FIGURES

> SAN LUIS

CONSOLIDATED KEY FIGURES

(in € millions)	2003	2002	2001
Net sales and revenues	**9,234**	**9,803**	**10,234**
Gross margin % sales	**1,653** 17.9%	**1,702** 17.4%	**1,675** 16.4%
Operating income % sales	**465** 5.0%	**487** 5.0%	**388** 3.8%
Net income/(loss)	**181**	**135**	**(591)**
Earnings/(loss) per share (in €)	**2.20**	**1.63**	**(7.12)**
Earning before depreciation and amortization (1)	**796**	**783**	**296**
Capital expenditure	**453**	**556**	**745**
	December 31, 2003	December 31, 2002	December 31, 2001
Stockholders' equity	**1,980**	**2,101**	**2,262**
Net financial indebtedness	**568**	**564**	**648**
Debt-to-equity ratio	**29%**	**27%**	**29%**
Number of employees	**68,200**	**69,100**	**70,000**

(1) Net income + depreciation + amortization.

Half-yearly trends *(in € millions)*	First half 2003 (2)	Second half 2003
Net sales and revenues	**4,846**	**4,388**
Gross margin % sales	**863** 17.8 %	**790** 18.0 %
Operating income % sales	**241** 5.0 %	**224** 5.1 %

(2) The Auditors performed a limited review of the financial statements at June 30, 2003.

CONSOLIDATED STATEMENTS OF INCOME

(in € millions)	2003	2002	2001
NET SALES AND REVENUES (note 18)	**9,234**	**9,803**	**10,234**
Cost of sales	(7,581)	(8,101)	(8,559)
GROSS MARGIN	**1,653**	**1,702**	**1,675**
% sales	17.9%	17.4%	16.4%
Research and development expenditures	(564)	(577)	(619)
Selling expenses	(185)	(186)	(201)
Administrative expenses	(439)	(452)	(467)
OPERATING INCOME	**465**	**487**	**388**
% sales	5.0%	5.0%	3.8%
Net financial expense (note 13)	(41)	(62)	(62)
Other income/expense - net (note 14)	(89)	(74)	(738)
INCOME/(LOSS) BEFORE INCOME TAXES	**335**	**351**	**(412)**
Income taxes (note 15.1)	(55)	(106)	(42)
NET INCOME/(LOSS) FROM CONSOLIDATED COMPANIES	**280**	**245**	**(454)**
Equity in net earnings of associated companies (note 6)	9	7	(1)
Amortization of goodwill (note 3)	(90)	(95)	(120))
NET INCOME/(LOSS) BEFORE MINORITY INTERESTS	**199**	**157**	**(575)**
% sales	2.2%	1.6%	(5.6%)
Minority interests	(18)	(22)	(16)
NET INCOME/(LOSS)	**181**	**135**	**(591)**
% sales	2.0%	1.4%	(5.8%)
Average number of shares outstanding (thousands)	82,134	83,038	82,961
Earnings/(loss) per share (note 1.17) (in €)	**2.20**	**1.63**	**(7.12)**
Diluted earnings/(loss) per share (note 1.17) (in €)	2.20	1.63	(7.12)

The notes on pages 80 to 108 are an integral part of the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

At December 31 *(in € millions)*	2003	2002	2001
ASSETS			
Cash and marketable securities (note 11.1)	860	686	680
Accounts and notes receivable – net (note 8)	1,780	1,752	1,821
Inventories – net (note 7)	570	628	753
Short-term deferred tax assets (note 15.3)	56	56	55
Prepaid expenses and other current assets	185	300	451
Current assets	**3,451**	**3,422**	**3,760**
Property, plant and equipment	5,755	5,652	5,821
Less accumulated depreciation	(3,659)	(3,420)	(3,363)
Property, plant and equipment – net (note 4)	2,096	2,232	2,458
Goodwill – net (note 3)	1,261	1,387	1,596
Other intangibles – net (note 4)	54	43	50
Investments in companies carried at cost (note 5)	3	66	66
Investments in companies at equity (note 6)	76	34	27
Loans and other assets	12	10	10
Investments and other non-current assets	91	110	103
Long-term deferred tax assets (note 15.3)	65	106	124
Fixed assets	**3,567**	**3,878**	**4,331**
TOTAL ASSETS	**7,018**	**7,300**	**8,091**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Short-term debt (note 11.1)	237	579	634
Accounts and notes payable	1,664	1,667	1,685
Current maturities of long-term debt (note 11.1)	28	14	19
Provisions – current portion (note 10)	359	419	776
Other liabilities and deferred income	719	835	985
Current liabilities	**3,007**	**3,514**	**4,099**
Long-term debt (note 11.1)	1,166	657	676
Long-term deferred tax liabilities (note 15.3)	18	25	27
Provisions for contingencies and charges (note 10)	715	869	898
Long-term liabilities	**1,899**	**1,551**	**1,601**
Minority interests	**132**	**134**	**129**
Share capital	246	246	249
Additional paid-in capital	736	736	725
Retained earnings	998	1,119	1,288
Stockholders' equity (note 9)	**1,980**	**2,101**	**2,262**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**7,018**	**7,300**	**8,091**

The notes on pages 80 to 108 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in € millions)	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income/(loss) from consolidated companies	280	245	(454)
Net dividends received from associated companies	2	-	-
Other adjustments to reconcile net income to net cash provided by operating activities			
• depreciation, amortization and provisions for impairment in value	531	554	792
• net charges to/(reversals from) provisions and deferred taxes	(144)	(208)	128
• (gains)/losses - net of tax - on disposals of fixed assets	14	12	69
• other income and deductions with no cash effect	(2)	(4)	(3)
Cash flows	**681**	**599**	**532**
Changes in operating working capital:			
• inventories	63	69	42
• accounts and notes receivable	19	(1)	213
• accounts and notes payable	(64)	29	(71)
• other receivables and payables	23	106	4
Net cash provided by operating activities	**722**	**802**	**720**
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures:			
• property and intangibles	(460)	(606)	(741)
• investments and other non-current assets	(5)	(3)	(2)
Proceeds – net of tax – from disposal of:			
• property and intangibles	14	19	13
• investments and other non-current assets	2	-	-
Impact of changes in scope of consolidation (1) (note 2.3)	(42)	7	(111)
Net cash used in investing activities	**(491)**	**(583)**	**(841)**
Net cash provided/(used) before financing activities	**231**	**219**	**(121)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to parent company stockholders	(81)	(58)	(112)
Equalization tax on dividends	(39)	-	-
Dividends paid to minority interests in consolidated subsidiaries	(13)	(10)	(8)
Proceeds from:			
• issuance of share capital	2	12	5
• cancellation of shares held in treasury stock		(51)	-
• issuance of long-term debt	465	3	504
• capital grants received	7	3	3
Reduction in long-term debt	(13)	(14)	(20)
Net cash provided by/(used in) financing activities	**328**	**(115)**	**372**
Effect of exchange rate changes on cash	(43)	(43)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	**516**	**61**	**251**
Cash and cash equivalents at beginning of year (note 11.1)	**107**	**46**	**(205)**
CASH AND CASH EQUIVALENTS AT END OF YEAR (note 11.1)	**623**	**107**	**46**

(1) including €171 million in 2001 in capital gains tax paid on the disposal of Valeo's 50% stake in LuK in 1999.

The notes on pages 80 to 108 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Number of shares	*(in € millions)*	Share capital	Additional paid-in capital	Translation reserve	Retained earnings	Stock-holders' equity
82,923,403	**Stockholders' equity at December 31, 2000**	**249**	**720**	**49**	**1,901**	**2,919**
	Dividends	-	-	-	(112)	(112)
	Issuance of shares:					
133,200	• through exercise of options	-	5	-	-	5
	Translation adjustment	-	-	41	-	41
	2001 net loss	-	-	-	(591)	(591)
83,056,603	**Stockholders' equity at December 31, 2001**	**249**	**725**	**90**	**1,198**	**2,262**
	Dividends	-	-	-	(58)	(58)
	Issuance of shares:					
277,125	• through exercise of options	1	11	-	-	12
	Capital reduction:					
(1,200,000)	• through cancellation of shares held in treasury stock	(4)	-	-	(47)	(51)
	Impact of application of CRC standard 2000-06 on liabilities	-	-	-	(9)	(9)
	Translation adjustment	-	-	(190)	-	(190)
	2002 net income	-	-	-	135	135
82,133,728	**Stockholders' equity at December 31, 2002**	**246**	**736**	**(100)**	**1,219**	**2,101**
	Dividends	-	-		(81)	(81)
	Equalization tax on dividends (1)	-	-	-	(39)	(39)
	Other movements (2)	-	-	-	(22)	(22)
	Translation adjustment	-	-	(160)	-	(160)
	2003 net income	-	-	-	181	181
82,133,728	**Stockholders' equity at December 31, 2003**	**246**	**736**	**(260)**	**1,258**	**1,980**

(1) This equalization tax has been charged against stockholders' equity pending appropriation by the Annual General Meeting that will be called to approve the financial statements for the year ending December 31, 2003.
(2) Impact of the increase in Valeo's stake in Zexel (see note 2.1).

The notes on pages 80 to 108 are an integral part of the consolidated financial statements.

1 - ACCOUNTING POLICIES

1.1 - The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in France.

The accounting standards and policies applied to prepare the 2003 consolidated financial statements are consistent with those applied in 2002 and 2001 (except for the new 2000-06 standard of the Comité de la Réglementation Comptable (CRC) relating to liabilities, which has been applied since January 1, 2002 - see note 1.2).

In conformity with CRC standard 99-02, Valeo has decided not to adjust the accounting entries for acquisitions recorded before January 1, 2000.

The application of the International Accounting Standards published by the IASB is compulsory for European listed companies from 2005. In preparation for the transition to IAS/IFRS, Valeo has made a preliminary identification of the departures from these standards. This identification process will be continued in 2004.

Valeo already applies certain valuation and accounting requirements of the international standards IAS/IFRS. In particular, Valeo complies with the major provisions of International Accounting Standards concerning the valuation of inventory (IAS 2), the accounting treatment of leases (IAS 17) and property, plant and equipment (IAS 16, historical cost method), accounting for income taxes (IAS 12) and the valuation of liabilities (IAS 37).

However, to date Valeo has identified departures from the following standards and exposure drafts which, if they had been applied, would have had a material effect on the consolidated financial statements. Those standards are as follows:

- IAS 1: all the accounting standards established by the International Accounting Standards Board are not applied in their entirety;

- IAS 8: “Other income/expense – net” corresponding primarily to headcount reduction and restructuring costs, gains and losses on disposals of consolidated subsidiaries and associated companies accounted for by the equity method, and exceptional assets write-downs, are not included in operating income;

- IAS 14: segment reporting;

- IAS 19: certain aspects of the standard relating to employee benefits (including equity compensation benefits and options for first-time adoption);

- IAS 36: Valeo amortizes goodwill on a straight-line basis and exceptional amortization may be recorded where indicators of a lasting impairment in value can be identified. The exposure draft of proposed amendments to IAS 36 provides that goodwill amortization will no longer be compulsory and that systematic annual impairment tests should be carried out;

- IAS 38: Valeo continues to charge development costs to the statement of income when they are incurred;

- IAS 32 and 39: Valeo applies French generally accepted accounting principles in relation to financial instruments.

1.2 - Since January 1, 2002, Valeo has applied the new CRC standard 2000-06 relating to liabilities.

Application of this standard resulted in the cancellation of provisions that did not comply with the new standard, in the amount of €13 million at January 1, 2002 (see note 10), and a €22 million reduction in goodwill on Sylea, net of amortization (see note 3), leading to a €9 million decrease in stockholders’ equity.

If this standard had been applied as of January 1, 2001, “other income/expense – net” for 2001 would have included an additional expense of €17 million, and goodwill amortization would have been reduced by €1 million.

1.3 - Consolidation methods

The consolidated financial statements include the accounts of Valeo and of its majority-owned subsidiaries.

Investments in associated companies in which Valeo has the power to exercise significant influence over financial and operating policies, are accounted for by the equity method. Valeo is considered to exercise significant influence over companies in which the Group owns more than 20% of the voting rights. This method consists of replacing the book value of the investments by the Group's equity in the underlying net assets, including earnings for the year.

Companies held jointly by Valeo and another partner are accounted for as follows:

- jointly-owned subsidiaries managed de facto by Valeo are fully consolidated;
- those managed either legally or de facto by the partner are accounted for using the equity method;
- only those in which both partners share voting rights, seats on the Board of Directors or equivalent and share management responsibility are consolidated on a proportional basis.

Investments in certain other majority-owned subsidiaries and associated companies that the Group does not intend to hold on a long-term basis or which are not material in relation to the Group as a whole, are not consolidated.

The individual Group companies are consolidated on the basis of their local financial statements, as restated in accordance with the principles applied by the Group.

All significant inter-company transactions are eliminated, including gains on inter-company disposals of assets, inter-company profits included in inventories and inter-company dividends.

Companies acquired during the year are consolidated as from their acquisition date.

1.4 - Intangibles and goodwill

The identifiable assets and liabilities of companies consolidated for the first time are recorded in the consolidated balance sheet at their fair value at the date of acquisition. The excess of the purchase price of the shares in the company concerned over the aggregate fair value of identifiable assets and liabilities at the date of acquisition is recorded as an asset under “Goodwill”. Goodwill is amortized by the straight-line method over the estimated period of benefit, determined on a case-by-case basis, not to exceed twenty years. The fair value of goodwill is reviewed whenever indicators of a lasting impairment in value are identified. Such indicators include significant changes with a lasting adverse effect on the economic environment or the assumptions and objectives applied at the date of acquisition. Impairment losses are measured based on projected future earnings and recorded in the form of exceptional amortization.

Goodwill arising on the acquisition of foreign companies and fair value adjustments to the underlying assets and liabilities of the acquired companies are translated at the year-end exchange rate.

As regards the 1998 acquisition of ITT Automotive Electrical Systems, which was partly financed by a share issuance, goodwill on the portion of the acquisition price funded through equity was recorded as a deduction from the related issue premium.

If this accounting treatment had not been applied to this transaction, stockholders' equity would have been increased by €495 million at December 31, 2003 (by €583 million at December 31, 2002) and net income would have been reduced by €36 million in 2003 (by €39 million in 2002) : see note 3.

Other intangible assets, primarily patents and software, are amortized on a straight-line basis over periods corresponding to the estimated period of benefit.

1.5 - Property, plant and equipment

Property, plant and equipment are carried at cost, excluding interest expense, which is not capitalized. French and foreign legal revaluations are not reflected in the consolidated financial statements.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets concerned. The principal useful lives employed are:

• Buildings	20 years
• Fixtures and fittings	8 years
• Machinery and equipment	4 to 8 years
• Other fixed assets	3 to 8 years

Whenever indicators of a lasting impairment in value are identified, a provision is booked to write down property, plant and equipment to their fair value to the Group measured based on projected future earnings.

Assets leased under long-term contracts or other arrangements which transfer substantially all of the benefits and risks of ownership to the Group, are capitalized and depreciated on the basis outlined above and the corresponding obligation is recorded as a liability.

Capital grants received from government agencies to finance manufacturing investments are written back to income over the useful life of the corresponding assets.

Repair and maintenance expenses are charged to income when incurred.

1.6 - Investments and other non-current assets

Investments in companies carried at cost represent shares in companies that are not consolidated.

Where appropriate, these investments are written down to an amount corresponding to their fair value to the Group.

1.7 - Inventories

Inventories are stated at the lower of cost or net realizable value. The cost of work in progress and finished goods includes 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 balance sheet date.

Allowances for obsolescence are recorded where appropriate, based on the rate of turnover of each inventory.

1.8 - Marketable securities

Marketable securities are stated at the lower of cost or market value. They include Valeo shares bought back in order to stabilize the share price or for allocation to employees.

1.9 - Debt issuance costs

Expenditures arising from the issuance of debt are recorded as a deferred charge and amortized on a straight-line basis over the period of debt.

1.10 - Pension and other employee benefits

The cost of providing statutory retirement bonuses, supplementary pension benefits and other post-retirement benefits (payment of healthcare costs and other benefits) is recognized as an expense in the period in which the services entitling employees to the benefits are rendered. Provisions are booked for all benefits due to employees, whether they relate to the period of employment, employee retirement or post-employment period. The estimated future liability is determined at each year-end, taking into account the length of service and the likelihood of each employee remaining with the Group until the retirement date, or the minimum early retirement age, in those cases where certain benefit entitlements vest before that date. The liability is calculated on an actuarial basis, using assumptions concerning future salary levels, retirement age and the return on plan assets at the year-end. The cumulative effects of changes in actuarial assumptions are recognized in the income statement over the average residual working life of active employees, except for variances not exceeding 10% of the total obligation or the market value of plan assets, whichever is higher.

1.11 - Product warranty costs

Provision is made for estimated product warranty costs at the time of sale of the products.

1.12 - Research and development expenditures

Research and development expenditures are charged to expense when incurred. They include all costs related to the development of new products and systems, and research and development for existing products.

1.13 - Income tax expense

Income taxes reported in the income statement include current income taxes and deferred income taxes arising from timing differences between the tax base and book value of assets and liabilities. The main timing differences are related to depreciation of property, plant and equipment, provisions for pension and other employee benefits, other temporarily non-deductible provisions and to tax loss carryforwards. Deferred income taxes are accounted for using the liability method applied to all timing differences and based on the latest enacted tax rates.

Recognition of deferred tax assets arising from timing differences or tax loss carryforwards is limited to the amount of existing deferred tax liabilities, unless it appears probable that taxable profits will be available against which the deferred tax asset can be utilized.

The Group reviews the probability of future utilization of deferred tax assets on a periodic basis and where necessary a valuation allowance is recorded against deferred tax assets recognized in prior years.

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

1.14 - Other income/expense - net

"Other income/expense – net" consist primarily of gains and losses arising on divestment of consolidated businesses and associated companies accounted for by the equity method, costs relating to personnel downsizing or industrial restructuring plans and exceptional assets write-downs.

Costs relating to downsizing plans which are announced to the personnel and costs relating to facilities closing or termination of businesses are provided for as soon as such costs can be estimated with a reasonable degree of accuracy.

1.15 - Foreign currency translation

Transactions in foreign currency are translated using the rate prevailing at the transaction date or the hedging rate, if any. Assets and liabilities denominated in foreign currency are translated at the year-end exchange rate or the hedging rate, if any. Differences arising from the translation of foreign currency transactions are included in income. As an exception to this rule, differences relating to loans and borrowings which are in substance an integral part of the net investment in the foreign subsidiary are recorded for their amount net of tax in consolidated stockholders' equity under translation reserves.

The financial statements of foreign subsidiaries, with the exception of those operating in countries with highly inflationary economies or of companies whose principal cash flows are denominated in a functional currency different from the local currency, are translated as follows:

- assets and liabilities are translated at the year-end exchange rate;
- income statement accounts are translated using the average exchange rate for the year;
- gains or losses arising from the translation of the financial statements of foreign subsidiaries are recorded through consolidated stockholders' equity (under “translation reserves”) for the Group share and in minority interests.

Countries defined as having highly inflationary economies are primarily those whose inflation rate over three years is in excess of 100%. For such countries and for companies which operate in a functional currency different from the local currency:

- all non monetary balance sheet and corresponding income statement items are translated into the functional currency using historical rates;
- monetary balance sheet items are translated using the year-end exchange rate;
- all other income statement items are translated at the average exchange rate for the year.

The functional currency is that in which a company's principal cash flows are denominated or the currency used for consolidation purposes.

1.16 - Financial instruments

Gains and losses on financial instruments used for hedging purposes are determined and accounted for on a symmetrical basis with the losses and gains on the hedged items.

This accounting treatment is also applied to financial instruments acquired as hedges of probable future transactions.

Financial instruments not used as hedges are marked to market at each year-end and the resulting gain or loss is recognized in the statement of income.

1.17 - Diluted earnings per share

Primary earnings per share are calculated by dividing consolidated net income by the average number of shares outstanding during the year, excluding the average number of shares held in treasury stock when the latter have been deducted from stockholders' equity.

Diluted earnings per share are calculated by including potentially dilutive instruments such as stock options or convertible bonds, taking into account the probability of exercise or conversion based on the market price (average Valeo share price over the year). When funds are received on the exercise of these rights (such as on the subscription of shares), 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 purpose 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.

2 - CHANGES IN THE SCOPE OF CONSOLIDATION

2.1 - 2003 transactions

2.1.1 Acquisitions

- Valeo Auto Lighting
  Valeo acquired an additional 24% interest in Hubei Valeo Auto Lighting in China, increasing its stake to 75% in March 2003. The acquisition of this additional stake in the company, which was already fully consolidated did not have any impact on consolidated sales in 2003.

- Ichikoh
  Valeo increased its stake in Ichikoh Industries to 21.6% in 2003. The company was accounted for by the equity method from September 30, 2003 leading to the recognition of €18 million in goodwill at that date.

- Zexel
  Valeo acquired an additional 10% interest in Zexel Valeo Climate Control, increasing its stake in the company to 50% at December 1, 2003. The Climate Control business (managed de facto by Valeo) is fully consolidated and the Compressors business (jointly managed) is proportionally consolidated. Only certain minority interests or those which the Group intends to sell are still accounted for by the equity method.

  This acquisition, which took place on December 1, 2003, contributed €34 million to consolidated sales in 2003. If it had taken place on January 1, 2003 the pro forma impact on consolidated sales for 2003 would have been €424 million.

Based on the fair value of identifiable assets and liabilities on the date of the acquisition, in accordance with CRC standard 99-02, €22 million was recognized as preliminary goodwill (amortized over 20 years) and €22 million was recorded in retained earnings, representing the revaluation of the 40% equity previously held.

- Valeo Raytheon Systems Inc
  Valeo continued to invest in Valeo Raytheon Systems Inc., raising its stake in the company from 47.0% at December 31, 2002 to 58.1% at December 31, 2003.

The total cost of these acquisitions was €34 million.

2.1.2 Disposals

- Saint-Aubin
  On October 1, 2003, Valeo sold its plastic injection business based at Saint-Aubin d'Arquenay (France) to IMTEC, one of the Group's suppliers. This business had external sales of €1 million in 2002 and 2003 and employed 46 people at October 1, 2003.

- Vénissieux
  On October 31, 2003 Valeo sold its business of rear light and safety accessories for Heavy Goods Vehicles, trailers and buses based at Vénissieux (France). This business reported sales of €30 million and €24 million for 2002 and 2003 respectively, and had 199 employees at October 31, 2003.

2.2 - Main changes in the scope of consolidation in 2002

- Partnership with the US-based Jabil Circuit group for printed circuit board manufacturing.
  Valeo transferred its Meung-sur-Loire facility (750 people) to the world-class electronics manufacturing company Jabil Circuit in July 2002. The transfer of production from the Fort Worth facility in the United States was undertaken as from November 2002. This operation had no material impact on Group sales in 2002 or 2003.

- Creation of Valeo Raytheon Systems Inc.
  Valeo set up a joint venture with Raytheon dedicated to developing and producing new automobile applications using radar technology designed for obstacle detection systems. This business has been fully consolidated since September 2002. It had 17 employees at December 31, 2003 and did not generate any sales in 2002 or 2003.

2.3 - Impact of changes in scope of consolidation on the consolidated balance sheet

The following table reconciles the value, at the date of acquisition or disposal, of the assets and liabilities acquired and disposed of in connection with the above transactions to the corresponding cash flows:

Acquisitions less disposals

(in € millions)	2003	2002	2001
Goodwill	42	6	(34)
Fixed assets (1)	110	(30)	(53)
Inventories	26	(16)	(27)
Receivables	114	-	(82)
Stockholders' equity	11	-	48
Minority interests	(6)	-	8
Long-term debt	(72)	2	-
Other liabilities and deferred income	(143)	30	61
Other liabilities (2)	(40)	1	190
Cash absorbed by acquisitions (net of cash provided by disposals of shares in consolidated companies)	**42**	**(7)**	**111**

(1) Including investments in companies at equity.
(2) Including provisions for contingencies and charges.

The impact on Group cash flow of the changes in the scope of consolidation in 2003 (€42 million) was primarily due to the acquisition of the additional stake in Zexel Valeo Climate Control.

2.4 - Impact of changes in scope of consolidation and exchange rates on sales and revenues

Group sales stood at €9,234 million in 2003, down 5.8% on the 2002 figure of €9,803 million.

Changes in exchange rates had a 4.7 % unfavorable impact on sales in euros. Based on a comparable structure and at constant exchange rates, sales were 1.4% lower than in 2002.

3 - GOODWILL

Net goodwill can be analyzed as follows:

(in € millions)	2003	2002	2001
Net goodwill, January 1	**1,387**	**1,596**	**1,560**
Acquisitions (1)	43	9	47
Disposals (2)	(1)	-	(52)
Translation adjustment	(82)	(86)	27
Adjustments to fair value of assets and liabilities of companies acquired in prior years	-	(1)	351
Impact of the new standard concerning liabilities (3)	-	(22)	-
Amortization expense	(90)	(94)	(337) (4)
Reversal of a provision set off against goodwill	-	(15)	-
Other	4	-	-
Net goodwill, December 31	**1,261**	**1,387**	**1,596**

(1) see note 2.1.1
(2) see note 2.1.2
(3) see note 1.2
(4) includes exceptional amortization of goodwill relating to certain of the Rochester site's activities (see note 14).

Analysis of goodwill by company:

At December 31 *(in € millions)*	2003	2002
Valeo Electronique et Systèmes de Liaison	365	387
ITT Industries	321	379
Valeo Mando Electrical System Korea	74	95
Valeo Sylvania	55	71
Valeo Sicherheitssysteme	62	67
Zexel Valeo Climate Control	75	61
Other	309	327
Net goodwill at December 31	**1,261**	**1,387**

At December 31, 2003, goodwill related to ITT Automotive Electrical Systems amounted to €321 million. In line with the methodology described in note 1.4, two-thirds of this goodwill, corresponding to the portion of the acquisition financed by the issuance of shares, has been written off to the extent possible against the related premium of €986 million.

The net goodwill amount includes the exceptional write-down of VESI goodwill in 2001 based on an indication of impairment loss arising due to the structural difficulties faced by this company in the North American context and its unfavorable earnings outlook. The amount of the write-down was determined based on the total goodwill recognized at the time of acquisition and partly charged to the income statement (€200 million in 2001) and partly to stockholders' equity (€305 million in 2001), on a prorata basis reflecting the initial allocation between goodwill and stockholder's equity.

Net goodwill at December 31, 2003 concerns the following branches: Climate Control (€192 million), Engine Cooling (€74 million), Lighting Systems (€85 million), Wiper Systems (€219 million), Electrical Systems (€86 million), Security Systems (€86 million), Switches & Detection Systems and Electronics & Connective Systems (€443 million).

4 - INTANGIBLES AND PROPERTY, PLANT AND EQUIPMENT

4.1 - Analysis

At December 31 *(in € millions)*	Cost	Depreciation, amortization and allowances	Net	Net	Net
	2003			2002	2001
Software	79	(54)	25	10	14
Patents and licences	40	(26)	14	16	21
Other intangible assets	29	(14)	15	17	15
Intangible assets	**148**	**(94)**	**54**	**43**	**50**
Land	169	(8)	161	133	143
Buildings	911	(464)	447	438	463
Plant and equipment	4,013	(2,842)	1,171	1,283	1,378
Other	662	(345)	317	378	474
Property, plant and equipment	**5,755**	**(3,659)**	**2,096**	**2,232**	**2,458**
Assets under capital leases included above			37	23	35

4.2 - Main movements

(in € millions)	Intangible assets	Property, plant and equipment	Total
Net at December 31, 2000	**44**	**2,436**	**2,480**
Capital expenditure	27	718	745
Disposals	(3)	(118)	(121)
Depreciation, amortization and allowances	(16)	(557)	(573)
Impact of change in the scope of consolidation	-	(49)	(49)
Translation adjustment	-	26	26
Other	(2)	2	-
Net at December 31, 2001	**50**	**2,458**	**2,508**
Capital expenditure	12	544	556
Disposals	(1)	(69)	(70)
Depreciation, amortization and allowances	(18)	(536)	(554)
Translation adjustment	(1)	(143)	(144)
Other	1	(22)	(21)
Net at December 31, 2002	**43**	**2,232**	**2,275**
Capital expenditure	26	427	453
Disposals	(1)	(43)	(44)
Depreciation, amortization and allowances	(22)	(509)	(531)
Impact of change in the scope of consolidation	5	110	115
Translation adjustment	(1)	(103)	(104)
Other	4	(18)	(14)
Net at December 31, 2003	**54**	**2,096**	**2,150**

Capital expenditure breaks down as follows:

At December 31 (in € millions	2003	2002	2001
Intangible assets	26	12	27
Land and buildings	64	68	72
Plant and equipment	269	373	528
Other	94	103	118
Capital expenditure	**453**	**556**	**745**

5 - INVESTMENTS CARRIED AT COST

At December 31	Net book value of shares held		
(in € millions)	2003	2002	2001
Ichikoh (1)	-	61	61
Valeo Services Ltd (2)	1	1	1
Valeo GmbH (2)	1	1	1
Teccom (2)	1	1	1
Other (2)	-	2	2
Investments carried at cost	**3**	**66**	**66**

(1) Interest acquired in connection with the alliance between Valeo's Lighting Systems Branch and Ichikoh Industries, accounted for by the equity method from September 30, 2003 (see note 2.1.1).

(2) Non-material companies which are not consolidated in accordance with CRC standard 99-02.

6 - INVESTMENTS IN COMPANIES AT EQUITY

At December 31	% voting rights			Equity in net assets		
(in € millions)	2003	2002	2001	2003	2002	2001
Zexel (1)	(1)	40 %	40 %	18	20	17
Ichikoh (2)	21.6 %	-	-	44	-	-
Faw Zexel Climate Control	36.5 %	36.5 %	36.5 %	6	7	3
Shanghai Valeo Automotive	-	-	-	-	-	-
Electrical Systems	30 %	30 %	30 %	5	5	5
Other	-	-	-	3	2	2
Investments in companies at equity				**76**	**34**	**27**

(1) Zexel: Valeo held 40% of Zexel until December 1, 2003 when it acquired an additional 10% stake. Since that date the Climate control business (managed de facto by Valeo) has been fully consolidated and the Compressors business (jointly managed) has been proportionally consolidated. Only certain minority interests or those which the Group intends to sell are still accounted for by the equity method.

(2) Ichikoh: accounted for by the equity method from September 30, 2003 (see note 2.1.1).

Investments in companies at equity can be analyzed as follows:

(in € millions)	2003	2002
Investments at equity at January 1	**34**	**27**
Net earnings of investments at equity	9	7
Dividend payments	(3)	-
Impact of change in the scope of consolidation	42	5
Translation adjustment	(6)	(5)
Investments at equity at December 31	**76**	**34**

7 - INVENTORIES

At December 31 *(in € millions)*	2003	2002	2001
Raw materials	244	299	345
Work-in-progress	80	74	94
Finished goods, supplies and specific tooling	351	362	409
Inventories at cost	**675**	**735**	**848**
Less allowances	(105)	(107)	(95)
Inventories - net	**570**	**628**	**753**

8 - ACCOUNTS AND NOTES RECEIVABLE

At December 31 *(in € millions)*	2003	2002	2001
Accounts and notes receivable	1,812	1,785	1,865
Less allowances	(32)	(33)	(44)
Accounts and notes receivable - net	**1,780**	**1,752**	**1,821**

9 - STOCKHOLDERS' EQUITY

9.1 - Share capital

At December 31, 2003, Valeo's share capital totaled €246 million, represented by 82,133,728 shares of common stock with a par value of €3 each, all fully paid-up. Shares which have been registered in the name of the same holder for at least four years carry double voting rights (1,769,500 at December 31, 2003). There were no movements in the Company's share capital in 2003.

The following employee stock option plans approved by the General Shareholders' Meeting were in progress at December 31, 2003:

Year in which plan was set up	Number of shares subject to options	Exercise price (in €) (1)	Number of options outstanding at Dec. 31, 2003	Expiration of exercise period
1999	150,000	67.40	58,250	2004
1999	850,000	70.32	528,000	2005
2000	50,000	60.70	50,000	2006
2000	1,300,000	48.00	948,750	2006/2008
2000	37,500	54.52	35,625	2006
2001	80,000	55.82	80,000	2009
2001	600,000	42.48	600,000	2009
2001	442,875	42.69	395,800	2009
2002	420,000	43.84	321,000	2010
2002	600,000	28.30	540,500	2010
2003	700,000	23.51	687,000	2011
2003	1,280,000 (2)	32.91	1,280,000 (2)	2011
Total	**6,510,375**		**5,524,925**	

(1) Equal to 100% of the average quoted price of Valeo shares for twenty trading days preceding the Board of Directors or Management Board Meeting at which the options were granted.
(2) 780,000 stock subscription options and 500,000 stock purchase options.

At the Extraordinary General Shareholders' Meeting of June 10, 2002, the Management Board was authorized to issue various financial instruments. This authorization was transferred to the Board of Directors by the General Shareholders' Meeting held on March 31, 2003. The long-term financing opportunities offered to the Board under these authorizations were taken up in 2003 through the issue of €463 million worth of bonds convertible or exchangeable for new and/or outstanding shares (OCEANE) : see note 11.3.1.

The exercise of all outstanding stock options and the conversion into new shares of all of the OCEANEs would result in Valeo's share capital being increased to €291 million, representing 97,134,407 shares.

9.2 - Additional paid-in capital

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

At the time of acquisition of ITT Automotive Electrical Systems, goodwill on the portion of the acquisition price funded through equity (€957 million in 1998 and €29 million in 1999) was recorded as a deduction from the issue premium.

9.3 - Translation reserve

The translation reserve at December 31, 2003 primarily includes gains and losses arising from the translation of the net assets of the US, Mexican, Brazilian, Swedish, Korean and Japanese subsidiaries.

9.4 - Retained earnings

Consolidated retained earnings comprise net income for the year before appropriation of €1.05 per share (total of €85 million) to dividends proposed at the General Shareholders' Meeting (2002 dividend €1 per share, i.e. a total of €81 million; 2001 dividend €0.7 per share, i.e. a total of €58 million).

Distribution by the parent company of the balance of its retained earnings (€1,457 million after appropriation of 2003 net income) would result in additional tax of €477 million.

10 - PROVISIONS FOR CONTINGENCIES AND CHARGES

Changes in provisions for contingencies and charges can be analyzed as follows:

	Provisions for reorganization expenses	Provisions for pension and other employee benefits	Other provisions for contingencies and charges	Total provisions for contingencies and charges	O/w short-term
Provisions at January 1, 2001	**488**	**563**	**241**	**1,292**	**631**
Expenses charged to the provisions during the year	(270)	(34)	(101)	(405)	
Impact of change in the scope of consolidation	(7)	(10)	(6)	(23)	
Translation adjustment	12	12	1	25	
Increase recorded against goodwill	142	-	87	229	
Additions/recoveries - net	375	96	103	574	
Other movements	-	(20)	2	(18)	
Provisions at December 31, 2001	**740**	**607**	**327**	**1,674**	**776**
Expenses charged to the provisions during the year	(193)	(83)	(103)	(379)	
Impact of change in the scope of consolidation	-	(2)	-	(2)	
Translation adjustment	(40)	(48)	(23)	(111)	
Provisions reclassified (1)	(133)	83	(21)	(71)	
Impact of the new standard concerning liabilities	(13)	-	-	(13)	
Additions/recoveries - net	4 (2)	59	101	164	
Other movements	-	26	-	26	
Provisions at December 31, 2002	**365**	**642**	**281**	**1,288**	**419**
Expenses charged to the provisions during the year	(163)	(85)	(73)	(321)	
Impact of change in the scope of consolidation	7	8	22	37	
Translation adjustment	(17)	(55)	(9)	(81)	
Provisions reclassified (1)	(10)	43	(31)	2	
Additions/recoveries - net	21 (2)	84	48 (3)	153	
Other movements	-	(4)	-	(4)	
Provisions at December 31, 2003	**203**	**633**	**238**	**1,074**	**359**

(1) of which €83 million and €38 million reallocated from provisions for reorganization expenses to provisions for pension and other employee benefits for the Rochester facility in 2002 and 2003 respectively, with the balance mainly reflecting asset write-downs.
(2) of which €16 million in recoveries in 2003 (€28 million in 2002).
(3) of which €20 million in recoveries.

10.1 - Provisions for reorganization expenses

Provisions for reorganization expenses correspond to a series of measures adopted by the Group as part of an industrial rationalization plan aimed at more closely tailoring Valeo's industrial base to customer requirements, in terms of cost competitiveness and geographical location. The provisions include costs relating primarily to:

- the continued rightsizing and production rationalization measures implemented at the Rochester site (USA);
- specific severance payments (CATS) applicable at certain French sites, in accordance with the industry agreement signed in March 2001.

10.2 - Provision for pension and other employee benefits

The Group's main pension commitments concern its French, German, American and Italian subsidiaries.

The French companies are subject to two types of obligations, which are due and paid only after employees retire from the company:

- statutory retirement bonuses;
- supplementary pension benefits: since 1987, pension contributions have been made to an external fund, which in turn makes payments to the retirees. The Group continues to pay pensions to employees who retired before 1987.

The American companies provide their employees with pension benefits and pay some of their medical and life insurance costs. They make contributions to outside funds that manage all or part of these benefits.

The German companies grant supplementary pension benefits to their employees. The related obligations are not externally funded.

The Italian companies are required by law to pay contract termination indemnities to their employees.

"Provision for pension and other employee benefits" also includes other long-term benefits, primarily long-service awards in France.

The costs relating to all of the above-mentioned benefits are accounted for in accordance with the method described in note 1.10.

Assumptions regarding mortality rates, employee turnover and future salary levels take into account the specific economic conditions of each country or Group company. The main discounting rates used at December 31, 2003 to calculate the present value of future commitments were as follows:

- France: 5.5%
- Other European countries: 5 to 6%
- North America: 6%

The Group's pension and other employee benefits obligations can be analyzed as follows:

(in € millions)	France	Other European countries	North America	Other countries	Total
Obligations at January 1, 2003	**118**	**274**	**437**	**22**	**851**
Service cost	7	12	9	5	33
Interest expense	7	14	33	2	56
Benefits paid	(21)	(16)	(27)	(2)	(66)
Changes in assumptions	24	(6)	109 (1)	5	132
Plan amendments	10	(1)	(8)	-	1
Impact of changes in scope of consolidation	(1)	1	3	2	5
Other	9	(2)	43	(1)	49
Translation adjustment	-	(4)	(99)	(4)	(107)
Obligations at December 31, 2003	**153**	**272**	**500**	**29**	**954**
Plan assets at fair value	(2)	(27)	(113)	-	(142)
Unrecognized prior period service cost	(17)	-	9	-	(8)
Unrecognized actuarial gains and losses	(16)	(5)	(149)	(1)	(171)
Provisions at December 31, 2003	**118**	**240**	**247**	**28**	**633**

(1) primarily representing the reduction in the discounting rate applied and an amended growth rate relating to healthcare expenses.

(in € millions)	France	Other European countries	North America	Other countries	Total
Provisions at January 1, 2003	**108**	**236**	**277**	**21**	**642**
Expenses charged to the provisions during the year	(21)	(16)	(46)	(2)	(85)
Impact of changes in scope of consolidation	(1)	1	-	8	8
Reclassification from provision for reorganization expenses	8	(2)	38	(1)	43
Other	-	(3)	1	(2)	(4)
Translation adjustment	-	-	(52)	(3)	(55)
Provisions for the year (expense):					
• Service cost	7	12	9	5	33
• Interest expense	7	14	33	2	56
• Prior-period service cost	13	-	(9)	-	4
• Return on plan assets	-	-	(8)	-	(8)
• Other items	(3)	(2)	4	-	(1)
Provision at December 31, 2003	**118**	**240**	**247**	**28**	**633**
O/w short-term	**20**	**13**	**40**	**2**	**75**

10.3 - Other provisions for contingencies and charges

At December 31 (in € millions)	2003	2002	2001
Provisions for product warranties	90	95	99
Capital grants	15	11	14
Provisions for other contingencies	133	175	214
Other provisions for contingencies and charges	**238**	**281**	**327**

Provisions for other contingencies mainly concern contractual, social, environmental or tax risks and litigation.

11 - NET INDEBTEDNESS

11.1 Breakdown of net indebtedness

Net indebtedness can be analyzed as follows:

At December 31 (in € millions)	2003	2002	2001
Long-term debt (note 11.3.1)	1,166	657	676
Current maturities of long-term debt	28	14	19
Long-term loans	(3)	-	(1)
Total long-term debt	**1,191**	**671**	**694**
Short-term debt (note 11.4)	237	579	634
Cash and marketable securities (note 11.5)	(860)	(686)	(680)
Net cash and cash equivalents	**(623)**	**(107)**	**(46)**
Net indebtedness	**568**	**564**	**648**

11.2 Analysis of net indebtedness by currency

Net indebtedness can be analyzed as follows by currency:

At December 31 *(in € millions)*	2003	2002	2001
Euro	620	701	908
US dollar	(44)	(56)	(203)
Other currencies	(8)	(81)	(57)
Total	**568**	**564**	**648**

11.3 Long-term debt

11.3.1 Analysis of long-term debt

At December 31 *(in € millions)*	2003	2002	2001
Bond issue	500	500	500
OCEANEs	463	-	-
Syndicated loans	127	127	127
Lease obligations	27	14	25
Other borrowings	77	30	43
Long-term debt	**1,194**	**671**	**695**

Long-term debt includes:

- €500 million worth of five-year fixed rate bonds issued by Valeo on July 13, 2001, repayable in full at maturity. The interest rate on these bonds is 5.625% of the nominal amount and coupons are payable annually.
- €463 million worth of bonds convertible for new shares or exchangeable for existing shares (OCEANE) issued on August 4, 2003, representing 9,975,754 bonds with a nominal value of €46.4 each. The interest on these bonds is 2.375% per annum payable in arrears on January 1 with the first payment in 2004. The bonds will be redeemed in full at par on January 1, 2011. Bondholders may convert or exchange their bonds at any time at a ratio of one share per bond.
- two fixed-rate syndicated loans in an amount of €127 million, due on June 24, 2005, and managed using variable rate swaps on a notional value equal to the total amount of the loans.

11.3.2 Maturities of long-term debt

At December 31 *(in € millions)*	2005	2006	2007	2008	2009	2010 and beyond	Total
Bond issue	-	500	-	-	-	-	500
OCEANEs	-	-	-	-	-	463	463
Syndicated loans	127	-	-	-	-	-	127
Lease obligations	11	5	1	-	-	1	18
Other borrowings	30	20	4	1	1	2	58
Total	**168**	**525**	**5**	**1**	**1**	**466**	**1,166**

11.4 Short-term debt

Short-term debt can be analyzed as follows:

At December 31 *(in € millions)*	2003	2002	2001
Commercial paper	50	440	483
Short-term loans and overdrafts	169	138	150
Accrued interest	18	1	1
Short-term debt	**237**	**579**	**634**

11.5 Cash and marketable securities

At December 31 *(in € millions)*	2003	2002	2001
Marketable securities	(516)	(406)	(219)
Cash	(344)	(280)	(461)
Cash and marketable securities	**(860)**	**(686)**	**(680)**

The portfolio of marketable securities at December 31, 2003 primarily consists of money market mutual funds, whose market value is close to their book value, and €30 million of shares held in treasury stock.

11.6 Credit lines

At December 31, 2003 Valeo had obtained several confirmed lines of credit with an average maturity of two years, for a total of €1.3 billion. No drawdowns had been made on these lines at that date. These credit lines contain contractual covenants relating to debt-to-equity ratios. At December 31, 2003 the ratio stood at 29%, significantly below the thresholds set by these covenants.

11.7 Financing programs

The Group has a medium and long-term Euro Medium Term Notes financing program representing a maximum of €2 billion. No notes have been issued under this program, which was set up on October 28, 2002 and renewed on November 20, 2003.

The Group also has a short-term commercial paper financing program with a ceiling of €1.2 billion.

12 – NUMBER OF EMPLOYEES AND OPERATING EXPENSES

At December 31	2003	2002	2001
Total employees(1)	68,200	69,100	70,000

The statement of income presents operating expenses by function. Operating expenses primarily include:

(in € millions)	2003	2002	2001
Personnel costs (1)	2,283	2,430	2,601
Rent	56	50	55
Depreciation and amortization:			
• property, plant and equipment	503	536	534
• intangibles	22	18	16

(1) including temporary staff.

13 - NET FINANCIAL EXPENSE

(in € millions)	2003	2002	2001
Net interest expense	(40)	(49)	(47)
Currency gains and losses - net	(5)	(10)	(10)
Other (1)	4	(3)	(5)
Net financial expense	**(41)**	**(62)**	**(62)**

(1) In 2003 this item includes €8 million in interest received from the French tax authorities in connection with a tax rebate (see note 15).

14 - OTHER INCOME/EXPENSE - NET

(in € millions)	2003	2002	2001 (1)
Gains/(losses) on disposals of shares in consolidated or equity-accounted companies (note 2.1.2)	10	-	(33)
Exceptional goodwill amortization	-	1	(217)
Reorganization expenses	(71)	(41)	(447)
Other expenses – net	(28)	(34)	(41)
Other income/expense - net	**(89)**	**(74)**	**(738)**

(1) Other income/expense - net for 2001 mainly included costs relating to the Rochester reorganization plan and exceptional amortization of the goodwill relating to certain activities at that facility.

15 - INCOME TAXES

15.1 - Income tax expense

(in € millions)	2003	2002	2001
Current taxes	(24)	(101)	(62)
Deferred taxes	(31)	(5)	20
Income tax expense	**(55)**	**(106)**	**(42)**

The net tax charge for 2003 includes an €88 million tax rebate received from the French tax authorities during the year, corresponding to a portion of the tax paid in 2001 on the gain from the 1999 disposal of the Group’s 50% interest in LuK. The €8 million in interest also received from the French tax authorities in connection with this rebate have been recorded in “Net financial expense”. Valuation allowances have been recorded in respect of certain deferred tax assets, based on the Group's revised estimate at December 31, 2003 of the probability of their being recovered.

15.2 - Effective tax rate

The difference between the French standard corporate income tax rate and the effective tax rate of the Group can be analyzed as follows:

(% of income before tax)	2003	2002	2001
Standard tax rate in France	(35.4 %)	(35.4 %)	(36.4 %)
Impact of:			
• income taxed at other rates	0.5 %	6.0 %	(9.4 %)
• unutilized tax losses (current year) and unrecognized deferred tax assets	(36.4 %)	(14.1 %)	64.0 %
• utilized tax losses (prior years)	12.3 %	5.4 %	(6.4 %)
• permanent differences between book income and taxable income	12.6 %	6.5 %	(1.1 %)
• tax credits	30.0 %	1.4 %	(0.7 %)
Effective Group tax rate	**(16.4 %)**	**(30.2 %)**	**10.0 %**

15.3 - Deferred tax assets/liabilities

At December 31 *(in € millions)*	2003	2002	2001
Long-term deferred tax assets	65	106	124
Short-term deferred tax assets	56	56	55
Long-term deferred tax liabilities	(18)	(25)	(27)
Net deferred tax assets	**103**	**137**	**152**

15.4 - Loss carryforwards and tax credits

Future tax benefits resulting from the utilization of unrecorded accumulated tax loss carryforwards and other unrecognized deferred tax assets represent a potential asset of €617 million at December 31, 2003 (€525 million at December 31, 2002 and €412 million at December 31, 2001).

Due to the uncertainty of their utilization, these potential credits will be recognized only when their recovery seems probable in the short or medium term. The table below sets out the expiry dates for these potential credits.

At December 31 *(in € millions)*	Base	Potential tax saving
Expiration date: 2004 to 2007	166	55
Expiration date: 2008 and beyond	387	110
Available indefinitely	587	209
Current tax loss carryforwards	**1,140**	**374**
Unrecognized deferred tax assets (timing differences)	-	243
Total unrecognized tax loss carryforwards and deferred tax assets		**617**

15.5 - Group tax relief

Valeo SA and its main French subsidiaries elected to qualify for Group tax relief for the years 1998 to 2002 and 2003 to 2007.

The Group's foreign subsidiaries have also elected to apply for Group tax relief or similar schemes, wherever this is allowed under local tax law (Germany, Spain, the United Kingdom and the United States).

16 - COMMITMENTS AND CONTINGENCIES

To the best of Valeo's knowledge, no other 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.

16.1 - Lease commitments

Minimum future rentals payable under leasing contracts existing at December 31, 2003 (excluding capitalized leases) are as follows (by maturity date):

At December 31	2003			2002		
(in € millions)	Less than one year	More than one year	Total	Less than one year	More than one year	Total
Future rents	49	33	82	24	19	43

16.2 - Other commitments

In the course of its ordinary business, Valeo has the following unrecorded commitments:

At December 31	2003			2002		
(in € millions)	Less than one year	More than one year	Total	Less than one year	More than one year	Total
Counterguarantees on contracts	-	-	-	-	-	-
Receivables sold	-	-	-	14	-	14
Pledges, mortgages and collateral	5	54	59	13	-	13
Guarantees given	25	13	38	26	23	49
Other commitments given	9	47	56	19	5	24
Total	**39**	**114**	**153**	**72**	**28**	**100**

Commitments regarding pensions and other employee benefits are disclosed in note 10.2. Commitments less plan assets at fair value amount to €812 million, of which €633 million are provided for. Commitments regarding financial instruments are disclosed in note 17.

In connection with its strategic alliances, the Valeo Group has granted call options on less than 15% of the capital of the companies concerned. The corresponding stockholders' equity amounts are as follows:

At December 31, 2003 *(in € millions)*	Less than one year	More than one year	Total
Commitments given	20	-	20

16.3 - Claims and litigation

Known claims and litigation involving Valeo or its subsidiaries have been reviewed by legal counsel as of the date of these financial statements. Based on the advice of counsel, all necessary provisions have been made to cover the estimated contingencies and potential losses.

17 – OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

17.1 Hedging of foreign currency risks

Certain entities may be subject to some degree of currency risk on purchases of products, sales billed in currencies other than their reporting currencies, or investments carried out in foreign countries. The Group companies' exposure to these currency risks is hedged primarily with Valeo SA, which in turn hedges the Group's net positions with external counterparties.

Current and future transactions of Group companies (sales and investments) are generally hedged over periods not exceeding six months.

The main hedging instruments generally used by Valeo are currency forwards, swaps and options.

At December 31, 2003 the Group's net position in the main foreign currencies was as follows:

At December 31 *(in € millions)*	USD	GBP	JPY	Other
Total assets	52	7	3	53
Total liabilities	(73)	(14)	(19)	(43)
Net position before hedging	**(21)**	**(7)**	**(16)**	**10**
Forward sales	(32)	(6)	-	(11)
Forward purchases	104	-	3	15
Options	-	-	-	-
Off-balance sheet position	**72**	**(6)**	**3**	**4**
Net position after hedging	**51**	**(13)**	**(13)**	**14**

The net position after hedging essentially corresponds to forecast transactions for 2004.

The market value of currency instruments was €(1) million at December 31, 2003.

17.2 Hedging of interest rate risks

At December 31 *(in € millions)*	Less than one year	1 to 5 years	Over 5 years
Financial assets	(833)	-	-
Financial liabilities	275	689	467
Position before hedging	**(558)**	**689**	**467**
Off balance sheet	127	(127)	-
Position after hedging	**(431)**	**562**	**467**

The Group's average borrowing cost amounted to 5.3% in 2003 (5.9% for 2002 and 2001). At December 31, 2003, 88% of long-term debt was at fixed rates (80% at December 31, 2002 and 2001). Valeo has very low exposure to interest rate risks due to the high proportion of its long-term debt at fixed rates.

The market value of the swap relating to syndicated loans was €1 million at December 31, 2003.

17.3 Hedging of commodity risks

In order to reduce the Group's exposure to fluctuations in base metals prices, Valeo hedges its future purchases of base metals over periods generally not exceeding six months. The materials concerned (aluminum, copper, zinc and tin) are quoted on official markets. The Group favors hedging instruments which do not involve the physical delivery of the underlying commodity, i.e. swaps and options based on the average monthly commodity price.

At December 31, 2003, commodity price risks were hedged by forward purchases totaling €52 million. The estimated market value of instruments outstanding at December 31, 2003 was €5 million.

18 - SEGMENT REPORTING

18.1 - Reporting by business

(in € millions)	Sales and revenues	Property, plant and equipment and intangibles (net at December 31)	Capital expenditure for the year	Number of employees (at December 31)
2003				
Transmissions	720	203	41	4,550
Climate Control (1)	1,321	281	45	7,210
Engine Cooling	1,454	277	46	8,090
Lighting Systems	1,140	239	55	7,650
Electrical Systems	919	242	49	5,140
Wiper Systems	1,235	323	70	8,280
Motors & Actuators	367	83	20	1,880
Security Systems	652	94	32	4,020
Switches & Detection Systems	855	200	68	5,950
Electronics & Connective Systems	737	117	21	14,110
Distribution	518	32	2	1,070
Holding companies	-	59	14	250
Eliminations	(684)	-	(10)	-
Total	**9,234**	**2,150**	**453**	**68,200**
2002				
Transmissions	731	225	49	4,660
Climate Control	1,385	198	56	5,320
Engine Cooling	1,559	334	57	8,400
Lighting Systems	1,168	271	51	8,430
Electrical Systems	915	277	62	5,140
Wiper Systems	1,395	338	101	8,020
Motors & Actuators	573	104	24	2,740
Security Systems	645	90	28	4,000
Switches & Detection Systems	829	181	68	5,980
Electronics & Connective Systems	953	148	48	15,160
Distribution	535	36	4	1,000
Holding companies	-	73	8	250
Eliminations	(885)	-	-	-
Total	**9,803**	**2,275**	**556**	**69,100**
2001				
Transmissions	982	245	59	4,460
Climate Control	1,398	219	68	5,150
Engine Cooling	1,686	410	105	8,320
Lighting Systems	1,172	304	80	7,770
Electrical Systems	854	303	126	4,780
Wiper Systems	1,377	339	88	7,910
Motors & Actuators	665	123	32	3,570
Security Systems	650	95	31	3,920
Switches & Detection Systems	783	172	58	6,570
Electronics & Connective Systems	1,141	175	66	16,300
Distribution	476	40	6	960
Holding companies	-	83	26	290
Eliminations	(950)	-	-	-
Total	**10,234**	**2,508**	**745**	**70,000**
(1) Including Zexel Compressors activity	11	58	4	1,040

18.2 - Reporting by geographical area

	Sales and revenues	Operating income	Property, plant and equipment and intangibles (net at December 31)	Capital expenditure for the year	Number of employees (at December 31)
2003					
Europe	6,908	308	1,578	352	52,300
Rest of world	2,431	157	572	102	15,900
Eliminations	(105)	-	-	(1)	-
Total	**9,234**	**465**	**2,150**	**453**	**68,200**
2002					
Europe	6,918	314	1,680	441	53,200
Rest of world	3,035	173	595	115	15,900
Eliminations	(150)	-	-	-	-
Total	**9,803**	**487**	**2,275**	**556**	**69,100**
2001					
Europe	7,255	328	1,708	561	53,500
Rest of world	3,137	59	800	184	16,500
Eliminations	(158)	1	-	-	-
Total	**10,234**	**388**	**2,508**	**745**	**70,000**

The above figures are by original areas of production and not by market.

Sales by geographical market are as follows:

(in € millions)	2003	2002	2001
Europe	6,579	6,586	6,946
Rest of world	2,655	3,217	3,288
Total	**9,234**	**9,803**	**10,234**

CONSOLIDATED AND ASSOCIATED COMPANIES AT DECEMBER 31, 2003

		2003		2002	
Companies	Countries	% voting rights	% interest	% voting rights	% interest
Transmissions					
Valeo Embrayages	France	100	100	100	100
Valeo Matériaux de Friction	France	100	100	100	100
Valeo Espana [1]	Spain	100	100	100	100
Valeo Materiales de Friccion	Spain	100	100	100	100
Valeo Spa [1]	Italy	99.9	99.9	99.9	99.9
Valeo Otomotiv Sistemleri Endutrisi [1]	Turkey	100	100	100	100
Valeo Embrayages Tunisie	Tunisia	100	100	100	100
Valeo Inc [1]	USA	100	100	100	100
Valeo Friction Materials Inc	USA	100	100	100	100
Valeo Sistemas Automotivos [1]	Brazil	100	100	100	100
Valeo Embragues Argentina	Argentina	68	68	68	68
Emelar	Argentina	100	68	100	68
Valeo Materiales de Friccion de Mexico	Mexico	100	100	100	100
Valeo Pyeong Hwa	South Korea	50	50	50	50
Valeo Pyeong Hwa Distribution	South Korea	50	50	50	50
Valeo Unisia Transmissions	Japan	66	66	66	66
Nanjing Valeo Clutch	China	50	50	50	50
Amalgamations Valeo Clutch	India	50	50	50	50
Valeo Friction Materials India	India	60	60	60	60
Climate Control					
Valeo Climatisation [1]	France	93	93	93	93
Valeo Switches and Detection Systems [1]	France	100	100	100	100
Valeo Klimasysteme	Germany	100	93	100	93
Valeo Autoklimatizace	Czech Republic	100	93	100	93
Valeo Climatizacion	Spain	100	93	100	93
Valeo Sistemi di Climatizzazione Spa	Italy	100	93	100	93
Valeo Climate Control Ltd	UK	100	93	100	93
Valeo Climate Control Corp. [1]	USA	100	93	100	93
Valeo Acustar Thermal Systems	USA	51	47.4	51	47.4
Valeo Climatizacao Brasil	Brazil	100	93	100	93
Mirgor [2]	Argentina	50	24.2	50	24.2
Interclima [2]	Argentina	50	24.2	50	24.2
Valeo Climate Control de Mexico	Mexico	100	93	100	93
Valeo Automotive Air Conditioning Hubei	China	55	30.7	55	30.7
FAW Zexel Climate Control Syst. [2]	China	36.5	20.4	36.5	20.4
Moduko Co. Ltd [3]	Japan	50	50		
Zexel Valeo Climate Control - Compressors [4]	Japan	50 [3]	46.5 [3]	40 [2]	37.2 [2]
Zexel Valeo Climate Control - HVAC [4]	Japan	50	46.5	40 [2]	37.2 [2]
Zexel Logitec Company [2] [4]	Japan	50	46.5		
PT Zexel AC Indonesia [2] [4]	Indonesia	49	22.8		
Huada Zexel Automotive Air Conditioner [2] [4]	China	30	14		
Siam Zexel Co [2] [4]	Thailand	39	18.1		
Zexel Clutches Co [3] [4]	Thailand	50	44.4		
Zexel Sales Thailand [2] [4]	Thailand	15.6	7.25		
Zexel Valeo Compressor Czech [3] [4]	Czech Republic	50	46.5		
Zexel Valeo Compressor Europe GmbH [3] [4]	Germany	50	46.5		
Zexel Valeo Compressor USA Corp [3] [4]	USA	50	46.5		

Companies	Countries	2003		2002	
		% voting rights	% interest	% voting rights	% interest
Selective Technology Inc (3) (4)	USA	50	46.5		
Zexel Valeo Climate Control Korea Co (3) (4)	Korea	50	46.5		
Zexel Valeo Compressors (3) (4)	Thailand	50	43.7		
Engine Cooling					
Valeo Climatisation (1)	France	93	93	93	93
Valeo Thermique Moteur	France	100	100	100	100
Valeo Plastic Omnium (3)	France	50	50	50	50
Valeo Termico	Spain	100	100	100	100
Valeo Iluminacion (1)	Spain	99.7	99.7	99.7	99.7
Valeo Plastic Omnium (3)	Spain	50	50	50	50
Valeo Spa (1)	Italy	99.9	99.9	99.9	99.9
Valeo Vymeniky Tepla	Czech Republic	100	93	100	93
Valeo Autosystemy (1)	Poland	100	100	100	100
Valeo Engine Cooling A.B.	Sweden	100	100	100	100
Valeo Systems South Africa	South Africa	51	51	51	51
Valeo Inc (1)	USA	100	100	100	100
Valeo Climate Control Corp. (1)	USA	100	93	100	93
Valeo Sistemas Automotivos (1)	Brazil	100	100	100	100
Valeo Termico Argentina	Argentina	100	100	100	100
Valeo Termico (1)	Mexico	100	100	100	100
Valeo Tek Inc.	South Korea	100	100	100	100
Valeo Zexel Engine Cooling	Japan	80	78.6	76	74.9
Lighting					
Valeo Vision	France	100	100	100	100
Valeo Auto Electric KG (1)	Germany	100	100	100	100
Valeo Beleuchtung Deutschland	Germany	100	100	100	100
Valeo Vision Belgique	Belgium	100	100	100	100
Valeo Iluminacion (1)	Spain	99.7	99.7	99.7	99.7
Valeo Spa (1)	Italy	99.9	99.9	99.9	99.9
Valeo Autosystemy (1)	Poland	100	100		
Ichikoh Industries (2)	Japan	21.6	21.6		
Valeo Sylvania LLC (3)	USA	50	50	50	50
Valeo Sistemas Automotivos (1)	Brazil	100	100	100	100
Cibie Argentina	Argentina	100	100	100	100
Valeo Sylvania Iluminacion (3)	Mexico	50	50	50	50
Hubei Valeo Autolighting	China	75	75	51	51
Electrical systems					
Valeo Equipements Electriques Moteur	France	100	100	100	100
Valeo Four Seasons	France	50	50	50	50
Telma	France	100	100	100	100
Telma Retarder Espana	Spain	100	100	100	100
Telma Retarder Ltd	UK	100	100	100	100
Telma Retarder Italia	Italy	100	100	100	100
Telma Retarder Deutschland	Germany	100	100	100	100
Sylea Poland (1)	Poland	100	100	100	100
Valeo Otomotiv Sistemleri Endutrisi (1)	Turkey	100	100	100	100
Telma Retarder Inc	USA	100	100	100	100
Telma Retarder de Mexico SA de CV	Mexico	100	100	100	100
Valeo Sistemas Electricos (1)	Mexico	100	100	100	100

Companies	Countries	2003		2002	
		% voting rights	% interest	% voting rights	% interest
Valeo Sistemas Automotivos [1]	Brazil	100	100	100	100
Telma Retarder do Brasil Comercial	Brazil	100	100	100	100
Valeo Mando Electrical Systems Korea Ltd	South Korea	100	100	100	100
Shanghai Valeo Automotive Electrical Systems [2]	China	30	30	30	30
Wipers Systems					
Valeo Systèmes d'Essuyage [1]	France	100	100	100	100
Paul Journée [1]	France			100	100
Valeo Auto Electric KG [1]	Germany	100	100	100	100
Valeo Schalter und Sensoren [1]	Germany	100	100	100	100
Valeo Wischersysteme [1]	Germany	100	100	100	100
Valeo Sistemas Electricos	Spain	100	100	100	100
Valeo Autosystemy [1]	Poland	100	100	100	100
Valeo Electrical Systems [1]	USA	100	100	100	100
Valeo Sistemas Electricos [1]	Mexico	100	100	100	100
Delmex de Juarez [1]	Mexico	100	100	100	100
Valeo Sistemas Automotivos [1]	Brazil	100	100	100	100
Valeo Wenling Automotive Systems	China	55	55	55	55
Valeo Shanghai Automotive Electric Motors	China	50	50	50	50
Motors and Actuators					
Valeo Systèmes d'Essuyage [1]	France	100	100	100	100
Valeo Auto Electric KG [1]	Germany	100	100	100	100
Valeo Schalter und Sensoren [1]	Germany	100	100	100	100
Valeo Motoren und Aktuatoren [1]	Germany	100	100	100	100
Valeo Componentes Automoviles	Spain	100	100	100	100
Valeo Electrical Systems [1]	USA	100	100	100	100
Delmex de Juarez [1]	Mexico	100	100	100	100
Valeo Automotive Electrical Systems de Mexico	Mexico			100	100
Security Systems					
Valeo Sécurité Habitacle	France	100	100	100	100
Antivols Simplex	France			100	100
Valeo Sicherheitssysteme GmbH	Germany	100	100	100	100
Valeo Sistemas de Seguridad y de Cierre	Spain	100	100	100	100
Valeo Sicurezza Abitacolo	Italy	100	99.9	100	99.9
Valeo Security Systems Ltd	UK	100	100	100	100
Valeo Investment Holding [1]	USA	100	100	100	100
Valeo Neiman Argentina	Argentina			100	100
Valeo Termico [1]	Mexico	100	100	100	100
Valeo Sistemas Automotivos [1]	Brazil	100	100	100	100
Switches and Detection Systems					
Valeo Switches and Detection Systems [1]	France	100	100	100	100
DAV [1]	France	100	100	100	100
SC2N	France	100	100	100	100
Valeo Cablaggi e Commutazione [1]	Italy	100	100	100	100
Valeo Schalter und Sensoren [1]	Germany	100	100	100	100
Valeo Auto Electric KG [1]	Germany	100	100	100	100
Valeo Auto Electric Hungary	Hungary	100	100	100	100

Companies	Countries	2003		2002	
		% voting rights	% interest	% voting rights	% interest
DAV Tunisie	Tunisia	100	100	100	100
Valeo Raytheon Systems Inc	USA	58.1	58.1	47	47
Valeo Switches and Detection Systems Inc.	USA	100	100	100	100
Valeo Sistemas Electronicos (1)	Mexico	100	100	100	100
Valeo Sistemas Automotivos (1)	Brazil	100	100		
DAV Argentina	Argentina	100	100	100	100
Electronics and Connective Systems					
Valeo Electronique et Systèmes de Liaison	France	100	100	100	100
Valeo Liaisons Electriques	France	100	100	100	100
Cablea	France	100	100	100	100
DAV (1)	France	100	100	100	100
Valeo Sistemas de Conexion Electrica	Spain	100	100	100	100
Cablinal Portuguesa	Portugal	100	100	100	100
Cablagens do Ave	Portugal	100	100	100	100
Valeo Cablaggi e Commutazione (1)	Italy	100	100	100	100
Cavisud	Italy	100	100	100	100
Cablauto	Italy	100	100	100	100
Sylea GmbH	Germany	100	100	100	100
Labauto Ltd	UK	100	100	100	100
Sylea Tchequia	Czech Republic	100	100	100	100
Sylea Poland (1)	Poland	100	100	100	100
EKO	Slovenia	98.9	98.9	98.9	98.9
Valeo Kabli	Slovenia	100	100	100	100
Valeo Electronice Si Sisteme de Conectare Romania	Romania	100	100	100	100
Nursan OK (2)	Turkey	40	40	40	40
Nursan ED (2)	Turkey	40	40	40	40
Cablea	Tunisia	100	100	100	100
STC	Tunisia	100	100	100	100
Sylea	Tunisia	100	100	100	100
Cabelec	Morocco	100	100	100	100
Cablinal	Morocco	100	100	100	100
Cablea Maroc	Morocco	100	100	100	100
Valeo Bouznika	Morocco	100	100	100	100
TCA (2)	Argentina	20	20	20	20
TCA (2)	Brazil	20	20	20	20
Sylea Automotive Limited	India			100	100
Distribution					
Valeo Service	France	100	100	100	100
Equipement 7	France	100	100	100	100
Paul Journée (1)	France			100	100
Valeo Service Deutschland GmbH	Germany	100	100	100	100
Valeo Wischersysteme (1)	Germany	100	100	100	100
Valeo Service Belgique	Belgium	100	100	100	100
Valeo Service Espana	Spain	100	100	100	100
Valeo Service Italia	Italy	100	99.9	100	99.9
Valeo Service Eastern Europe	Poland	100	100	100	100
Valeo Service Benelux	Netherlands	100	100	100	100
Valeo Service (UK) Limited	UK	100	100	100	100

Companies	Countries	2003 % voting rights	2003 % interest	2002 % voting rights	2002 % interest
Valeo Otomotiv Dagitim	Turkey	100	100	100	100
Valeo Aftermarket Inc.	USA	100	100	100	100
Valeo Sistemas Automotivos (1)	Brazil	100	100	100	100
Holding companies					
Valeo	**France**		**parent company**		
Valeo Management Services	France	100	100	100	100
Société de Participations Valeo	France	100	100	100	100
Valeo Finance	France	100	100	100	100
Valeo Bayen	France	100	100	100	100
Valeo Thermique Habitacle	France	100	100	100	100
Financière Cablea	France	100	100	100	100
Valeo Zexel China Climate Control	France	60	55.8	60	55.8
Valeo Holding Deutschland GmbH	Germany	100	100	100	100
Valeo Germany Holding GmbH	Germany	100	100	100	100
Valeo Auto-Electric KG (1)	Germany	100	100	100	100
Valeo Auto-Electric Beteiligung GmbH	Germany	100	100	100	100
Valeo Espana (1)	Spain	100	100	100	100
Valeo Spa (1)	Italy	99.9	99.9	99.9	99.9
Coreval	Luxembourg	100	100	100	100
Valeo International Holding	Netherlands	100	100	100	100
Valeo Holding Netherlands	Netherlands	100	100	100	100
Valeo (UK) Limited	UK	100	100	100	100
Valeo Inc (1)	USA	100	100	100	100
Valeo Electrical Systems (1)	USA	100	100	100	100
Valeo Investments Holding	USA	100	100	100	100
Valeo Nova Scotia	Canada	100	100	100	100
Il Tevere (2)	Argentina	50	46.5	50	46.5
Zexel Valeo Climate Control (4)	Japan	50	46.5		

(1) company operating in several segments.
(2) company accounted for by the equity method.
(3) company accounted for by the proportional method.
(4) company previously consolidated through Zexel Valeo Climate Control accounts.

AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Free translation from the original French language report

In compliance with the assignment entrusted to us by the General Shareholders' Meeting, we have audited the consolidated financial statements of Valeo for the year ended December 31, 2003 as presented on pages 76 through 108 of this document.

The financial statements were approved by the Board of Directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the professional standards applied 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Valeo and its subsidiaries and their assets and liabilities as of December 31, 2003, and of the results of their operations for the year then ended in accordance with French accounting principles and regulations.

In accordance with the justification obligation set down in paragraph 2 of article L.225-235, of the French Commercial Code (Code de Commerce), we draw your attention to the following:

- as stated in Note 1.4 to the consolidated financial statements, the Group reviews indicators which may point to a lasting impairment in value of goodwill. As part of our assessment of significant estimates used for the preparation of the financial statements, we reviewed the elements relied upon to justify the fact that there was no lasting impairment in value of goodwill at December 31, 2003. We did not identify any significant matters that affect the estimates used by the Group at December 31, 2003;

- the Group has updated the probability of future utilization of certain deferred tax assets as described in Note 1.13 to the consolidated financial statements. As part of our assessment of the significant estimates used for the preparation of the financial statements, we reviewed the assumptions used to justify the amount of deferred tax assets recognized at December 31, 2003. We did not identify any significant matters that affect the estimates used by the Group at December 31, 2003.

We have also reviewed the information given in the Group's management report. We have no comments to make as to its fair presentation and its conformity with the consolidated financial statements.

Paris, February 10, 2004

The Statutory Auditors

PricewaterhouseCoopers Audit
Serge Villepelet

RSM Salustro Reydel
Jean-Pierre Crouzet