Consolidated financial statements for the year ended December 31, 2011

La technologie automobile, naturellement Valeo

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1. Consolidated statement of income

(in millions of euros)	*Note*	**2011**	**2010**
CONTINUING OPERATIONS			
SALES	*4.1*	**10,868**	**9,632**
Cost of sales	*4.2*	(9,025)	(7,897)
GROSS MARGIN		**1,843**	**1,735**
% of sales		17.0%	18.0%
Research and Development expenditure, net	*4.4*	(561)	(537)
Selling expenses		(181)	(171)
Administrative expenses		(397)	(410)
OPERATING MARGIN		**704**	**617**
% of sales		6.5%	6.4%
Other income and expenses	*4.5*	-	(27)
OPERATING INCOME		**704**	**590**
Interest expense	*4.6*	(90)	(83)
Interest income	*4.6*	19	16
Other financial income and expenses	*4.7*	(35)	(32)
Share in net earnings (losses) of associates		2	(1)
INCOME BEFORE INCOME TAXES		**600**	**490**
Income taxes	*4.8*	(148)	(104)
INCOME FROM CONTINUING OPERATIONS		**452**	**386**
DISCONTINUED OPERATIONS			
Income (loss) from discontinued operations, net of tax		(1)	(2)
NET INCOME FOR THE YEAR		**451**	**384**
Attributable to:			
• Owners of the Company		427	365
• Non-controlling interests		24	19
Earnings per share:			
• Basic earnings per share (*in euros*)	*4.9.1*	5.68	4.86
• Diluted earnings per share (*in euros*)	*4.9.2*	5.67	4.86
Earnings per share from continuing operations:			
• Basic earnings per share (*in euros*)		5.70	4.89
• Diluted earnings per share (*in euros*)		5.69	4.89

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

2. Consolidated statement of comprehensive income

(in millions of euros)	**2011**	**2010**
Net income for the year	**451**	**384**
Translation adjustment	7	164
o/w income taxes	-	-
Cash flow hedges:		
• gains (losses) taken to equity	(24)	10
• (gains) losses transferred to income (loss) for the year	4	(14)
o/w income taxes	*2*	-
Remeasurement of available-for-sale financial assets	(1)	(1)
o/w income taxes	-	-
Other comprehensive income (loss) recycled to income	***(14)***	***159***
Actuarial gains (losses) on defined benefit plans	(90)	(20)
o/w income taxes	-	*10*
Other comprehensive income (loss) not recycled to income	***(90)***	***(20)***
Other comprehensive income (loss) for the year, net of tax	**(104)**	**139**
Total comprehensive income for the year	**347**	**523**
Attributable to:		
• Owners of the Company	316	496
• Non-controlling interests	31	27

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

3. Consolidated statement of financial position

(in millions of euros)	*Note*	**Dec. 31, 2011**	**Dec. 31, 2010**
ASSETS			
Goodwill	*5.1*	1,437	1,210
Other intangible assets	*5.2*	641	544
Property, plant and equipment	*5.3*	1,956	1,655
Investments in associates	*5.4*	104	104
Non-current financial assets		91	107
Deferred tax assets	*5.5*	223	198
Non-current assets		**4,452**	**3,818**
Inventories	*5.6*	766	621
Accounts and notes receivable	*5.7*	1,705	1,449
Other current assets		312	200
Taxes recoverable		20	10
Other current financial assets		10	24
Assets held for sale		2	2
Cash and cash equivalents	*5.10.4*	1,295	1,316
Current assets		**4,110**	**3,622**
TOTAL ASSETS		**8,562**	**7,440**

(in millions of euros)	*Note*	**Dec. 31, 2011**	**Dec. 31, 2010**
EQUITY AND LIABILITIES			
Share capital	*5.8.1*	238	236
Additional paid-in capital	*5.8.2*	1,429	1,412
Translation adjustment	*5.8.3*	230	230
Retained earnings	*5.8.4*	39	(170)
Stockholders' equity		**1,936**	**1,708**
Non-controlling interests	*5.8.7*	144	62
Stockholders' equity including non-controlling interests		**2,080**	**1,770**
Provisions – long-term portion	*5.9*	994	806
Debt – long-term portion	*5.10.2*	1,494	1,097
Other non-current financial liabilities [(1)]		51	13
Subsidies and grants – long-term portion		23	19
Deferred tax liabilities	*5.5*	24	22
Non-current liabilities		**2,586**	**1,957**
Accounts and notes payable		2,340	1,987
Provisions – current portion	*5.9*	262	377
Subsidies and grants – current portion		9	9
Taxes payable		59	53
Other current liabilities		824	703
Current portion of long-term debt	*5.10.2*	307	505
Other current financial liabilities		20	2
Short-term debt	*5.10.3*	75	77
Current liabilities		**3,896**	**3,713**
TOTAL EQUITY AND LIABILITIES		**8,562**	**7,440**

[(1)] *The presentation of the statement of financial position at December 31, 2010 has been adjusted compared to the version published in February 2011. Other non-current financial liabilities were previously shown within other financial liabilities in view of their non-material carrying amounts.*

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

4. Consolidated statement of cash flows

(in millions of euros)	*Note*	**2011**	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		451	384
Share in net earnings (losses) of associates		(2)	1
Net dividends received from associates		-	4
Expenses (income) with no cash effect	*5.11.1*	429	524
Cost of net debt		71	67
Income taxes (current and deferred)		148	104
Gross operating cash flows		**1,097**	**1,084**
Income taxes paid		(169)	(118)
Changes in working capital	*5.11.2*	(29)	31
Net cash from operating activities		**899**	**997**
CASH FLOWS FROM INVESTING ACTIVITIES			
Outflows relating to acquisitions of intangible assets		(193)	(153)
Outflows relating to acquisitions of property, plant and equipment		(490)	(323)
Inflows relating to disposals of property, plant and equipment		17	12
Net change in non-current financial assets		17	(26)
Impact of changes in scope of consolidation	*5.11.3*	(269)	22
Net cash used in investing activities		**(918)**	**(468)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(91)	-
Dividends paid to non-controlling interests in consolidated subsidiaries		(19)	(13)
Issuance of share capital		22	8
Sale (purchase) of treasury stock		(18)	(36)
Issuance of long-term debt		843	28
Interest paid		(74)	(65)
Interest received		17	13
Repayments of long-term debt		(681)	(11)
Acquisition of non-controlling interests		-	(8)
Net cash used in financing activities		**(1)**	**(84)**
Effect of exchange rate changes on cash		**1**	**7**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(19)**	**452**
Net cash and cash equivalents at beginning of year		**1,239**	**787**
Net cash and cash equivalents at end of year		**1,220**	**1,239**
o/w: • Cash and cash equivalents		1,295	1,316
• Short-term debt		(75)	(77)

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

5. 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 non-controlling interests: Stockholders’ equity	Non-controlling interests	Total
75,090,160	**Stockholders' equity at January 1, 2011**	**236**	**1,412**	**230**	**(170)**	**1,708**	**62**	**1,770**
	Dividends paid	-	-	-	(91)	(91)	(17)	**(108)**
640,798	Treasury stock	-	-	-	(23)	(23)	-	**(23)**
	Capital increase	2	17	-	-	19	-	**19**
(702,568)	Share-based payment	-	-	-	8	8	-	**8**
	Other movements	-	-	-	(1)	(1)	68	**67**
	Transactions with owners	**2**	**17**	**-**	**(107)**	**(88)**	**51**	**(37)**
	Net income for the year	**-**	**-**	**-**	**427**	**427**	**24**	**451**
	Other comprehensive income (loss), net of tax:							
	Translation adjustment	-	-	-	-	-	7	**7**
	Gain (loss) on cash flow hedges recognized in equity	-	-	-	(24)	(24)	-	**(24)**
	(Gain) loss on cash flow hedges taken to income (loss) for the year	-	-	-	4	4	-	**4**
	Remeasurement of available-for-sale financial assets	-	-	-	(1)	(1)	-	**(1)**
	Actuarial gains and losses	-	-	-	(90)	(90)	-	**(90)**
	Total other comprehensive income (loss)	**-**	**-**	**-**	**(111)**	**(111)**	**7**	**(104)**
	Total comprehensive income (loss)	**-**	**-**	**-**	**316**	**316**	**31**	**347**
75,028,390	**Stockholders’ equity at December 31, 2011**	**238**	**1,429**	**230**	**39**	**1,936**	**144**	**2,080**

Number of shares	(in millions of euros)	Share capital	Additional paid-in capital	Translation adjustment	Retained earnings	Stockholders' equity including non-controlling interests		
						Stockholders' equity	Non-controlling interests	Total
75,557,498	**Stockholders' equity at January 1, 2010**	**235**	**1,402**	**74**	**(478)**	**1,233**	**51**	**1,284**
	Dividends paid	-	-	-	-	-	(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 for the year	**-**	**-**	**-**	**365**	**365**	**19**	**384**
	Other comprehensive income (loss), net of tax:							
	Translation adjustment	-	-	156	-	156	8	**164**
	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)**
	Actuarial gains and losses	-	-	-	(20)	(20)	-	**(20)**
	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**

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

6. Notes to the consolidated financial statements

Note 1. Accounting policies

The consolidated financial statements of the Valeo Group for the year ended December 31, 2011 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 automotive 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 21, 2012.

They will be submitted for approval to the next Annual Shareholders' Meeting.

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 and by the IASB can be consulted on the European Commission website[1].

1.1.1. Standards, amendments and interpretations adopted by the European Union and obligatorily applicable for reporting periods beginning on or after January 1, 2011

The following new standards, interpretations and amendments to existing standards effective for reporting periods beginning on or after January 1, 2011 are not applicable to the Group and therefore have no impact on the 2011 consolidated financial statements:

- the amendment to IAS 24 – "Related Party Disclosures";
- IFRIC 19 – "Extinguishing Financial Liabilities with Equity Instruments";
- the amendments to IFRIC 14 – "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Pre-payments of a Minimum Funding Requirement"; and
- the amendment to IAS 32 – "Financial Instruments: Presentation – Classification of Rights Issues".

The annual improvements to IFRS published in May 2010 and adopted by the European Union in February 2011 include amendments applicable for reporting periods beginning on or after January 1, 2011. The annual IFRS improvements did not have a material impact on the consolidated financial statements for the year ended December 31, 2011.

1.1.2. Standards, amendments and interpretations published by the IASB but not obligatorily applicable for reporting periods beginning on or after January 1, 2011 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 for reporting periods beginning on or after January 1, 2011.

On May 12, 2011, the IASB published a series of new standards on consolidation, including: IFRS 10 – "Consolidated Financial Statements", IFRS 11 – "Joint Arrangements", and IFRS 12 – "Disclosure of Interests in Other Entities". It also revised IAS 27, now known as "Separate Financial Statements" and amended IAS 28, now known as "Investments in Associates and Joint Ventures". These standards have not yet been adopted by the European Union. Their effective date as specified by the IASB is January 1, 2013. Based on a preliminary analysis, these new and revised standards, and particularly IFRS 11, are expected to have an impact on the consolidated financial statements, since the Group proportionately consolidates its joint ventures.

The amounts recorded for 2010 and 2011 in the Group's consolidated financial statements in respect of proportionately consolidated joint ventures are set out in Note 6.7.

On June 16, 2011, the IASB published its amendments to IAS 19 – "Employee Benefits". These amendments have not yet been adopted by the European Union. Their effective date as specified by the IASB is January 1, 2013. Based on a preliminary analysis, the amended IAS 19 should only have a minimal impact on the consolidated financial statements, since the Group already recognizes actuarial gains and losses in other comprehensive income (see Note 1.17).

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

The only impacts expected to arise from the amended IAS 19 are changes to the expected return on plan assets due to the use of only one discount rate (regardless of the strategic asset allocation) and immediate recognition of unrecognized past service costs (5 million euros at December 31, 2011). In 2011, the change in the expected return on plan assets would have given rise to a 5 million euro decrease in financial income within other financial income and expenses, offset by an actuarial gain in the same amount in other comprehensive income. In 2012, the anticipated impact would be a 9 million euro decrease in financial income within other financial income and expenses, offset by an actuarial gain in the same amount in other comprehensive income.

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 (IAS 19). As a result, the balance of actuarial gains and losses previously recognized under French GAAP was reset to zero at January 1, 2004;
- the translation of financial statements of foreign operations (IAS 21), leading to the elimination of cumulative translation adjustments at 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, as well as more general risks to which the Group is exposed on account of its industrial operations across the globe (see section I.1 of the management report).

In the persistently uncertain context in 2012, the Group mainly based the medium-term plans and budget used to perform impairment tests on cash-generating units (CGUs) and goodwill on projected data for the automotive market, as well as its own order book and its outlook for emerging markets.

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, 2011 chiefly concern:

- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 4.5.2);
- on estimates of provisions, mainly relating to employee benefits (see Note 5.9.2);
- the measurement of deferred tax assets (see Note 5.5).

1.3. Consolidation methods

The accounts of companies under Valeo's direct and indirect control are included in the consolidated financial statements using the full consolidation method.

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 consolidated 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 prepared 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:

- statement of financial position items are translated at the year-end exchange rate;
- statement of income 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 the exchange rate 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 a 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 considered in substance to be an integral part of the net investment in a foreign subsidiary whose functional currency is not the euro. These differences are recorded under translation adjustment in other comprehensive income for their net-of-tax amount until the net investment is disposed of, at which time they are reclassified to income.

1.5. Sales

In accordance with IAS 18, sales primarily include sales of finished goods and all tooling revenues. Sales are measured at the fair value of the consideration received, net of any trade discounts and volume rebates and any VAT or other taxes. Sales 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 contributions received from customers are recognized over the duration of the manufacturing phase of the project, not to exceed four years.

1.6. Gross margin, operating margin and operating income

Gross margin is defined as the difference between 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 costs and selling and administrative expenses.

Net Research and Development costs are equal to the costs incurred during the period, including amortization charged against capitalized development costs, less contributions received from customers in respect of development costs, 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;
- share 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 on 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 costs. 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 applicable, lead the Group to derecognize deferred tax assets that it had recognized in prior years. The probability of recovery is assessed based on a tax plan indicating the forecast level of taxable income. The taxable income used in the assessment is based on taxable income obtained over a five-year period. The assumptions used in the tax plan are consistent with those used to prepare the medium-term business plans and budgets prepared by the Group's entities and approved by management.

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, Spain, the United Kingdom and the United States).

1.9. Earnings per share

Earnings per share (before dilution) are calculated by dividing consolidated net income 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 involving non-controlling interests

Since January 1, 2010, the Group has prospectively applied IFRS 3 (revised) – "Business Combinations" and IAS 27 (revised) – "Consolidated and Separate Financial Statements".

Business combinations are accounted for using the acquisition method, whereby:

- the cost of a combination is determined as the acquisition-date fair value of the consideration transferred, including any contingent consideration. Any subsequent changes in the fair value of contingent consideration is recognized in income or in other comprehensive income as appropriate, in accordance with the applicable standards;
- the difference between the consideration transferred and the acquisition-date fair value of the net identifiable assets acquired and liabilities assumed is classified as goodwill within assets in the statement of financial position.

Adjustments to the provisional fair value of identifiable assets acquired and liabilities assumed resulting from independent analyses in progress or supplementary analyses are recognized as a retrospective adjustment to goodwill if they are made within 12 months of the acquisition date ("measurement period") and result from facts and circumstances that existed as of that date. The impact of any adjustments made after the measurement period is recognized directly in income.

For each business combination in which the acquirer holds less than 100% of the equity interests in the acquiree at the acquisition date, the amount of the non-controlling interest is measured:

- either at fair value: in this case, goodwill is recognized on the non-controlling interest ("full goodwill method");
- or at the proportionate share in the recognized amounts of the acquiree's net identifiable assets, in which case goodwill is recognized only on the interest acquired ("partial goodwill method").

Costs directly attributable to the combination are expensed as incurred.

Since January 1, 2010, adjustments to contingent consideration in a business combination are measured at the acquisition-date fair value, even if the consideration is not expected to materialize. After the acquisition date, changes to the estimated fair value of contingent consideration involve an adjustment to goodwill only if they are made within the measurement period (up to 12 months after the date of the combination) and result from facts and circumstances that existed as of that date. In all other cases, such changes are recognized in income or in other comprehensive income as appropriate, in accordance with the applicable standard.

In a business combination achieved in stages, the Group's previously-held interest in the acquiree is remeasured at its acquisition-date fair value in income. To determine goodwill at the acquisition date, the fair value of the consideration transferred (e.g., price paid) is increased by the fair value of any interest previously held by the Group. The amount previously recognized within other comprehensive income in respect of the previously-held interest has been reclassified to the statement of income.

Goodwill arising on the acquisition of associates is included in the carrying amount of investments in associates.

The revised IAS 27 has modified the accounting treatment applicable to non-controlling interests. Changes in non-controlling 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.

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.

1.11. Intangible assets

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

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

Innovation can be analyzed as either Research or Development. Research is an activity which can lead to 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 costs are 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 relationships acquired — up to 25 years

1.12. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. 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 capital 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 statement 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 capitalized tooling is recognized under liabilities in the statement of financial position and taken to "Sales" in income in proportion 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 statement of financial position at the inception of the lease, at an amount equal to the lower of their fair value of the leased asset and the present value of future minimum lease payments. This amount is then reduced by depreciation and any impairment losses recognized in accordance with Note 1.13;
- the corresponding financial obligation is recorded in debt;
- 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 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. Outstanding lease payments are detailed in Note 6.3.3.1.

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 CGUs are described in Note 4.5.2. Goodwill 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 amount 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 are operating entities that generate independent cash flows.

Based on the Group's organizational structure, 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 business plans drawn up by Group entities and approved by General Management. 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 the 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 and discount rates used for impairment testing are detailed in Note 4.5.2.

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

■ Goodwill

Goodwill is tested for impairment based on the Group's Business Groups, as set out in Note 3 on segment information. The Business Groups are groups of assets, and correspond to the level at which management monitors goodwill.

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

■ Reversal of impairment

Impairment losses recognized for goodwill may not be reversed.

Impairment losses recognized for 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. Unrealized gains and losses recognized in other comprehensive income are taken to the statement of income on the disposal of these securities.

The fair value of securities listed on an active market is their market value. Unlisted securities 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 statement of financial position as non-current financial assets.

1.14.3. Other non-current financial assets and liabilities

This caption essentially includes guarantee deposits and derivative financial instruments where the underlying is also a non-current item.

Guarantee deposits are measured at fair value, with changes in fair value recognized in income.

Derivatives are recognized in the statement of financial position at fair value under other non-current financial assets or other non-current financial liabilities when the underlying transaction matures after one year. The accounting impact of changes in the fair value of these derivative instruments depends on whether or not hedge accounting is applied.

When hedge accounting is applied:

- for fair value hedges of assets and liabilities recognized in the statement of financial position, 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 derivative;
- 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.

1.14.4. Current financial assets and liabilities

Current financial assets and liabilities include trade receivables and payables, derivative financial instruments where the underlying is also a current item, 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, less accumulated impairment losses. The fair value of accounts and notes receivable and accounts and notes payable is deemed to be their nominal amount, since payment periods are generally less than three months.

Accounts and notes receivable may be written down for impairment. Impairment is recognized when it is probable that the receivable will not be recovered and when the amount of the loss can be measured reliably. Impairment is estimated taking into account historical loss experience, the age of the receivables and a detailed risk assessment. It 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 statement of financial position at fair value under other current financial assets or other current financial liabilities, when the underlying transaction matures before one year. The recognition of changes in the fair value of these derivatives is the same as the impact described in the section on other non-current financial assets and liabilities.

■ Foreign currency derivatives

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

■ Commodity derivatives

In principle, the Group applies future cash flow hedge accounting. Gains and losses relating to the effective portion of the hedge are reclassified from other comprehensive income to operating income when the hedged position itself affects income. Gains and losses relating to the ineffective portion of the hedge are 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 statement 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 in the ineffective portion are recognized in other financial income and expenses. Amounts carried in equity in respect of the effective portion of the hedge are taken to income as the hedged interest expenses 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 and short-term money-market funds, 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.

All cash equivalents included in this line are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. These current financial assets are carried at fair value through income and are held with a view to meeting short-term cash requirements.

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 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 customer. 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.

The cost of these free share and stock purchase or subscription plans is recorded in personnel expenses. 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). 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 statement 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 provisions for pensions is based on valuations performed by independent actuaries using the projected unit credit method and end-of-career 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 2011 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 statement of income includes:

- service cost for the period, the amortization of past service costs, 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 present legal or constructive obligation resulting from a past event;
- it is probable that future outflows of resources embodying economic benefits will be necessary to settle the obligation; and
- the obligation can be estimated reliably.

Provisions are measured in accordance with IAS 37 and take 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 and is computed either 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.

Provisions intended to cover commercial, labor and tax risks arising in the ordinary course of operations are also included in this caption.

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 also includes benefits in the form of financing granted at reduced interest rates.

These subsidies and grants are initially recognized in liabilities in the statement 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 statement of financial position. Any liabilities related to such assets are also presented under a separate caption in statement 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. For assets not classified as discontinued operations, any related impairment losses or proceeds from their disposal are recognized through operating income.

In accordance with IFRS 5, discontinued operations represent:

- either a separate major line of business of the Group or 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 statement of income. To provide a meaningful year-on-year comparison, the same treatment is applied to these items in 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.

Note 2. Changes in the scope of consolidation

2.1. Transactions carried out in 2011

2.1.1. Acquisition of the Niles group

On February 23, 2011, Valeo signed an agreement with RHJ International SA and Nissan to acquire the entire capital stock of Japanese automotive supplier Niles. As a result of this agreement, Valeo acquired control of Niles on June 30, 2011 for an enterprise value of 313 million euros (36 billion yen). The terms and conditions for preparing the financial statements of the companies acquired set out in the purchase agreement were incompatible with Valeo's interim accounts closing deadlines. Niles was therefore not consolidated when preparing the interim consolidated financial statements but with effect from July 1, 2011.

The adjusted cost of the combination amounts to 168 million euros (19.6 billion yen) based on a 100% interest. It includes an amount of 167 million euros paid to RHJ International SA and Nissan in cash at the acquisition date, contingent consideration of 2 million euros (0.2 billion yen) stipulated in the sale agreement and repaid to Valeo in October 2011, and the 2% non-controlling interest acquired at a price set in the acquisition agreement. Although the process of acquiring the non-controlling interests was in progress at the reporting date, the percentage interest acquired taken into account for the preparation of the consolidated financial statements was considered to be 100% and a liability in respect of non-controlling interests was recognized in respect of this agreement.

Acquisition fees totaling 6 million euros were taken to income in accordance with IFRS 3 (revised).

The purchase price was allocated on a provisional basis to Niles' assets and liabilities in accordance with IFRS 3 (revised) in second-half 2011. Goodwill and other intangible assets resulting from the acquisition totaled 130 million euros and 53 million euros, respectively. The amount of goodwill chiefly reflects expected synergies, as the transaction will reinforce the Interior Controls activity within the Comfort and Driving Assistance Business Group and strengthen the Group's foothold in Asia where Niles is a leading manufacturer of automotive switching systems. It has 3,900 employees based at eight production plants, chiefly in Japan, Thailand and China.

Niles' summary statement of financial position at the acquisition date is presented hereafter:

(in millions of euros)	**June 30, 2011**
ASSETS	
Other intangible assets	57
Property, plant and equipment	105
Non-current financial assets	2
Deferred tax assets	16
Non-current assets	**180**
Inventories	48
Accounts and notes receivable	61
Other current assets	4
Cash and cash equivalents	29
Current assets	**142**
TOTAL ASSETS	**322**
EQUITY AND LIABILITIES	
Stockholders' equity	**38**
Non-controlling interests	4
Stockholders' equity including non-controlling interests	**42**
Provisions – long-term portion	45
Debt – long-term portion	10
Deferred tax liabilities	1
Non-current liabilities	**56**
Accounts and notes payable	72
Provisions – current portion	8
Taxes payable	2
Other current liabilities	15
Current portion of long-term debt	7
Short-term debt	120
Current liabilities	**224**
TOTAL EQUITY AND LIABILITIES	**322**

Niles' contributed 227 million euros to Valeo's sales for the second half of 2011 and generated an operating margin of close to 19 million euros.

Niles closed its annual accounts prepared under Japanese GAAP at March 31, 2011. They include the following key figures:

- Sales: 47.4 billion yen (416 million euros)
- EBIT: 3.0 billion yen (26 million euros)
- Net income (after deduction of non-controlling interests): 1.7 billion yen (15 million euros)
- Total assets: 36.8 billion yen (313 million euros)
- Stockholders' equity (excluding non-controlling interests) 5.3 billion yen (45 million euros)

2.1.2. Acquisition of a controlling interest in Valeo Pyeong Hwa and Valeo Pyeong Hwa International

An amendment to the partnership agreement signed on October 12, 2011 modified governance arrangements and resulted in Valeo gaining control of Valeo Pyeong Hwa and Valeo Pyeong Hwa International. Valeo Pyeong Hwa, previously jointly controlled, was fully consolidated in Valeo's consolidated financial statements as of said date. This acquisition of control with no cash outflow is accounted for using the acquisition method in accordance with IFRS 3 (revised). The Group's previously-held interests in the acquiree were remeasured at their acquisition-date fair value, with the difference taken to income in accordance with the revised IFRS 3. In respect of this transaction, Valeo recognized income of 28 million euros within other income and expenses.

All of the assets and liabilities of Valeo Pyeong Hwa were measured at fair value, resulting in the recognition of customer relationships for 12 million euros and the remeasurement of property assets for 13 million euros. Goodwill was calculated using the partial goodwill method and totaled 22 million euros.

2.1.3. Acquisition of a company of electric supercharger technology

As part of its strategy of developing solutions to reduce CO_2 emissions, on December 5, 2011 Valeo acquired an UK automotive technology development company Controlled Power Technologies (CPT), developper of the Variable Torque Enhancement System (VTES) technology. With this move, Valeo became the first automotive supplier to offer its customers a range of electric superchargers. CPT was renamed Valeo Air Management UK and was integrated into Valeo's Powertrain Systems Business Group.

The cost of the combination amounts to 35 million euros (30 million pounds sterling). The provisional allocation of the purchase price to CPT's assets and liabilities led notably to the recognition of 28 million euros in goodwill. The purchase agreement provides for contingent consideration which is currently being calculated, and is not expected to be material.

As VTES is primarily involved in Research and Development, the entity did not generate any sales in 2011, reporting a loss of 3 million pounds sterling in the year.

2.1.4. Acquisition of Chery group's lighting company in China

As part of its development strategy in high-growth countries and particularly China, on December 29, 2011 Valeo acquired an 80% shareholding in Chinese lighting company Wuhu Ruby Automotive Lighting Systems from Chery Technology, a subsidiary of the Chinese automaker Chery Automobile. Chery Technology will retain a 20% stake in the company. Located in Wuhu in the Anhui province, the joint venture will be known as Wuhu Valeo Automotive Lighting Systems and will be fully consolidated into the Group's financial statements with effect from January 1, 2012. The company will design, manufacture and sell Valeo lighting systems, mainly to Chery Automobile on the Chinese market, and will be integrated within Valeo's Visibility Systems Business Group.

The cost of the combination was 8 million euros at the acquisition date, of which 50% was paid at the time of the acquisition. The remaining 50% will be paid once the contingent consideration provided for in the sale agreement has been set (beginning of 2012). In view of the December 29, 2011 acquisition date and the relatively non-material amounts, Ruby is not included in the consolidated financial statements for the year ended December 31, 2011. The Group’s interest is shown within “Non-current financial assets” in the statement of financial position.

Ruby closed its annual accounts prepared under Chinese GAAP at December 31, 2010. They include the following key figures:

- Sales: 59 million yuans (7 million euros)
- Net income: 5 million yuans (1 million euros)
- Total assets: 28 million yuans (3 million euros)
- Stockholders' equity: (26) million yuans ((3) million euros)

2.1.5. Acquisition of a controlling interest in Valeo Four Seasons

On December 15, 2011, Valeo acquired Standard Motor Product Inc.'s entire interest in the French company Valeo Four Seasons, which sells compressors on the aftermarket as well as for heavy-duty trucks and specialty vehicles. This acquisition did not have a material impact on the consolidated financial statements.

2.2. Transactions carried out in 2010

2.2.1. Acquisition of non-controlling interests in the Indian Electrical Systems firm

On May 19, 2010, Valeo increased its stake 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 changed its name to Valeo Engine and Electrical Systems India Private Ltd. In accordance with IAS 27 (revised), this acquisition of non-controlling interests led to a decrease of 8 million euros in consolidated equity at December 31, 2010.

2.2.2. Sale of headlamp levelers business

On 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 sales for the first six months of 2010 (12 million euros for the year to December 31, 2009).

2.2.3. 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 sales in the first eight months of 2010 (39 million euros in the year to December 31, 2009).

Note 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 General Management in order to allocate resources to the segments and assess their performance. General Management represents the chief operating decision maker within the meaning of IFRS 8.

Four reportable segments have been identified, corresponding to Valeo's organization into Business 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 its 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 CO_2 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 manufacturing and distributing in part 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 reportable segments defined above are shown in the "Other" segment.

The key performance indicators for each segment are as follows:

- 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:

2011

(in millions of euros)	Comfort and Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales						
- segment (excluding Group)	2,124	3,099	3,110	2,511	24	**10,868**
- intersegment (Group)	33	27	30	38	(128)	**-**
EBITDA	**264**	**268**	**359**	**279**	**42**	**1,212**
Research and Development expenditure, net	(153)	(130)	(154)	(124)	-	**(561)**
Investments in property, plant and equipment and intangible assets	209	226	117	156	9	**717**
Segment assets	1,321	1,407	1,068	979	25	**4,800**

2010

(in millions of euros)	Comfort and Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
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**

3.2. Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating income:

(in millions of euros)	**2011**	**2010**
EBITDA	**1,212**	**1,150**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses[1]	(508)	(533)
Other income and expenses	-	(27)
Operating income	**704**	**590**

[1] *Impairment losses recorded in operating margin only.*

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Segment assets	**4,800**	**4,030**
Accounts and notes receivable	1,705	1,449
Other current assets	312	200
Taxes recoverable	20	10
Assets held for sale	2	2
Financial assets	1,500	1,551
Deferred tax assets	223	198
Total Group assets	**8,562**	**7,440**

3.3. Reporting by geographic area

2011

(in millions of euros)	External sales by market	Sales by production area	Non-current assets[1]
France	1,437	2,959	735
Other European countries and Africa	4,901	3,715	782
North America	1,509	1,396	289
South America	767	728	127
Asia	2,254	2,411	768
Eliminations	-	(341)	-
TOTAL	**10,868**	**10,868**	**2,701**

(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 geographic area as they are allocated to Business Groups which belong to several areas.

2010

(in millions of euros)	External sales by market	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**

(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 geographic area as they are allocated to Business Groups which belong to several areas.

3.4. Breakdown of sales by major customer

Three major global automakers represent 43.3% of the Valeo Group's sales (43.6% in 2010), and each of these individually accounts for more than 10% of the Group's sales.

Note 4. Notes to the statement of income

4.1. Sales

Group sales rose 12.8% in 2011 to 10,868 million euros from 9,632 million euros in 2010. This growth in sales was chiefly powered by a sustained level of automotive production, Valeo's strong performance on all of its markets and by changes in scope of consolidation during the period, which had a 2.4% positive impact (of which Niles for 2.1%). Exchange rates had a 0.7% negative impact.

Like-for-like (comparable Group structure and exchange rate basis), consolidated sales for 2011 climbed 11.1% year on year.

4.2. Cost of sales

Cost of sales can be analyzed as follows:

(in millions of euros)	**2011**	**2010**
Raw materials consumed	(6,295)	(5,365)
Labor	(1,433)	(1,297)
Direct production costs and production overheads	(968)	(883)
Depreciation and amortization[1]	(329)	(357)
Other	-	5
Cost of sales	**(9,025)**	**(7,897)**

[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

	2011	**2010**
Total employees at December 31[1]	67,930	57,930

[1] *Including temporary staff.*

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

(in millions of euros)	**2011**	**2010**
Wages and salaries[1]	1,808	1,638
Social charges	422	410
Share-based payment	8	6
Pension expenses under defined contribution schemes	64	64

[1] *Including temporary staff.*

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

4.4. Research and Development expenditure, net

(in millions of euros)	**2011**	**2010**
Research and Development expenditure	(879)	(754)
Contributions received and subsidies	262	197
Capitalized development expenditure	177	143
Amortization and impairment of capitalized development expenditure	(121)	(123)
Research and Development expenditure, net	**(561)**	**(537)**

The increase in revenues from Research and Development during 2011 is attributable to the increase in contributions received from customers and sales of prototypes related to the strong order book, as well as by the rise in subsidies received.

4.5. Other income and expenses

(in millions of euros)	**2011**	**2010**
Claims and litigation	1	(8)
Restructuring costs	7	(18)
Impairment of fixed assets	(25)	(9)
Other	17	8
Other income and expenses	**-**	**(27)**

4.5.1. Restructuring costs

The gain recognized under this caption in 2011 primarily reflects the reversal of outstanding provisions set aside in connection with workforce reduction plans on the introduction of the new organization in 2010.

4.5.2. Impairment of fixed assets

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

The main impairment indicators used by the Group as the basis for impairment tests of cash-generating units (CGUs) include a negative provisional operating margin for 2011 or a fall of more than 20% in sales between 2011 and 2010.

The scope of the CGUs to be tested for impairment was defined at the end of October 2011 and remained unchanged at the end of the period, since no events occurred 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 2010 and remains below the average long-term growth rate for the Group's business sector;
- post-tax discount rate (WACC) of 9.0% (8.9% in 2010): this rate was calculated using the method defined in 2007 by an independent expert, and is based on a sample of around 20 automotive suppliers.

No impairment losses were recognized by the Group as a result of these tests in either 2011 or 2010.

Impairment losses totaling 25 million euros recognized in 2011 result from impairment tests carried out on specific intangible assets belonging to the Engine management systems and Air management systems Product Groups (13 million euros), and on specific items of property, plant and equipment at a site belonging to the Transmission systems Product Group (11 million euros).

■ Sensitivity of CGU impairment tests to the discount rate

An increase and a decrease of 1 pt in the discount rate would have had no impact on the results of these impairment tests.

Similarly, a one-year push-back in medium-term business plans would have no impact on the results of the impairment tests.

■ Goodwill

No impairment losses were recognized against goodwill for the year ended December 31, 2011 or 2010 as a result of impairment tests.

■ Sensitivity of goodwill impairment tests

A one-year push-back in medium-term business plans would have no impact on the results of goodwill impairment tests.

Three main assumptions were also used to check the sensitivity of impairment tests:

- 0.5 pt increase in the discount rate;
- 0.25 pt decrease in the perpetuity growth rate;
- 0.5 pt decrease in the operating income used to determine the terminal value.

No additional impairment losses would be recognized as a result of these criteria, taken individually or in combination.

4.5.3. Other

In 2011, this item mainly includes capital gains on the acquisition of a controlling interest in Valeo Pyeong Hwa and Valeo Pyeong Hwa International (see Note 2.1.2), offset in part by acquisition fees relating to the Niles transactions, as described in Note 2.1.1.

4.6. Cost of net debt

(in millions of euros)	**2011**	**2010**
Interest expense[1]	(90)	(83)
Interest income	19	16
Cost of net debt	**(71)**	**(67)**

[1] *Including 7 million euros in 2011 finance costs on undrawn credit lines (9 million euros in 2010).*

The cost of net debt in 2011 rose on the back of an increase in long-term debt in the period following the 500 million euro bond issue in May 2011 and the 250 million euro syndicated loan contracted in June 2011 (see Note 5.10.2).

4.7. Other financial income and expenses

(in millions of euros)	**2011**	**2010**
Interest expense on pension obligations[1]	(46)	(48)
Expected return on plan assets[1]	21	20
Currency gains (losses)	(5)	(2)
Gains (losses) on commodity derivatives (trading and ineffective portion)	(1)	1
Gains (losses) on interest rate derivatives (ineffective portion)	(1)	-
Miscellaneous	(3)	(3)
Other financial income and expenses	**(35)**	**(32)**

[1] *See Note 5.9.2.*

4.8. Income taxes

4.8.1. Income tax expense

(in millions of euros)	**2011**	**2010**
Current taxes	(156)	(173)
Deferred taxes	8	69
Income taxes	**(148)**	**(104)**

4.8.2. Effective tax rate

The Group recognized income tax expense of 148 million euros in 2011.

(in millions of euros)	**2011**	**2010**
Net income (loss) before income taxes excluding equity in net earnings (losses) of associates	**598**	**491**
Standard tax rate in France[1]	(34.4)	(34.4)
Theoretical income tax expense	**(206)**	**(169)**
Impact of:		
• unrecognized deferred tax assets and unused tax losses (current year)[2]	3	20
• other tax rates	32	40
• utilization of prior-year tax losses	-	3
• permanent differences between accounting income and taxable income	29	8
• tax credits	11	6
• CVAE [3]	(17)	(12)
Group income tax expense	**(148)**	**(104)**

[1] *The temporary additional 5% levy applied in France by law no. 2011-1978 of December 28, 2011 has not been included for the purposes of calculating the standard tax rate as Valeo does not believe it will be liable for French corporate income tax during the application period.*

[2] *No deferred tax assets were recognized in respect of the Group's two main tax consolidation groups (France and US). The income tax expense for 2011, reflecting an effective tax rate of 24.8%, takes into account deferred tax assets recognized in certain countries for 29 million euros due to legal restructuring measures or an improvement in economic outlook.*

[3] *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. Income tax in 2011 therefore includes a net expense of 17 million euros in respect of the CVAE (12 million euros in 2010).*

4.9. Earnings per share

4.9.1. Basic earnings per share

	2011	**2010**
Net income attributable to owners of the Company *(in millions of euros)*	427	365
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	75,112	75,168
Basic earnings per share *(in euros)*	**5.68**	**4.86**

4.9.2. Diluted earnings per share

	2011	2010
Net income attributable to owners of the Company *(in millions of euros)*	427	365
Weighted average number of shares outstanding *(in thousands of shares)*	75,112	75,168
Stock options *(in thousands of options)*	154	49
OCEANE bonds *(in thousands of options)*	-	2
Weighted average number of shares used for the calculation of diluted earnings per share *(in thousands of shares)*	75,266	75,219
Diluted earnings per share *(in euros)*	**5.67**	**4.86**

Note 5. Notes to the statement of financial position

5.1. Goodwill

(in millions of euros)	2011	2010
Net goodwill at January 1	**1,210**	**1,146**
Acquisitions during the year	184	-
Contingent consideration in respect of acquisitions made in previous years	-	1
Disposals, net	-	(5)
Translation adjustment	43	68
Impairment losses	-	-
Net goodwill at December 31	**1,437**	**1,210**
Including accumulated impairment losses at December 31	-	-

Movements in goodwill over the period chiefly result from the following three major changes in the scope of consolidation in 2011: Niles (130 million euros – see Note 2.1.1), CPT (28 million euros – see Note 2.1.3), and Valeo Pyeong Hwa and Valeo Pyeong Hwa International (22 million euros – see Note 2.1.2). Translation adjustment primarily reflects fluctuations in the yen and US dollar.

The main goodwill balances are broken down by Business Group as follows:

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Comfort and Driving Assistance Systems	462	311
Powertrain Systems	325	271
Thermal Systems	359	343
Visibility Systems	290	284
Other	1	1
Goodwill	**1,437**	**1,210**

5.2. Other intangible assets

(*in millions of euros*)	Dec. 31, 2011			Dec. 31, 2010
	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
Software	201	(186)	15	15
Patents and licenses	106	(79)	27	27
Capitalized development expenditure	1,174	(747)	427	388
Customer relationship intangibles and other intangible assets	244	(72)	172	114
Intangible assets	**1,725**	**(1,084)**	**641**	**544**

Customer relationship intangibles were valued within the context of acquisitions, including those recognized in the period, namely Niles (37 million euros) and the controlling interest acquired in Valeo Pyeong Hwa and Valeo Pyeong Hwa International (12 million euros). Patents and licenses include assets relating to technologies acquired, and in particular those recognized in 2011 in relation to Niles for 16 million euros.

Changes in intangible assets in 2011 and 2010 are analyzed below:

2011

(*in millions of euros*)	Software	Patents and licenses	Capitalized development expenditure	Customer relationship intangibles and other intangible assets	Total
Gross carrying amount at January 1, 2011	**185**	**84**	**1,018**	**179**	**1,466**
Accumulated amortization and impairment	(170)	(57)	(630)	(65)	**(922)**
Net carrying amount at January 1, 2011	**15**	**27**	**388**	**114**	**544**
Acquisitions	6	1	177	9	**193**
Disposals	(1)	-	(13)	-	**(14)**
Changes in scope of consolidation	3	16	1	50	**70**
Impairment	-	(14)	-	-	**(14)**
Amortization	(10)	(7)	(121)	(8)	**(146)**
Translation adjustment	1	3	-	8	**12**
Reclassifications	1	1	(5)	(1)	**(4)**
Net carrying amount at December 31, 2011	**15**	**27**	**427**	**172**	**641**

2010

(*in millions of euros*)	Software	Patents and licenses	Capitalized development expenditure	Customer relationship intangibles and other intangible assets	Total
Gross carrying amount at January 1, 2010	**177**	**63**	**865**	**182**	**1,287**
Accumulated amortization and impairment	(156)	(39)	(505)	(52)	**(752)**
Net carrying amount 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 carrying amount at December 31, 2010	**15**	**27**	**388**	**114**	**544**

5.3. Property, plant and equipment

(in millions of euros)	Dec. 31, 2011			Dec. 31, 2010
	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	223	(15)	208	150
Buildings	1,077	(690)	387	388
Plant and equipment	4,179	(3,365)	814	720
Specific tooling	1,529	(1,403)	126	125
Other property, plant and equipment	497	(430)	67	55
Property, plant and equipment in progress	356	(2)	354	217
TOTAL	**7,861**	**(5,905)**	**1,956**	**1,655**

No material amounts of property, plant and equipment had been pledged as security at December 31, 2011.

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

(in millions of euros)	Dec. 31, 2011	Dec. 31, 2010
Land	-	-
Buildings	1	-
Plant and equipment	7	5
Specific tooling	1	-
Other property, plant and equipment	3	2
Property, plant and equipment in progress	-	-
TOTAL	**12**	**7**

Changes in property, plant and equipment in 2011 and 2010 are analyzed below:

2011

(in millions of euros)	Land	Buildings	Plant and equipment	Specific tooling	Other	Property, plant and equipment in progress	Total
Gross carrying amount at January 1, 2011	**164**	**1,057**	**3,671**	**1,308**	**420**	**220**	**6,840**
Accumulated depreciation and impairment	(14)	(669)	(2,951)	(1,183)	(365)	(3)	**(5,185)**
Net carrying amount at January 1, 2011	**150**	**388**	**720**	**125**	**55**	**217**	**1,655**
Acquisitions	2	22	157	47	25	271	**524**
Disposals	-	(1)	(2)	(1)	-	-	**(4)**
Changes in scope of consolidation	42	27	55	9	4	7	**144**
Impairment	-	-	(10)	2	-	(1)	**(9)**
Depreciation	(1)	(47)	(224)	(69)	(25)	-	**(366)**
Translation adjustment	10	(1)	2	-	-	5	**16**
Reclassifications	5	(1)	116	13	8	(145)	**(4)**
Net carrying amount at December 31, 2011	**208**	**387**	**814**	**126**	**67**	**354**	**1,956**

2010

(in millions of euros)	Land	Buildings	Plant and equipment	Specific tooling	Other	Property, plant and equipment 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**

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

5.4. Investments in associates

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

(in millions of euros)	**2011**	**2010**
Investments in associates at January 1	**104**	**94**
Share in net earnings (losses) of associates	2	(1)
Dividend payments	(3)	(4)
Impact of changes in scope of consolidation	(6)	-
Translation adjustment[1]	7	17
Other	-	(2)
Investments in associates at December 31	**104**	**104**

[1] *Reflecting mainly the impact of the appreciation in the yen on interests in Ichikoh.*

The Group's main investments in associates are detailed below:

	Ownership interest *(%)*		**Carrying amount** *(in millions of euros)*	
	Dec. 31, 2011	**Dec. 31, 2010**	**Dec. 31, 2011**	**Dec. 31, 2010**
Ichikoh	31.6	31.6	74	70
Faw Valeo Climate Control	36.5	36.5	30	28
Other			-	6
Investments in associates			**104**	**104**

Ichikoh Industries Ltd. is listed on the Tokyo Stock Exchange. The market value of Valeo's interest in Ichikoh was 38 million euros at December 31, 2011 (66 million euros at December 31, 2010). 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*)	Dec. 31, 2011	Dec. 31, 2010
Total assets	720	722
Total liabilities	561	536
Sales	861	981
Net income (loss) for the year	3	(4)

5.5. Deferred taxes

Deferred taxes broken down by temporary differences are shown below:

(*in millions of euros*)		Dec. 31, 2011	Dec. 31, 2010
Loss carryforwards		954	894
Capitalized development expenditure		(106)	(98)
Pensions and other employee benefits		209	162
Other provisions		99	91
Inventories		26	27
Provisions for restructuring costs		15	32
Tooling		1	-
Non-current assets		11	(2)
Other		106	100
Deferred taxes, gross		**1,315**	**1,206**
Unrecognized deferred tax assets		(1,116)	(1,030)
Deferred taxes		**199**	**176**
o/w:	• Deferred tax assets	223	198
	• Deferred tax liabilities	(24)	(22)

At December 31, 2011, 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 2012 through 2015	36	9
Tax losses available for carryforward in 2016 and thereafter	1,170	453
Tax losses available for carryforward indefinitely	1,282	434
Current tax loss carryforwards	**2,488**	**896**
Unrecognized deferred tax assets on temporary differences	-	220
Total unrecognized deferred tax assets	**-**	**1,116**

No deferred tax assets were recognized on tax loss carryforwards or temporary differences in either of the Group's main tax consolidation groups (France and United States).

5.6. Inventories

At December 31, 2011, inventories break down as follows:

(in millions of euros)	**Dec. 31, 2011**			**Dec. 31, 2010**
	Gross carrying amount	Impairment	Net carrying amount	Net carrying amount
Raw materials	333	(56)	277	228
Work-in-progress	89	(10)	79	64
Finished goods, supplies and specific tooling	479	(69)	410	329
Inventories, net	**901**	**(135)**	**766**	**621**

Impairment losses taken against inventories amounted to 135 million euros at December 31, 2011 (108 million euros at December 31, 2010), including an allowance (net of reversals) of 5 million euros during the period.

The first-time consolidation of Niles in 2011 added 66 million euros to the gross carrying amount of inventories and 18 million euros to impairment losses.

Allowances to provisions for impairment of inventories net of reversals in 2010 amounted to 10 million euros.

5.7. Accounts and notes receivable

(in millions of euros)	**Dec. 31, 2011**	**Dec. 31, 2010**
Accounts and notes receivable, gross	1,727	1,471
Impairment	(22)	(22)
Accounts and notes receivable, net	**1,705**	**1,449**

At December 31, 2011, gross accounts and notes receivable not yet due and less than one month past due totaled 1,644 million euros and 43 million euros, respectively, and represent 98% of total gross accounts and notes receivable (see Note 6.2.3).

The rise in notes and accounts receivable in 2011 essentially reflects the growth in sales and the first-time consolidation of Niles in 2011, representing 61 million euros in additional receivables.

5.8. Stockholders' equity

5.8.1. Share capital

At December 31, 2011, Valeo's share capital totaled 238 million euros, divided into 79,269,596 shares of common stock with a par value of 3 euros each, all fully paid-up. Shares that have been registered in the name of the same holder for at least four years (2,288,323 shares at end-December 2011) carry double voting rights.

If Valeo Group employees exercised their stock options, the Company's share capital would increase to 239 million euros, divided into 79,512,426 shares.

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 and free share plans, as well as Company savings plans and the liquidity contract.

- **The terms and conditions of the shareholder-approved employee stock subscription, stock purchase and free share plans in force at December 31, 2011 were as follows:**

Terms and conditions of stock subscription option plans

Year in which plan was set up	Number of shares under option	Option exercise price (in euros) [1]	Number of shares not yet issued at December 31, 2011 [2]	Expiration date
2004	1,123,200	28.46	242,830	2012
TOTAL	**1,123,200**		**242,830**	

[1] *The exercise price equals 100% of the average Valeo share price over the 20 trading days preceding the Board of Directors' meeting granting the options.*

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

Terms and conditions of stock purchase option plans

Year in which plan was set up	Number of shares under option	Option exercise price (in euros) [1]	Number of shares not yet issued at December 31, 2011 [2]	Expiration date
2004	280,800	32.74	72,878	2012
2005	650,000	32.32	233,342	2013
2006	1,309,250	32.63	582,070	2014
2007	250,000	36.97	250,000	2015
2007	1,677,000	36.82	1,066,900	2015
2008	426,750	31.41	294,602	2016
2010	1,000,000 [3]	24.07	925,400	2018
2011	292,840 [4]	42.41	287,120	2019
TOTAL	**5,886,640**		**3,712,312**	

[1] *The exercise price equals 100% of the average Valeo share price over the 20 trading days preceding the Board of Directors' meeting granting the options.*

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

[3] *Including 611,635 shares granted contingent on the Group meeting performance conditions.*

[4] *Including 210,370 shares granted contingent on the Group meeting performance conditions.*

Terms and conditions of free share plans

Year in which plan was set up	Number of free shares authorized	Number of shares not yet tendered at December 31, 2011	Year of vesting
2010	400,000 [1]	374,739	2012/2014
2011	326,860 [2]	322,660	2014/2016
TOTAL	**726,860**	**697,399**	

[1] *Including 178,112 shares granted contingent on the Group meeting performance conditions.*

[2] *Including 126,480 shares granted contingent on the Group meeting performance conditions.*

Movements in these plans can be analyzed as follows:

2011

	Number of options and free shares granted	Weighted average exercise price
Options not exercised at January 1, 2011	**5,702,936**	**29.34**
Options granted/Free shares to be tendered	619,700	20.04
Options canceled	(153,275)	26.71
Options expired	(95,428)	31.64
Options exercised	(1,424,514)	31.37
Options not exercised/Free shares not issued at December 31[(1)]	**4,649,419**	**27.52**
Options which can be exercised at December 31, 2011	**2,739,500**	**34.14**

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

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 tendered	1,400,000	17.19
Options canceled	(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[(1)]	**5,702,936**	**29.34**
Options which can be exercised at December 31, 2010	**3,986,492**	**33.33**

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

The main data and assumptions underlying the valuation of equity instruments at fair value were as follows:

2011

	Dec. 31, 2011				
	Free shares			Stock purchase options	
	France	Italy	Other countries	France	Other countries
Share price at grant date (*in euros*)	42.6	42.6	42.6	42.6	42.6
Expected volatility (%)	-	-	-	43.8	43.8
Risk-free rate (%)	2.3	2.3	2.7	2.5	2.3
Dividend rate (%)	4.0	4.0	-	3.7	3.6
Duration of the option (*in years*)	-	-	-	8	8
Fair value of equity instruments (*in euros*)	**34.6**	**32.3**	**35.3**	**12.7**	**10.82**

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 three 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 8 million euros was booked in 2011 in respect of stock purchase and free share plans (6 million euros in 2010).

2010

	Dec. 31, 2010				
	Free shares			Stock purchase options	
	France	Italy	Other countries	France	Other countries
Share price at grant date (*in 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 (*in years*)	-	-	-	8	8
Fair value of equity instruments (*in euros*)	**21.3**	**20.1**	**22.1**	**6.9**	**5.2**

5.8.2. Additional paid-in capital

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

5.8.3. Translation adjustment

There were no changes in translation adjustment in the period. Unrealized gains resulting from the translation of the financial statements of Japanese and Chinese subsidiaries were offset by the unrealized losses on the translation of the financial statements of Brazilian, Polish and Turkish subsidiaries.

5.8.4. Retained earnings

Retained earnings include income for the year of 427 million euros prior to appropriation.

5.8.5. Dividends per share

The balance of the parent company's distributable retained earnings (before appropriation of 2011 net income) is 1,592 million euros in 2011 (1,540 million euros in 2010).

A dividend of 1.20 euros per share was paid in 2011, representing a total payout of 91 million euros. No dividends were paid in 2010.

5.8.6. Treasury stock

At December 31, 2011, Valeo owns 4,241,206 of its own shares, representing 5.4% of share capital (December 31, 2010 3,538,638 shares, representing 4.5% of share capital).

5.8.7. Non-controlling interests

Changes in non-controlling interests can be analyzed as follows:

(*in millions of euros*)	2011	2010
Non-controlling interests at January 1	**62**	**51**
Equity in net earnings	24	19
Dividends paid	(17)	(14)
Capital increase	-	-
Translation adjustment	7	8
Changes in scope of consolidation	68	(2)
Non-controlling interests at December 31	**144**	**62**

The impact of changes in the scope of consolidation is mainly due to the acquisition of controlling interests in Valeo Pyeong Hwa and Valeo Pyeong Hwa International.

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, 2010	**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**
Amounts used during the year	(38)	(70)	(68)	**(176)**
Impact of changes in scope of consolidation	-	44	15	**59**
Translation adjustment	-	18	-	**18**
Reclassification	1	(1)	(1)	**(1)**
Additions	6	24	110	**140**
Unwinding of discount	1	25	-	**26**
Reversals	(17)	(5)	(61)	**(83)**
Actuarial gains and losses recognized through equity	-	90	-	**90**
Provisions at December 31, 2011	**60**	**776**	**420**	**1,256**
Of which current portion (less than one year)	**33**	**64**	**165**	**262**

5.9.1. Provisions for restructuring costs

Provisions for restructuring costs totaled 60 million euros at December 31, 2011 versus 107 million euros at December 31, 2010. The decrease in restructuring provisions in the period results mainly from the expenditure and reversal of outstanding provisions in connection with the restructuring plan launched in 2010 on setting up the new organization of the Group.

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, Unitated States) which top up the statutory pension plans 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 plans (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, 2011, 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 (%)		2011 Basis	2010 Basis
iBoxx Euro-Corporate AA 10-year+	Eurozone	4.8	4.8
iBoxx £-Corporate AA 15-year+	United Kingdom	4.8	5.5
Citigroup Pension Discount Curve	United States	4.1	5.2
10-year government bonds	Japan	1.4	1.5
10-year government bonds	South Korea	4.0	4.5

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 were estimated taking into account the structure of the investment portfolio for each country, and are as follows for the Group's principal plans:

(%)	**2011**	**2010**
United States	7.3	7.3
United Kingdom	6.0	5.7
Japan	3.8	2.2

The weighted average long-term salary inflation rate was 3.5% at December 31, 2011, unchanged from December 31, 2010.

The rate of increase for medical costs in the US used to value the Group's main obligations at December 31, 2011 was 9.7% in 2011 and 9.4% in 2012, gradually reducing to 5% by 2032. This assumption is largely similar to that used in 2010.

■ Breakdown of obligations

2011

(*in millions of euros*)	**France**	**Other European countries**	**North America**	**Asia**	**Total**
Present value of unfunded obligations	144	256	109	85	**594**
Present value of funded obligations	18	67	385	68	**538**
Market value of plan assets	(5)	(45)	(257)	(44)	**(351)**
Deficit	**157**	**278**	**237**	**109**	**781**
Unrecognized past service cost	(5)	-	-	-	**(5)**
Provisions recognized at December 31, 2011	**152**	**278**	**237**	**109**	**776**
Permanent employees at December 31, 2011[1]	12,464	16,465	6,026	14,391	**49,346**

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**

[1] *Permanent employees shown in the tables above do not include permanent staff in South America, for which no obligation was recognized in respect of pensions or other long-term benefits in 2010 or 2011. The Group's pension obligations in North America are significant, since a significant portion of these obligations relates 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, 2010	**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**
Actuarial gains and losses recognized through equity	7	6	76	1	**90**
Amounts used during the year	(17)	(14)	(28)	(11)	**(70)**
Impact of changes in scope of consolidation	-	-	-	44	**44**
Reclassification	-	-	-	(1)	**(1)**
Translation adjustment	-	1	9	8	**18**
Expenses (income) for the year:	**20**	**14**	**0**	**10**	**44**
• *Service cost*	*10*	*4*	*1*	*8*	***23***
• *Interest cost*	*7*	*15*	*21*	*3*	***46***
• *Past service cost*	*2*	-	-	-	***2***
• *Expected return on plan assets*	-	*(2)*	*(18)*	*(1)*	***(21)***
• *Other*	*1*	*(3)*	*(4)*	-	***(6)***
Provisions at December 31, 2011	**152**	**278**	**237**	**109**	**776**
Of which current portion (less than one year)	12	17	27	8	**64**

An expense of 44 million euros was recognized in 2011 in respect of pensions and other employee benefits (49 million euros in 2010), of which 19 million euros was included in operating margin and 25 million euros in other financial income and expenses.

■ Movements in obligations

2011

(in millions of euros)	France	Other European countries	North America	Asia	Total
Benefit obligations at January 1, 2011	**152**	**313**	**425**	**98**	**988**
Service cost	10	4	1	8	**23**
Interest cost	7	15	21	3	**46**
Benefits paid	(15)	(13)	(21)	(13)	**(62)**
Actuarial gains and losses	7	4	56	-	**67**
Impact of changes in scope of consolidation	-	-	-	44	**44**
Reclassification	-	-	-	(1)	**(1)**
Other	1	(3)	(4)	-	**(6)**
Translation adjustment	-	3	16	14	**33**
Benefit obligations at December 31, 2011	**162**	**323**	**494**	**153**	**1,132**

The 67 million euros increase in actuarial gains and losses, resulting in an increase in the benefit obligation, stems mainly from the fall in discount rates in countries where the Group's obligations are the most significant, in particular the United States.

The changes in the scope of consolidation discussed in Note 2.1 also added 44 million euros to the Group's benefit obligation, primarily in Japan.

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**

■ Movements in plan assets

2011

(in millions of euros)	France	Other European countries	North America	Asia	Total
Plan assets at January 1, 2011	**3**	**42**	**245**	**40**	**330**
Expected return on plan assets	-	2	18	1	**21**
Contributions paid to external funds	8	3	22	3	**36**
Benefits paid	(6)	(2)	(15)	(5)	**(28)**
Actuarial gains and losses	-	(2)	(20)	(1)	**(23)**
Translation adjustment	-	2	7	6	**15**
Plan assets at December 31, 2011	**5**	**45**	**257**	**44**	**351**

The fair value of plan assets continued to rise in 2011, reflecting translation adjustments mainly recognized on assets in the United States and Japan for 15 million euros. The actual return on plan assets was a negative 2 million euros in 2011 due to stock market movements during the year (31 million euros in 2010). Experience adjustments generated on plan assets in an amount of 23 million euros reflect the difference between actual and estimated returns on these assets. These actuarial differences were credited to other comprehensive income at December 31, 2011.

Contributions of 36 million euros were paid to external funds in 2011. Contributions in 2012 are estimated at 28 million euros.

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**

Breakdown of plan assets

2011

(*in millions of euros*)	France	Other European countries	North America	Asia	Total
Cash at bank	-	-	7	-	**7**
Shares	5	27	134	13	**179**
Government bonds	-	10	35	31	**76**
Corporate bonds	-	8	81	-	**89**
Breakdown of plan assets at December 31, 2011	**5**	**45**	**257**	**44**	**351**

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

2010

(*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**

Data for previous fiscal years

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

(*in millions of euros*)	2011	2010	2009	2008	2007
Obligations	1,132	988	886	843	933
Financial assets	(351)	(330)	(269)	(225)	(300)
Net obligations	**781**	**658**	**617**	**618**	**633**
Actuarial (losses) and gains recognized in other comprehensive income(1)	(90)	(30)	(16)	(56)	79

(1) *Actuarial losses recognized in equity in 2011 for 90 million euros mainly include 70 million euros of actuarial losses arising on changes in assumptions regarding pension obligations and 23 million euros of actuarial losses 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 geographic area have a significant impact on the amount of the Group's benefit obligations.

A 0.5% increase or decrease in discount rates would have the following impact on the projected benefit obligation at December 31, 2011:

(*in millions of euros*)	Eurozone	United Kingdom	United States	Japan	South Korea	Other countries	Total
Sensitivity to discount rates							
Obligations at December 31, 2011	*415*	*65*	*484*	*112*	*36*	*20*	*1,132*
Impact of a 0.5% rise in discount rates	(28)	(6)	(30)	(4)	(2)	(2)	**(72)**
Impact of a 0.5% fall in discount rates	28	6	32	4	2	2	**74**

A 0.5% increase in the discount rate would reduce service cost for 2012 by around 2 million euros, while a 0.5% decrease in the discount rate would have the opposite effect.

A 1% rise or fall in the rate of increase for medical costs in the United States 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*)	Dec. 31, 2011	Dec. 31, 2010
Provisions for product warranties	192	170
Other	228	255
Other provisions	**420**	**425**

In 2011, the "Other" caption includes provisions for tax risks (72 million euros) and provisions for site rehabilitation or environmental obligations (22 million euros). The balance of this caption is intended to cover various disputes with current or former employees, commercial litigation and various other operational risks.

5.10. Debt

5.10.1. Gross debt

At December 31, 2011, the Group's gross debt can be analyzed as follows:

(*in millions of euros*)	Dec. 31, 2011	Dec. 31, 2010
Long-term debt (Note 5.10.2)	1,494	1,097
Current portion of long-term debt (Note 5.10.2)	307	505
Short-term debt (Note 5.10.3)	75	77
Gross debt	**1,876**	**1,679**

5.10.2. Long-term debt

■ Analysis of long-term debt

(*in millions of euros*)	Dec. 31, 2011	Dec. 31, 2010
Bonds	893	598
OCEANE bonds	-	463
Syndicated loans	472	223
European Investment Bank loans	281	201
Lease obligations	14	8
Other borrowings	110	81
Accrued interest	31	28
Total long-term debt	**1,801**	**1,602**

Long-term debt includes:

- 400 million euros in eight-year bonds issued by Valeo on June 24, 2005 as part of a Euro Medium Term Note program. The bonds were initially issued for an amount of 600 million euros. In May 2011, Valeo launched an offer to redeem these bonds maturing in 2013. One-third of the outstanding bonds were redeemed in the offer, representing a nominal amount of 200 million euros. This redemption was carried out at 101.8% of par. The transaction was accounted for as an extinguishment of debt, with the difference between the carrying amount of the debt extinguished and the amount paid to bondholders together with brokerage fees recognized in interest expenses for 5 million euros. The effective interest rate on these bonds remains unchanged at 3.89%;
- 500 million euros in seven-year bonds issued by Valeo on May 12, 2011. The contractual interest payable on these bonds represents 4.875% of their nominal amount and is paid once every year. The effective interest rate on these bonds is 5.09%. These bonds were issued as part of the Euro Medium Term Notes program;
- On January 3, 2011 all of the OCEANE bonds still outstanding were redeemed;
- Three syndicated loans, including:
  - two seven-year syndicated loans representing a total amount of 225 million euros, issued on July 29, 2005. The loans and 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 syndicated five-year loan for 250 million euros taken out on June 30, 2011 with three banks as part of a "club deal". The loan was taken out in connection with the financing of Niles and bears variable interest at 3-month Euribor +1.3%. A yen cross currency swap for 237 million euros was set up on inception of the loan for the same maturity;
- Two loans taken out with the European Investment Bank (EIB) for a total amount of 300 million euros. These EIB reduced-rate loans were granted as part of funding for costs incurred by the Group in research projects looking at ways to reduce fuel consumption and CO_2 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:
  - a first 225 million euro loan taken out 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 loan, exchanging Euribor for a fixed rate of 3.37%. The subsidy was estimated at 28 million euros and was recognized within liabilities in the statement 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 2011 is 4 million euros. The loan is carried at amortized cost for an amount of 206 million euros at December 31, 2011, and has an effective interest rate of 6.36%,
  - a second loan for 75 million euros, drawn down in USD in an amount of 103 million dollars. This loan was taken out for a seven-year term on November 3, 2011. It is repayable in four equal annual installments as from 2015, and bears variable interest at 6- month Libor +1.9%. A currency swap was taken out at the same time as the loan. The subsidy applicable to further drawdowns was estimated at 6 million euros and is recognized within liabilities in the statement of financial position. The loan is carried at amortized cost for an amount of 74 million euros at December 31, 2011;
- Other loans chiefly comprise debt contracted by Group subsidiaries at reduced rates in Spain and Brazil.

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

■ **Maturities of long-term debt**

(*in millions of euros*)	2013	2014	2015	2016	2017 and beyond	Total
Bonds	399	-	-	-	494	**893**
Syndicated loan	-	-	-	248	-	**248**
EIB loans	49	52	68	73	39	**281**
Lease obligations	6	1	1	-	-	**8**
Other borrowings	16	7	9	4	28	**64**
TOTAL	**470**	**60**	**78**	**325**	**561**	**1,494**

■ **Current portion of long-term debt**

(*in millions of euros*)	Dec. 31, 2011	Dec. 31, 2010
OCEANE bonds	-	463
Syndicated loans	224	-
Lease obligations	6	4
Other borrowings	46	10
Accrued interest	31	28
Current portion of long-term debt	**307**	**505**

The current portion of long-term debt relates mainly to two syndicated loans for 224 million euros and accrued interest not yet due of 31 million euros, of which 23 million euros relates to bonds and 7 million euros to the EIB loan.

Other borrowings in the amount of 46 million euros chiefly represent reduced-rate loans, including 3 million euros granted to Spanish subsidiaries, 28 million euros granted to a Brazilian subsidiary, and 6 million euros granted to a Japanese subsidiary.

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

5.10.3. Short-term debt

(*in millions of euros*)	Dec. 31, 2011	Dec. 31, 2010
Commercial paper	21	13
Short-term loans and overdrafts	54	64
Short-term debt	**75**	**77**

The 54 million euros recorded on the “Short-term loans and overdrafts” line relate mainly to overdraft facilities.

5.10.4. Cash and cash equivalents

(*in millions of euros*)	Dec. 31, 2011	Dec. 31, 2010
Marketable securities	735	981
Cash	560	335
Cash and cash equivalents	**1,295**	**1,316**

Marketable securities consist of money market funds (SICAV) for 735 million euros.

5.10.5. Net debt

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

■ **Breakdown of net debt**

(in millions of euros)	**Dec. 31, 2011**	**Dec. 31, 2010**
Long-term debt (Note 5.10.2)	1,494	1,097
Current portion of long-term debt (Note 5.10.2)	307	505
Loans and other non-current financial assets	(58)	(85)
Long-term debt	**1,743**	**1,517**
Short-term debt (Note 5.10.3)	75	77
Cash and cash equivalents (Note 5.10.4)	(1,295)	(1,316)
Short-term cash	**(1,220)**	**(1,239)**
Net debt	**523**	**278**

Loans and other non-current financial assets relate mainly to investments in Brazil, consisting of certificates of deposit 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)	**Dec. 31, 2011**	**Dec. 31, 2010**
Euro	909	528
US dollar	(62)	(26)
Japanese Yen	(84)	(13)
Brazilain real	(41)	(81)
Korean won	(67)	(59)
Chinese yuan	(58)	(27)
Other currencies	(74)	(44)
TOTAL	**523**	**278**

5.11. Breakdown of cash flows

5.11.1. Expenses (income) with no cash effect

(in millions of euros)	**2011**	**2010**
Expenses (income) with no cash effect		
Depreciation, amortization and impairment of non-current assets	534	543
Net additions to (reversals from) provisions	(91)	(21)
Losses (gains) on sales of non-current assets	2	(4)
Expenses related to share-based payment	8	6
Gain or loss on remeasurement of previously-held interest	(24)	-
TOTAL	**429**	**524**

5.11.2. Changes in working capital

(*in millions of euros*)	2011	2010
Changes in working capital		
Inventories	(73)	(110)
Accounts and notes receivable	(145)	(138)
Accounts and notes payable	238	275
Other receivables and payables	(49)	4
TOTAL	**(29)**	**31**

5.11.3. Impact of changes in the scope of consolidation

Changes in the scope of consolidation had a negative impact of 269 million euros in 2011, chiefly attributable to the two acquisitions during the year:

- the acquisition of Niles had a negative impact for 261 million euros, of which 165 million euros in respect of the cost of the interest acquired (after contingent consideration) and 90 million euros related to the first-time consolidation of Niles and 6 million euros in acquisition fees;
- the acquisition in late 2011 of an UK automotive technology development company Controlled Power Technologies (CPT), which resulted in a cash outflow of 28 million euros.

These cash outflows during the period were offset in part by a positive 20 million euro impact relating to the acquisition of a controlling interest with no cash consideration of Valeo Pyeong Hwa and Valeo Pyeong Hwa International. Previously consolidated by the proportionate method, these entities were fully consolidated from 1st October 2011.

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 (see Note 2.2.2) and the electromagnetic retarders business (see Note 2.2.3).

Note 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.

	Dec. 31, 2011	2011 carrying amount under IAS 39			Dec. 31, 2010
(*in millions of euros*)	Carrying amount	Amortized cost	Fair value through equity	Fair value through income	Carrying amount
ASSETS					
Non-current financial assets:					
• Investments in non-consolidated companies	**12**	-	12	-	3
• Loans	**58**	58	-	-	85
• Deposits and guarantees	**18**	-	-	18	17
• Other non-current financial assets	**3**	-	-	3	2
Accounts and notes receivable	**1,705**	1,705	-	-	1,449
Other current financial assets:					
• Hedging derivatives	**1**	-	1	-	17
• Trading derivatives	**9**	-	-	9	7
Cash and cash equivalents	**1,295**	-	-	1,295	1,316
LIABILITIES					
Non-current financial liabilities:					
• Hedging derivatives	**13**	-	13	-	13
• Trading derivatives	**38**	-	-	38	-
Bonds	**893**	893	-	-	598
OCEANE convertible bonds (debt component)	**-**	-	-	-	463
Syndicated loans	**472**	472	-	-	223
EIB loans	**281**	281	-	-	201
Other long-term debt	**155**	155	-	-	117
Accounts and notes payable	**2,340**	2,340	-	-	1,987
Other current financial liabilities:					
• Hedging derivatives	**9**	-	8	1	-
• Trading derivatives	**11**	-	-	11	2
Short-term debt	**75**	75	-	-	77

The principal terms and conditions of borrowings (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 quoted prices in an active bond market, and amounted to 887 million euros at December 31, 2011 and 610 million euros at December 31, 2010.

The fair value of syndicated loans and EIB loans is estimated by discounting future cash flows at the market interest rate at the end of the reporting period, taking into account the Group's issuer spreads. The issuer spreads reflect the spread on Valeo's 7-month and 5-year credit default swaps. These issuer spreads were estimated (source: Markit Reuters) at:

- 1.32% for the syndicated loans totaling 225 million euros;
- 2.84% for the syndicated loan totaling 250 million euros;
- 2.84% for the EIB loan totaling 225 million euros;
- 3.47% (5-year CDS including the USD/EUR basis swap of 0.63%) for the EIB loan drawn in USD.

At December 31, 2011, the fair values of these instruments are estimated at 457 million euros for the syndicated loans and 289 million euros for the EIB loans (234 million euros and 232 million euros, respectively, at December 31, 2010).

The fair values of other components of Group debt are equal to their carrying amounts.

6.1.2. Fair value of derivatives

At December 31

(*in millions of euros*)	**2011**	**2010**
ASSETS		
Hedging derivatives:		
• Foreign currency derivatives	-	1
• Commodity derivatives	1	16
Trading derivatives:		
• Foreign currency derivatives	9	7
• Commodity derivatives	-	-
Total other current financial assets	**10**	**24**
LIABILITIES		
Hedging derivatives:		
• Foreign currency derivatives	(38)	-
• Interest rate derivatives	(13)	(13)
Total other non-current financial liabilities	**(51)**	**(13)**
Hedging derivatives:		
• Interest rate derivatives	(1)	**-**
• Commodity derivatives	(8)	-
Trading derivatives:		
• Foreign currency derivatives	(11)	(2)
• Commodity derivatives	-	-
Total other current financial liabilities	**(20)**	**(2)**

The impact of financial instruments on income for the years ended December 31, 2011 and December 31, 2010 is set out in Note 4.7.

6.1.2.1. Fair value of foreign currency derivatives

At December 31

(*in millions of euros*)	2011		2010	
	Nominal	**Fair value**	**Nominal**	**Fair value**
Forward foreign currency purchases	59	2	41	2
Forward foreign currency sales	(2)	1	(22)	-
Currency swaps	131	6	(289)	6
TOTAL ASSETS	**188**	**9**	**(270)**	**8**
Forward foreign currency purchases	3	-	12	-
Forward foreign currency sales	(28)	(1)	(30)	(1)
Currency swaps	(527)	(10)	30	(1)
Cross currency swaps	(237)	(38)	-	-
TOTAL LIABILITIES	**(789)**	**(49)**	**12**	**(2)**
Net impact	**-**	**(40)**	**-**	**6**

The fair value of currency hedges is computed using the following valuation method: future cash flows are calculated using forward exchange rates at the end of the reporting period 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*)	2011		2010	
	Nominal	**Fair value**	**Nominal**	**Fair value**
Swaps – Purchases	39	1	105	16
Swaps – Sales	-	-	-	-
TOTAL ASSETS	**39**	**1**	**105**	**16**
Swaps – Purchases	96	(8)	4	-
Swaps – Sales	(1)	-	-	-
TOTAL LIABILITIES	**95**	**(8)**	**4**	**0**
Net impact	**-**	**(7)**	**-**	**16**

The fair value of commodity derivatives is computed using the following valuation method: future cash flows are calculated using forward commodity prices and forward exchange rates at the end of the reporting period 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

	2011		2010	
(in millions of euros)	**Nominal**	**Fair value**	**Nominal**	**Fair value**
Interest rate swaps:				
EIB loan	225	(13)	225	(12)
Syndicated loans	225	(1)	225	(1)
TOTAL LIABILITIES	**450**	**(14)**	**450**	**(13)**

The fair value of interest rate swaps is computed by discounting future cash flows based on market interest rates at the end of the reporting period. 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 set out in the management report (section I).

6.2.1. Market risks

6.2.1.1. Foreign currency risk

A detailed description of the Group's foreign currency risk management policy is set out in the management report (section I.4.1).

Exposure to foreign currency risk

The principal currency hedging instruments used by the Group are forward purchases and sales of foreign currencies, as well as swaps and options. The principal instruments used by the Group to hedge its foreign currency risk are not eligible for hedge accounting 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.

The Group set up a Yen cross currency swap for 237 million euros at the same time as its 250 million euros bond issue in connection with the financing of Niles. The maturity of this swap is aligned with the maturity of the bond. This derivative is not eligible for hedge accounting within the meaning of IAS 39.

At December 31, 2011, a non-material amount 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):

	2011				2010
(in millions of euros)	**USD**	**JPY**	**EUR**	**Total**	**Total**
Accounts and notes receivable	75	25	369	**469**	**380**
Other financial assets	517	275	109	**901**	**500**
Accounts and notes payable	(74)	(40)	(398)	**(512)**	**(403)**
Long-term debt	(84)	(37)	(237)	**(358)**	**(409)**
Gross exposure	**434**	**223**	**(157)**	**500**	**68**
Forward sales	(512)	(252)	(24)	**(788)**	**(434)**
Forward purchases	150	38	3	**191**	**133**
Net exposure	**72**	**9**	**(178)**	**(97)**	**(233)**

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

At December 31, 2010, the breakdown by currency of the net exposure in the statement of financial position for a negative amount of 233 million euros is as follows:

- 42 million euros relating to the US dollar;
- (2) million euros relating to the yen;
- (273) 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 1.29 US dollars, 100.2 Japanese yen and 25.79 Czech koruna to 1 euro at December 31, 2011 (USD 1.34, JPY 108.65 and CZK 26.06, respectively, at December 31, 2010).

An increase of 10% in the value of the euro against these currencies at December 31, 2011 and December 31, 2010 would have had the following impacts:

2011

(*in millions of euros*)	Income Gain (loss)	Equity Gain (loss)
Exposure US dollar	(7)	-
Exposure Yen	(1)	-
Exposure Euro	(8)	(16)
TOTAL	**(16)**	**(16)**

2010

(*in millions of euros*)	Income Gain (loss)	Equity Gain (loss)
Exposure US dollar	(4)	-
Exposure Yen	-	-
Exposure Euro	(4)	(24)
TOTAL	**(8)**	**(24)**

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 at December 31, 2011 would have the opposite effect to the one shown above.

6.2.1.2. Commodity risk

A detailed description of the Group's commodity risk management policy is set out in the management report (section I.4.2).

Exposure to commodity risk

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, 2011 and December 31, 2010 break down as follows:

(in tons)	Dec. 31, 2011	Dec. 31, 2010
Aluminum	30,549	27,942
Secondary aluminum	10,860	8,822
Copper	9,388	7,325
Zinc	5,376	4,231
TOTAL	**56,173**	**48,320**

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized loss of 7 million euros related to existing hedges was recognized directly in other comprehensive income in 2011 in accordance with IAS 39.

An unrealized gain of 16 million euros recognized in other comprehensive income at December 31, 2010 and arising on commodity hedges purchased in second-half 2010, was reclassified in full to operating income in the first half of 2011.

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, 2011 and 2010.

	2011		2010	
(in millions of euros)	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Impact of a 10% rise in metal futures prices	-	10	-	10
Impact of a 10% fall in metal futures prices	-	(10)	-	(10)

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

A detailed description of the Group's interest rate risk management policy is set out in the management report (section I.4.3).

Exposure to interest rate risk

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 statement 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 was designated as a cash flow hedge. The fair value of the swap is initially recognized in the statement of financial position, with subsequent changes in fair value taken to other comprehensive income until the hedged interest falls due. At December 31, 2011, the impact in stockholders' equity of changes in the fair value of this swap was a negative 1 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:

2011

	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
(in millions of euros)	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	190	193	431	527	528	40	1,149	760	**1,909**
Loans	-	-	-	(58)	-	-	-	(58)	**(58)**
Cash and cash equivalents	-	(1,295)	-	-	-	-	-	(1,295)	**(1,295)**
Net position before hedging	**190**	**(1,102)**	**431**	**469**	**528**	**40**	**1,149**	**(593)**	**556**
Derivative instruments	(107)	107	225	(225)	-	-	118	(118)	-
Net position after hedging	**83**	**(995)**	**656**	**244**	**528**	**40**	**1,267**	**(711)**	**556**

2010

	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
(in millions of euros)	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**

Analysis of sensitivity to interest rate risk

At December 31, 2011, 64% of long-term debt is at fixed rates (85% at December 31, 2010).

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:

2011

(*in millions of euros*)	**Income Gain (loss)**	**Equity Gain (loss)**
Impact of a 1% rise in interest rates	7	6

2010

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

Similarly, at December 31, 2011, 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 equity risk management policy is set out in the management report (section I.4.4).

The assets comprising 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 liquidity risk management policy is set out in the management report (section I.5).

The Group looks to maintain very broad access to liquidity in order to meet its commitments and investment requirements. It borrows long-term funds either through banks or public debt markets. In 2005, Valeo issued Euro Medium Term Note for 600 million euros maturing in 2013. These notes were redeemed in 2011 in an amount of 200 million euros and in January 2012 in an amount of 89 million euros.

In 2011 and at the beginning of 2012, two new bond issues were carried out for 500 million euros each within the scope of the Euro Medium Term Note program. The maximum amount that can be issued under this program is 2 billion euros. The bond issues mature in 2018 and 2017, respectively. These issues allowed the Group to repay its two 225 million euro syndicated loans ahead of term on January 30, 2012.

In 2011, Valeo also took out a 250 million euro loan from three banks with the aim of financing its acquisition of Niles in Japan. The Group had a drawdown right for 75 million euros granted by the European Investment Bank (EIB) which was due to expire in March 2012. This right was exercised in November 2011. The total amount of EIB loans is therefore 300 million euros.

Valeo also has:

- cash totaling 1,295 million euros at December 31, 2011;
- confirmed bank credit lines totaling 1.1 billion euros with an average maturity of 3.4 years. None of these credit lines had been drawn down at December 31, 2011 or December 31, 2010;
- a Euro Medium Term Note financing program for a maximum of 2 billion euros, on which 900 million euros had been drawn down at December 31, 2011 and 1,311 million euros at end-January 2012;
- a short-term commercial paper financing program for a maximum amount of 1.2 billion euros. However, given Valeo's P3 short-term debt rating, the regulations applicable to monetary funds restrict its access to this market.

Covenants: The credit lines, syndicated loans and EIB loans are subject to an early repayment clause related to the Group's net debt/EBITDA ratio, which must not exceed 3.25. For this purpose, EBITDA corresponds to the Group's operating margin before depreciation, amortization and impairment. It therefore excludes other income and expenses, except for restructuring costs representing over 50 million euros. 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 loans to be repaid. At December 31, 2011, the ratio calculated over 12 months was 0.43.

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 bonds issued within the scope of the Euro Medium Term Note program include 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 shareholder (or several shareholders 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:

The future cash flows presented below, comprising both interest payments and reimbursements, are not discounted. The forward interest rate curve at December 31, 2011 was used for variable-rate interest.

At December 31, 2011

	Carrying amount	Contractual cash flows	Contractual cash flows Payment schedule					
(in millions of euros)		Total	2012	2013	2014	2015	2016	2017 and beyond
Bonds	893	**1,098**	39	439	24	24	24	548
Syndicated loans	224	**233**	233	-	-	-	-	-
EIB loans	281	**350**	11	67	65	83	81	43
Syndicated loan	248	**281**	6	6	7	8	254	-
Other long-term debt	155	**155**	83	22	8	10	4	28
Accounts and notes payable	2,340	**2,340**	2,340	-	-	-	-	-
Short-term debt	75	**75**	75	-	-	-	-	-

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, 2011 have been used to value foreign exchange derivatives. The London Metal Exchange (LME) forward rates at December 31, 2011 were used for commodity derivatives, while the forward interest rate curve at December 31, 2011 was used for interest rate swaps.

At December 31, 2011

	Carrying amount	Contractual cash flows	Contractual cash flows Payment schedule					
(in millions of euros)		Total	2012	2013	2014	2015	2016	2017 and beyond
Forward foreign currency contracts used as hedges:								
• Assets	3	**3**	3	-	-	-	-	-
• Liabilities	(1)	**(1)**	(1)	-	-	-	-	-
Currency swaps used as hedges:								
• Assets	6	**6**	6	-	-	-	-	-
• Liabilities	(48)	**(36)**	(8)	2	3	3	(36)	-
Commodity derivatives:								
• Assets	1	**1**	1	-	-	-	-	-
• Liabilities	(8)	**(8)**	(8)	-	-	-	-	-
Interest rate swaps:								
• Assets	-	**-**	-	-	-	-	-	-
• Liabilities	(14)	**(16)**	(5)	(5)	(3)	(2)	(1)	-

6.2.3. Credit risk

A detailed description of the Group's credit risk management policy is set out in the management report (section I.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 and works with all auto makers. Although the economic climate was upbeat in 2011, Valeo continues to closely monitor default risk, particularly due to the inherent uncertainties regarding 2012. The average days' sales outstanding stood at 51 days at December 31, 2011, compared to 50 days at December 31, 2010.

At December 31, 2011, Valeo's largest customer accounted for 19% of the Group's accounts and notes receivable (18% at December 31, 2010).

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

(*in millions of euros*)	**Gross carrying amount Dec. 31, 2011**	**Gross carrying amount Dec. 31, 2010**
Not yet due	1,644	1,400
Less than 1 month past due	43	39
More than 1 month but less than 1 year past due	33	22
More than 1 year past due	7	10
TOTAL	**1,727**	**1,471**

Past-due balances were impaired for 22 million euros in both 2011 and 2010.

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, 2011, 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, 2011, the joint venture had total equity of 54 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.

These totaled 86 million euros at December 31, 2011 versus 139 million euros at December 31, 2010. The fall in commitments given reflects the expiration of the vendor warranties granted in connection with certain disposals.

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, 2011 (excluding capital leases) are as follows:

(*in millions of euros*)	**Dec. 31, 2011**	**Dec. 31, 2010**
Less than 1 year	40	38
1 to 5 years	63	66
More than 5 years	14	17
TOTAL	**117**	**121**

Lease rentals recognized in expenses totaled 50 million euros in 2011 and 51 million euros in 2010.

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

(in millions of euros)	**Dec. 31, 2011**	**Dec. 31, 2010**
Future minimum lease payments		
Less than 1 year	6	3
1 to 5 years	9	6
More than 5 years		-
Total future minimum lease payments	**15**	**9**
Of which interest charges	(1)	(1)
Present value of future lease payments		
Less than 1 year	6	4
1 to 5 years	8	4
More than 5 years	-	-
Total present value of future lease payments	**14**	**8**

6.3.3.2. Other commitments given

Valeo has also given the following commitments:

(in millions of euros)	**Dec. 31, 2011**	**Dec. 31, 2010**
Guarantees given	3	4
Non-cancelable asset purchase commitments	133	144
Other commitments given	6	9
TOTAL	**142**	**157**

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

(in millions of euros)	**Dec. 31, 2011**	**Dec. 31, 2010**
Property, plant and equipment	1	1
Financial assets	7	13
TOTAL	**8**	**14**

6.3.3.3. Commitments received

In 2011, Valeo was granted vendor warranties totaling 53 million euros on acquisitions carried out in the period (see Note 2.1).

6.4. Contingent liabilities

The Group has contingent liabilities relating to legal or arbitration proceedings arising in the normal course of its business. Known or on-going 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.

At the end of July 2011, antitrust investigations were initiated against numerous automotive suppliers (including Valeo) by the US, European and Japanese antitrust authorities in the areas of components and systems supplied to the automotive industry.

The Group is unable to foresee the outcome of the investigations at the present time. However, even though the outcome of the investigations is unknown at this time, because of the level of fines that could be levied by the authorities and the consequences thereof, the investigations could have a materially adverse impact on the Group's future earnings.

To the best of Valeo's knowledge, and excluding these anti-trust proceedings, there were no governmental, legal or arbitration proceedings, including proceedings in process, pending or expected, that may have, or have had in the recent past, a significant impact on the financial position or profitability of the company or the Group.

However, Valeo cannot rule out new lawsuits stemming from events or facts that are unknown at present, or where the associated risk cannot as 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. Since 2004, each employee is entitled to at least 20 training hours a year. These can be accumulated over a period of six years up to 120 hours.

The cumulative volume of training hours corresponding to Group employees' vested rights under the French statutory training entitlement was 1,159,410 hours at December 31, 2011 (1,131,693 hours at December 31, 2010), representing a usage rate of around 4.1%.

6.6. Related party transactions

6.6.1. Management remuneration

At December 31, 2011, management comprises of the 13 members of the Group's Operating Committee. Remuneration paid to management (exluding the Chief Executive Officer) amounted to 10 million euros in 2011 and 9 million euros in 2010.

The Group recognized an expense of 2 million euros in 2011 (unchanged from 2010) in respect of stock subscription and purchase options and free share awards. It also recorded expenses in relation to pension obligations for management personnel in an amount of 1 million euros in 2011 and 2010. At December 31, 2011, provisions included in the Group's statement of financial position in respect of these pension obligations amounted to 8 million euros (12 million euros at December 31, 2010).

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)	**2011**	**2010**
Sales of goods and services	17	18
Purchases of goods and services	(5)	(9)
Interest and dividends received	3	4

(in millions of euros)	**Dec. 31, 2011**	**Dec. 31, 2010**
Operating receivables	7	5
Operating payables	8	4

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)	**2011**	**2010**
Sales of goods and services	34	27
Purchases of goods and services	(35)	(30)
Interest and dividends received	18	19

(in millions of euros)	**Dec. 31, 2011**	**Dec. 31, 2010**
Operating receivables	19	12
Operating payables	5	9
Net debt	14	11

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*)	**2011**	**2010**
Non-current assets	99	100
Current assets	193	215
Non-current liabilities	31	27
Current liabilities	186	162
Sales	484	457
Operating expenses	454	419

6.8. Subsequent events

On January 19, 2012, Valeo carried out a further 500 million euro bond issue within the scope of its Euro Medium Term Note financing program. The bonds are redeemable in January 2017 and pay a fixed coupon of 5.75%. At the same time as the bond issue, Valeo launched a redemption offer for holders of its 2013 bonds. A total of 89 million euros in bonds were redeemed as a result of this offer. The new bond issue allowed Valeo to repay its two syndicated loans for a total of 225 million euros ahead of term on January 30, 2012. These loans initially fell due on July 29, 2012.

Note 7. List of consolidated companies

Company	Dec. 31, 2011 % voting rights	Dec. 31, 2011 % interest	Dec. 31, 2010 % voting rights	Dec. 31, 2010 % 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
Niles Europe	100	100	-	-
SC2N	100	100	100	100
Société de Participations Valeo	100	100	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 (4)	100	100	50	50
Valeo Management Services	100	100	100	100
Valeo Matériaux de Friction	100	100	100	100
Valeo Plastic Omnium SNC (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 Vision	100	100	100	100
Spain				
Telma Retarder España, SA	100	100	100	100
Valeo Climatización, SA	100	100	100	100
Valeo España, SA	100	100	100	100
Valeo Iberica SA	100	100	100	100
Valeo Iluminación, SA	99.8	99.8	99.8	99.8
Valeo Plastic Omnium SL (2)	50	50	50	50
Valeo Service España, SA	100	100	100	100
Valeo Sistemas Electricos, SL	100	100	100	100
Valeo Termico, SA	100	100	100	100
Portugal				
Cablagens Do Ave	100	100	100	100
Italy				
Valeo Service Italia, SpA	99.9	99.9	99.9	99.9
Valeo, SpA	100	100	99.9	99.9

(1) *Companies accounted for by the equity method.*

(2) *Companies consolidated on a proportionate basis.*

(3) *See Note 2.1.3.*

(4) *Companies consolidated on a proportionate basis in 2010 and fully consolidated in 2011.*

(5) *Companies accounted for by the equity method in 2010 and proportionately consolidated in 2011.*

Company	Dec. 31, 2011		Dec. 31, 2010	
	% voting rights	% interest	% voting rights	% interest
Germany				
Valeo Auto-Electric Beteiligungs GmbH	-	-	100	100
Valeo Auto-Electric GmbH	100	100	100	100
Valeo Compressor Europe GmbH	-	-	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
Valeo Wischersysteme GmbH	100	100	100	100
United Kingdom				
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
Valeo Air Management UK Limited[3]	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
Netherlands				
Valeo Holding Netherlands BV	100	100	100	100
Valeo International Holding BV	100	100	100	100
Valeo Service Benelux BV	100	100	100	100
Czech Republic				
Valeo Autoklimatizace ks	100	100	100	100
Valeo Compressor Europe Sro	100	100	100	100
Valeo Vymeniky Tepla ks	100	100	100	100
Slovakia				
Valeo Slovakia Sro	100	100	100	100

(1) Companies accounted for by the equity method.

(2) Companies consolidated on a proportionate basis.

(3) See Note 2.1.3.

(4) Companies consolidated on a proportionate basis in 2010 and fully consolidated in 2011.

(5) Companies accounted for by the equity method in 2010 and proportionately consolidated in 2011.

Company	Dec. 31, 2011		Dec. 31, 2010	
	% voting rights	% interest	% voting rights	% interest
Poland				
Valeo Autosystemy SpZOO	100	100	100	100
Valeo Electric and Electronic Systems SpZOO	100	100	100	100
Valeo Service Eastern Europe SpZOO	100	100	100	100
Hungary				
Valeo Auto-Electric Hungary LLC	100	100	100	100
Romania				
Valeo Lighting Assembly SRL	-	-	100	100
Valeo Lighting Injection SA	100	100	100	100
Valeo Sisteme Termice SRL	100	100	100	100
Russia				
Valeo Climate Control Tomilino LLC	95	95	95	95
Valeo Service Limited Liability Company	100	100	100	100
Turkey				
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	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
NORTH AMERICA				
United States				
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 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
Niles America Wintech, Inc.	100	100	-	-
Micro Craft Inc.	100	100	-	-
Niles America Michigan, Inc.	100	100	-	-
Niles Americas Corporation	100	100	-	-

[1] *Companies accounted for by the equity method.*

[2] *Companies consolidated on a proportionate basis.*

[3] *See Note 2.1.3.*

[4] *Companies consolidated on a proportionate basis in 2010 and fully consolidated in 2011.*

[5] *Companies accounted for by the equity method in 2010 and proportionately consolidated in 2011.*

Company	Dec. 31, 2011 % voting rights	Dec. 31, 2011 % interest	Dec. 31, 2010 % voting rights	Dec. 31, 2010 % interest
NORTH AMERICA				
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	100	98.5	100	98.5
Valeo Compressor Clutch (Thailand) Co. Ltd	100	99.4	97.9	97.3
Valeo Siam Thermal Systems Co. Ltd	74.9	74.9	74.9	74.9
Valeo Thermal Systems Sales (Thaïland) Co. Ltd	74.9	74.9	74.9	74.9
Niles (Thailand) Co. Ltd	100	100	-	-
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 (4)	50	50	50	50
Valeo Pyeong HWA International Co. Ltd (4)	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

(1) Companies accounted for by the equity method.

(2) Companies consolidated on a proportionate basis.

(3) See Note 2.1.3.

(4) Companies consolidated on a proportionate basis in 2010 and fully consolidated in 2011.

(5) Companies accounted for by the equity method in 2010 and proportionately consolidated in 2011.

Company	Dec. 31, 2011 % voting rights	Dec. 31, 2011 % interest	Dec. 31, 2010 % voting rights	Dec. 31, 2010 % interest
Japan				
Ichikoh Industries Limited [1]	31.6	31.6	31.6	31.6
Valeo Thermal Systems Japan Corporation	100	100	100	100
Valeo Unisia Transmissions KK	66	66	66	66
Niles Co. Ltd	100	100	-	-
Jonan Industrial Co. Ltd	100	100	-	-
Akita Niles Co. Ltd	100	100	-	-
Nitto Manufacturing Co. Ltd	87.2	87.2	-	-
Niles Personnel Service Co. Ltd	100	100	-	-
AMI CO. Ltd	100	100	-	-
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 [5]	45	45	30	30
Hubei Valeo Autolighting Co. 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 Co. Ltd	100	100	100	100
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
Valeo Management (Shanghaï) Co. Ltd	100	100	-	-
Fuzhou Niles Electronic Co. Ltd	51	51	-	-
Guangzhou Niles Electronics Co. Ltd	100	100	-	-
Guangzhou Niles Trading Co. Ltd	100	100	-	-
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	100	100	100	100
Valeo Friction Materials India Ltd	60	60	60	60
Valeo Lighting Systems (India) Private Ltd	100	100	100	100
Valeo Engine and Electrical systems India Private Ltd	-	-	100	100
Taiwan				
Niles CTE Electronic Co. Ltd	51	51	-	-

[1] *Companies accounted for by the equity method.*

[2] *Companies consolidated on a proportionate basis.*

[3] *See Note 2.1.3.*

[4] *Companies consolidated on a proportionate basis in 2010 and fully consolidated in 2011.*

[5] *Companies accounted for by the equity method in 2010 and proportionately consolidated in 2011.*

7. Statutory auditors’ report on the consolidated financial statements

Year ended December 31, 2011

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.

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meeting, we hereby report to you, for the year ended December 31, 2011, 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.

I. 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, 2011 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.

II. 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 4.5.2 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 your company 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 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 to the consolidated financial statements describes the methods for valuing provisions intended to cover your company’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.

III. 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 Paris-La Défense, February 21, 2012

The statutory auditors

French original signed by

MAZARS		**ERNST & YOUNG et Autres**	
David Chaudat	Lionel Gotlib	Jean-François Ginies	Gilles Puissochet