionately consolidated and is now fully consolidated, generating a cash outflow of 4 million euros.

6. Additional disclosures

6.1. Financial instruments

6.1.1. Fair value of financial instruments

Recognition and measurement principles regarding financial assets and liabilities are defined in IAS 32 and IAS 39. The classification of financial instruments into specific categories is described in Note 1.14.

(In millions of euros)	2010	2010 carrying amount under IAS 39		2009	
	Carrying amount	Amortized cost	Fair value through equity	Fair value through income	Carrying amount
ASSETS					
Non-current financial assets:					
• Investments in non-consolidated companies	3	-	3	-	2
• Loans	85	85	-	-	57
• Deposits and guarantees	17	-	-	17	12
• Other non-current financial assets	2	-	-	2	3
Accounts and notes receivable	1,449	1,449	-	-	1,251
Other current financial assets:					
• Hedging derivatives	17	-	17	-	10
• Trading derivatives	7	-	-	7	3
Cash and cash equivalents	1,316	-	-	1,316	860
LIABILITIES					
Bonds	598	598	-	-	597
OCEANE convertible bonds (debt component)	463	463	-	-	453
Syndicated loans	223	223	-	-	223
EIB loan	201	201	-	-	197
Other long-term debt	117	117	-	-	96
Accounts and notes payable	1,987	1,987	-	-	1,648
Other current financial liabilities:					
• Hedging derivatives	13	-	11	2	3
• Trading derivatives	2	-	-	2	2
Short-term debt	77	77	-	-	73

The principal terms and conditions of borrowings (bonds, OCEANE convertible bonds, syndicated loans and the EIB loan) are detailed in Note 5.10.2, while the basis for recognition is set out in Note 1.14.

IFRS 7 establishes a hierarchy of valuation techniques used to price financial instruments. The following categories are identified:

- Level 1: prices directly based on quoted prices in active markets;
- Level 2: prices established using valuation techniques drawing on observable inputs;
- Level 3: prices established using valuation techniques drawing on non-observable inputs.

Level 2 is used to measure the fair value of the Group's derivative financial instruments.

The fair value of bonds is calculated on the basis of listed prices in an active bond market, and amounted to 610 million euros at December 31, 2010 and 568 million euros at December 31, 2009.

The fair value of the syndicated loans and EIB loan is estimated by discounting future cash flows at the market rate of interest as of the end of the reporting period, taking into account the Group's issuer spread. Issuer spreads were estimated at 1.28% for the syndicated loans and 1.30% for the EIB loan (source: Markit Reuters). These reflect the spread on Valeo 1.3-year and 5-year credit default swaps respectively. At December 31, 2010, the fair values of these instruments are estimated at 232 million euros for the EIB loan and 234 million euros for the syndicated loans (228 million euros and 240 million euros, respectively, at December 31, 2009).

When the OCEANE convertible bonds matured, the price of the Valeo share was below the exercise price of the convertible option. As a result, the value of the bond's option component was close to zero, while the bond component approximated par. As only a relatively small number of bondholders chose to exercise their conversion option, the bonds were legitimately valued at par, i.e. 463 million euros at December 31, 2010. The fair value of these bonds was estimated at 453 million euros as of December 31, 2009.

The fair value of other debt components is equal to their carrying amount.

6.1.2. Fair value of derivatives

At December 31

(In millions of euros)	2010	2009
ASSETS		
Hedging derivatives:		
• Foreign currency derivatives	1	-
• Commodity derivatives	16	10
Trading derivatives:		
• Foreign currency derivatives	7	2
• Commodity derivatives	-	1
Total other current financial assets	24	13
LIABILITIES		
Hedging derivatives:		
• Interest rate derivatives	(13)	(3)
• Commodity derivatives	-	-
Trading derivatives:		
• Foreign currency derivatives	(2)	(2)
• Commodity derivatives	-	-
Total other current financial liabilities	(15)	(5)

The impact of financial instruments on income (loss) for the years ended December 31, 2010 and December 31, 2009 is set out in Note 4.7.

6.1.2.1. Fair value of foreign currency derivatives

At December 31

(In millions of euros)	2010		2009	
	Nominal	Fair value	Nominal	Fair value
Forward foreign currency purchases	41	2	15	1
Forward foreign currency sales	(22)	-	(28)	-
Currency swaps	(289)	6	128	1
TOTAL ASSETS	(270)	8	115	2
Forward foreign currency purchases	12	-	31	(1)
Forward foreign currency sales	(30)	(1)	(9)	-
Currency swaps	30	(1)	69	(1)
TOTAL LIABILITIES	12	(2)	91	(2)
Net impact	-	6	-	-

The fair value of currency hedges is computed using the following valuation method: future cash flows are calculated using forward exchange rates at year-end and are then discounted using the interest rate of the functional currency. This method corresponds to level 2 in the fair value hierarchy.

6.1.2.2. Fair value of commodity (metals) derivatives

At December 31

(In millions of euros)	2010		2009	
	Nominal	Fair value	Nominal	Fair value
Swaps – Purchases	105	16	85	11
Swaps – Sales	-	-	-	-
TOTAL ASSETS	105	16	85	11
Swaps – Purchases	4	-	5	-
Swaps – Sales	-	-	(3)	-
TOTAL LIABILITIES	4	-	2	-
Net impact	-	16	-	11

The fair value of metals derivatives is computed using the following valuation method: future cash flows are calculated using forward commodity prices and forward exchange rates at year-end and are then discounted using the interest rate of the functional currency. This method corresponds to level 2 in the fair value hierarchy.

6.1.2.3. Fair value of interest rate derivatives

At December 31

(In millions of euros)	2010		2009	
	Nominal	Fair value	Nominal	Fair value
Interest rate swaps	450	(13)	450	(3)
TOTAL LIABILITIES	450	(13)	450	(3)

The fair value of interest rate swaps is computed by discounting future cash flows based on market interest rates at year-end. This method corresponds to level 2 in the fair value hierarchy.

6.2. Risk management policy

A detailed description of the Group's risk management policy is provided in the management report (see Chapter 3, section 3.1.).

6.2.1. Market risks

6.2.1.1. Foreign currency risk

Exposure to foreign currency risk

A detailed description of the Group's policy for managing foreign currency risk is provided in the management report (see Chapter 3, section 3.1.4.1).

The principal hedging instruments used by the Group are forward purchases and sales of foreign currencies, as well as swaps and options. The foreign currency derivatives used by the Group are not recognized as hedging instruments within the meaning of IAS 39. Exceptionally, the Group applies hedge accounting to highly probable future cash flows from the date the derivatives are contracted.

At December 31, 2010, a gain of 1 million euros was recognized in stockholders' equity in respect of derivatives used as hedging instruments.

The Group's net exposure to foreign currency risk based on notional amounts arises on the following main currencies (excluding entities' functional currencies):

(In millions of euros)	2010				2009
	USD	JPY	EUR	Total	Total
Accounts and notes receivable	69	10	301	380	369
Other financial assets	360	1	139	500	388
Accounts and notes payable	(51)	(25)	(327)	(403)	(366)
Long-term debt	-	(44)	(365)	(409)	(403)
Gross exposure	378	(58)	(252)	68	(12)
Forward sales	(394)	(10)	(30)	(434)	(341)
Forward purchases	58	66	9	133	73
Net exposure	42	(2)	(273)	(233)	(280)

In the table above, the EUR column represents the euro exposure of Group entities whose functional currency is not the euro. Exposure arises on subsidiaries based in Eastern Europe – mainly the Czech Republic – which are financed in euros by Valeo SA.

At December 31, 2009, the breakdown by currency of the net exposure in the statements of financial position for a negative amount of 280 million euros is as follows:

- 21 million euros relating to the US dollar;
- 13 million euros relating to the yen;
- (314) million euros relating to the euro.

Analysis of the sensitivity of net equity to foreign currency risk

The sensitivity analysis was based on an exchange rate of 1.34 US dollars, 108.65 Japanese yen and 26.06 Czech koruna to 1 euro at December 31, 2010 (USD 1.44, JPY 133.15 and CZK 26.47, respectively, at December 31, 2009).

An increase of 10% in the value of the euro against these currencies at December 31, 2010 and December 31, 2009 would have the following impacts:

At December 31, 2010

(In millions of euros)	Income gain (loss)	Equity gain (loss)
USD exposure	(4)	-
JPY exposure	-	-
EUR exposure	(4)	(24)
TOTAL	(8)	(24)

At December 31, 2009

(In millions of euros)	Income gain (loss)	Equity gain (loss)
USD exposure	(2)	-
JPY exposure	(1)	-
EUR exposure	(5)	(26)
TOTAL	(8)	(26)

For the purpose of these analyses, it is assumed that all other variables, including interest rates, remained unchanged.

Assuming that all other variables remained unchanged, a 10% fall in the value of the euro against these currencies would have the opposite effect to the one shown above.

6.2.1.2. Commodity risk

Exposure to commodity risk

A detailed description of the Group's policy for managing commodity risk is provided in the management report (see Chapter 3, section 3.1.4.2).

The Group favors hedging instruments which do not involve physical delivery of the underlying commodity, such as swaps and options based on the average monthly price.

Volumes of non-ferrous metals hedged at December 31, 2010 and December 31, 2009 break down as follows:

In tons	2010	2009
Aluminium	28,000	22,000
Secondary aluminium	9,000	8,000
Copper	7,000	9,000
Zinc	4,000	5,000
TOTAL	48,000	44,000

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized gain of 16 million euros related to existing hedges was recognized directly in other comprehensive income in accordance with IAS 39.

An unrealized gain of 11 million euros recognized in other comprehensive income at December 31, 2009 and arising on commodity hedges purchased in second-half 2009 was reclassified in full to operating income in the first half of 2010.

Analysis of the sensitivity of net equity to metal price risk

The table below shows the impact on equity and income of a 10% variation in metal futures prices at December 31, 2010.

(In millions of euros)	2010		2009	
	Income gain (loss)	Equity gain (loss)	Income gain (loss)	Equity gain (loss)
Impact of a 10% rise in metal futures prices	-	10	-	8
Impact of a 10% fall in metal futures prices	-	(10)	-	(8)

For the purposes of the sensitivity analysis, it is assumed that all other variables remain unchanged over the period.

6.2.1.3. Interest rate risk

Exposure to interest rate risk

The Group's policy for managing interest rate risk is detailed in the management report (see Chapter 3, section 3.1.4.3).

The Group uses interest rate swaps to convert the interest rates on its debt into either a variable or a fixed rate, either at origination or during the term of the loan. Cash and cash equivalents are mainly invested in variable-rate instruments. Debt is essentially at fixed rates.

The interest rate derivatives used by the Group to hedge against changes in the value of its fixed-rate debt are designated as fair value hedges under IAS 39. These derivatives are recorded at fair value in the statements of financial position, with changes in fair value taken to income. For the effective portion of the hedge, the impact on income is offset by a symmetrical revaluation of the hedged item.

On August 5, 2009, the Group set up an interest rate swap to hedge the variable-rate interest on its EIB loan. This derivative qualifies for cash flow hedge accounting. The fair value of the swap is initially recognized in the statements of financial position, with subsequent changes in fair value taken to other comprehensive income until the hedged interest falls due. At December 31, 2010, the impact in stockholders' equity of changes in the fair value of this swap was a negative 9 million euros.

At the end of the reporting period, the Group's net interest rate position based on nominal values can be analyzed as follows:

At December 31, 2010

(In millions of euros)	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	505	77	749	295	25	56	1,279	428	1,707
Loans	-	-	-	(85)	-	-	-	(85)	(85)
Cash and cash equivalents	-	(1,316)	-	-	-	-	-	(1,316)	(1,316)
Net position before hedging	505	(1,239)	749	210	25	56	1,279	(973)	306
Derivative instruments	-	-	62	(62)	56	(56)	118	(118)	-
Net position after hedging	505	(1,239)	811	148	81	-	1,397	(1,091)	306

At December 31, 2009

(In millions of euros)	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	40	73	1,315	117	24	113	1,379	303	1,682
Loans	-	-	-	(57)	-	-	-	(57)	(57)
Cash and cash equivalents	-	(860)	-	-	-	-	-	(860)	(860)
Net position before hedging	40	(787)	1,315	60	24	113	1,379	(614)	765
Derivative instruments	-	-	(112)	112	113	(113)	1	(1)	-
Net position after hedging	40	(787)	1,203	172	137	-	1,380	(615)	765

Analysis of sensitivity to interest rate risk

At December 31, 2010, 85% of long-term debt is at fixed rates (72% at December 31, 2009).

Fixed-rate debt carried at amortized cost is not included in the calculation of sensitivity to interest rate risk. The Group's exposure to interest rate risk therefore arises solely on its variable-rate debt.

The tables below show the impact on income and equity of a sudden 1% rise in the interest rates applied to variable-rate financial assets and liabilities, after hedging:

2010

(In millions of euros)	Income gain (loss)	Equity gain (loss)
Impact of a 1% rise in interest rates	10	9

2009

(In millions of euros)	Income gain (loss)	Equity gain (loss)
Impact of a 1% rise in interest rates	6	9

Similarly, at December 31, 2010, a sudden 1% fall in interest rates would have the opposite impacts for the same amount.

6.2.1.4. Equity risk

A detailed description of the Group's policy for managing equity risk is provided in the management report (see Chapter 3, section 3.1.4.4).

The assets making up pension funds are detailed in Note 5.9.2.

The Group's cash and cash equivalents are set out in Note 5.10.4.

6.2.2. Liquidity risk

A detailed description of the Group's policy for managing liquidity risk is provided in the management report (see Chapter 3, section 3.1.5).

The Group borrows long-term funds either through banks or public debt markets. In 2003, Valeo issued 463 million euros worth of bonds convertible for new shares and / or exchangeable for existing shares (OCEANE) maturing in 2011. In 2005, it issued a 600 million euros Medium Term Note maturing in 2013. It also took out two syndicated loans for a total of 225 million euros maturing in 2012, and contracted a loan with the European Investment Bank (EIB) for 225 million euros maturing in 2016.

At December 31, 2010, Valeo has 1,316 million euros in cash, less the amounts needed to redeem the OCEANE convertible bonds at January 3, 2011. The Group had 860 million euros in cash at December 31, 2009. Its other liquidity sources are:

- confirmed bank credit lines totaling 1.1 billion euros with an average maturity of two years. None of these credit lines had been drawn down at December 31, 2010 or December 31, 2009;
- a short-term commercial paper financing program for a maximum amount of 1.2 billion euros, and a medium- and long-term Euro Medium Term Notes financing program for a maximum amount of 2 billion euros. Valeo's access to the commercial paper market remains restricted since its short-term debt is still rated "not prime". On July 29, 2010, Valeo's rating was upgraded from Ba2 to Ba1 with a stable outlook, and then upgraded from a stable to a positive outlook on December 9, 2010. However, Valeo's debt is still not classified as investment grade;
- a loan agreement for 75 million euros signed in October 2010 with the European Investment Bank (EIB). Under this agreement, Valeo can borrow 75 million euros up to March 2012 at a variable rate of interest over seven years, repayable in four annual instalments after a grace period of four years. This loan was granted as part of funding for costs incurred by the Group in research projects looking at ways to reduce fuel consumption and CO₂ emissions and improve active safety. This loan had not been drawn down at December 31, 2010.

Covenants: The credit lines, two syndicated loans, EIB loan and 75 million euro credit facility are subject to an early repayment clause related to the Group's net debt/EBITDA ratio, which must not exceed 3.25 at December 31, 2010 or thereafter. EBITDA in this case represents the Group's operating margin before depreciation, amortization and impairment. Other income and expenses are therefore excluded from EBITDA, with the exception of restructuring costs totaling more than 75 million euros in 2010 and 50 million euros thereafter. Failure to comply with this ratio would cause the credit lines to be suspended – triggering early repayment of any drawdowns already made - and the syndicated loans and EIB loan to be repaid. At December 31, 2010, the ratio calculated over 12 months was 0.25.

Credit lines with banks and the Group's long-term debt are also subject to cross-default clauses, whereby if a specified amount of debt is likely to be called for early repayment; other debt could also become repayable. Some agreements allow a grace period before the cross-default clause becomes enforceable.

At the end of the reporting period, the Group believes these covenants will be respected over the following 12 months.

The Euro Medium Term Notes program includes an option granted to the bondholders who can request early repayment or redemption of their bonds in the event of a change of control at Valeo which leads to a downgrade in the bond's rating to below investment grade. Such a change of control is deemed to occur if a stockholder (or several stockholders acting in concert) acquires more than 50% of Valeo's share capital or holds more than 50% of its voting rights. If Valeo's bonds had previously been rated below investment grade, bondholders may request the early repayment or redemption of their bonds in the event of a change in control at Valeo resulting in a one category downgrade in the rating (e.g. from Ba1 to Ba2).

■ **Residual contractual maturities of non-derivative financial instruments can be analyzed as follows:**

Future cash flows presented below, both interest payments and reimbursements are not discounted. The forward interest rate curve at December 31, 2010 was used for variable-rate interests.

At December 31

(In millions of euros)	Carrying amount	Contractual cash flows	Contractual cash flows					2016 and beyond
			Payment schedule					
		Total	2011	2012	2013	2014	2015	
Bonds	598	669	23	23	623	-	-	-
OCEANE bonds	463	474	474	-	-	-	-	-
Syndicated loans	223	243	10	233	-	-	-	-
EIB loan	201	273	8	9	67	66	63	60
Other long-term debt	117	117	42	29	6	7	8	25
Accounts and notes payable	1,987	1,987	1,987	-	-	-	-	-
Short-term debt	77	77	77	-	-	-	-	-

The cash available to the Group allowed Valeo to meet the redemption obligations on its OCEANE convertible bonds on January 3, 2011.

■ **Residual contractual maturities of derivative financial instruments can be analyzed as follows:**

The European Central Bank (ECB) closing rates and forward rates at December 31, 2010 have been used to value foreign exchange derivatives. The London Metal Exchange (LME) forward rates at December 31, 2010 were used for commodity derivatives, while the forward interest rate curve at December 31, 2010 was used for interest rate swaps.

At December 31

(In millions of euros)	Carrying amount	Contractual cash flows	Contractual cash flows					2016 and beyond
			Payment schedule					
		Total	2011	2012	2013	2014	2015	
Forward foreign currency contracts used as hedges:								
• Assets	2	2	2	-	-	-	-	-
• Liabilities	(1)	(1)	(1)	-	-	-	-	-
Currency swaps used as hedges:								
• Assets	6	6	6	-	-	-	-	-
• Liabilities	(1)	(1)	(1)	-	-	-	-	-
Commodity derivatives:								
• Assets	16	16	16	-	-	-	-	-
• Liabilities	-	-	-	-	-	-	-	-
Interest rate swaps:								
• Assets	-	-	-	-	-	-	-	-
• Liabilities	(13)	(14)	(6)	(5)	(2)	(1)	-	-

6.2.2. Credit risk

A detailed description of the Group's policy for managing credit risk is provided in the management report (see Chapter 3, section 3.1.6).

Credit risk can be analyzed as follows:

Counterparty risk

The Group is exposed to counterparty risk on financial market transactions carried out for the purposes of managing risks and cash flows. Limits have been set by counterparty, taking into account the ratings of the counterparties provided by rating agencies. This also has the effect of avoiding excessive concentration of market transactions with a limited number of banks.

Commercial credit risk

Valeo is exposed to credit risk arising on its commercial operations, particularly the risk of default by its customers. Valeo operates exclusively in the automotive industry, which had a tough year in 2009 but has since benefited from a more favorable economic climate. Nevertheless, Valeo continues to closely monitor default risk. The average days' sales outstanding stood at 56 days at December 31, 2010, compared to 61 days at December 31, 2009.

At December 31, 2010, Valeo's largest customer accounts for 18% of the Group's accounts and notes receivable.

The table below presents an aged analysis of accounts and notes receivable:

(In millions of euros)	carrying amount 2010	carrying amount 2009
Not yet due	1,400	1,208
Less than 1 month past due	39	39
More than 1 month but less than 1 year past due	22	22
More than 1 year past due	10	8
TOTAL	1,471	1,277

Past-due balances were impaired totaling 22 million euros (26 million euros in 2009).

6.3 Off-balance sheet commitments

To the best of Valeo's knowledge, no other significant commitments exist or exceptional events have occurred other than those disclosed in the notes to the financial statements, that are likely to have a material impact on the business, financial position, results or assets and liabilities of the Group.

6.3.1. Off-balance sheet commitments relating to the consolidated Group

6.3.1.1. Put options

At December 31, 2010, Hitachi and Valeo owned 34% and 66%, respectively, of Japanese firm Valeo Unisia Transmissions K.K.

Hitachi has a put option that may be exercised if its interest in the company falls below 15%. If the put is exercised, all of the shares it owns at that time will be sold to Valeo, with the price to be fixed by Valeo and Hitachi or by an independent expert if the parties fail to reach an agreement.

If Valeo sells all or some of its shares representing more than 51% of the shares of the joint venture (or a lower percentage of shares if the sale deprives Valeo of its right to appoint the majority of the members of the joint venture's Board of Directors), Hitachi reserves the right to offer its own shares to said third parties ("drag-along" right). If said third parties refuse to buy the shares, Hitachi may sell them to Valeo.

At December 31, 2010, the joint venture had total equity of 49 million euros prior to appropriation of income.

6.3.1.2. Other commitments given

Other commitments given relate to guarantees granted by Valeo in connection with divestments.

(In millions of euros)	2010	2009
Other commitments given	139	134
TOTAL	139	134

6.3.2. Off-balance sheet commitments relating to Group financing

Off-balance sheet commitments relating to Group financing are detailed in Note 6.2.2. on liquidity risk.

6.3.3. Off-balance sheet commitments relating to operating activities

6.3.3.1. Lease commitments

Future minimum lease commitments in force at December 31, 2010 (excluding capital leases) are as follows:

(In millions of euros)	2010	2009
Less than 1 year	38	38
1 to 5 years	66	54
More than 5 years	17	11
TOTAL	121	103

Lease rentals recognized in expenses in the year are as follows:

(In millions of euros)	2010	2009
Rent	51	51

Lease commitments in respect of capital leases are as follows at December 31:

(In millions of euros)	2010	2009
Future minimum lease payments		
Less than 1 year	3	3
1 to 5 years	6	5
More than 5 years		1
Total future minimum lease payments	9	9
Of which interest charges	(1)	(2)
Present value of future lease payments		
Less than 1 year	4	2
1 to 5 years	4	5
More than 5 years	-	-
Total present value of future lease payments	8	7

6.3.3.2. Other commitments given

Valeo has also given the following commitments:

(In millions of euros)	2010	2009
Guarantees given	4	2
Non-cancelable asset purchase commitments	144	88
Other commitments given	9	7
TOTAL	157	97

The following items recognized in assets in the Group's statements of financial position have been pledged as security:

(In millions of euros)	2010	2009
Property, plant and equipment	1	1
Financial assets	13	12
TOTAL	14	13

6.3.3.3. Commitments received

No material commitments were granted to Valeo in 2010.

6.4. Contingent liabilities

The Group has contingent liabilities relating to legal proceedings arising in the normal course of its business. Known claims and litigation involving Valeo or its subsidiaries were reviewed at the end of the reporting period. Based on the advice of legal counsel, all necessary provisions have been made to cover the related risks.

Although the outcome of the proceedings in progress cannot be predicted, Valeo considers that they will not have a material impact on the Group's financial position at the end of the reporting period. However, new proceedings may be initiated against the Group as a result of facts or circumstances unknown at the date of this report or for which the risk cannot yet be determined and/or quantified. Such proceedings could therefore have a significant adverse impact on the Group's net income.

6.5. French statutory training entitlement

Under the French law of May 4, 2004 on professional training, all of the Group's French employees, regardless of their qualifications, are entitled to statutory training hours which can be accumulated and used at the employees' initiative, subject to the employer's agreement. As of 2004, each employee is entitled to at least 20 training hours per year.

The cumulative volume of training hours corresponding to Group employees' vested rights under the French statutory training entitlement was 1,131,693 hours at December 31, 2010 (1,034,000 hours at December 31, 2009), representing a usage rate of around 5.2%.

6.6. Related party transactions

6.6.1. Management remuneration

Management is comprised of the 15 members of the Group's Operating Committee. Remuneration paid to management in 2010 and 2009 is shown in the table below:

(In millions of euros)	2010	2009
Salaries and other short-term benefits	9	7
TOTAL	9	7

The Group recognized 2 million euros in respect of stock subscription and purchase options and free share awards in 2010 (1 million euros in 2009). It also recorded expenses in relation to pension obligations for management personnel in an amount of 1 million euros (2 million euros in 2009). At December 31, 2010, provisions included in the Group's statements of financial position in respect of these pension obligations amounted to 12 million euros (10 million euros at December 31, 2009).

6.6.2. Transactions with associates

The consolidated financial statements include transactions carried out in the normal course of business between the Group and its associates. These transactions are carried out at market prices.

(In millions of euros)	2010	2009
Sales of goods and services	18	11
Purchases of goods and services	(9)	(10)
Interest and dividends received	4	3

(In millions of euros)	2010	2009
Operating receivables	5	3
Operating payables	4	7

6.6.3. Transactions with joint ventures

The consolidated financial statements include transactions carried out in the normal course of business between the Group and joint ventures. These transactions are carried out at market prices.

(In millions of euros)	2010	2009
Sales of goods and services	27	17
Purchases of goods and services	(30)	(14)
Interest and dividends received	19	16

(In millions of euros)	2010	2009
Operating receivables	12	9
Operating payables	9	6
Net debt	11	7

6.7. Joint ventures

The following amounts are recorded in the Group's consolidated financial statements in respect of proportionately consolidated joint ventures:

(In millions of euros)	2010	2009
Non-current assets	100	84
Current assets	215	154
Non-current liabilities	27	22
Current liabilities	162	110
Net sales	457	315
Operating expenses	419	289

6.8. Events after the reporting period

On February 23, 2011 Valeo announced the signing of an agreement with RHJ International SA and Nissan to acquire 100% of the Japanese automotive supplier Niles. The transaction amounts to 320 million euros (enterprise value). This operation would reinforce Comfort and Driving Assistance Systems Business Group and strengthen the Group's position in Asia. The agreement is subject to various preconditions such as approval of the anti-trust authorities, before it can enter into effect.

7. List of consolidated companies

Company	2010		2009	
	% voting rights	% interest	% voting rights	% interest
EUROPE				
France				
Valeo (parent company)				
DAV	100	100	100	100
Equipement 1	100	100	100	100
Equipement 11	100	100	100	100
Equipement 2	100	100	100	100
SC2N	100	100	100	100
Société de Participations Valeo	100	100	100	100
Telma ⁽³⁾	-	-	100	100
Valeo Bayen	100	100	100	100
Valeo Embrayages	100	100	100	100
Valeo Equipements Electriques Moteur	100	100	100	100
Valeo Etudes Electroniques	100	100	100	100
Valeo Finance	100	100	100	100
Valeo Four Seasons ⁽²⁾	50	50	50	50
Valeo Interior Controls ⁽³⁾	-	-	100	100
Valeo Management Services	100	100	100	100
Valeo Matériaux de Friction	100	100	100	100
Valeo Plastic Omnium S.N.C. ⁽²⁾	50	50	50	50
Valeo Sécurité Habitacle	100	100	100	100
Valeo Service	100	100	100	100
Valeo Systèmes de Contrôle Moteur	100	100	100	100
Valeo Systèmes d'Essuyage	100	100	100	100
Valeo Systèmes Thermiques	100	100	100	100
Valeo Thermique Habitacle ⁽³⁾	-	-	100	100
Valeo Vision	100	100	100	100
Spain				
Telma Retarder España, S.A.	100	100	100	100
Valeo Climatización, S.A.	100	100	100	100
Valeo España, S.A.	100	100	100	100
Valeo Iluminación, S.A.	99.8	99.8	99.8	99.8
Valeo Materiales de Fricción, S.A. ⁽³⁾	-	-	100	100
Valeo Plastic Omnium S.L. ⁽²⁾	50	50	50	50
Valeo Service España, S.A.	100	100	100	100
Valeo Sistemas de Seguridad y de Cierre, S.A. ⁽³⁾	-	-	100	100
Valeo Sistemas Electricos, S.L.	100	100	100	100
Valeo Termico, S.A.	100	100	100	100

⁽¹⁾ Company accounted for by the equity method.

⁽²⁾ Company consolidated on a proportionate basis.

⁽³⁾ Company sold or wound up in 2010 and fully consolidated in 2009.

⁽⁴⁾ Company consolidated on a proportionate basis in 2009 and fully consolidated in 2010.

⁽⁵⁾ Company sold or wound up in 2010 and accounted for by the equity method in 2009.

Company	2010		2009	
	% voting rights	% interest	% voting rights	% interest
Portugal				
Cablagens Do Ave	100	100	100	100
Italy				
Valeo Commutazione S.r.l. ⁽³⁾	-	-	99.9	99.9
Valeo Service Italia, S.p.A.	99.9	99.9	99.9	99.9
Valeo Sistemi di Climatizzazione, S.p.A. ⁽³⁾	-	-	99.9	99.9
Valeo, S.p.A.	100	100	99.9	99.9
Germany				
Valeo Auto-Electric Beteiligungs GmbH	100	100	100	100
Valeo Auto-Electric GmbH	100	100	100	100
Valeo Compressor Europe GmbH	100	100	100	100
Valeo Germany Holding GmbH ⁽³⁾	-	-	100	100
Valeo GmbH	100	100	100	100
Valeo Grundvermögen Verwaltung GmbH	100	100	100	100
Valeo Holding Deutschland GmbH	100	100	100	100
Valeo Klimasysteme GmbH	100	100	100	100
Valeo Klimasysteme Verwaltung SAS & Co. KG	100	100	100	100
Valeo Schalter und Sensoren GmbH	100	100	100	100
Valeo Service Deutschland GmbH	100	100	100	100
Valeo Sicherheitssysteme GmbH	100	100	100	100
Valeo Verwaltungs-Beteiligungs GmbH & Co. KG	100	100	100	100
Valeo Wischersysteme GmbH	100	100	100	100
United Kingdom				
Telma Retarder Ltd ⁽³⁾	-	-	100	100
Valeo (UK) Limited	100	100	100	100
Valeo Climate Control Limited	100	100	100	100
Valeo Engine Cooling UK Limited	100	100	100	100
Valeo Management Services UK Limited	100	100	100	100
Valeo Service UK Limited	100	100	100	100
Ireland				
Connaught Electronics Limited	100	100	100	100
HI-KEY Limited	100	100	100	100
Belgium				
Valeo Service Belgique	100	100	100	100
Valeo Vision Belgique	100	100	100	100
Luxembourg				
Coreval	100	100	100	100

(1) Company accounted for by the equity method.

(2) Company consolidated on a proportionate basis.

(3) Company sold or wound up in 2010 and fully consolidated in 2009.

(4) Company consolidated on a proportionate basis in 2009 and fully consolidated in 2010.

(5) Company sold or wound up in 2010 and accounted for by the equity method in 2009.

Company	2010		2009	
	% voting rights	% interest	% voting rights	% interest
Netherlands				
Valeo Holding Netherlands B.V.	100	100	100	100
Valeo International Holding B.V.	100	100	100	100
Valeo Service Benelux B.V.	100	100	100	100
Czech Republic				
Connaught Electronics CZ Spol S.r.o. ⁽³⁾	-	-	100	100
Valeo Autoklimatizace k.s.	100	100	100	100
Valeo Compressor Europe S.r.o.	100	100	100	100
Valeo Vymeniky Tepla k.s.	100	100	100	100
Slovakia				
Valeo Slovakia S.r.o.	100	100	100	100
Poland				
Valeo Autosystemy Sp.ZO.O.	100	100	100	100
Valeo Electric and Electronic Systems Sp.ZO.O.	100	100	100	100
Valeo Service Eastern Europe Sp.ZO.O.	100	100	100	100
Hungary				
Valeo Auto-Electric Hungary LLC	100	100	100	100
Romania				
Valeo Lighting Assembly S.R.L.	100	100	100	100
Valeo Lighting Injection SA	100	100	51	51
Valeo Sisteme Termice S.R.L.	100	100	100	100
Russia				
Valeo Climate Control Tomilino LLC	95	95	95	95
Valeo Service Limited Liability Company	100	100	100	100
Turkey				
Nursan OK ⁽⁵⁾	-	-	40	40
Valeo Otomotiv Dagitim A.S.	100	100	100	100
Valeo Otomotiv Sistemleri Endustrisi A.S.	100	100	100	100
AFRICA				
Tunisia				
DAV Tunisie	100	100	100	100
Valeo Embrayages Tunisie S.A.	100	100	100	100
Valeo Tunisie S.A.	100	100	-	-
Morocco				
Cablinal Maroc, S.A.	100	100	100	100
Egypt				
Valeo Interbranch Automotive Software Egypt	100	100	100	100
South Africa				
Valeo Systems South Africa (Proprietary) Ltd.	51	51	51	51

(1) Company accounted for by the equity method.

(2) Company consolidated on a proportionate basis.

(3) Company sold or wound up in 2010 and fully consolidated in 2009.

(4) Company consolidated on a proportionate basis in 2009 and fully consolidated in 2010.

(5) Company sold or wound up in 2010 and accounted for by the equity method in 2009.

Company	2010		2009	
	% voting rights	% interest	% voting rights	% interest
NORTH AMERICA				
United States				
Telma Retarder Inc. ⁽³⁾	-	-	100	100
Valeo Climate Control Corp.	100	100	100	100
Valeo Compressor North America, Inc.	100	100	100	100
Valeo Electrical Systems, Inc.	100	100	100	100
Valeo Engine Cooling, Inc.	100	100	100	100
Valeo Friction Materials, Inc. ⁽³⁾	-	-	100	100
Valeo Front End Module, Inc.	100	100	100	100
Valeo Investment Holdings, Inc.	100	100	100	100
Valeo Radar Systems, Inc.	100	100	100	100
Valeo Switches and Detection Systems, Inc.	100	100	100	100
Valeo Sylvania, LLC ⁽²⁾	50	50	50	50
Valeo, Inc.	100	100	100	100
Mexico				
Delmex de Juarez S de RL de CV	100	100	100	100
Telma Retarder de Mexico, SA de CV	100	100	100	100
Valeo Climate Control de Mexico Servicios S de RL de CV	100	100	100	100
Valeo Climate Control de Mexico, SA de CV	100	100	100	100
Valeo Sistemas Electricos Servicios S de RL de CV	100	100	100	100
Valeo Sistemas Electricos, SA de CV	100	100	100	100
Valeo Sistemas Electronicos, S de RL de CV	100	100	100	100
Valeo Sylvania Iluminacion, S de RL de CV ⁽²⁾	50	50	50	50
Valeo Sylvania Services S de RL de CV ⁽²⁾	50	50	50	50
Valeo Termico Servicios, S de RL de CV	100	100	100	100
Valeo Transmisiones Servicios de Mexico S de RL de CV	100	100	100	100
SOUTH AMERICA				
Brazil				
Valeo Sistemas Automotivos Ltda	100	100	100	100
Argentina				
Cibie Argentina, SA	100	100	100	100
Emelar Sociedad Anonima	100	100	100	100
Valeo Embragues Argentina, SA	100	100	100	100
Valeo Termico Argentina, SA	100	100	100	100
ASIA				
Thailand				
Valeo Compressor (Thailand) Co. Ltd	98.5	98.5	98.5	98.5
Valeo Compressor Clutch (Thailand) Co. Ltd	97.3	97.3	97.3	97.3
Valeo Siam Thermal Systems Co. Ltd	74.9	74.9	74.9	74.9
Valeo Thermal Systems Sales (Thailand) Co. Ltd	74.9	74.9	74.9	74.9

(1) Société mise en équivalence

(2) Company consolidated on a proportionate basis.

(3) Company sold or wound up in 2010 and fully consolidated in 2009.

(4) Company consolidated on a proportionate basis in 2009 and fully consolidated in 2010.

(5) Company sold or wound up in 2010 and accounted for by the equity method in 2009.

Company	2010		2009	
	% voting rights	% interest	% voting rights	% interest
South Korea				
Dae Myong Precision Corporation	100	100	100	100
Valeo Compressor Korea Co., Ltd	100	100	100	100
Valeo Electrical Systems Korea, Ltd	100	100	100	100
Valeo Pyeong HWA Co. Ltd ⁽²⁾	50	50	50	50
Valeo Pyeong HWA International Co. Ltd ⁽²⁾	50	50	50	50
Valeo Samsung Thermal Systems Co., Ltd ⁽²⁾	50	50	50	50
Valeo Thermal Systems Korea Co. Ltd	100	100	100	100
Japan				
Ichikoh Industries Limited ⁽¹⁾	31.6	31.6	31.6	31.6
Valeo Engine Cooling Japan Co. Ltd ⁽³⁾	-	-	100	100
Valeo Thermal Systems Japan Corporation	100	100	100	100
Valeo Unisia Transmissions K.K.	66	66	66	66
China				
Faw-Valeo Climate Control Systems Co. Ltd ⁽¹⁾	36.5	36.5	36.5	36.5
Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd ⁽²⁾	50	50	50	50
Guangzhou Valeo Engine Cooling Co. Ltd	100	100	100	100
Huada Automotive Air Conditioner Co. Ltd ⁽¹⁾	30	30	30	30
Hubei Valeo Autolighting Company Ltd	100	100	100	100
Nanjing Valeo Clutch Co. Ltd ⁽²⁾	55	55	55	55
Shanghai Valeo Automotive Electrical Systems Company Ltd ⁽²⁾	50	50	50	50
Taizhou Valeo-Wenling Automotive Systems Company Ltd	100	100	100	100
Telma Vehicle Braking System (Shanghai) Co. Ltd ⁽³⁾	-	-	70	70
Valeo Auto Parts Trading (Shanghai). Co. Ltd	100	100	100	100
Valeo Automotive Air Conditioning Hubei Co. Ltd	55	55	55	55
Valeo Automotive Security Systems (Wuxi) Co. Ltd	100	100	100	100
Valeo Automotive Transmissions Systems (Nanjing) Co. Ltd	100	100	100	100
Valeo Engine Cooling (Foshan) Co. Ltd	100	100	100	100
Valeo Engine Cooling (Shashi) Co. Ltd	100	100	100	100
Valeo Compressor (Changchun) Co. Ltd	100	100	100	100
Valeo Interior Controls (Shenzhen) Co. Ltd	100	100	100	100
Valeo Lighting Hubei Technical Center Co. Ltd	100	100	100	100
Valeo Management (Beijing) Co. Ltd	100	100	100	100
Valeo Shanghai Automotive Electric Motors & Wiper Systems Co., Ltd	55	55	55	55
Indonesia				
PT Valeo AC Indonesia ⁽¹⁾	49	49	49	49
India				
Amalgamations Valeo Clutch Private Ltd ⁽²⁾	50	50	50	50
Minda Valeo Security Systems Private Ltd ⁽²⁾	50	50	50	50
Valeo India Private Ltd (formerly Valeo Engineering Center (India) Private Ltd)	100	100	100	100
Valeo Friction Materials India Limited	60	60	60	60
Valeo Lighting Systems (India) Private Ltd.	100	100	95	95
Valeo Engine and Electrical systems India Private Ltd. (formerly Valeo Minda Electrical Systems India Private Ltd)	100	100	66.7	66.7

⁽¹⁾ Company accounted for by the equity method.

⁽²⁾ Company consolidated on a proportionate basis.

⁽³⁾ Company sold or wound up in 2010 and fully consolidated in 2009.

⁽⁴⁾ Company consolidated on a proportionate basis in 2009 and fully consolidated in 2010.

⁽⁵⁾ Company sold or wound up in 2010 and accounted for by the equity method in 2009.

G. Statutory auditors' report on the consolidated financial statements

For the year ended December 31, 2010

This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures. This report also includes information relating to the specific verification of information given in the group's management report.

This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

In compliance with the assignment entrusted to us by your annual general meeting, we hereby report to you, for the year ended December 31, 2010, on:

- the audit of the accompanying consolidated financial statements of Valeo;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

1. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2010 and of the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the matter set out in Note 1.1.1 to the consolidated financial statements, which describes the new standards and interpretations which have been applied by your company as from January 1, 2010.

2. Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

- Notes 1.13 and 4.5.3 of the notes to the consolidated financial statements set out the methods implemented by the company to test acquisition goodwill, assess whether there is any indication of impairment of the fixed assets and, where applicable, perform an impairment test for these same assets. Our work consisted in examining the methods and assumptions used by Valeo during the implementation of these tests and verifying that the notes to the consolidated financial statements provide appropriate information.
- Notes 1.17 and 5.9.2 of the notes to the consolidated financial statements specify the methods of valuing pension commitments and similar benefits. Our work consisted in reviewing the actuarial data and assumptions used as well as the calculations made and verifying that the notes provide appropriate information.
- Note 1.18 of the notes to the consolidated financial statements describes the methods for valuing provisions intended to cover Valeo's obligations in respect of guarantees granted to its clients and specific quality risks. Our work consisted in examining the available documentation and the translation into figures of the assumptions used and assessing the reasonableness of the estimates used.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3. Specific verification

As required by law, we have also verified, in accordance with professional standards applicable in France, the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Courbevoie and Neuilly-sur-Seine, February 24, 2011

The statutory auditors

MAZARS

ERNST & YOUNG et Autres

David Chaudat

Lionel Gotlib Jean-François Ginies

Gilles Puissochet

