2014 CONSOLIDATED FINANCIAL STATEMENTS

2014 CONSOLIDATED FINANCIAL STATEMENTS 2

1 Consolidated statement of income 2

2 Consolidated statement of comprehensive income 3

3 Consolidated statement of financial position 4

4 Consolidated statement of cash flows 5

5 Consolidated statement of changes in stockholders' equity 6

6 Notes to the consolidated financial statements 7

7 Statutory Auditors' report on the consolidated financial statements 78

2014 consolidated financial statements

1 Consolidated statement of income

(in millions of euros)	Notes	2014	2013 restated[1]
SALES	*4.1*	**12,725**	**11,662**
Cost of sales	*4.3*	(10,522)	(9,653)
GROSS MARGIN	*4.3*	**2,203**	**2,009**
% of sales		*17.3%*	*17.2%*
Research and Development expenditure, net	*4.5.1*	(685)	(614)
Selling expenses		(207)	(193)
Administrative expenses		(449)	(436)
OPERATING MARGIN		**862**	**766**
% of sales		*6.8%*	*6.6%*
Share in net earnings of equity-accounted companies	*4.5.3.1*	51	26
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	*4.5*	**913**	**792**
% of sales		*7.2%*	*6.8%*
Other income and expenses	*4.6.2*	(54)	(67)
OPERATING INCOME INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	*4.6.1*	**859**	**725**
Interest expense	*8.2.1*	(101)	(107)
Interest income	*8.2.1*	10	9
Other financial income and expenses	*8.2.2*	(46)	(46)
INCOME BEFORE INCOME TAXES		**722**	**581**
Income taxes	*9.1*	(129)	(113)
NET INCOME FOR THE YEAR		**593**	**468**
Attributable to:			
• Owners of the Company		562	439
• Non-controlling interests	*10.1.7*	31	29
Earnings per share:			
• Basic earnings per share *(in euros)*	*10.2*	7.23	5.71
• Diluted earnings per share *(in euros)*		7.23	5.71

(1) The consolidated statement of income shown for the year ended December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis, and a change in the presentation of the share in net earnings of equity-accounted companies in the statement of income (see Notes 1.1.1 and 1.3).

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

2 Consolidated statement of comprehensive income

(in millions of euros)	2014	2013 restated[1]
NET INCOME FOR THE YEAR	**593**	**468**
Share of changes in comprehensive income from equity-accounted companies recycled to income	10	(3)
o/w income taxes	-	-
Translation adjustment	136	(164)
Cash flow hedges:		
• Gains (losses) taken to equity	16	(19)
• (Gains) losses transferred to income for the year	7	16
o/w income taxes	*(4)*	*1*
Remeasurement of available-for-sale financial assets	-	-
o/w income taxes	-	-
Other comprehensive income (loss) recycled to income	**169**	**(170)**
Share of changes in comprehensive income from equity-accounted companies not recycled to income	(2)	10
o/w income taxes	-	-
Actuarial gains (losses) on defined benefit plans	(180)	95
o/w income taxes	*45*	*(6)*
Other comprehensive income (loss) not recycled to income	**(182)**	**105**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(13)**	**(65)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**580**	**403**
Attributable to:		
• Owners of the Company	532	381
• Non-controlling interests	48	22

(1) The consolidated statement of comprehensive income shown for the year ended December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

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

3 Consolidated statement of financial position

(in millions of euros)	*Notes*	**December 31, 2014**	December 31, 2013 restated[1]
ASSETS			
Goodwill[2]	*6.1*	1,374	1,210
Other intangible assets[2]	*6.2*	1,012	829
Property, plant and equipment	*6.3*	2,497	2,080
Investments in equity-accounted companies	*4.5.3.2*	167	201
Other non-current financial assets	*8.1.1*	59	72
Deferred tax assets	*9.2*	359	238
NON-CURRENT ASSETS		**5,468**	**4,630**
Inventories, net	*4.4*	938	810
Accounts and notes receivable, net	*4.2*	1,681	1,460
Other current assets	*4.5.2*	366	402
Taxes recoverable		25	33
Other current financial assets	*8.1.1*	44	35
Cash and cash equivalents	*8.1.3.2*	1,497	1,500
Assets held for sale		-	2
CURRENT ASSETS		**4,551**	**4,242**
TOTAL ASSETS		**10,019**	**8,872**
EQUITY AND LIABILITIES			
Share capital	*10.1.1*	238	238
Additional paid-in capital	*10.1.2*	1,434	1,434
Translation adjustment	*10.1.3*	145	18
Retained earnings	*10.1.4*	923	691
STOCKHOLDERS' EQUITY		**2,740**	**2,381**
Non-controlling interests	*10.1.7*	209	147
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS		**2,949**	**2,528**
Provisions for pensions and other employee benefits – long-term portion	*5.3*	985	710
Other provisions – long-term portion	*7.1*	175	190
Long-term debt – long-term portion	*8.1.2.1*	1,458	1,491
Other financial liabilities – long-term portion	*8.1.1*	5	7
Subsidies and grants – long-term portion		20	24
Deferred tax liabilities	*9.2*	37	26
NON-CURRENT LIABILITIES		**2,680**	**2,448**
Accounts and notes payable		2,700	2,347
Provisions for pensions and other employee benefits – current portion	*5.3*	74	68
Other provisions – current portion	*7.1*	159	155
Subsidies and grants – current portion		8	13
Taxes payable		57	52
Other current liabilities		920	879
Current portion of long-term debt	*8.1.2.1*	124	108
Other financial liabilities – current portion	*8.1.1*	91	21
Short-term debt	*8.1.2.2*	257	253
CURRENT LIABILITIES		**4,390**	**3,896**
TOTAL EQUITY AND LIABILITIES		**10,019**	**8,872**

(1) The consolidated statement of financial position shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).
(2) The amounts of goodwill and other intangible assets shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the final purchase price accounting for Eltek Electric Vehicles (see Note 2.2.2.2).

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

4 Consolidated statement of cash flows

(in millions of euros)	*Notes*	2014	2013 restated[1]
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		593	468
Share in net earnings of equity-accounted companies		(51)	(26)
Net dividends received from equity-accounted companies		36	19
Expenses (income) with no cash effect	*11.1*	632	548
Cost of net debt		91	97
Income taxes (current and deferred)		129	113
GROSS OPERATING CASH FLOWS		**1,430**	**1,219**
Income taxes paid		(163)	(144)
Changes in working capital	*11.2*	40	252
NET CASH FLOWS FROM OPERATING ACTIVITIES		**1,307**	**1,327**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(338)	(310)
Acquisitions of property, plant and equipment		(620)	(565)
Disposals of property, plant and equipment and intangible assets		22	3
Net change in non-current financial assets		(3)	(11)
Acquisitions of investments with gain of control, net of cash acquired	*11.3*	(104)	(5)
Disposals of investments with loss of control, net of cash transferred	*11.3*	(5)	170
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(1,048)**	**(718)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(132)	(115)
Dividends paid to non-controlling interests in consolidated subsidiaries		(12)	(14)
Dividend equalization tax	*7.1*	(28)	-
Sale (purchase) of treasury stock		(53)	53
Issuance of long-term debt	*11.4*	702	18
Interest paid		(93)	(110)
Interest received		10	10
Bond exchange premiums	*11.4*	(91)	-
Repayments of long-term debt	*11.4*	(650)	(397)
Acquisitions of equity interests without gain of control		-	(4)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(347)**	**(559)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**81**	**(10)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(7)**	**40**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,247**	**1,207**
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,240**	**1,247**
o/w:			
• Cash and cash equivalents		1,497	1,500
• Short-term debt		(257)	(253)

(1) The consolidated statement of cash flows shown for the year ended December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

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	Total stockholders' equity including non-controlling interests restated[1]		
						Stockholders' equity	Non-controlling interests	Total
76,103,667	**STOCKHOLDERS' EQUITY AT JANUARY 1, 2013**	**238**	**1,434**	**183**	**197**	**2,052**	**138**	**2,190**
	Dividends paid	-	-	-	(115)	(115)	(14)	**(129)**
1,539,151	Treasury stock	-	-	-	54	54	-	**54**
	Capital increase	-	-	-	-	-	-	**-**
	Share-based payment	-	-	-	9	9	-	**9**
	Other movements	-	-	-	-	-	1	**1**
	TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**(52)**	**(52)**	**(13)**	**(65)**
	Net income for the year	-	-	-	439	439	29	**468**
	Other comprehensive income (loss), net of tax	-	-	(165)	107	(58)	(7)	**(65)**
	TOTAL COMPREHENSIVE INCOME (LOSS)	**-**	**-**	**(165)**	**546**	**381**	**22**	**403**
77,642,818	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2013**	**238**	**1,434**	**18**	**691**	**2,381**	**147**	**2,528**
	Dividends paid	-	-	-	(132)	(132)	(10)	**(142)**
124,400	Treasury stock[2]	-	-	-	(54)	(54)	-	**(54)**
	Capital increase	-	-	-	-	-	-	**-**
	Share-based payment	-	-	-	14	14	-	**14**
	Other movements	-	-	-	(1)	(1)	24	**23**
	TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**(173)**	**(173)**	**14**	**(159)**
	Net income for the year	-	-	-	562	562	31	**593**
	Other comprehensive income (loss), net of tax	-	-	127	(157)	(30)	17	**(13)**
	TOTAL COMPREHENSIVE INCOME (LOSS)	**-**	**-**	**127**	**405**	**532**	**48**	**580**
77,767,218	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2014**	**238**	**1,434**	**145**	**923**	**2,740**	**209**	**2,949**

(1) *The consolidated statement of changes in equity shown for the year ended December 31, 2013 differs from that presented in the 2013 interim and annual consolidated financial statements published in July 2013 and February 2014, respectively, since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).*

(2) *In 2014, changes in stockholders' equity attributable to treasury stock include the impact of the share buyback program entered into with an investment services provider on May 27, 2014 for 74 million euros (see Note 10.1.6).*

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

6 Notes to the consolidated financial statements

DETAILED CONTENTS PAGE TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Accounting policies 8

1.1 Accounting standards applied 8
1.2 Basis of preparation 9
1.3 Restatement of prior-year financial information 9

Note 2 Scope of consolidation 14

2.1 Accounting policies relating to the scope of consolidation 14
2.2 Changes in the scope of consolidation 16
2.3 Off-balance sheet commitments relating to the scope of consolidation 18

Note 3 Segment reporting 19

3.1 Key segment performance indicators 20
3.2 Reconciliation with Group data 21
3.3 Reporting by geographic area 22
3.4 Breakdown of sales by major customer 22

Note 4 Operating data 23

4.1 Sales 23
4.2 Accounts and notes receivable 23
4.3 Gross margin and cost of sales 24
4.4 Inventories 25
4.5 Operating margin including share in net earnings of equity-accounted companies 25
4.6 Operating income and other income and expenses 31

Note 5 Personnel expenses and employee benefits 33

5.1 Headcount 33
5.2 Employee benefits 33
5.3 Provisions for pensions and other employee benefits 34
5.4 Share-based payment 40
5.5 Executive compensation (Related party transactions) 41

Note 6 Intangible assets and property, plant and equipment 42

6.1 Goodwill 42
6.2 Other intangible assets 43
6.3 Property, plant and equipment 44
6.4 Impairment losses on non-current assets 47
6.5 Off-balance sheet commitments relating to operating activities 49

Note 7 Other provisions and contingent liabilities 50

7.1 Other provisions 50
7.2 Contingent liabilities 52

Note 8 Financing and financial instruments 52

8.1 Financial assets and liabilities 52
8.2 Financial income and expenses 61
8.3 Risk management policy 62
8.4 Off-balance sheet commitments relating to Group financing 66

Note 9 Income taxes 67

9.1 Income taxes 67
9.2 Deferred taxes 68

Note 10 Stockholders' equity and earnings per share 70

10.1 Stockholders' equity 70
10.2 Earnings per share 71

Note 11 Breakdown of cash flows 72

11.1 Expenses (income) with no cash effect 72
11.2 Changes in working capital 72
11.3 Acquisitions and sales of equity interests with gain or loss of control 72
11.4 Issuance and repayment of long-term debt 72

Note 12 Subsequent events 73

Note 13 List of consolidated companies 73

Note 1 Accounting policies

The consolidated financial statements of the Valeo Group for the year ended December 31, 2014 include:

- the accounts of Valeo;
- the accounts of its subsidiaries;
- Valeo's share in the net assets and earnings of equity-accounted companies (joint ventures and associates).

Valeo is an independent group fully focused on the design, production and sale of components, integrated systems and modules for the automotive sector. As a technology company, Valeo proposes innovative products and systems that contribute to the reduction of CO_2 emissions and to the development of intuitive driving. Valeo is one of the world's leading automotive suppliers and is a partner to all automakers across the globe.

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

Valeo's consolidated financial statements for the year ended December 31, 2014 were authorized for issue by the Board of Directors on February 24, 2015.

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 can be consulted on the European Commission's 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, 2014

1.1.1.1 Standards and amendments dealing with consolidation

The IASB published the following standards and amendments on consolidation:

- IFRS 10 – "Consolidated Financial Statements";
- IFRS 11 – "Joint Arrangements";
- IFRS 12 – "Disclosure of Interests in Other Entities";
- IAS 27 (revised) – "Separate Financial Statements";
- IAS 28 (revised) – "Investments in Associates and Joint Ventures";
- Amendments to IFRS 10, IFRS 11 and IFRS 12 – "Transition Guidance";
- Amendments to IFRS 10, IFRS 12 and IAS 27 – "Investment Entities".

(1) http://ec.europa.eu/internal_market/accounting/ias/index_en.htm

These standards and amendments on consolidation adopted by the European Union in December 2012 lead to certain adjustments and restatements in the Group's consolidated financial statements.These are discussed in more detail in Note 1.3.1.

1.1.1.2 Other standards, amendments and interpretations

The IASB also published the following amendments:

- Amendments to IAS 32 – "Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities";
- Amendment to IAS 36 – "Recoverable Amount Disclosures for Non-Financial Assets";
- Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting".

These amendments do not have a material impact on the Group's consolidated financial statements.

1.1.2 Standards, amendments and interpretations adopted by the European Union and obligatorily applicable for reporting periods beginning after January 1, 2014 and not early adopted by the Group

On June 14, 2014, the European Union adopted IFRIC 21 – "Levies". This interpretation is obligatory applicable for reporting periods beginning on or after June 17, 2014, i.e., as of January 1, 2015 for Valeo, whose reporting period is consistent with a calendar year.

IFRIC 21 provides guidance on when to recognize a liability for a levy (other than income tax), and specifies that the obligating event giving rise to this liability is the activity that triggers the payment of the levy, as identified by the legislation. This interpretation may result in limited adjustments to the Group's consolidated financial statements as it could change the date on which a liability for a levy is recognized, based on whether or not a present obligation exists at the reporting date. In France, this is the case for the additional social security levy (*Contribution Sociale de Solidarité des Sociétés* – C3S), which is currently recognized when the sales representing the basis for the tax are made. Under IFRIC 21 however, this levy should be recognized at January 1 of the following reporting period, i.e., when it falls due. The additional social security levy amounted to 6 million euros for 2014. An analysis of the Group's other countries is currently in progress.

The following standards, amendments and interpretations have also been published by the IASB and adopted by the European Union:

- Amendments to IAS 19 – "Defined Benefit Plans: Employee Contributions";
- Annual improvements to IFRS for 2010-2012 and 2011-2013.

These new publications are not expected to have a material impact on the Group's consolidated financial statements.

1.1.3 Standards, amendments and interpretations published by the IASB but not yet adopted by the European Union

The following standards, amendments and interpretations have been published by the IASB but not yet adopted by the European Union:

- IFRS 9 – "Financial Instruments", along with amendments to IFRS 9;
- IFRS 15 – "Revenue from Contracts with Customers";
- Amendments to IAS 1 – "Disclosure Initiative";
- Amendments to IAS 16 and IAS 38 – "Clarification of Acceptable Methods of Depreciation and Amortization";
- Amendments to IFRS 11 – "Accounting for Acquisitions of Interests in Joint Operations";
- Amendments to IFRS 10 and IAS 28 – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture";
- Annual improvements to IFRS for 2012-2014.

On July 24, 2014, the IASB published the full version of IFRS 9, marking the completion of its project to replace IAS 39 on financial instruments. IFRS 9 introduces some important changes to IAS 39:

- the approach for classifying and measuring financial assets is now based on an analysis of both the business model for each asset portfolio and the contractual terms of the financial asset in question;
- the impairment model no longer uses the current approach based on identified losses but an approach based on expected losses;
- the accounting for hedges has been significantly improved and more closely aligned with an entity's risk management strategy.

The IASB has set the effective date of IFRS 9 at January 1, 2018, with earlier adoption permitted.

IFRS 15 was published on May 28, 2014 and is expected to apply for reporting periods beginning on or after January 1, 2017. It replaces IAS 11, IAS 18 and the related IFRIC and SIC interpretations on revenue recognition, and introduces a new model for accounting for revenue from contracts with customers.

A preliminary analysis of the main impacts of these two new standards on the Group's consolidated financial statements will be conducted in 2015 to assess any adjustments and restatements that may be necessary.

The other new publications are not expected to have a material impact on the Group's consolidated financial statements.

1.2 Basis of preparation

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

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.

The Group exercises its judgment based on past experience and other factors considered to be decisive given the circumstances. The estimates and assumptions used are revised on an ongoing basis. In view of the uncertainties inherent in any assessment, the final amounts reported in Valeo's future financial statements may differ from the amounts resulting from these current estimates.

Key estimates and assumptions adopted by the Group to prepare its financial statements for the year ended December 31, 2014 chiefly concern:

- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 6);
- estimates of provisions, particularly for pensions and other employee benefits and for risks linked to product warranties (see Notes 5.3 and 7.1);
- the likelihood that deferred tax assets will be able to be recovered (see Note 9.2).

1.3 Restatement of prior-year financial information

1.3.1 First-time application of new consolidation standards

1.3.1.1 IFRS 10 – "Consolidated Financial Statements"

IFRS 10 – "Consolidated Financial Statements" replaces IAS 27 – "Consolidated and Separate Financial Statements" in its provisions applicable to consolidated financial statements, along with SIC 12 – "Consolidation – Special Purpose Entities". IFRS 10 provides a revised definition of control based on a new single framework.

The nature of control over entities held by Valeo either directly or indirectly was reviewed in light of the criteria defined by IFRS 10. The findings of this review did not significant differ from those resulting from the control reviews carried out prior to the first-time application of IFRS 10.

Accordingly, the first-time application of IFRS 10 at January 1, 2014 does not impact the Group's consolidated financial statements.

1.3.1.2 IFRS 11 – "Joint Arrangements"

IFRS 11 – "Joint Arrangements" replaces IAS 31 – "Interests in Joint Ventures" and SIC 13 – "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". IFRS 11 sets out the principles of accounting for arrangements of which two or more parties have joint control.

Depending on the rights and obligations of each party, joint arrangements can be classified as:

- a joint operation, if the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement: in this case, the Group recognizes its share of the assets, liabilities, revenue and expenses of the joint operation relating to its involvement in the associated rights and obligations; or
- a joint venture, if the rights and obligations represent rights to the net assets of the arrangement: in this case, the joint venture is accounted for using the equity method (proportionate consolidation is no longer permitted).

The Group previously accounted for its joint ventures using the proportionate consolidation method. Following an analysis of the underlying contracts, the Group classified all of its joint arrangements as joint ventures and not joint operations. Accordingly, joint ventures are now accounted for using the equity method in accordance with the new standard. The retrospective application of IFRS 11 requires the 2013 interim and annual consolidated financial statements to be restated. This information is set out in Note 1.3.3 below.

Upon the first-time application of IFRS 11, the portion of goodwill allocated to cash-generating units (CGUs) comprising joint ventures previously accounted for using proportionate consolidation was reallocated and reclassified within investments in equity-accounted joint ventures. Goodwill was reallocated based on the carrying amounts of the joint venture and group of CGUs concerned at January 1, 2013. The value of investments in equity-accounted companies and goodwill after these restatements are presented in Notes 4.5.3 and 6.1 below.

After taking into account this goodwill reallocation, Valeo analyzed whether there were any indications that these new CGUs excluding the joint ventures were impaired. No additional impairment tests were required as a result, besides those performed for the 2013 reporting period and at January 1, 2013.

The changes resulting from the retrospective application of IFRS 11 did not alter the findings of the impairment tests on the goodwill allocated to each Business Group or on the portion of goodwill allocated to investments in equity-accounted joint ventures.

1.3.1.3 IFRS 12 – "Disclosure of Interests in Other Entities"

IFRS 12 – "Disclosure of Interests in Other Entities" sets out all of the disclosures required about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated "structured" entities, regardless of the degree of control or influence exercised over these entities.

The objective of IFRS 12 is to describe for financial statement users the nature of, and risks associated with, interests in other entities (joint ventures, associates and non-controlling investments) and the effects of those interests on the entity's financial position, financial performance and cash flows.

Valeo has carried out both a quantitative and qualitative analysis of its interests in other entities, based on which it determined the relevant and material disclosures to be included in the notes to its consolidated financial statements. No specific risks associated with its interests in other entities came to light as a result of the qualitative analysis other than those already existing within the Group's subsidiaries (see Note 8.3). Based on the quantitative analysis, no interests taken individually were identified as being material with regard to consolidated income or total consolidated assets/liabilities. Overall, therefore, the application of IFRS 12 has only a limited impact on the Group, although it results in more comprehensive disclosures in the notes to the consolidated financial statements. These disclosures are included in the 2014 consolidated financial statements in Notes 4.5.3 and 10.1.7.

1.3.2 Change in the presentation of the consolidated statement of income

In accordance with IAS 1, Valeo should retain the presentation and classification of items in the consolidated financial statements from one period to the next, unless it is apparent that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS 8.

At the time IFRS 11 came into effect, Valeo changed the presentation of its statement of income in order to reflect the nature of the activities carried out by the Group's equity-accounted companies.

All companies consolidated using the equity method, either joint ventures discussed in the Note above or associates (which were already previously accounted for using the equity method), contribute to the Group's operations and belong to one of its four operating segments.

The Group thus considered that it would be more appropriate to classify the share in net earnings of equity-accounted companies within operating income. This represents a voluntary change in accounting policy within the meaning of IAS 8, which allows such changes if they lead to more relevant and reliable information.

Since the operating margin is one of the main indicators used to monitor the Group's performance, the share in net earnings of equity-accounted companies is now included in a new statement of income account, "Operating margin including share in net earnings of equity-accounted companies".

This new line corresponds to the "Operating margin" heading (determined as operating income before other income and expenses) shown in the statement of income published in February 2014, plus the share in net earnings of all equity-accounted companies.

This latter caption includes:

- the share in net earnings of associates (caption presented on a separate line in the statement of income published in February 2014); and
- the share in net earnings of joint ventures now accounted for using the equity method.

The resulting impact on the consolidated statement of income for the six months ended June 30, 2013 and the year ended December 31, 2013 is presented in Note 1.3.3 below.

1.3.3 Impact of changes on the 2013 consolidated financial statements

The following tables show the impacts of the retrospective application of IFRS 11 (see Note 1.3.1) on the entire consolidated financial statements at June 30, 2013 and December 31, 2013, and of the changes in presentation in the consolidated statement of income for the six months ended June 30, 2013 and the year ended December 31, 2013 (see Note 1.3.2) in relation to the financial statements presented in the accounts published in July 2013 and February 2014.

1.3.3.1 Consolidated statement of income

(in millions of euros)	First-half 2013 published	IAS 8 Change in presentation of statement of income	First-time application of IFRS 11	**First-half 2013 restated**	Full-year 2013 published	IAS 8 Change in presentation of statement of income	First-time application of IFRS 11	**Full-year 2013 restated**
CONTINUING OPERATIONS								
SALES	**6,166**	**-**	**(222)**	**5,944**	**12,110**	**-**	**(448)**	**11,662**
Cost of sales	(5,129)	-	196	(4,933)	(10,037)	-	384	(9,653)
GROSS MARGIN	**1,037**	**-**	**(26)**	**1,011**	**2,073**	**-**	**(64)**	**2,009**
% of sales	*16.8%*		*0.2 pts*	*17.0%*	*17.1%*		*0.1 pts*	*17.2%*
Research and Development expenditure, net	(332)	-	14	(318)	(643)	-	29	(614)
Selling expenses	(99)	-	2	(97)	(196)	-	3	(193)
Administrative expenses	(222)	-	1	(221)	(439)	-	3	(436)
OPERATING MARGIN	**384**	**-**	**(9)**	**375**	**795**	**-**	**(29)**	**766**
% of sales	*6.2%*		*0.1 pts*	*6.3%*	*6.6%*			*6.6%*
Share in net earnings of equity-accounted companies		4	4	8		7	19	26
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES				**383**				**792**
% of sales				*6.4%*				*6.8%*
Other income and expenses	(41)	-	-	(41)	(67)	-	-	(67)
OPERATING INCOME INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	**343**	**4**	**(5)**	**342**	**728**	**7**	**(10)**	**725**
Interest expense	(56)	-	1	(55)	(108)	-	1	(107)
Interest income	6	-	-	6	8	-	1	9
Other financial income and expenses	(22)	-	1	(21)	(47)	-	1	(46)
Share in net earnings of equity-accounted companies	4	(4)	-		7	(7)	-	
INCOME BEFORE INCOME TAXES	**275**	**-**	**(3)**	**272**	**588**	**-**	**(7)**	**581**
Income taxes	(71)	-	3	(68)	(119)	-	6	(113)
NET INCOME FOR THE PERIOD	**204**	**-**	**-**	**204**	**469**	**-**	**(1)**	**468**
Attributable to:								
• Owners of the Company	190	-	-	190	439	-	-	439
• Non-controlling interests	14	-	-	14	30	-	(1)	29

1.3.3.2 Consolidated statement of financial position

(in millions of euros)	June 30, 2013 published	First-time application of IFRS 11	**June 30, 2013 restated**	Dec. 31, 2013 published	First-time application of IFRS 11	**Dec.31, 2013 restated**
ASSETS						
Goodwill	1,286	(44)	1,242	1,248	(40)	1,208
Other intangible assets	780	(14)	766	850	(20)	830
Property, plant and equipment	2,123	(105)	2,018	2,181	(101)	2,080
Investments in equity-accounted companies	103	89	192	103	98	201
Other non-current financial assets	55	-	55	72	-	72
Deferred tax assets	219	(9)	210	246	(8)	238
NON-CURRENT ASSETS	**4,566**	**(83)**	**4,483**	**4,700**	**(71)**	**4,629**
Inventories, net	830	(43)	787	848	(38)	810
Accounts and notes receivable, net	1,810	(83)	1,727	1,521	(61)	1,460
Other current assets	468	14	482	386	16	402
Taxes recoverable	31	-	31	33	-	33
Other current financial assets	3	-	3	36	(1)	35
Cash and cash equivalents	1,454	(14)	1,440	1,510	(10)	1,500
Assets held for sale	8	(6)	2	8	(6)	2
CURRENT ASSETS	**4,604**	**(132)**	**4,472**	**4,342**	**(100)**	**4,242**
TOTAL ASSETS	**9,170**	**(215)**	**8,955**	**9,042**	**(171)**	**8,871**
EQUITY AND LIABILITIES						
Share capital	238	-	238	238	-	238
Additional paid-in capital	1,434	-	1,434	1,434	-	1,434
Translation adjustment and retained earnings	461	-	461	708	1	709
STOCKHOLDERS' EQUITY	**2,133**	**-**	**2,133**	**2,380**	**1**	**2,381**
Non-controlling interests	139	(5)	134	153	(6)	147
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS	**2,272**	**(5)**	**2,267**	**2,533**	**(5)**	**2,528**
Provisions for pensions and other employee benefits – long-term portion	801	(16)	785	721	(11)	710
Other provisions – long-term portion	228	3	231	191	(1)	190
Long-term debt – long-term portion	1,564	(8)	1,556	1,520	(29)	1,491
Other financial liabilities – long-term portion	10	-	10	7	-	7
Subsidies and grants – long-term portion	20	(1)	19	23	1	24
Deferred tax liabilities	28	-	28	26	-	26
NON-CURRENT LIABILITIES	**2,651**	**(22)**	**2,629**	**2,488**	**(40)**	**2,448**
Accounts and notes payable	2,601	(139)	2,462	2,441	(94)	2,347
Provisions for pensions and other employee benefits – current portion	49	(1)	48	70	(2)	68
Other provisions – current portion	176	(2)	174	160	(5)	155
Subsidies and grants – current portion	18	(1)	17	13	-	13
Taxes payable	36	(2)	34	54	(2)	52
Other current liabilities	995	(24)	971	902	(24)	878
Current portion of long-term debt	110	(17)	93	110	(2)	108
Other financial liabilities – current portion	17	-	17	21	-	21
Short-term debt	239	4	243	246	7	253
Liabilities held for sale	6	(6)	-	4	(4)	-
CURRENT LIABILITIES	**4,247**	**(188)**	**4,059**	**4,021**	**(126)**	**3,895**
TOTAL EQUITY AND LIABILITIES	**9,170**	**(215)**	**8,955**	**9,042**	**(171)**	**8,871**

1.3.3.3 Consolidated statement of cash flows

(in millions of euros)	First-half 2013 published	First-time application of IFRS 11	**First-half 2013 restated**	Full-year 2013 published	First-time application of IFRS 11	**Full-year 2013 restated**
CASH FLOWS FROM OPERATING ACTIVITIES						
Net income for the year	204	-	204	469	(1)	468
Share in net earnings of equity-accounted companies	(4)	(4)	(8)	(7)	(19)	(26)
Net dividends received from equity-accounted companies	3	11	14	7	12	19
Expenses (income) with no cash effect	320	(8)	312	569	(21)	548
Cost of net debt	50	(2)	48	100	(3)	97
Income taxes (current and deferred)	71	(3)	68	119	(6)	113
GROSS OPERATING CASH FLOWS	**644**	**(6)**	**638**	**1,257**	**(38)**	**1,219**
Income taxes paid	(70)	3	(67)	(151)	7	(144)
Changes in working capital	49	-	49	232	20	252
NET CASH FLOWS FROM OPERATING ACTIVITIES	**623**	**(3)**	**620**	**1,338**	**(11)**	**1,327**
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of intangible assets	(158)	4	(154)	(316)	6	(310)
Acquisitions of property, plant and equipment	(292)	19	(273)	(598)	33	(565)
Disposals of property, plant and equipment and intangible assets	6	-	6	5	(2)	3
Net change in non-current financial assets	(6)	(2)	(8)	(7)	(4)	(11)
Acquisitions of investments with gain of control, net of cash acquired	(1)	-	(1)	(5)	-	(5)
Disposals of investments with loss of control, net of cash transferred	171	-	171	170	-	170
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(280)**	**21**	**(259)**	**(751)**	**33**	**(718)**
CASH FLOWS FROM FINANCING ACTIVITIES						
Dividends paid to owners of the Company	-	-	-	(115)	-	(115)
Dividends paid to non-controlling interests in consolidated subsidiaries	(13)	-	(13)	(14)	-	(14)
Issuance of share capital	-	-	-	-	-	-
Sale (purchase) of treasury stock	23	-	23	53	-	53
Issuance of long-term debt	21	(1)	20	25	(7)	18
Interest paid	(80)	-	(80)	(111)	1	(110)
Interest received	6	-	6	9	1	10
Repayments of long-term debt	(323)	-	(323)	(397)	-	(397)
Acquisitions of equity interests without gain of control	-	-	-	(4)	-	(4)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	**(366)**	**(1)**	**(367)**	**(554)**	**(5)**	**(559)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(3)**	**(1)**	**(4)**	**(9)**	**(1)**	**(10)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(26)**	**16**	**(10)**	**24**	**16**	**40**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**1,239**	**(32)**	**1,207**	**1,239**	**(32)**	**1,207**
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,213**	**(16)**	**1,197**	**1,263**	**(16)**	**1,247**
o/w:						
• Cash and cash equivalents	1,454	(14)	1,440	1,510	(10)	1,500
• Short-term debt	(239)	(4)	(243)	(246)	(7)	(253)
• Portion of cash-related assets and liabilities held for sale	(2)	2	-	(1)	1	-

Note 2 Scope of consolidation

2.1 Accounting policies relating to the scope of consolidation

2.1.1 Consolidation methods

Due to the adoption of the new consolidation standards, the consolidation methods used differ from those presented in the 2013 consolidated financial statements published in February 2014. The new consolidation principles used in the consolidated financial statements are described below.

2.1.1.1 Full consolidation

The accounts of companies under Valeo's direct and indirect control are included in the consolidated financial statements using the full consolidation method. Control is deemed to exist when the Group:

- has power over an investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to affect those returns through its power over the investee's relevant activities.

All significant intercompany transactions are eliminated, as are gains on intercompany disposals of assets, intercompany profits included in inventories and intercompany dividends.

The earnings of subsidiaries acquired are consolidated as from the date the Group has control.

2.1.1.2 Equity-method accounting for joint ventures and associates

Joint arrangements organize the sharing of control of an entity by two or more parties. Under IFRS 11, applicable with effect from January 1, 2014 on a retrospective basis, these arrangements are known as joint ventures when the parties that have control of the arrangement have rights to the net assets of that arrangement.

Valeo also exercises significant influence over certain entities, known as associates. Significant influence is the power to participate in decisions affecting the entity's financial and operating policies, but is not control or joint control over those policies. Significant influence is deemed to exist when Valeo holds over 20% of the voting rights of another entity.

Joint ventures and associates are accounted for using the equity method. Under the equity method, an investment in an equity-accounted company is recognized in the consolidated statement of financial position on the date on which the entity becomes an associate or joint venture.

The investment is initially recognized at acquisition cost and adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the investee. These may be adjusted in line with Group accounting policies.

In 2014, Valeo changed the classification of its share in the net earnings of equity-accounted companies in the consolidated statement of income in accordance with the provisions of IAS 8 (see Note 1.3.2). The impacts of this change are presented in Note 1.3.3.

Goodwill arising on the acquisition of associates or joint ventures is included in the carrying amount of investments in equity-accounted companies. Due to the first-time application of IFRS 11, the Group allocated goodwill to equity-accounted joint ventures at January 1, 2013 (see Notes 1.3.1.2 and 6.1).

The procedure used to test investments in equity-accounted companies for impairment is governed by IAS 39 – "Financial Instruments: Recognition and Measurement" and IAS 28 (revised) – "Investments in Associates and Joint Ventures".

Any impairment losses taken against investments in equity-accounted companies, along with any gains or losses on remeasuring the previously-held equity interest at fair value (upon acquisition of a controlling interest in an equity-accounted company) are recorded in "Share in net earnings of equity-accounted companies".

2.1.2 Foreign currency translation

2.1.2.1 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 into euros 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 under "Translation adjustment" in other comprehensive income to be recycled to income.

2.1.2.2 Foreign currency transactions

General

Transactions carried out in a currency other than Valeo'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 generally recognized in income.

Net investment

Certain foreign currency loans and borrowings are considered in substance to be an integral part of the net investment in a subsidiary whose functional currency is not the euro when settlement is neither planned nor likely to occur in the foreseeable future. The foreign currency gains and losses arising on these loans and borrowings are recorded under "Translation adjustment" in other comprehensive income for their net-of-tax amount. This specific accounting treatment applies until the disposal of the net investment, or when partial or full repayment of these loans or borrowings is highly probable.

When the net investment is derecognized, the translation adjustment arising after said date is taken to other financial income and expenses in the consolidated statement of income. Translation adjustments previously recognized in other comprehensive income are only recycled to income when the foreign operation is partially or fully disposed of. The Group examines if these partial or full repayments of loans or borrowings equate to a partial or full disposal of the subsidiary.

2.1.3 Business combinations

Since January 1, 2010, the Group has prospectively applied IFRS 3 (revised) – "Business Combinations".

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 as a change of accounting estimate or correction of an error.

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 is recycled to the statement of income.

2.1.4 Transactions involving non-controlling interests

The revised IAS 27 (effective as of January 1, 2010) modified the accounting treatment applicable to non-controlling interests, and changes in non-controlling interests that do not result in a change of control have been recognized in equity since that date. 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.

2.1.5 Assets and liabilities 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 within liabilities in the statement of financial position. 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.

In accordance with IFRS 5, a discontinued operation is a component of an entity that has either been disposed of or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively 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.

For assets not classified as discontinued operations, any related impairment losses or proceeds from their disposal are recognized through operating income.

2.2 Changes in the scope of consolidation

2.2.1 Transactions carried out in 2014

2.2.1.1 Acquisition of Osram GmbH's shares in Valeo Sylvania

On June 13, 2013 Valeo and Osram GmbH agreed on an option contract by which, if the reciprocal options were exercised by Osram or Valeo in early 2014, Valeo would acquire or would be committed to acquire Osram's shares in the companies' joint operations in North America, Valeo Sylvania LLC. Until then, Valeo and Osram would continue operating under a 50%-50% joint venture and the governance of this entity would not be modified.

In accordance with this agreement, in early 2014 Osram GmbH exercised its put option to sell Valeo its entire stake in their joint venture for an enterprise value of 104 million US dollars (equivalent to three times estimated 2014 EBITDA). Since January 21, 2014, Valeo has therefore owned all of the capital of Valeo Sylvania LLC in the US, and of its subsidiary Valeo Sylvania Iluminacion in Mexico.

These entities were therefore fully consolidated as from January 1, 2014 and were accounted for using the equity method in the 2013 comparative financial statements, consistent with the first-time application of IFRS 10 and IFRS 11 at January 1, 2014.

In accordance with the revised IFRS 3 dealing with business combinations carried out in stages, the Group's previous interest in the two entities was remeasured to fair value at the acquisition date. The resulting 21 million euro gain was recognized under "Share in net earnings of equity-accounted companies" in the consolidated statement of income for the six months ended June 30, 2014.

As a result of the fair value measurement of the assets acquired and liabilities assumed of the two entities, Valeo revalued its property, plant and equipment, including property assets, in an amount of 12 million euros, and recognized provisions chiefly in respect of specific quality risks, in an amount of 10 million euros. After these adjustments and restatements had been accounted for in the statement of financial position at the acquisition date, the definitive purchase price accounting led to the recognition of 80 million euros in goodwill. This goodwill chiefly reflects the operating and tax synergies expected to result from the transaction, which will allow Valeo to develop the Lighting business within its Visibility Systems Business Group in North America, in both the original equipment business with Valeo's long-standing customers and in the aftermarket business. The transaction also aims to improve industrial performance and the efficiency of the purchasing and Research and Development networks of this business.

Including the cash and cash equivalents acquired, the acquisition resulted in a net outflow of 111 million euros, which is shown within "Acquisitions of investments with gain of control, net of cash acquired" in the consolidated statement of cash flows for the year ended December 31, 2014.

These companies contributed 442 million euros to consolidated sales in 2014.

2.2.1.2 Acquisition of a controlling interest in Valeo Samsung Thermal Systems Co. Ltd

An addendum to the partnership agreement signed on January 9, 2014 changed the governance arrangements for this company and granted control to Valeo which has the majority of votes on the Board of Directors. The Board takes decisions on the relevant activities of the company.

Previously a joint venture, Valeo Samsung Thermal Systems Co. Ltd has been fully consolidated in the Group's consolidated financial statements as of this date. The company is accounted for by the equity method in the comparative 2013 financial statements pursuant to the first-time application of IFRS 11 as from January 1, 2014.

Valeo acquired control of this company – which operates within its Thermal Systems Business Group – without any outflow of cash or cash equivalents.

All of the assets acquired and liabilities assumed of the acquiree were measured at fair value. Property assets were revalued by almost 9 million euros, a customer relationship recognized for 9 million euros and provisions for 10 million euros booked in the statement of financial position at the date on which control was obtained. The gain on remeasuring the equity interest held prior to the date control was acquired in stages is not material.

Goodwill as calculated under the partial goodwill method amounted to 7 million euros at the acquisition date and reflects the operating synergies expected to derive from the transaction, which will cement the Group's position in the Thermal systems business in Asia.

Valeo Samsung Thermal Systems Co. Ltd contributed 43 million euros to consolidated sales in 2014.

2.2.1.3 Sale of the interest in Minda Valeo Security Systems

On February 18, 2014, Valeo completed the sale of its entire interest in the India-based 50%-50% joint venture (part of the former Access Mechanisms business) to Minda Capital Limited. This sale did not have a material impact on the Group's 2014 consolidated financial statements.

This investment was classified in assets held for sale in the 2013 financial statements.

2.2.1.4 Acquisition of a controlling interest in Nanjing Valeo Clutch Co. Ltd

In early July 2014, the Chinese authorities approved an amendment to the partnership agreement signed in respect of Nanjing Valeo Clutch Co. Ltd which changed the approval process for certain decisions. Previously, the non-controlling shareholder's right to veto decisions regarding the relevant activities meant that Valeo did not have exclusive control over this entity. Based on the changes provided for in the governance agreement, Valeo now has exclusive control over the decisions regarding the entity's relevant activities (approval of the budget and decisions regarding the appointment of key management personnel), and its partner now holds only protective rights.

Nanjing Valeo Clutch Co. Ltd, previously a joint venture, has been fully consolidated in the Group's consolidated financial statements since July 1, 2014. The company is accounted for by the equity method in the comparative 2013 financial statements and 2014 interim financial statements, pursuant to the first-time application of IFRS 11 as of January 1, 2014.

Valeo acquired control of this company – which operates within its Powertrain Systems Business Group – without any outflow of cash or cash equivalents.

In accordance with the revised IFRS 3 dealing with business combinations carried out in stages, and consistent with the treatment of the controlling interest acquired in Valeo Sylvania, the Group's previous interest in this entity was remeasured to fair value at the date control was acquired.The resulting 15 million euro gain was recognized under "Share in net earnings of equity-accounted companies" in the consolidated statement of income in the six months ended December 31, 2014.

The fair value measurement of the assets acquired and liabilities assumed of the entity resulted chiefly in Valeo recognizing a customer relationship in an amount of 5 million euros. After these adjustments and restatements were recorded in the statement of financial position at the acquisition date, 15 million euros in goodwill as determined under the partial goodwill method was recognized, reflecting mainly the operating synergies expected to derive from the transaction, namely the development of the Clutch business within the Powertrain Systems Business Group in China.

Nanjing Valeo Clutch Co. Ltd contributed 27 million euros to consolidated sales in the second half of 2014.

2.2.2 Transactions carried out in 2013

2.2.2.1 Sale of the Access Mechanisms business

On June 25, 2012, Valeo announced that it was in negotiations to sell its Access Mechanisms business (Comfort & Driving Assistance Systems Business Group) to Japan-based U-Shin. In accordance with IFRS 5, the assets and liabilities relating to the Access Mechanisms business were therefore classified as assets and liabilities held for sale in the consolidated statement of financial position from June 30, 2012.

This reclassification within assets and liabilities held for sale also led to the discontinuation of depreciation and amortization of the property, plant and equipment and intangible assets dedicated to this business from that date.

In a particularly uncertain economic environment across Europe, on November 30, 2012 Valeo announced the execution of a contract for the sale of its Access Mechanisms business for an enterprise value of 223 million euros. In the year ended December 31, 2012, the Group estimated the likely consequences of the sale of the Access Mechanisms business and as a result, recognized an impairment loss totaling 44 million euros in other income and expenses.

The sale was approved by the anti-trust authorities on February 7, 2013 and was completed on May 24, 2013 (with effect from April 30, 2013) for an enterprise value of 203 million euros. At this date, it did not include the interest in the Indian joint venture, which was sold on February 18, 2014 (see Note 2.2.1.3). In 2013, an additional expense of 28 million euros was recognized in other income and expenses – 20 million euros of which were recorded in the first half of the year (see Note 4.6.2.1) – relating mainly to the adverse impacts of the delay in the sale of the Indian Access Mechanisms entity and the change in the net assets sold over the period.

The main items in the statement of financial position of this business that were sold at April 30, 2013 are set out below:

(in millions of euros)	April 30, 2013[1]
ASSETS	
Goodwill	128
Other intangible assets	25
Property, plant and equipment	109
Other non-current financial assets	-
Deferred tax assets	4
Non-current assets	**266**
Inventories, net	38
Accounts and notes receivable, net	107
Other current assets	14
Taxes recoverable	3
Cash and cash equivalents	-
Current assets	**162**
TOTAL ASSETS	**428**

	April 30, 2013[1]
EQUITY AND LIABILITIES	
Translation adjustment	16
Retained earnings	209
Stockholders' equity	**225**
Provisions – long-term portion	16
Deferred tax liabilities	2
Non-current liabilities	**18**
Accounts and notes payable	119
Provisions – current portion	4
Taxes payable	4
Other current liabilities	43
Short-term debt	15
Current liabilities	**185**
TOTAL EQUITY AND LIABILITIES	**428**

(1) The items sold at April 30, 2013 do not include the assets and liabilities of the Indian entity which were sold in the first half of 2014 (see Note 2.2.1.3).

In first-half 2013 and up to the date of the sale, the Access Mechanisms business (excluding the Indian entity) contributed 189 million euros to consolidated sales and 4 million euros to the consolidated operating margin.

Including cash and cash equivalents transferred, the sale resulted in a net inflow of 171 million euros, which is shown within "Disposals of investments with loss of control, net of cash transferred" in the consolidated statement of cash flows for the year ended December 31, 2013.

This divestment is aligned with Valeo's strategy of refocusing on products that reduce CO_2 emissions and of stepping up its expansion in Asia and emerging markets. The Access Mechanisms business, which is primarily mechanical-based, comprises products such as locksets, steering column locks, handles and latches.

2.2.2.2 Acquisition of Eltek Electric Vehicles

On September 30, 2013, Valeo announced that it had acquired all of the capital of Eltek Electric Vehicles, a Norwegian company fully dedicated to designing, developing, manufacturing (under subcontracting agreements), assembling and commercializing worldwide high efficiency on-board chargers for passenger cars and commercial vehicles.

The purchase price included payment of a fixed amount of 3 million euros and a maximum earnout payment of 12 million euros, calculated on the basis of the order intake between 2013 and 2020. The provisional valuation of this earnout payment led the Group to recognize a purchase price of 14 million euros, including an earnout of 11 million euros, recorded in other current liabilities in the consolidated statement of financial position at December 31, 2014.

The purchase price was allocated on a provisional basis to Eltek Electric Vehicles' assets and liabilities over the last quarter of 2013 in accordance with the revised IFRS 3. The purchase price accounting was finalized in the first half of 2014 and chiefly led to the recognition of 9 million euros in goodwill at the acquisition date, essentially reflecting the synergies to be derived from combining the acquiree's technological expertise with the Group's commercial strength. This acquisition was incorporated within the Powertrain Systems Business Group and will enable Valeo to accelerate and expand the development of its offer for hybrid and electric vehicles. Valeo will also complete its offer in power electronics by adding high efficiency conversion solutions to the ongoing development of high efficiency inverters with several top original equipment manufacturers.

Prior to the acquisition, Eltek Electric Vehicles reported sales of 3 million euros in the first three quarters of 2013. It contributed 2 million euros to consolidated sales in 2014.

2.3 Off-balance sheet commitments relating to the scope of consolidation

2.3.1 Commitments given

2.3.1.1 Put option granted in respect of Detroit Thermal Systems

Valeo and V. Johnson Enterprises set up the company Detroit Thermal Systems in 2012. At December 31, 2014, Valeo and V. Johnson Enterprises had a respective 49% and 51% interest in this company.

V. Johnson Enterprises has a put option that may be exercised under certain conditions unrelated to either changes in shareholdings or to the level of earnings. The option is exercisable in the event that Valeo is unable to contribute to the financing of the venture or if it sold all or part of its interest to a third party. If the put is exercised, all of the shares owned by V. Johnson Enterprises at that time will be sold to Valeo, with the price to be determined according to the provisions of the agreement defining the company's governance arrangements.

The Group reviewed the contingency clauses governing the exercise of this option in light of the present situation and considered that the conditions underlying these clauses were unlikely to materialize. No liability was therefore recognized in this respect.

2.3.1.2 Put option granted in respect of Valeo Unisia Transmissions

At December 31, 2014, Valeo and Hitachi owned 66% and 34%, 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 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 this subsidiary (or a lower percentage of shares if the sale deprives Valeo of its right to appoint the majority of the members of the subsidiary'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.

As the Group deems that the conditions underlying the contingency clause governing the exercise of the option are unlikely to materialize, no liability has been recognized in this respect.

2.3.1.3 Other commitments given

Other commitments given relate to guarantees granted by Valeo in connection with divestments. They represented 64 million euros at December 31, 2014 (66 million euros at December 31, 2013) and mainly include commitments given on the sale of the Wiring harness business in 2007 (expired on January 1, 2015) and on the sale of the Access Mechanisms business (see Note 2.2.2.1) in 2013.

2.3.2 Commitments received

Commitments received totaled 70 million euros at December 31, 2014 (60 million euros at December 31, 2013) and correspond to guarantees granted to Valeo in connection with its acquisitions. Changes in the period result mainly from the guarantee received in connection with the acquisition of Osram Gmbh's shares in Valeo Sylvania (see Note 2.2.1.1).

Note 3 Segment reporting

In accordance with IFRS 8 – "Operating Segments", the Group's segment information below 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 & Driving Assistance Systems, comprising three Product Groups: Driving Assistance, Interior Electronics and Interior Controls. The Business Group develops interfaces between the driver, the vehicle and the surrounding environment, and helps improve safety and comfort.
- Powertrain Systems, comprising four Product Groups: Electrical Systems, Transmission Systems, Combustion Engine Systems and Electronics. This Business Group develops innovative powertrain solutions aimed at reducing fuel consumption and CO_2 emissions without compromising on the pleasure and dynamics of driving. These innovations cover a comprehensive range of products, from the optimization of internal combustion engines through to the varying levels of vehicle electrification, and from Stop-Start systems to electric vehicles.
- Thermal Systems, comprising four Product Groups: Climate Control, Powertrain Thermal Systems, Climate Control Compressors, and Front End Modules. This Business Group develops and manufactures systems, modules and components to ensure thermal energy for the management of powertrain and comfort for each passenger at all stages in the use of a vehicle.
- Visibility Systems, comprising two Product Groups: Lighting Systems and Wiper Systems. This Business Group develops and manufactures efficient and innovative systems which support the driver at all times, day and night, so that the driver has perfect visibility, thus improving the safety of the driver and passengers.

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

In addition to these four Business Groups, the "Other" line includes holding companies, disposed businesses and eliminations between the four operating segments.

3.1 Key segment performance indicators

The Group revised the definitions of EBITDA and segments assets during the period further to the first-time application of the new consolidation standards (see Note 1.3.1), leading to changes in its internal reporting.

The key performance indicators for each segment as presented in the tables below are as follows:

- sales;
- EBITDA, which represents operating income (excluding share in net earnings of equity-accounted companies) before depreciation and amortization expense, impairment losses (included in the operating margin), other income and expenses and dividends paid by equity-accounted companies;
- Research and Development expenditure, net;
- investments in property, plant and equipment and intangible assets;
- segment assets, comprising property, plant and equipment and intangible assets (including goodwill), investments in equity-accounted companies and inventories.

2014

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	**Total**
Sales:						
• segment (excluding Group)	2,291	3,292	3,598	3,515	29	**12,725**
• intersegment (Group)	20	45	39	99	(203)	**-**
EBITDA	**336**	**410**	**404**	**382**	**(6)**	**1,526**
Research and Development expenditure, net	(201)	(146)	(153)	(173)	(12)	**(685)**
Investments in property, plant and equipment and intangible assets	249	255	178	243	31	**956**
Segment assets	1,244	1,731	1,292	1,656	65	**5,988**

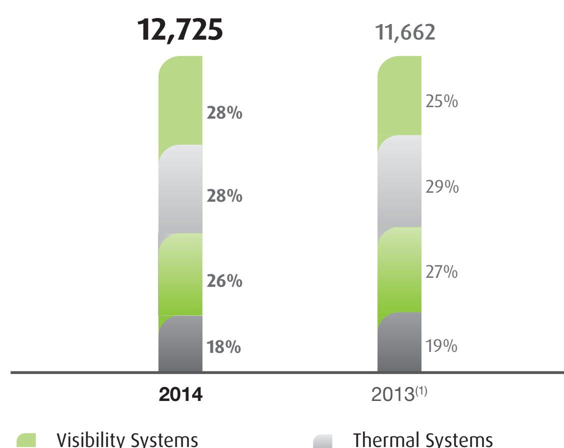
2013 restated

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales:						
• segment (excluding Group)	2,217	3,119	3,340	2,958	28	11,662
• intersegment (Group)	21	42	32	9	(104)	-
EBITDA	**297**	**333**	**398**	**294**	**5**	**1,327**
Research and Development expenditure, net	(166)	(154)	(152)	(132)	(10)	(614)
Investments in property, plant and equipment and intangible assets	232	239	174	233	18	896
Segment assets	1,125	1,532	1,137	1,290	46	5,130

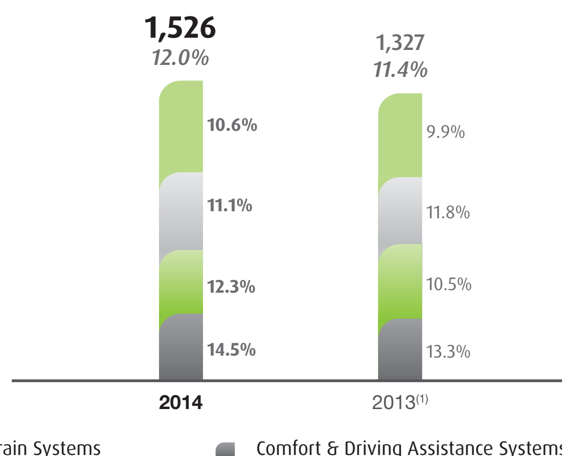
The segment information shown for 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3) and the change in the definition of EBITDA and segment assets in the Group's internal reporting.

Segment data

Breakdown of sales by Business Group (including intersegment sales)
(in millions of euros and as a % of total sales)



EBITDA by Business Group
(in millions of euros and as a % of total sales)



Visibility Systems — Thermal Systems — Powertrain Systems — Comfort & Driving Assistance Systems

(1) *The segment information shown for 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3) and the change in the definition of EBITDA in the Group's internal reporting.*

3.2 Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating income:

(in millions of euros)	2014	2013 restated[1]
EBITDA	**1,526**	**1,327**
Dividends paid by equity-accounted companies	(36)	(19)
Share in net earnings of equity-accounted companies	51	26
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses[2]	(628)	(542)
Other income and expenses	(54)	(67)
Operating income including share in net earnings of equity-accounted companies	**859**	**725**

(1) *The segment information shown for 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3) and the change in the definition of EBITDA and segment assets in the Group's internal reporting.*
(2) *Impairment losses recorded in operating margin only.*

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	December 31, 2014	December 31, 2013 restated[1]
Segment assets	**5,988**	**5,130**
Accounts and notes receivable	1,681	1,460
Other current assets	366	402
Taxes recoverable	25	33
Assets held for sale	-	2
Financial assets	1,600	1,607
Deferred tax assets	359	238
TOTAL GROUP ASSETS	**10,019**	**8,872**

(1) *The Group's assets at December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).*

3.3 Reporting by geographic area

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

2014

(in millions of euros)	External sales by market	Sales by production area	Non-current assets
France	1,119	2,756	907
Other European countries and Africa	5,518	4,230	1,087
North America	2,454	2,436	491
South America	455	400	95
Asia	3,179	3,419	1,096
Eliminations	-	(516)	-
TOTAL	**12,725**	**12,725**	**3,676**

2013 restated

(in millions of euros)	External sales by market[1]	Sales by production area[1]	Non-current assets[1]
France	1,154	2,796	903
Other European countries and Africa	5,159	3,870	953
North America	1,977	1,828	297
South America	602	536	92
Asia	2,770	3,012	865
Eliminations	-	(380)	-
TOTAL	**11,662**	**11,662**	**3,110**

(1) The geographic segment information shown for 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

3.4 Breakdown of sales by major customer

In 2014, two global automakers represented 30.9% of the Group's sales, and each of these individually accounts for more than 10% of the Group's sales.

In 2013, two global automakers represented 32.0% of the Group's sales, and each of these individually accounted for more than 10% of the Group's sales.

Note 4 Operating data

4.1 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 excluding 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 the future risks and rewards related to tooling, any contributions received from customers are recognized over the duration of the manufacturing phase of the project, within the limit of four years.

Group sales rose 9.1% to 12,725 million euros in 2014 from 11,662 million euros in 2013. Sales figures shown for 2013 differ from the amounts presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

Like-for-like (comparable Group structure and exchange rate basis), consolidated sales for 2014 climbed 7.8% on the previous year. Changes in the scope of consolidation in the period (see Note 2.2.1) had a favorable impact of 2.2% on sales, while exchange rate fluctuations had a negative impact of 0.9%.

4.2 Accounts and notes receivable

Accounts and notes receivable are current financial assets which are initially recognized at fair value and subsequently carried at amortized cost, less any accumulated impairment losses. The fair value of accounts and notes receivable 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 in other financial income and expenses if it relates to a risk of insolvency of the debtor.

For recurring or one-off transactions, accounts and notes receivable may be discounted and sold to banks. In accordance with the principles of IAS 39 on the derecognition of financial assets, an analysis is performed at the time of these transactions to determine the extent to which the risks and rewards inherent to ownership of the receivables have been transferred, particularly in terms of credit, late payment and dilution risks. If the analysis shows that both the contractual rights to receive the cash flows relating to the receivables and substantially all of the risks and rewards have been transferred, the accounts and notes receivable are removed from the consolidated statement of financial position and all of the rights created or retained on transfer are recognized.

If this is not the case, the accounts and notes receivable continue to be carried on the consolidated statement of financial position and a financial liability is recorded for the discounted amount.

Accounts and notes receivable can be analyzed as follows:

(in millions of euros)	**December 31, 2014**	December 31, 2013 restated[1]
Accounts and notes receivable, gross	1,697	1,475
Impairment	(16)	(15)
Accounts and notes receivable, net	**1,681**	**1,460**

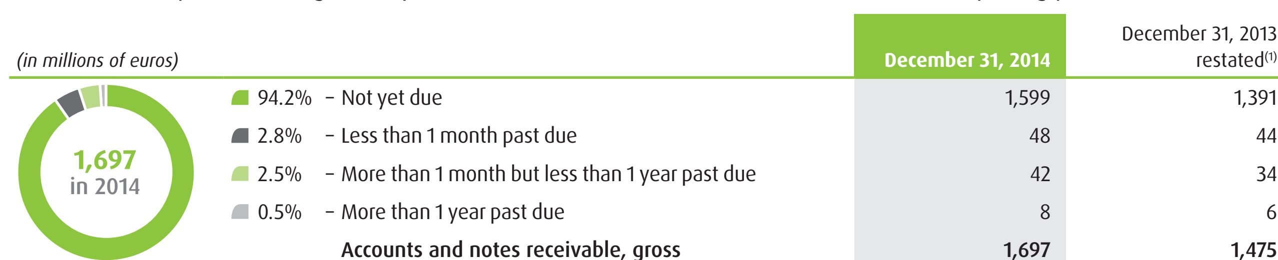
(1) Accounts and notes receivable shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

At December 31, 2014, Valeo's largest customer accounted for 14% of the Group's accounts and notes receivable (16% at December 31, 2013).

The average days' sales outstanding stood at 45 days at December 31, 2014, stable compared with December 31, 2013.

The Group's credit rate risk management policy is described in section I.4.7.

The table below presents an aged analysis of accounts and notes receivable at the end of the reporting period:



(in millions of euros)	December 31, 2014	December 31, 2013 restated[(1)]
94.2% – Not yet due	1,599	1,391
2.8% – Less than 1 month past due	48	44
2.5% – More than 1 month but less than 1 year past due	42	34
0.5% – More than 1 year past due	8	6
Accounts and notes receivable, gross	**1,697**	**1,475**

(1) Accounts and notes receivable shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

Gross accounts and notes receivable not yet due and less than one month past due at December 31, 2014 totaled 1,599 million euros and 48 million euros, respectively, and represented 97% of total gross accounts and notes receivable, the same percentage as at December 31, 2013. Past due receivables were written down in an amount of 16 million euros at December 31, 2014 (15 million euros at December 31, 2013).

Accounts and notes receivable falling due after December 31, 2014 for which substantially all risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position, represent an amount of 236 million euros at December 31, 2014 versus 185 million euros at December 31, 2013. A total of 68 million euros out of this amount of 236 million euros relates to transfer operations carried out on a recurring basis (61 million euros at December 31, 2013). The financial cost of these transactions, recognized in cost of net debt, amounted to just over 3 million euros in both 2014 and 2013.

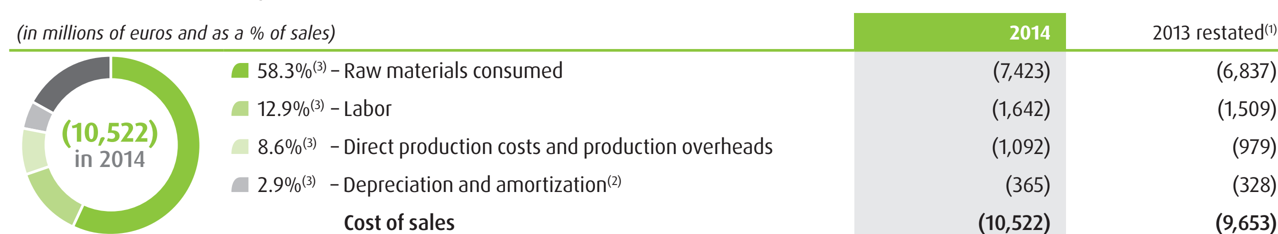
4.3 Gross margin and cost of sales

Gross margin is defined as the difference between sales and cost of sales.

Cost of sales may include insurance indemnities paid out for claims made within the scope of the Group's operations. These claims can relate to product quality issues or property damage following unusually severe weather. In accordance with IAS 16 dealing with property, plant and equipment and consistent with the accounting treatment of other claims, an insurance gain is recognized in the statement of income at the date of the claim, if it is demonstrated that the claim is duly covered by a valid insurance policy. If this right is contingent on the subsequent completion of repairs or on the acquisition of new assets (contingent claim), the associated gain should be recognized at the time the aforementioned repairs or acquisition are made.

Gross margin totaled 2,203 million euros in 2014, or 17.3% of sales (17.2% of sales in 2013).

Cost of sales can be analyzed as follows:



(in millions of euros and as a % of sales)	2014	2013 restated[(1)]
58.3%[(3)] – Raw materials consumed	(7,423)	(6,837)
12.9%[(3)] – Labor	(1,642)	(1,509)
8.6%[(3)] – Direct production costs and production overheads	(1,092)	(979)
2.9%[(3)] – Depreciation and amortization[(2)]	(365)	(328)
Cost of sales	**(10,522)**	**(9,653)**

(1) Cost of sales shown for 2013 differs from the amount presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).
(2) This amount does not include amortization charged against capitalized development costs, which is recognized in Research and Development expenditure, net.
(3) As a % of sales.

4.4 Inventories

Inventories are stated at the lower of cost and net realizable value. Impairment losses are set aside when the probable realizable value of inventories is lower than their cost price.

Inventories of raw materials and goods for resale are carried at purchase cost.

Inventories of finished products and work-in-progress are carried at production cost. Production cost includes the cost of raw materials, supplies and labor used in production, and other direct production and indirect plant costs, excluding overheads not related to production. 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.

Tooling used in the production of a specific 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 consolidated statement of financial position (see Note 6.3 on property, plant and equipment) when Valeo has control over these risks and rewards, or is carried in inventories (until it is sold) if no such control exists. 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.

At December 31, 2014, inventories break down as follows:

	December 31, 2014			December 31, 2013 restated[1]
(in millions of euros)	Gross carrying amount	Impairment	Net carrying amount	Net carrying amount
Raw materials	412	(67)	345	285
Work-in-progress	104	(11)	93	75
Finished goods, supplies and specific tooling	570	(70)	500	450
Inventories, net	**1,086**	**(148)**	**938**	**810**

(1) Inventories shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

Impairment losses taken against inventories amounted to 148 million euros at December 31, 2014 (127 million euros at December 31, 2013), including an allowance (net of reversals) of 8 million euros during the period. Allowances to provisions for impairment of inventories net of reversals amounted to 7 million euros in 2013.

4.5 Operating margin including share in net earnings of equity-accounted companies

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

As set out in Note 1.3.2, a new operating margin sub-total, "Operating margin including share in net earnings of equity-accounted companies", is now included in the consolidated statement of income. This new line corresponds to the operating margin plus the share in net earnings of all equity-accounted companies.

This caption totaled 913 million euros in 2014, or 7.2% of sales (6.8% of sales in 2013).

Share in net earnings of equity-accounted companies amounts to 51 million euros in 2014 and 26 million euros in 2013. See Note 4.5.3 below for more information.

4.5.1 Research and Development expenditure

4.5.1.1 Capitalized development costs

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, evidenced mainly by an engagement letter from the customer stating that Valeo has been chosen as supplier for the project;
- the intangible asset will generate future economic benefits, i.e., based on whether the project is expected to generate an adequate margin; and
- 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. Costs incurred before the formal decision to develop the product are included in expenses for the period. Costs incurred after the launch of volume production are considered as production costs.

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

Changes in capitalized development expenditure in 2014 and 2013 are analyzed below:

(in millions of euros)	2014	2013 restated(1)
GROSS CARRYING AMOUNT AT JANUARY 1	**1,493**	**1,243**
Accumulated amortization and impairment	(864)	(741)
GROSS CARRYING AMOUNT AT JANUARY 1	**629**	**502**
Capitalized development expenditure	298	286
Disposals	(1)	-
Changes in scope of consolidation	19	4
Impairment	(16)	(10)
Amortization	(174)	(139)
Translation adjustment	13	(12)
Reclassifications	(2)	(2)
NET CARRYING AMOUNT AT DECEMBER 31	**766**	**629**

(1) Capitalized development expenditure shown for 2013 differs from the amount presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

4.5.1.2 Research and Development expenditure, net

Net Research and Development expenditure comprises 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 along with subsidies and grants received are recognized in income in line with the stage of completion of the projects to which they relate. Contributions received from customers relating to projects for which development costs are capitalized are taken to income over the period during which the corresponding products are sold, within a maximum period of four years.

Net Research and Development expenditure can be analyzed as follows for 2014 and 2013:

(in millions of euros)	2014	2013 restated[1]
Research and Development expenditure	(1,130)	(1,045)
Contributions received and subsidies	323	294
Capitalized development expenditure	298	286
Amortization and impairment of capitalized development expenditure	(176)	(149)
Research and Development expenditure, net	**(685)**	**(614)**

(1) Net Research and Development expenditure shown for 2013 differs from the amount presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

The Group continued to step up its Research and Development efforts in 2014 to meet the significant increase in its order book over the past few years and in line with its strategy geared to products incorporating innovative technologies.

The research tax credit in France is calculated based on certain research expenditure on "eligible" projects and is paid by the French State, regardless of the entity's income tax position. If the company collecting the research tax credit is liable for income tax, the credit will be deducted from its income tax liability. Otherwise, it will be paid by the French State within a period of three years. This tax credit does not therefore fall within the scope of IAS 12 – "Income Taxes" and is recognized as a deduction from Research and Development expenditure within the Group's operating margin.

The tax credit in France represented income of 55 million euros in 2014, of which 3 million euros related to the additional amount for the 2013 research tax credit (52 million euros in 2013).

4.5.2 Other current assets

Consistent with the treatment for accounts and notes receivable, amounts receivable in respect of the French research tax credit or CICE tax credit (*Crédit d'Impôt pour la Compétitivité et l'Emploi* – see Note 5.2) may be discounted and sold to banks. By analogy, the Group has applied the principles set out in IAS 39 on the derecognition of financial assets. An analysis is performed to determine the extent to which the risks and rewards inherent to ownership of the receivables are transferred. If the analysis shows that substantially all of the risks and rewards are transferred, these receivables are removed from the consolidated statement of financial position. If this is not the case, the receivables continue to be carried on the consolidated statement of financial position and a financial liability is recorded for the discounted amount.

At December 31, 2014, amounts receivable for the CICE tax credit in respect of 2013 and 2014 and for the 2013 French research tax credit are no longer shown in the consolidated statement of financial position, which now includes only the 52 million euros receivable under the 2014 research tax credit.

The 2013 CICE and French research tax credit receivables were transferred on June 19, 2014 for an amount of 10 million euros and 55 million euros, respectively, while the receivable in respect of the 2014 CICE tax credit was transferred on December 16, 2014 for 15 million euros. The cost of these transfers for the Group, recognized in cost of net debt was slightly less than 4 million euros.

At December 31, 2013, French research tax credit receivables for 2010, 2011 and 2012 were no longer carried on the consolidated statement of financial position. The research tax credit receivable in respect of 2010 was transferred on June 28, 2013 and those in respect of 2011 and 2012 on December 4, 2013. The receivables were transferred for a total amount of 152 million euros. The cost of these transfers for the Group, recognized in cost of net debt was slightly less than 4 million euros.

4.5.3 Associates and joint ventures

4.5.3.1 Share in net earnings of equity-accounted companies

(in millions of euros)	2014	2013 restated[1]
Share in net earnings (losses) of associates	(18)	3
Share in net earnings of joint ventures	69	23
Share in net earnings of equity-accounted companies	**51**	**26**

(1) The share in net earnings of equity-accounted companies shown for 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

As indicated in Note 1.3.2, all companies consolidated using the equity method, either joint ventures or associates, contribute to the Group's operations and belong to one of its four operating segments. They are included in the Group's internal reporting within the meaning of IFRS 8 and their operating performance is reviewed at the level of the Business Groups to which they belong. Accordingly, the Group considered that it would be appropriate to recognize the share in net earnings of equity-accounted companies within operating margin.

Share in net earnings (losses) of associates

(in millions of euros)	2014	2013 restated[1]
Ichikoh Industries Limited	(18)	5
Detroit Thermal Systems	1	-
Valeo Pyeong Hwa Metals Co. Ltd	(1)	(2)
Share in net earnings (losses) of associates	**(18)**	**3**

Ichikoh Industries Limited is listed on the Tokyo Stock Exchange and has a March 31 year-end. The financial statements of this associate used to apply the equity method are now prepared at a different date to that of the consolidated financial statements. The difference between the year-end of the associate and the Group's own year-end is three months, which is permitted by the revised IAS 28. Accordingly, in 2014, the share in net earnings of this associate only takes into account nine months of activity instead of twelve, i.e., from January 1 to September 30, 2014, and includes the restatements and adjustments made over this period to bring it into line with the accounting policies used by the Valeo Group.

Share in net earnings of joint ventures

(in millions of euros)	2014	2013 restated[1]
Share in net earnings		
• Chinese joint ventures	32	30
• Other joint ventures	1	(7)
Gain (loss) on previously-held interests		
• Valeo Sylvania LLC/Valeo Sylvania Iluminacion[2]	21	-
• Nanjing Valeo Clutch Co. Ltd[3]	15	-
• Valeo Samsung Thermal Systems Co. Ltd	-	-
Share in net earnings of joint ventures	**69**	**23**

(1) The share in net earnings of joint ventures shown for 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).
(2) See Note 2.2.1.1.
(3) See Note 2.2.1.4.

4.5.3.2 Investments in equity-accounted companies

(in millions of euros)	**December 31, 2014**	December 31, 2013 restated[1]
Investments in associates	55	73
Investments in joint ventures	112	128
Investments in equity-accounted companies	**167**	**201**

(1) Investments in equity-accounted companies shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

Investments in associates

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

(in millions of euros)	**2014**	2013 restated[1]
INVESTMENTS IN ASSOCIATES AT JANUARY 1	**73**	**74**
Share in net earnings (losses) of associates	(18)	3
Dividend payments	(1)	-
Impact of changes in scope of consolidation	-	4
Translation adjustment	2	(12)
Other	(1)	4
INVESTMENTS IN ASSOCIATES AT DECEMBER 31	**55**	**73**

(1) Investments in associates shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

The Group's investments in associates are detailed below:

	% interest		Carrying amount *(in millions of euros)*	
	December 31, 2014	December 31, 2013 restated[1]	**December 31, 2014**	December 31, 2013 restated[1]
Ichikoh Industries Limited	31.6	31.6	40	61
Detroit Thermal Systems	49.0	49.0	15	12
Valeo Pyeong Hwa Metals Co. Ltd	49.0	49.0	-	-
Investments in associates			**55**	**73**

(1) Investments in associates shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

Ichikoh Industries Limited is listed on the Tokyo Stock Exchange. The market value of Valeo's interest in Ichikoh was 53 million euros at December 31, 2014 and 35 million euros at December 31, 2013. The carrying amount of the investment in the Group's consolidated financial statements at December 31, 2013 was justified by its value in use for Valeo.

Investments in joint ventures

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

(in millions of euros)	**2014**	2013 restated[1]
INVESTMENTS IN JOINT VENTURES AT JANUARY 1	**128**	**129**
Net earnings of joint ventures	69	30
Dividend payments	(26)	(28)
Impact of changes in scope of consolidation	(70)	-
Translation adjustment	11	(3)
INVESTMENTS IN JOINT VENTURES AT DECEMBER 31	**112**	**128**

(1) Investments in joint ventures shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

The Group's investments in joint ventures are detailed below:

	% interest		Carrying amount *(in millions of euros)*	
	December 31, 2014	December 31, 2013 restated(1)	**December 31, 2014**	December 31, 2013 restated(1)
Other Chinese joint ventures			106	90
Valeo Sylvania LLC / Valeo Sylvania Iluminacion	100.0	50.0	-	-
Nanjing Valeo Clutch Co. Ltd	55.0	55.0	-	17
Valeo Samsung Thermal Systems Co. Ltd	50.0	50.0	-	15
Other			6	6
Investments in joint ventures			**112**	**128**

(1) Investments in joint ventures shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

In 2014, the Group acquired a controlling interest in Valeo Sylvania (see Note 2.2.1.1), Nanjing Valeo Clutch Co. Ltd (see Note 2.2.1.4) and Valeo Samsung Thermal Systems Co. Ltd (see Note 2.2.1.2). These companies are now fully consolidated by the Group.

4.5.3.3 Information on equity-accounted companies

This information is presented based on a 100% holding and according to IFRS.

Information for equity-accounted companies is provided on an aggregate basis since the entities are not material taken individually.

Associates

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

(in millions of euros)	**December 31, 2014**	December 31, 2013 restated(1)
Non-current assets	320	341
Current assets	300	267
Non-current liabilities	290	192
Current liabilities	230	244

(in millions of euros)	**2014**	2013 restated(1)
Sales	597	676
Operating expenses	(651)	(688)

(1) Data shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

Joint ventures

Summarized financial data in respect of joint ventures are set out in the table below:

(in millions of euros)	**December 31, 2014**	December 31, 2013 restated(1)
Non-current assets	120	260
Current assets	275	513
Non-current liabilities	22	101
Current liabilities	218	534

(1) Data shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

(in millions of euros)	**2014**	2013 restated[(1)]
Sales	650	1,213
Operating expenses	(571)	(1,145)

(1) Data shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

4.5.3.4 Transactions with equity-accounted companies (related parties)

The consolidated financial statements include transactions carried out in the normal course of operations between the Group and its associates and joint ventures. These transactions are carried out at arm's length.

Transactions with associates

(in millions of euros)	**December 31, 2014**	December 31, 2013 restated[(1)]
Accounts and notes receivable	5	3
Accounts and notes payable	13	13
Net debt (cash)	11	11

(in millions of euros)	**2014**	2013 restated[(1)]
Sales of goods and services	11	13
Purchases of goods and services	(49)	(37)
Interest and dividends received	1	-

(1) Data shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

Transactions with joint ventures

(in millions of euros)	**December 31, 2014**	December 31, 2013 restated[(1)]
Accounts and notes receivable	12	72
Accounts and notes payable	3	37
Net debt (cash)	10	(44)

(in millions of euros)	**2014**	2013 restated[(1)]
Sales of goods and services	22	99
Purchases of goods and services	(9)	(112)
Interest and dividends received	25	27

(1) Data shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

The sharp year-on-year fall in transactions with joint ventures in 2014 results from the controlling interests acquired in three former joint ventures during the period (see Note 2.2.1).

4.6 Operating income and other income and expenses

4.6.1 Operating income

Operating income includes all income and expenses other than:
- interest income and expense;
- other financial income and expenses;
- income taxes.

Operating margin including share in net earnings of equity-accounted companies totaled 859 million euros in 2014 versus 725 million euros in 2013.

4.6.2 Other income and expenses

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".

This caption mainly includes:

- capital gains and losses arising on changes in the scope of consolidation (acquisitions and disposals);
- major litigation and disputes unrelated to the Group's operations (this therefore excludes the costs of any disputes relating to the quality of products sold, customers, suppliers or contract losses);
- costs relating to restructuring plans;
- impairment losses on fixed assets chiefly recognized as a result of impairment tests on cash-generating units (CGUs) and goodwill.

Other income and expenses can be analyzed as follows in 2014 and 2013:

(in millions of euros)	*Notes*	2014	2013 restated[(1)]
Capital gains and losses arising on changes in the scope of consolidation	*4.6.2.1*		
• Acquisition fees		(1)	-
• Sale of the Access Mechanisms business		(1)	(28)
Claims and litigation:	*4.6.2.2*		
• Anti-trust proceedings		(3)	(16)
• Other disputes		(4)	(4)
Restructuring plans	*4.6.2.3*	(29)	(16)
Impairment of fixed assets	*4.6.2.4*	(15)	-
Other		(1)	(3)
Other income and expenses		**(54)**	**(67)**

(1) Other income and expenses shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

4.6.2.1 Capital gains and losses arising on changes in the scope of consolidation

In the year ended December 31, 2012, the Group estimated the likely consequences of the sale of the Access Mechanisms business (see Note 2.2.2.1) and as a result, recognized an impairment loss for 44 million euros. A total of 5 million euros in costs already incurred in connection with the sale transaction was also booked. An additional expense of 28 million euros was recognized in 2013, relating mainly to the adverse impacts of the delay in the sale of the Indian Access Mechanisms entity and to the change in the net assets sold over the period.

4.6.2.2 Claims and litigation

At the end of July 2011, anti-trust investigations were initiated against numerous automotive suppliers (including Valeo) by the US and European anti-trust authorities in the area of components and systems supplied to the automotive industry. In 2013, the Group booked 10 million euros in respect of a settlement indemnity paid by Valeo Japan Co. Ltd (see Note 7.2) and 6 million euros in legal fees in connection with these proceedings.

In 2014, the 3 million euros in expenses related solely to legal fees incurred in connection with these proceedings.

4.6.2.3 Restructuring plans

Restructuring costs for 2014 represent an amount of 29 million euros and essentially relate to the costs of two restructuring plans in South America and Japan launched in the first half of 2014, and to the cost of early retirement plans in Germany in the period.

Restructuring costs for 2013 chiefly included expenses relating to a restructuring plan in Japan announced in the second quarter of the year, additional costs relating to restructuring operations at a site in South Korea, and expenses relating to early retirement plans in place at certain plants in Germany.

4.6.2.4 Impairment of fixed assets

As a result of the cash-generating unit (CGU) impairment tests carried out in the year ended December 31, 2014, an impairment loss of 15 million euros was recognized against the Interior Electronics Product Group (see Note 6.4).

Note 5 Personnel expenses and employee benefits

5.1 Headcount

The Group had a total headcount of 78,500 at December 31, 2014 including temporary staff (70,900 at December 31, 2013). The headcounts shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

5.2 Employee benefits

Employee benefits are measured in accordance with the amended IAS 19, effective as of January 1, 2014. They comprise both short- and long-term benefits.

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

These benefits are shown in current liabilities and expensed in the period when the related service is rendered by the employee.

Long-term benefits 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 under defined benefit plans (see Note 5.3) is recognized in liabilities in the statement of financial position.

The statement of income presents personnel expenses by function. They include the following items:

(in millions of euros)	**2014**	2013 restated[1]
Wages and salaries[2]	2,184	2,010
Social security charges	459	420
Share-based payment	14	9
Pension expenses under defined contribution plans	87	83
TOTAL	**2,744**	**2,522**

(1) Personnel expenses shown for 2013 differ from the amounts presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).
(2) Including temporary staff.

In France, the amended Finance Law for 2013 introduced a new tax credit: *Crédit d'impôt pour la compétitivité et l'emploi* (CICE), with effect from January 1, 2014. The CICE tax credit is partly calculated on the basis of employee compensation paid by French companies. It is paid by the French State, regardless of a entity's income tax position. If an entity is not liable for income tax, it is paid by the State within a period of three years.

The CICE tax credit does not therefore fall within the scope of IAS 12 – "Income Taxes". It is recognized as a deduction from personnel expenses within consolidated operating income and represented income of 15 million euros in 2014 (10 million euros in 2013).

Pension expenses under defined benefit plans are set out in Note 5.3.

Provisions for restructuring plans and employee disputes are set out in Note 7.1.

5.3 Provisions for pensions and other employee benefits

As indicated in Note 5.2, long-term benefits arising under defined benefit plans give rise to an obligation which is recognized in provisions for pensions and other employee benefits.

The pension provision 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. An asset is only recognized on overfunded plans if it represents future economic benefits that are available to the Group.

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

The calculation of these provisions is based on valuations performed by independent actuaries using the projected unit credit method and end-of-career salaries. These valuations incorporate both macroeconomic assumptions specific to each country in which the Group operates (discount rate, 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.

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.

Past service costs resulting from the adoption of a new plan or change in an existing defined benefit plan are recognized immediately in income.

The expense recognized in the statement of income includes:

- service cost for the period, past service costs, and the impact of any plan curtailments or settlements recorded in operating income;
- net interest cost on pension obligations and plan assets recognized in financial income and expenses.

5.3.1 Description of the plans in force within the Group

The Group has set up a large number of defined benefit plans covering most of its current and former employees. The specific characteristics of these plans (benefit formula, funded status) varies depending on the laws and regulations prevailing in each country in which its employees work. At December 31, 2014, 95% of provisions relate to post-employment benefits, while the remaining 5% cover other long-term benefits.

The main post-employment defined benefit plans concern:

- supplementary pension benefits in Germany, Japan, the United Kingdom and the United States, which top up the statutory pension plans in force in those countries:

  Pension entitlement is calculated based on end-of-career salaries and number of years' service within the Group. Certain plans are pre-funded due to local legal requirements in some countries (United Kingdom/United States) or as a result of the choice made by the company on setting up the plan (Japan).

  Most plans in the US have been frozen and no longer give rise to any additional benefits;
- retirement termination benefits in France or severance benefits in South Korea, Mexico and Italy:

  These benefits are fixed amounts and are calculated depending on the number of years' service and the employee's annual compensation, either at the retirement date (as in France) or at the date the employee leaves the company for whatever reason (retirement, resignation or redundancy) - as in Italy, Mexico and South Korea;
- health cover during retirement in the United States:

  Valeo pays into health plans and life insurance plans for certain retired employees in the US. These plans are not funded and have all been frozen (the last plan was frozen as of January 1, 2012). Accordingly, no additional benefits have since been offered by these plans to plan participants still working for the Group;
- top-up retirement plans for certain Group managers and executives in France. Only one such plan is still in operation (since January 1, 2010) and concerns a specific level of Valeo management (*cadres hors catégorie*); the portion of these obligations relating to the Group's executive managers in France is detailed in Note 5.5.

The table below shows the average duration of the Group's main plans and the employees covered by these plans in each region at December 31, 2014:

	France	Other European countries	North America	Asia	Total
Active Valeo employees	12,308	13,340	7,747	7,047	**40,442**
Active employees having left the Group	-	1,831	3,100	6	**4,937**
Retirees	-	4,002	3,063	1	**7,066**
Total employees	**12,308**	**19,173**	**13,910**	**7,054**	**52,445**
Average duration of the defined benefit plans *(in number of years)*	12	21	14	9	**17**

The Group also grants other long-term benefits, chiefly long-service bonuses or loyalty awards in France, Germany, Japan and South Korea.

All of these plans are accounted for as described above.

5.3.2 Actuarial assumptions

To calculate discount rates for the year ended December 31, 2014, 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:

Country	Benchmark index *(%)*	**December 31, 2014**	December 31, 2013
Eurozone	iBoxx Euro-Corporate AA 10-year+	1.7	3.3
United Kingdom	iBoxx £-Corporate AA 15-year+	3.8	4.4
United States	Citigroup Pension Discount Curve	3.8	4.5
Japan	10-year government bonds	0.9	0.9
South Korea	10-year government bonds	3.0	3.5

The weighted average long-term salary inflation rate was around 2.5% at December 31, 2014, slightly down from December 31, 2013.

The rate of increase for medical costs in the US used to value the Group's main obligations was 8.0% at December 31, 2014 (8.5% at December 31, 2013), gradually reducing to 5% by 2032. This assumption is largely similar to that used in 2013.

The sensitivity of the Group's main obligations to a 0.5 point rise or fall in discount rates and inflation rates is set out in Note 5.3.7.

5.3.3 Breakdown and movements in obligations

Pension obligations and provisions break down as follows by major geographic area:

2014

(in millions of euros)	France	Other European countries	North America	Asia	Total
Present value of unfunded obligations	215	471	115	48	**849**
Present value of funded obligations	33	92	489	89	**703**
Market value of plan assets	(6)	(72)	(345)	(70)	**(493)**
Provisions recognized at December 31, 2014	**242**	**491**	**259**	**67**	**1,059**
Permanent employees at December 31, 2014[1]	12,010	20,121	9,890	11,420	**53,441**

(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. The Group's pension obligations in North America are significant, since a large portion of these obligations relates to retired personnel or employees having left the Group.*

2013

(in millions of euros)	France	Other European countries	North America[2]	Asia[2]	**Total**
Present value of unfunded obligations	186	335	92	50	**663**
Present value of funded obligations	24	77	304	78	**483**
Market value of plan assets	(6)	(60)	(248)	(54)	**(368)**
Provisions recognized at December 31, 2013	**204**	**352**	**148**	**74**	**778**
Permanent employees at December 31, 2013[1]	12,067	18,921	7,128	9,265	**47,381**

(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. The Group's pension obligations in North America are significant, since a large portion of these obligations relates to retired personnel or employees having left the Group.

(2) Pension obligations and provisions and other employee benefits shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

Movements in obligations in 2014 and 2013 are shown in the tables below by major geographic area:

2014

(in millions of euros)	France	Other European countries	North America	Asia	**Total**
BENEFIT OBLIGATIONS AT JANUARY 1, 2014	**210**	**412**	**396**	**128**	**1,146**
Actuarial gains and losses recognized in other comprehensive income	30	133	65	2	**230**
Benefits paid	(14)	(16)	(30)	(14)	**(74)**
Translation adjustment	-	6	70	5	**81**
Changes in scope of consolidation[1]	-	-	79	1	**80**
Expenses (income) for the year:	22	28	24	15	**89**
• *service cost*	*14*	*11*	*3*	*12*	***40***
• *interest cost*	*6*	*14*	*22*	*3*	***45***
• *other*	*2*	*3*	*(1)*	*-*	***4***
BENEFIT OBLIGATIONS AT DECEMBER 31, 2014	**248**	**563**	**604**	**137**	**1,552**

(1) Changes in the scope of consolidation in the period chiefly reflect the acquisition of Osram GmbH's shares in Valeo Sylvania at January 1, 2014, accounted for using the equity method in the 2013 comparative financial statements (see Note 2.2.1.1).

Actuarial losses totaling 230 million euros in 2014 primarily reflect the impacts of the fall in discount rates in eurozone countries and to a lesser extent in the United States, as well as revisions to the mortality table used for the US.

2013

(in millions of euros)	France	Other European countries	North America[1]	Asia[1]	**Total**
BENEFIT OBLIGATIONS AT JANUARY 1, 2013	**205**	**424**	**472**	**152**	**1,253**
Actuarial gains and losses recognized in other comprehensive income	(1)	(20)	(53)	(1)	**(75)**
Benefits paid	(15)	(14)	(24)	(12)	**(65)**
Translation adjustment	-	(2)	(18)	(24)	**(44)**
Expenses (income) for the year:	21	24	19	13	**77**
• *service cost*	*16*	*12*	*3*	*11*	***42***
• *interest cost*	*6*	*13*	*16*	*2*	***37***
• *other*	*(1)*	*(1)*	*-*	*-*	***(2)***
BENEFIT OBLIGATIONS AT DECEMBER 31, 2013	**210**	**412**	**396**	**128**	**1,146**

(1) The benefit obligations in North America and Asia shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

Actuarial gains and losses totaling 82 million euros in 2013 primarily reflected the impacts of the rise in discount rates in the United States (56 million euros) and to a lesser extent, in eurozone countries.

5.3.4 Movements in provisions

Movements in provisions in 2014 and 2013 are shown in the table below:

(in millions of euros)	France	Other European countries	North America[(1)]	Asia[(1)]	**Total [(1)]**
PROVISIONS AT JANUARY 1, 2013	**197**	**371**	**222**	**105**	**895**
Actuarial gains and losses recognized in other comprehensive income	(1)	(24)	(71)	(6)	**(102)**
Amounts used during the year	(13)	(16)	(7)	(22)	**(58)**
Translation adjustment	-	(1)	(7)	(15)	**(23)**
Expenses (income) for the year:	21	22	11	12	**66**
● *service cost*	*16*	*12*	*3*	*11*	***42***
● *net interest cost*	*6*	*11*	*8*	*1*	***26***
● *other*	*(1)*	*(1)*	*-*	*-*	***(2)***
PROVISIONS AT DECEMBER 31, 2013	**204**	**352**	**148**	**74**	**778**
Actuarial gains and losses recognized in other comprehensive income	30	130	66	(1)	**225**
Amounts used during the year	(14)	(17)	(14)	(24)	**(69)**
Translation adjustment	-	1	28	3	**32**
Changes in scope of consolidation	-	-	21	1	**22**
Expenses (income) for the year:	22	25	10	14	**71**
● *service cost*	*14*	*11*	*3*	*12*	***40***
● *net interest cost*	*6*	*11*	*8*	*2*	***27***
● *other*	*2*	*3*	*(1)*	*-*	***4***
PROVISIONS AT DECEMBER 31, 2014	**242**	**491**	**259**	**67**	**1,059**
Of which current portion (less than one year)	24	18	11	21	**74**

(1) Provisions for North America and Asia shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

An expense of 71 million euros was recognized in 2014 in respect of pensions and other employee benefits (66 million euros in 2013), of which 44 million euros were included in operating margin and 27 million euros in other financial income and expenses.

5.3.5 Breakdown and movements in plan assets

The breakdown of plan assets at December 31, 2014 and 2013 is shown in the tables below:

2014

(in millions of euros)	France	Other European countries	North America	Asia	**Total**
Cash at bank	-	-	7	26	**33**
Shares	6	41	202	15	**264**
Government bonds	-	16	30	12	**58**
Corporate bonds	-	15	106	17	**138**
Breakdown of plan assets at December 31, 2014	**6**	**72**	**345**	**70**	**493**

2013

(in millions of euros)	France	Other European countries	North America[(1)]	Asia[(1)]	**Total**
Cash at bank	-	-	9	18	**27**
Shares	6	35	137	13	**191**
Government bonds	-	13	27	10	**50**
Corporate bonds	-	12	75	13	**100**
Breakdown of plan assets at December 31, 2013	**6**	**60**	**248**	**54**	**368**

(1) Plan assets in North America and Asia shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

These assets are managed by specialized asset management companies.

In managing the risk arising on these assets, the diversification of the funds among the different asset classes (equities, bonds, cash equivalents) is defined by the Investment Committees or trustees specific to each country concerned, acting on recommendations from external advisors. Asset allocation decisions depend on the market outlook and the characteristics of the pension obligations. These committees carry out regular reviews of the investments made and of their performance.

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

Movements in the value of plan assets in 2014 and 2013 can be analyzed as follows:

2014

(in millions of euros)	France	Other European countries	North America	Asia	**Total**
PLAN ASSETS AT JANUARY 1, 2014	**6**	**60**	**248**	**54**	**368**
Expected return on plan assets	-	3	14	1	**18**
Contributions paid to external funds	-	4	6	17	**27**
Benefits paid	-	(3)	(22)	(7)	**(32)**
Actuarial gains and losses	-	3	(1)	3	**5**
Translation adjustment	-	5	42	2	**49**
Changes in scope of consolidation[1]	-	-	58	-	**58**
PLAN ASSETS AT DECEMBER 31, 2014	**6**	**72**	**345**	**70**	**493**

(1) Changes in the scope of consolidation in the period chiefly reflect the acquisition of Osram GmbH's shares in Valeo Sylvania at January 1, 2014, accounted for using the equity method in the 2013 comparative financial statements (see Note 2.2.1.1).

The sharp increase in the fair value of plan assets at December 31, 2014 chiefly reflects changes in the scope of consolidation, movements in the US dollar exchange rate and the actual return on plan assets (23 million euros). The difference between actual returns and the 18 million euros in expected returns, recognized in other financial income and expenses, accounts for the 5 million euros in actuarial gains resulting from experience adjustments. These actuarial gains were recognized within other comprehensive income in 2014.

Contributions of 27 million euros were paid to external funds in 2014. Contributions in 2015 are estimated at 26 million euros.

2013

(in millions of euros)	France	Other European countries	North America[1]	Asia[1]	**Total**
PLAN ASSETS AT JANUARY 1, 2013	**8**	**53**	**250**	**47**	**358**
Expected return on plan assets	-	2	8	1	**11**
Contributions paid to external funds	4	4	1	17	**26**
Benefits paid	(6)	(2)	(18)	(7)	**(33)**
Actuarial gains and losses	-	4	18	5	**27**
Translation adjustment	-	(1)	(11)	(9)	**(21)**
PLAN ASSETS AT DECEMBER 31, 2013	**6**	**60**	**248**	**54**	**368**

(1) Plan assets in North America and Asia shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

5.3.6 Data for previous years

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

(in millions of euros)	2014	2013[1]	2012[1]	2011	2010
Benefit obligations	1,552	1,146	1,253	1,132	988
Financial assets	(493)	(368)	(358)	(351)	(330)
Net benefit obligations	**1,059**	**778**	**895**	**781**	**658**
Actuarial (losses) and gains recognized in other comprehensive income	(225)	102	(153)	(90)	(30)

(1) The data shown for December 31, 2013 and 2012 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

Actuarial gains and losses recognized in other comprehensive income in 2014 include:

- 226 million euros in actuarial losses on assumptions regarding benefit obligations, due to the sharp fall in discount rates in the eurozone and the United States and the revision of the mortality table used for the United States;
- 4 million euros in actuarial losses resulting from experience adjustments on benefit obligations; and
- 5 million euros in actuarial gains resulting from experience adjustments arising on the return on plan assets.

5.3.7 Sensitivity of obligations

The discount rates and inflation rates applied in each geographic area or country have a significant impact on the amount of the Group's benefit obligations.

A 0.5 point increase or decrease in these rates would have the following impact on the projected benefit obligation at December 31, 2014:

(in millions of euros)	France	Other European countries	North America	Asia	Total
Discount rate					
Impact of a 0.5 point rise	(14)	(55)	(39)	(6)	**(114)**
Impact of a 0.5 point fall	15	59	41	6	**121**
Salary inflation rate					
Impact of a 0.5 point rise	15	30	2	3	**50**
Impact of a 0.5 point fall	(13)	(29)	(2)	(3)	**(47)**

At December 31, 2014, the value of the Group's benefit obligation is less sensitive to changes in the salary inflation rate than to changes in the discount rate, particularly in the United States and the United Kingdom. This is due to the existence of plans which have now been frozen and which only bear obligations in relation to the Group's former employees.

Changes in the discount and inflation rates only have a limited impact on 2014 service cost. A 0.5 point decrease in the discount rate would lead to an additional expense of 3 million euros, while a 0.5 point increase in the discount rate would reduce the expense by 3 million euros.

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

5.3.8 Estimated payouts over the next 10 years

Payouts due over the next ten years in respect of pension plans and other employee benefits can be estimated as follows:

(in millions of euros)	France	Other European countries	North America	Asia	**Total**
2015	24	15	33	10	**82**
2016	13	16	33	11	**73**
2017	13	17	33	11	**74**
2018	11	15	32	12	**70**
2019	24	16	31	13	**84**
2020/2024	73	90	158	70	**391**
TOTAL	**158**	**169**	**320**	**127**	**774**

5.4 Share-based payment

Some Group employees receive equity-settled 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 the statement of income.

The terms and conditions of the shareholder-approved employee stock option and free share plans operated by Valeo at December 31, 2014 were as follows:

Terms and conditions of stock option plans

Year in which the plan was set up	Number of shares under option	***of which subject to conditions***[(1)]	Option exercise price *(in euros)*[(2)]	Number of shares not yet issued at Dec. 31, 2014	Expiration date
2007	250,000	-	36.97	-	2015
2007	1,677,000	*174,250*	36.82	242,406	2015
2008	426,750	-	31.41	84,925	2016
2010	1,000,000	*611,365*	24.07	366,594	2018
2011	292,840	*210,370*	42.41	143,595	2019
2012	367,160	*265,230*	40.78	331,810	2020
TOTAL	**4,013,750**	***1,261,215***		**1,169,330**	

(1) These stock options are subject to the Group meeting performance conditions.
(2) 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, or 100% of the average purchase price of treasury shares held if this is higher than the Valeo quoted share price.

Terms and conditions of free share plans

Year in which the plan was set up	Number of free shares authorized	***of which subject to conditions***[(1)]	Number of shares not yet issued at Dec. 31, 2014	Year of vesting[(2)]
2011	326,860	*126,480*	91,727	2014/2016
2012	213,140	*117,220*	191,081	2015/2017
2013	473,814	*223,314*	432,831	2016/2018
2014	323,480	*105,590*	307,622	2017/2019
TOTAL	**1,337,294**	***572,604***	**1,023,261**	

(1) These free shares are subject to the Group meeting performance conditions.
(2) The vesting year varies depending on the country in which the plan's beneficiaries are based.

Movements in stock option and free share plans in 2014 and 2013 are detailed below:

2014

	Number of options and free shares granted	Weighted average exercise price
OPTIONS NOT EXERCISED AT JANUARY 1, 2014	**3,067,140**	**21.86**
Options granted/Free shares to be issued	323,480	-
Options canceled	(234,553)	19.72
Options expired	(76,436)	26.68
Options exercised	(887,040)	22.94
OPTIONS NOT EXERCISED/FREE SHARES NOT ISSUED AT DECEMBER 31, 2014	**2,192,591**	**18.26**
OPTIONS THAT CAN BE EXERCISED AT DECEMBER 31, 2014	**837,520**	**31.65**

2013

	Number of options and free shares granted	Weighted average exercise price
OPTIONS NOT EXERCISED AT JANUARY 1, 2013	**4,213,131**	**28.59**
Options granted/Free shares to be issued	473,814	-
Options canceled	(103,659)	24.04
Options expired	(33,495)	28.46
Options exercised	(1,482,651)	33.62
OPTIONS NOT EXERCISED/FREE SHARES NOT ISSUED AT DECEMBER 31, 2013	**3,067,140**	**21.86**
OPTIONS THAT CAN BE EXERCISED AT DECEMBER 31, 2013	**1,411,528**	**30.10**

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

	2014		2013	
Free shares	**France**	**Other countries**	France	Other countries
Share price at grant date *(in euros)*	100.3	100.3	42.6	42.6
Risk-free rate *(%)*	0.6	1.0	0.6	0.9
Dividend rate *(%)*	2.9	-	5.8	-
Fair value of equity instruments *(in euros)*	**86.8**	**87.4**	**35.6**	**32.7**

An expense of 14 million euros was booked in 2014 in respect of stock option and free share plans (9 million euros in 2013).

5.5 Executive compensation (Related party transactions)

At December 31, 2014, executives comprise the 14 members of the Group's Operations Committee, and the Chief Executive Officer. Compensation paid to executives not holding corporate office (Operations Committee, excluding the CEO) amounted to 11 million euros in 2014 and 8 million euros in 2013.

Valeo's Board of Directors approved a number of agreements resulting in the Chief Executive Officer's eligibility for:

- a termination benefit in the event of termination related to a change in control or of strategy (except on the grounds of gross misconduct in the performance of his duties) equal to twice his annual fixed and target variable compensation and based on a scale which takes into account the partial or total fulfillment of five performance criteria;
- a non-competition payment over a period of 12 months in the event of his departure from the Company. If this clause is adopted, the Chief Executive Officer will receive a non-competition payment equal to 12 months of compensation (calculated on the same basis as the termination benefit). If Valeo invokes this clause, the amount owed will reduce his termination benefit.

The Group recognized an expense of 2 million euros in 2014 (1 million euros in 2013) in respect of stock subscription and purchase options and free share grants awarded to its executives. An expense was also recorded in relation to pension obligations for executive personnel in an amount of 3 million euros in 2014 (2 million euros in 2013). At December 31, 2014, provisions included in the Group's statement of financial position in respect of these pension obligations amounted to 17 million euros (14 million euros at December 31, 2013).

Note 6 Intangible assets and property, plant and equipment

6.1 Goodwill

Goodwill is initially recognized on business combinations, as described in Note 2.1.3.

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 in 2014 and 2013 were carried out as described in Note 6.4.

Changes in goodwill in 2014 and 2013 are analyzed below:

(in millions of euros)	2014	2013 restated[(1)]
NET GOODWILL AT JANUARY 1	**1,210**	**1,283**
Acquisitions during the year	102	11[(2)]
Translation adjustment	62	(84)
NET GOODWILL AT DECEMBER 31	**1,374**	**1,210**
Including accumulated impairment losses at December 31	-	-

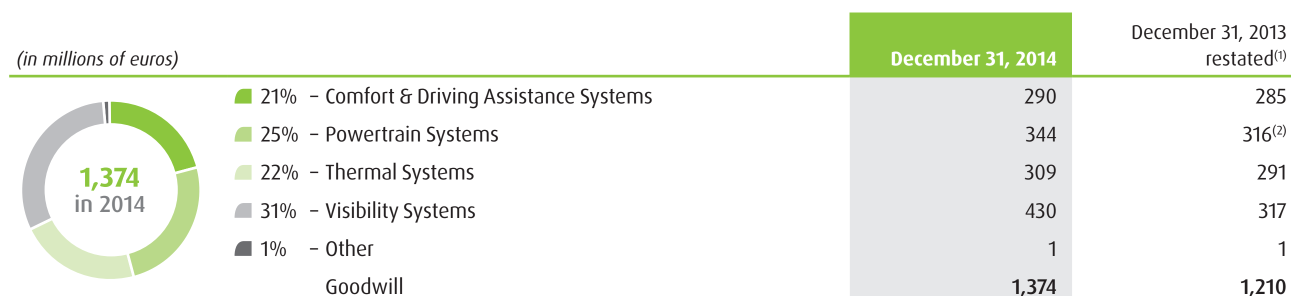
(1) Goodwill shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).
(2) The amount of goodwill shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the final purchase price accounting for Eltek Electric Vehicles (see Note 2.2.2.2).

Acquisitions in 2014 relate to the controlling interest acquired in Valeo Sylvania (80 million euros – see Note 2.2.1.1), Nanjing Valeo Clutch Co. Ltd (15 million euros – see Note 2.2.1.4) and Valeo Samsung Thermal Systems Co. Ltd (7 million euros – see Note 2.2.1.2).

The translation adjustment in 2014 primarily reflects the impacts of fluctuations in the US dollar exchange rate (39 million euros) and the South Korean won (11 million euros).

The decrease in goodwill in 2013 resulted from the impact of exchange rate fluctuations totaling 84 million euros, of which 62 million euros related to the depreciation of the yen.

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



(in millions of euros)	December 31, 2014	December 31, 2013 restated[(1)]
21% – Comfort & Driving Assistance Systems	290	285
25% – Powertrain Systems	344	316[(2)]
22% – Thermal Systems	309	291
31% – Visibility Systems	430	317
1% – Other	1	1
Goodwill	**1,374**	**1,210**

(1) Goodwill shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).
(2) The amount of goodwill shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the final purchase price accounting for Eltek Electric Vehicles (see Note 2.2.2.2).

6.2 Other 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 6.4.

Capitalized development costs recognized within other intangible assets in the statement of financial position 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 described in Note 4.5.1.1. Costs incurred before the formal decision to develop the product are included in expenses for the period. Costs incurred after the launch of volume production are considered as production costs.

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 or duration of protection
- capitalized development expenditure: 4 years
- customer relationships acquired: up to 25 years
- other intangible assets: 3 to 5 years

Other intangible assets can be analyzed as follows:

	December 31, 2014			December 31, 2013 restated[1]
(in millions of euros)	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
Software	212	(185)	**27**	20
Patents and licences	96	(68)	**28**	25
Capitalized development expenditure	1,792	(1,026)	**766**	629
Customer relationships and other intangible assets	314	(123)	**191**	155
Other intangible assets	**2,414**	**(1,402)**	**1,012**	**829**

(1) *Other intangible assets shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).*

Changes in intangible assets in 2014 and 2013 are analyzed below:

2014

(in millions of euros)	Software	Patents and licenses	Capitalized development expenditure	Customer relationships and other intangible assets	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2014	**191**	**104**	**1,493**	**249**	**2,037**
Accumulated amortization and impairment	(171)	(79)	(864)	(94)	**(1,208)**
NET CARRYING AMOUNT AT JANUARY 1, 2014	**20**	**25**	**629**	**155**	**829**
Acquisitions	12	6	298	24	**340**
Disposals	1	-	(1)	(1)	**(1)**
Changes in scope of consolidation	-	-	19	14	**33**
Impairment	-	-	(16)	-	**(16)**
Amortization	(12)	(4)	(174)	(14)	**(204)**
Translation adjustment	-	1	13	6	**20**
Reclassifications	6	-	(2)	7	**11**
NET CARRYING AMOUNT AT DECEMBER 31, 2014	**27**	**28**	**766**	**191**	**1,012**

Customer relationships recognized at December 31, 2014 include those valued in the year in connection with the controlling interests acquired in Valeo Samsung Thermal Systems Co. Ltd and Nanjing Valeo Clutch Co. Ltd (see Notes 2.2.1.2 and 2.2.1.4) for 14 million euros. Capitalized development expenditure includes expenditure recognized in connection with the acquisition of Osram GmbH's shares in Valeo Sylvania (see Note 2.2.1.1).

2013 restated[1]

(in millions of euros)	Software	Patents and licenses	Capitalized development expenditure	Customer relationships and other intangible assets	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2013	190	108	1,243	261	1,802
Accumulated amortization and impairment	(176)	(77)	(741)	(85)	(1,079)
NET CARRYING AMOUNT AT JANUARY 1, 2013	14	31	502	176	723
Acquisitions	6	-	286	18	310
Disposals	-	-	-	(1)	(1)
Changes in scope of consolidation	-	-	4	-	4
Impairment	-	-	(10)	(1)	(11)
Amortization	(10)	(4)	(139)	(14)	(167)
Translation adjustment	(1)	(4)	(12)	(14)	(31)
Reclassifications	11	2	(2)	(9)	2
NET CARRYING AMOUNT AT DECEMBER 31, 2013	20	25	629	155	829

(1) *Other intangible assets shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).*

6.3 Property, plant and equipment

Separately acquired property, plant and equipment are initially recognized at cost in accordance with IAS 16. 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. Property, plant and equipment acquired as part of a business combination are recognized at fair value, separately from goodwill.

Property, plant and equipment are subsequently carried at cost, less accumulated depreciation and impairment losses. 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.

Any subsequent costs incurred in respect of property, plant and equipment are expensed as incurred, unless they are designed to extend the asset's useful life.

Property, plant and equipment are tested for impairment using the methodology described in Note 6.4 below.

Depreciation method and useful life

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 the following estimated useful lives:

- buildings 20 years
- fixtures and fittings 8 years
- machinery and industrial equipment 8 to 15 years
- other property, plant and equipment 3 to 8 years

Tooling

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 consolidated 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 income under "Sales" as and when depreciation is charged against the related assets.

Tooling is depreciated on a straight-line basis over its estimated useful life, not exceeding four years.

Other property, plant and equipment can be analyzed as follows:

(in millions of euros)	December 31, 2014			December 31, 2013 restated[1]
	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	208	(14)	**194**	**182**
Buildings	1,179	(776)	**403**	**374**
Machinery and industrial equipment	4,731	(3,535)	**1,196**	**941**
Specific tooling	1,601	(1,428)	**173**	**146**
Other property, plant and equipment	480	(406)	**74**	**71**
Property, plant and equipment in progress	458	(1)	**457**	**366**
Property, plant and equipment	**8,657**	**(6,160)**	**2,497**	**2,080**

(1) Property, plant and equipment shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

No material amounts of property, plant and equipment had been pledged as security at December 31, 2014.

Changes in property, plant and equipment in 2014 and 2013 are analyzed below:

2014

(in millions of euros)	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Property, plant and equipment in progress	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2014	**196**	**1,067**	**4,202**	**1,420**	**471**	**369**	**7,725**
Accumulated depreciation and impairment	(14)	(693)	(3,261)	(1,274)	(400)	(3)	**(5,645)**
NET CARRYING AMOUNT AT JANUARY 1, 2014	**182**	**374**	**941**	**146**	**71**	**366**	**2,080**
Acquisitions	1	24	204	49	19	319	**616**
Disposals	(2)	-	(7)	(1)	-	(4)	**(14)**
Changes in scope of consolidation	14	19	92	3	2	6	**136**
Impairment	-	-	(3)	(1)	(1)	-	**(5)**
Depreciation	-	(48)	(250)	(91)	(28)	-	**(417)**
Translation adjustment	7	22	57	6	3	18	**113**
Reclassifications	(8)	12	162	62	8	(248)	**(12)**
NET CARRYING AMOUNT AT DECEMBER 31, 2014	**194**	**403**	**1,196**	**173**	**74**	**457**	**2,497**

Changes in the scope of consolidation during the period chiefly reflect the controlling interest acquired in Valeo Sylvania and Valeo Samsung Thermal Systems Co. Ltd, and include revalued property assets (see Notes 2.2.1.1 and 2.2.1.2).

2013 restated[1]

(in millions of euros)	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Property, plant and equipment in progress	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2013	**217**	**1,027**	**4,111**	**1,459**	**475**	**389**	**7,678**
Accumulated depreciation and impairment	(14)	(685)	(3,260)	(1,321)	(410)	(2)	**(5,692)**
NET CARRYING AMOUNT AT JANUARY 1, 2013	**203**	**342**	**851**	**138**	**65**	**387**	**1,986**
Acquisitions	5	57	158	52	27	287	**586**
Disposals	-	2	(6)	(4)	-	(4)	**(12)**
Changes in scope of consolidation	-	-	1	1	1	-	**3**
Impairment	-	-	4	1	-	-	**5**
Depreciation	(1)	(45)	(219)	(73)	(31)	-	**(369)**
Translation adjustment	(23)	(16)	(42)	(6)	(3)	(14)	**(104)**
Reclassifications	(2)	34	194	37	12	(290)	**(15)**
NET CARRYING AMOUNT AT DECEMBER 31, 2013	**182**	**374**	**941**	**146**	**71**	**366**	**2,080**

(1) Property, plant and equipment shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

Finance leases

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 the fair value of the leased asset and the present value of future minimum lease payments. This amount is then reduced by depreciation and by any impairment losses;
- 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 6.5.1.

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

(in millions of euros)	December 31, 2014	December 31, 2013
Buildings	5	5
Machinery and industrial equipment	5	5
Other property, plant and equipment	4	4
TOTAL	**14**	**14**

6.4 Impairment losses on non-current 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. 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.

Cash-generating units (CGUs) and goodwill

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. A total of 25 CGUs had been identified at the end of December 2014. CGUs represent the level at which all property, plant and equipment and intangible assets are tested for impairment if there is an indication that they may be impaired. However, specific impairment tests may be carried out on certain idle property, plant and equipment and intangible assets.

Idle non-current assets are tested for impairment by comparing the asset's net carrying amount with the fair value less costs to sell. Impairment losses are recognized as appropriate.

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

At the end of the reporting period, goodwill is tested for impairment using the same methodology and assumptions as those used for CGUs and as described below.

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 group of assets is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is determined using available information allowing Valeo to establish a best estimate of the selling price net of the costs necessary to make the sale, between knowledgeable, willing parties in an arm's length transaction.

Value in use corresponds to the present value of the future cash flows expected to be derived from an asset or group of assets, taking into account its residual value.

Since there is seldom a reliable basis to measure the fair value less costs to sell of a group of assets belonging to Valeo, the Group uses value in use for CGUs and goodwill impairment tests to determine the recoverable amount of such assets or groups of assets, unless otherwise specified.

The value in use of CGUs and goodwill is determined as follows:

- 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, are discounted;
- cash flows beyond the five-year period are extrapolated by applying a perpetuity growth rate to normative forecast cash flows, corresponding to the last year of the medium-term plan adjusted where applicable for non-recurring items;
- 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 applied to post-tax cash flows 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 impairment loss to be recognized against a CGU is allocated to the CGU's assets in proportion to their net carrying amount.

Impairment losses recognized for goodwill may not be reversed.

Impairment losses recognized for assets other than goodwill may only be reversed if there are indications 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.

6.4.1 Impairment testing

The tests are carried out using the following assumptions:

- the projections used are based on past experience, macroeconomic data for the automotive market, order books and products under development;
- a perpetuity growth rate of 1%, which is the same as that used in 2013 and remains below the average long-term growth rate for the Group's business sector;
- a post-tax discount rate (WACC) of 8.5% (unchanged from 2013), calculated using the method established by an independent expert in 2007. This method is based on a sample of around 20 automotive suppliers. The WACC includes a market risk premium of 5.5% (5.0% in 2013), a risk-free interest rate of 1.3% (1.6% in 2013), and an industry beta of 1.3 (1.4 in 2013).

The key assumptions underpinning the perpetuity growth rate and the discount rate are the same for each group of CGUs to which goodwill has been allocated. Business Groups were created in the organization set up in 2010 to adapt to the increasing globalization of automotive markets and customers. Business Groups are largely similar in terms of market and positioning, and enjoy a global geographic base as well as relations with the world's leading automakers.

To prepare these medium-term business plans and the budgets used to perform impairment tests on CGUs and goodwill, the Group based itself in particular on projected data for the automotive market, as well as its own order book and its development prospects on emerging markets.

Forecasts are made at the smallest level (for each CGU), based on detailed projections of the automotive market by automaker, country and model, taking into account expected product developments in the CGU's order book.

The medium-term business plans for 2015-2019 are underpinned by the following assumptions:

- world automotive production of 101 million vehicles in 2019, representing average annual growth of 3.2% over the term of the business plan. This is consistent with several independent external forecasts available in October 2014, when the business plan was revised. At the end of the period covered by the business plan, Asia and the Middle East should represent 54% of global production, Europe and Africa 24%, North America 17% and South America 5%;
- exchange rate assumptions are based on projections of a panel of banks. The exchange rates used for the main currencies featured in the business plan are 1 euro for: 1.28 US dollars, 8 yuan, 150 yen, 1,318 South Korean won and 3.46 Brazilian real at the end of the plan;
- Group sales were forecast based on the orders known at the time the business plan was drawn up and by reference to an estimate of the orders to be taken over the term of the business plan. These target order numbers represent less than 30% of cumulative original equipment sales over the five-year forecast period and less than 60% of original equipment sales for the final year.

6.4.2 Goodwill

No impairment losses were recognized against goodwill in 2014 as a result of the impairment tests carried out at the level of Business Groups in line with the methodology described above. This was also the case in 2013.

6.4.3 Sensitivity of goodwill impairment tests

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

Changes in the three main assumptions were used to check the sensitivity of goodwill impairment tests:

- 0.5 point increase in the discount rate;
- 0.5 point decrease in the perpetuity growth rate;
- 0.5 point decrease in the rate of operating income over sales used to calculate the terminal value.

No additional impairment losses would be recognized as a result of these changes in assumptions, either individually or taken as a whole.

The margin of the tests, representing the difference between the value in use and the net carrying amount, as well as the impacts of changes in key assumptions on this margin, are presented by Business Group in the table below:

	Margin of the test	Impact on the margin of the test			
(in millions of euros)	**Based on assumptions for 2014**	WACC of 9.0% (+0.5 points)	Perpetuity growth rate of 0.5% (-0.5 points)	Decrease of 0.5 points in the operating margin rate used to calculate the terminal value	Combination of the three factors
Comfort & Driving Assistance Systems	1,409	(177)	(140)	(119)	(401)
Powertrain Systems	2,485	(268)	(213)	(190)	(616)
Thermal Systems	2,381	(223)	(177)	(163)	(517)
Visibility Systems	1,692	(207)	(165)	(175)	(500)

6.4.4 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) are a negative operating margin for 2014 or a fall of more than 20% in 2014 sales compared to 2013.

The scope of the CGUs tested for impairment was defined at the end of October 2014 and remained unchanged at the end of the period, since no adverse events occurred. Three CGUs were selected:

- the Components Product Line (part of the Powertrain Systems Business Group);
- the Electronics Product Group, including the Engine Control Units Product Line (part of the Powertrain Systems Business Group);
- the Interior Electronics Product Group (part of the Comfort & Driving Assistance Systems Business Group).

The assumptions used in the medium-term business plan for the Interior Electronics Product Group were reviewed in light of those used for the 2013 medium-term plan, due primarily to a potentially lower forecast order intake for the 2015-2019 period. The impairment test carried out on this basis led the Group to recognize an impairment loss of 15 million euros for this CGU in 2014.

6.4.5 Sensitivity of CGU impairment tests

Changes in the following assumptions were used to check the sensitivity of CGU impairment tests:

- 0.5 point increase in the discount rate;
- 0.5 point decrease in the perpetuity growth rate;
- 0.5 point decrease in the rate of operating income over sales used to calculate the terminal value.

The impact on this margin of changes in key assumptions is set out in the following table for each of the three CGUs tested for impairment:

	Margin of the test	Impact on the margin of the test			
(in millions of euros)	**Based on assumptions for 2014**	WACC of 9.0% (+0.5 points)	Perpetuity growth rate of 0.5% (-0.5 points)	Decrease of 0.5 points in the operating margin rate used to calculate the terminal value	Combination of the three factors
Components Product Line	139	(18)	(14)	(16)	(44)
Electronics & Engine Control Unit	331	(42)	(34)	(31)	(99)
Interior Electronics Product Group	(15)	(2)	(2)	(6)	(9)

For the Components Product Line CGU, whose test margin was lower than that of the Electronic and Engine Control Unit CGU, the recoverable amount would be equal to the net carrying amount if the rate of operating margin over sales used to calculate the terminal value fell by more than 4 points or if the WACC increased by 7 points.

6.5 Off-balance sheet commitments relating to operating activities

6.5.1 Lease commitments

Future minimum lease commitments in force at December 31, 2014 and 2013 (excluding capital leases) are as follows:

(in millions of euros)	**December 31, 2014**	December 31, 2013 restated[(1)]
Less than 1 year	52	44
1 to 5 years	91	81
More than 5 years	31	8
TOTAL	**174**	**133**

(1) The amounts shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

Lease rentals recognized as expenses in the period in respect of outstanding lease agreements (excluding payments under finance leases) totaled 65 million euros in 2014 and 57 million euros in 2013.

Lease commitments in respect of capital leases are as follows at December 31, 2014 and 2013:

(in millions of euros)	December 31, 2014	December 31, 2013 restated[(1)]
Future minimum lease payments:		
Less than 1 year	3	3
1 to 5 years	8	8
More than 5 years	-	-
TOTAL	**11**	**11**
Of which interest charges	(1)	-
Present value of future lease payments:		
Less than 1 year	3	3
1 to 5 years	7	8
More than 5 years	-	-
TOTAL	**10**	**11**

(1) *The amounts shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).*

6.5.2 Other commitments given

Valeo had given binding asset purchase commitments totaling 272 million euros at December 31, 2014 (199 million euros at December 31, 2013).

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

(in millions of euros)	December 31, 2014	December 31, 2013 restated[(1)]
Property, plant and equipment	11	1
Financial assets	3	7
TOTAL	**14**	**8**

(1) *The amounts shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).*

Note 7 Other provisions and contingent liabilities

7.1 Other 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 amount of the obligation can be estimated reliably.

Provisions are measured in accordance with IAS 37 and take into account assumptions deemed most probable.

Provisions for warranties are set aside to cover the estimated cost of returns of goods sold and are 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. The provision for specific quality risks covers costs arising in specific situations not covered by usual warranties. The corresponding expense is recognized in cost of sales.

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 loss-making (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.

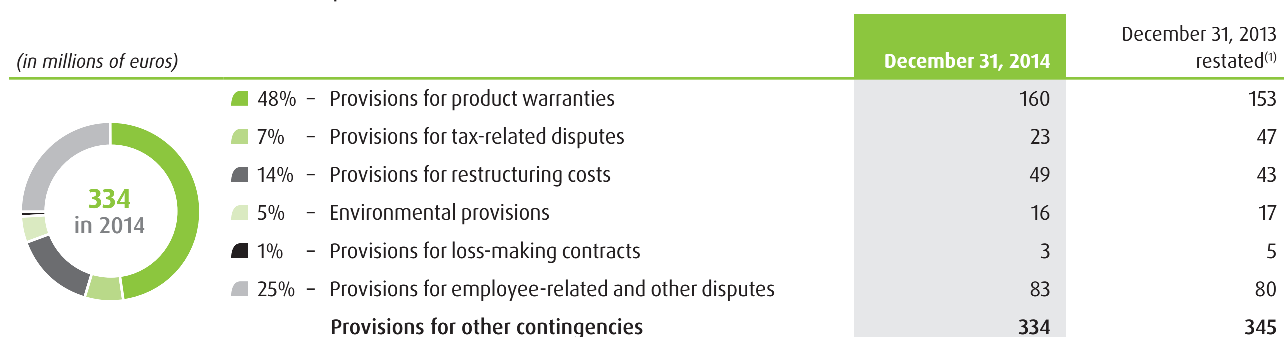
Provisions intended to cover commercial, employee and tax risks and disputes arising in the ordinary course of operations are also included in this caption.

Movements in provisions in 2014 and 2013 are shown in the table below:

(in millions of euros)	2014	2013 restated[1]
PROVISIONS AT JANUARY 1	**345**	**419**
Amounts used during the year	(145)	(104)
Impact of changes in scope of consolidation	23	-
Translation adjustment	10	(16)
Reclassification	5	-
Additions	134	135
Reversals	(38)	(89)
PROVISIONS AT DECEMBER 31	**334**	**345**
Of which current portion (less than one year)	159	155

(1) Provisions shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

At December 31, 2014 and 2013, provisions break down as follows:



(in millions of euros)	December 31, 2014	December 31, 2013 restated[1]
48% – Provisions for product warranties	160	153
7% – Provisions for tax-related disputes	23	47
14% – Provisions for restructuring costs	49	43
5% – Environmental provisions	16	17
1% – Provisions for loss-making contracts	3	5
25% – Provisions for employee-related and other disputes	83	80
Provisions for other contingencies	**334**	**345**

(1) Provisions shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

Provisions for tax disputes at December 31, 2013 included a 27 million euro provision set aside for a tax dispute with the French tax authorities brought by Valeo before the administrative court in September 2003. This dispute was based on the allegedly unlawful nature of the dividend withholding tax paid on dividend payouts made in 2000. In a ruling at the end of December 2007, the administrative court found in favor of Valeo, which was reimbursed in an amount of 27 million euros in April 2008. Since the tax authorities had lodged an appeal against this decision, Valeo had set aside a provision for the full amount received. Valeo received a tax deficiency notice in late May 2014 and this amount was paid over to the French tax authorities in the second half of that year.

The 83 million euros recognized within “Provisions for employee-related and other disputes” at December 31, 2014 chiefly include provisions for employee-related risks and various disputes arising in connection with Valeo’s operating activities across the globe.

7.2 Contingent liabilities

Unlike a provision (see definition above), a contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

The Group has contingent liabilities relating to legal or arbitration proceedings arising in the normal course of its business. Known or ongoing 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, anti-trust investigations were initiated against several automotive suppliers (including Valeo) by the US and European anti-trust authorities in the area of components and systems supplied to the automotive industry.

In the US, an out-of-court settlement was reached on September 20, 2013 between the Department of Justice and the Japanese subsidiary Valeo Japan Co. Ltd, which agreed to pay a fine of 13.6 million US dollars. In return, this agreement, which was ratified by the United States District Court for the Eastern District of Michigan on November 5, 2013, terminated any proceedings instituted or likely to be instituted by the US federal authorities against the Valeo Group for practices that came to light during their investigations.

Three class actions were filed against Valeo Group companies with the United States District Court for the Eastern District of Michigan, and three other class actions in Canada. Due to the state of these proceedings, we are unable to assess their likely outcome. However, Valeo cannot rule out that they could have a material adverse impact on the Group's future earnings. Outside the US, investigations by the European antitrust authorities are still in progress. At this stage, the Group is unable to predict the outcome of these investigations or of any compensation claims. However, it cannot rule out that they may have a material adverse impact on its future earnings.

Note 8 Financing and financial instruments

8.1 Financial assets and liabilities

Financial assets and liabilities mainly comprise:

- long- and short-term debt and bank overdrafts, which make up gross debt (see Note 8.1.2);
- loans and other long-term financial assets, cash and cash equivalents, which are deducted from gross debt to obtain net debt (see Note 8.1.3);
- derivative instruments (see Note 8.1.4);
- other current and non-current financial assets and liabilities (see Note 8.1.5).

8.1.1 Fair value of financial assets and liabilities

	2014 carrying amount under IAS 39			Dec. 31, 2014	Dec. 31, 2013 restated[(1)]
(in millions of euros)	Amortized cost	Fair value through equity	Fair value through income	Carrying amount	Carrying amount
ASSETS					
Non-current financial assets:					
• Investments in non-consolidated companies	-	4	-	**4**	4
• Loans	1	-	-	**1**	1
• Deposits and guarantees	-	-	18	**18**	15
• Other non-current financial assets	-	-	8	**8**	9
• Trading derivatives	-	-	28	**28**	43
Accounts and notes receivable	1,681	-	-	**1,681**	1,460
Other current financial assets:					
• Hedging derivatives	-	19	-	**19**	1
• Trading derivatives	-	-	25	**25**	34
Cash and cash equivalents	-	-	1,497	**1,497**	1,500
LIABILITIES					
Non-current financial liabilities:					
• Other non-current financial liabilities	-	-	1	1	-
• Hedging derivatives	-	4	-	**4**	7
Bonds	1,030	-	-	**1,030**	993
Syndicated loan	249	-	-	**249**	249
EIB (European Investment Bank) loans	187	-	-	**187**	228
Other long-term debt	116	-	-	**116**	129
Accounts and notes payable	2,700	-	-	**2,700**	2,347
Other current financial liabilities:					
• Hedging derivatives	-	4	-	**4**	11
• Trading derivatives	-	-	87	**87**	10
Short-term debt	257	-	-	**257**	253

(1) Financial assets and liabilities shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

IFRS 13 establishes a hierarchy of valuation techniques for financial instruments. The following categories are identified:

- Level 1: inputs directly based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: prices established using valuation techniques drawing on non-observable inputs.

The fair value of bonds is calculated based on prices quoted on an active bond market. This method corresponds to Level 1 in the fair value hierarchy.

The fair value of bonds totaled 1,279 million euros at December 31, 2014 versus 1,124 million euros at December 31, 2013.

The fair value of the syndicated loan 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 five-year credit default swaps. This method corresponds to Level 2 in the fair value hierarchy.

These issuer spreads were estimated (source: Markit Reuters) at:

- 0.17% for the 250 million euro syndicated loan;
- 0.17% for the 113 million euro EIB loan;
- 0.6% (five-year CDS including the US dollar/euro basis swap of 0.17%) for the EIB (European Investment Bank) loan drawn in US dollars.

At December 31, 2014, the fair value of these items was estimated at 254 million euros for the syndicated loan and 189 million euros for the EIB loans (252 million euros and 244 million euros, respectively, at December 31, 2013).

The fair value of other components of Group debt, as well as of accounts and notes payable and receivable, is equal to their carrying amount.

IFRS 13, effective as of January 1, 2013, prescribes the methods for assessing fair value and for taking into account the credit risk on uncollateralized derivatives, through:

- a Credit Value Adjustment (CVA), which is a component of the market value of a derivative financial instrument that reflects the exposure in the event of counterparty default;
- a Debit Value Adjustment (DVA), which is an adjustment to fair value reflecting the entity's own credit risk.

The net impact of taking into account credit risk was calculated according to the probabilities of default issued by Reuters.

At December 31, 2014 and 2013, this has only a minimal impact on the Group.

8.1.2 Gross debt

Gross debt includes long- and short-term debt and bank overdrafts.

At December 31, 2014, the Group's gross debt can be analyzed as follows:

(in millions of euros)	**December 31, 2014**	December 31, 2013 restated[(1)]
Long-term debt – long-term portion	1,458	1,491
Current portion of long-term debt	124	108
Short-term debt	257	253
Gross debt	**1,839**	**1,852**

(1) Gross debt shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

8.1.2.1 Long-term debt

This caption primarily includes bonds and other borrowings.

Bonds and other borrowings 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.

Analysis of long-term debt

(in millions of euros)	**December 31, 2014**	December 31, 2013 restated[(1)]
Bonds	1,030	993
Syndicated loan	249	249
EIB (European Investment Bank) loans	187	228
Lease obligations	10	11
Other borrowings	64	71
Accrued interest	42	47
Long-term debt	**1,582**	**1,599**

(1) Long-term debt shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

Long-term debt was stable year-on-year, at 1,582 million euros at December 31, 2014 versus 1,599 million euros at December 31, 2013. However, Valeo carried out several transactions early in the year aimed at extending the average maturity of its debt. On January 22, 2014, it issued 700 million euros worth of ten-year bonds under the Euro Medium Term Note financing program. Valeo also launched a bond redemption offer and redeemed a portion of its 2017 and 2018 bond issues at 114.25% and 114.49% of par, respectively. It also redeemed 354,400 notes of its Euro Medium Term Note 5.75% issue of January 19, 2012 maturing in 2017, and 226,500 notes of its 4.875%, seven-year issue of May 12, 2011.

Since the redemptions involved an exchange of old for new bonds which did not substantially modify the terms or nature of the liability, all of the costs and fees incurred in the transactions were treated as an accounting adjustment to the liability for the new issue and are amortized over their terms in accordance with IAS 39. The effective interest rate on the new bond issue was therefore calculated taking into account all of the costs relating to the redemption of the existing bonds and notes (87 million euros) along with issue costs and other brokers'fees (4 million euros), and came out at 4.99%.

At December 31, 2014, long-term debt chiefly includes:

- 700 million euros worth of ten-year bonds issued on January 22, 2014 and maturing in 2024 under a Euro Medium Term Note financing program. The bonds pay a fixed coupon of 3.25%;
- 273 million euros worth of seven-year bonds maturing in 2018 also issued under the Euro Medium Term Note program. The original amount of the May 12, 2011 issue was 500 million euros and paid a fixed coupon of 4.875%. In January 2014, Valeo redeemed part of this issue and exchanged a nominal amount of 226 million euros of this issue for a new issue. The effective interest rate on these bonds remains unchanged at 5.09%;
- 146 million euros in bonds maturing in 2017 issued by Valeo on January 19, 2012. These bonds, issued under the Euro Medium Term Note program for an initial amount of 500 million euros and paying a coupon of 5.75%, were partly redeemed in January 2014 for a nominal amount of 354 million euros. The effective interest rate remains unchanged, at 5.92%;
- a syndicated loan for 250 million euros contracted by the Group on June 30, 2011 with three banks as part of a club deal. This loan was taken out to finance Valeo's acquisition of Japanese group Niles. It matures in 2016 and bears variable interest at 3-month Euribor +1.3%. A euro/yen cross currency swap for 237 million euros was set up on inception of the loan for the same maturity. This swap was unwound in December 2013 in an amount of 35 million euros, and later in October and then November 2014 for 52 million euros and 17 million euros, respectively;
- two loans taken out with the European Investment Bank (EIB) for a total amount of 300 million euros. These EIB (European Investment Bank) 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, and consist of:
  - a first 225 million euro loan (on which an amount of 113 million euros was outstanding at December 31, 2014 following repayment of two 56 million euro installments), taken out on August 5, 2009 for a seven-year term and repayable in four equal annual installments as from 2013. This loan bears variable interest at 6-month Euribor +2.46%. An interest rate swap was taken out in respect of the loan, exchanging Euribor for a fixed rate of 3.37%;
  - a second loan, drawn down in USD in an amount of 103 million dollars, was taken out for a seven-year term on November 3, 2011, repayable in four equal annual installments as from 2015. This loan bears variable interest at 6-month USD Libor +1.9%. The EIB loan is in US dollars and hedges internal loans denominated in the same currency.

  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 (European Investment Bank):

  - for the first 225 million euro loan, the subsidy was initially estimated at 28 million euros and was recognized within liabilities in the statement of financial position. It is subsequently booked against Research and Development expenditure in line with the completion of the projects it is intended to finance. The impact on income in 2014 is 4 million euros. At December 31, 2014, the loan is carried at amortized cost for an amount of 106 million;
  - for the second 103 million US dollar loan, the subsidy was estimated at 6 million euros and is recognized within liabilities in the statement of financial position. The impact on income in 2014 is 1 million euros. At December 31, 2014, the loan is carried at amortized cost for an amount of 81 million euros;
- other loans chiefly comprise debt contracted by Group subsidiaries at reduced rates in Spain.

Covenants relating to borrowings and debt are detailed in Note 8.3.2.

Maturities of long-term debt – long term portion

(in millions of euros)	2016	2017	2018	2019	2020 and beyond	Total
Bonds	-	145	272	-	613	**1,030**
Syndicated loan	249	-	-	-	-	**249**
EIB (European Investment Bank) loans	74	20	21	-	-	**115**
Lease obligations	1	-	-	5	1	**7**
Other borrowings	18	6	5	5	23	**57**
TOTAL	**342**	**171**	**298**	**10**	**637**	**1,458**

Current portion of long-term debt

(in millions of euros)	December 31, 2014	December 31, 2013 restated[1]
EIB loans (European Investment Bank)	72	52
Lease obligations	3	3
Other borrowings	7	6
Accrued interest	42	47
Current portion of long-term debt	**124**	**108**

(1) The current portion of long-term debt shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

At December 31, 2014, the current portion of long-term debt chiefly comprises two annual installments under the EIB (European Investment Bank) loans: the first for 52 million euros due in August 2015 and the second for 20 million euros due in November 2015.

8.1.2.2 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.

(in millions of euros)	December 31, 2014	December 31, 2013 restated[1]
Commercial paper	208	109
Short-term loans and overdrafts	49	144
Short-term debt	**257**	**253**

(1) Short-term debt shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

The 49 million euros in short-term bank loans relate mainly to overdraft facilities.

8.1.3 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.

(in millions of euros)	**December 31, 2014**	December 31, 2013 restated[(1)]
Long-term debt – long-term portion	1,458	1,491
Current portion of long-term debt	124	108
Long-term loans and receivables	(1)	(1)
Long-term debt	**1,581**	**1,598**
Short-term debt	257	253
Cash and cash equivalents	(1,497)	(1,500)
Short-term cash position	**(1,240)**	**(1,247)**
Net debt	**341**	**351**

(1) Net debt shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

8.1.3.1 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 in the statement of financial position as non-current financial assets.

8.1.3.2 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.

(in millions of euros)	**December 31, 2014**	December 31, 2013 restated[(1)]
Marketable securities	816	815
Cash	681	685
Cash and cash equivalents	**1,497**	**1,500**

(1) Cash and cash equivalents shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

Marketable securities consist of money market funds (SICAV) for 816 million euros.

Cash equivalents include term deposits for 99 million euros.

These items were measured using Level 1 inputs.

In China and Brazil, where exchange control restrictions may exist, cash and cash equivalents amounted to 204 million euros at December 31, 2014, compared to 187 million euros at December 31, 2013. In these countries, the Group has set up local cash pooling arrangements and regularly receives dividends from several companies.

The remaining amount of cash and cash equivalents, corresponding to the share of the Group's partners in fully consolidated companies that are not wholly owned by Valeo, totaled 55 million euros at December 31, 2014 and 45 million euros at December 31, 2013.

8.1.3.3 Analysis of net debt by currency

Net debt can be analyzed as follows by currency:

(in millions of euros)	December 31, 2014	December 31, 2013 restated(1)
Euro	611	654
US dollar	87	1
Yen	(65)	(57)
Brazilian real	(21)	21
South Korean won	(64)	(98)
Yuan	(145)	(138)
Other currencies	(62)	(32)
TOTAL	**341**	**351**

(1) *Net debt shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).*

8.1.4 Derivative financial instruments

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 beyond one year, and under other current financial assets or other current financial liabilities when the underlying transaction matures within 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. Changes in fair value are recognized through income and offset (for the effective portion of the hedge) by symmetrical changes in the fair value of the derivative;
- for future cash flow hedges, changes in fair value of the derivatives relating to the effective portion of the hedge are recognized directly in other comprehensive income, while the ineffective portion is taken to other financial income and expenses.

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

Foreign currency derivatives

Although they may 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 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 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. When a forecast transaction is no longer highly probable, the cumulative gains and losses carried in other comprehensive income are transferred immediately to other 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.

Hedging instruments are 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 relating to the ineffective portion are recognized in other financial income and expenses. Amounts carried in other comprehensive income in respect of the effective portion of the hedge are taken to income as and when 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.

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

The fair values of financial instruments at December 31, 2014 and 2013 are set out below:

(in millions of euros)	**December 31, 2014**	December 31, 2013 restated[1]
ASSETS		
Trading derivatives:		
• Foreign currency derivatives	28	43
• Interest rate derivatives	-	-
Total other non-current financial assets	**28**	**43**
Hedging derivatives:		
• Foreign currency derivatives	17	-
• Commodity derivatives	2	1
Trading derivatives:		
• Foreign currency derivatives	25	34
• Commodity derivatives	-	-
Total other current financial assets	**44**	**35**
LIABILITIES		
Hedging derivatives:		
• Foreign currency derivatives	-	-
• Interest rate derivatives	(4)	(7)
Total other non-current financial liabilities	**(4)**	**(7)**
Hedging derivatives:		
• Interest rate derivatives	-	-
• Commodity derivatives	(4)	(4)
• Foreign currency derivatives	-	(7)
Trading derivatives:		
• Foreign currency derivatives	(87)	(10)
• Commodity derivatives	-	-
Total other current financial liabilities	**(91)**	**(21)**

(1) The fair values of financial instruments shown for December 31, 2013 differs from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

The impact of financial instruments on income for the years ended December 31, 2014 and December 31, 2013 is set out in Note 8.3.

8.1.4.1 Fair value of foreign currency derivatives

	December 31, 2014		December 31, 2013 restated[1]	
(in millions of euros)	Nominal	Fair value	Nominal	Fair value
Forward foreign currency purchases	206	21	35	2
Forward foreign currency sales	(41)	2	(76)	3
Currency swaps	105	19	(488)	29
Cross currency swaps	(133)	28	(202)	43
Total assets	**137**	**70**	**(731)**	**77**
Forward foreign currency purchases	176	(5)	238	(9)
Forward foreign currency sales	(75)	(4)	(42)	(1)
Currency swaps	(710)	(78)	(359)	(7)
Cross currency swaps	-	-	-	-
Total liabilities	**(609)**	**(87)**	**(163)**	**(17)**
Net impact	**-**	**(17)**	**-**	**60**

(1) The fair values of foreign currency derivatives shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

The fair value of foreign currency hedges is computed as follows: 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.

8.1.4.2 Fair value of commodity (non-ferrous metals) derivatives

	December 31, 2014		December 31, 2013	
(in millions of euros)	Nominal	Fair value	Nominal	Fair value
Swaps – Purchases	27	2	50	1
Swaps – Sales	(4)	-	(1)	-
Total assets	**23**	**2**	**49**	**1**
Swaps – Purchases	87	(4)	74	(4)
Swaps – Sales	-	-	-	-
Total liabilities	**87**	**(4)**	**74**	**(4)**
Net impact	**-**	**(2)**	**-**	**(3)**

The fair value of commodity derivatives is computed as follows: 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.

8.1.4.3 Fair value of interest rate derivatives

	December 31, 2014		December 31, 2013	
(in millions of euros)	Nominal	Fair value	Nominal	Fair value
Interest rate swaps:				
EIB loans (European Investment Bank)	113	(4)	169	(7)
Total liabilities	**113**	**(4)**	**169**	**(7)**

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.

8.1.5 Other financial assets and liabilities

8.1.5.1 Other non-current financial assets and liabilities

This caption primarily includes guarantee deposits and available-for-sale financial assets.

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

Available-for-sale financial assets include investments in non-consolidated companies and are initially recognized at fair value 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.

8.1.5.2 Other current financial assets and liabilities

Other current financial assets and liabilities include accounts and notes receivable and payable.

Accounts and notes receivable and payable are initially recognized at fair value and subsequently carried at amortized cost, less any accumulated impairment losses. The fair value of accounts and notes receivable and payable is deemed to be their nominal amount, since payment periods are generally less than three months.

Accounts and notes receivable are detailed in Note 4.2. In the ordinary course of its operations in China, Valeo is paid by its customers or must pay its suppliers using a payment instrument specific to the Chinese market known as a “bank acceptance draft”. Owing to their nature, receivables and payables under bank acceptance drafts continue to be recognized within accounts and notes receivable and payable until they fall due. At December 31, 2014, these instruments represented 37 million euros of accounts and notes receivable and 71 million euros of accounts and notes payable (26 million euros and 36 million euros, respectively, at December 31, 2013).

8.2 Financial income and expenses

Financial income and expenses comprise interest income, interest expense (cost of net debt), and other financial income and expenses.

8.2.1 Cost of net debt

Interest expense corresponds to interest recognized on debt, while interest income corresponds to interest earned on cash and cash equivalents.

(in millions of euros)	2014	2013 restated[1]
Interest expense[2]	(101)	(107)
Interest income	10	9
Cost of net debt	**(91)**	**(98)**

(1) Cost of net debt shown for December 31, 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

(2) Including in 2014 finance costs for 4 million euros on undrawn credit lines and financial expenses for 7 million euros arising on discounting accounts and notes receivable and amounts receivable under French research and CICE tax credits.

8.2.2 Other financial income and expenses

Other financial income and expenses notably include:

- gains and losses on interest rate hedging transactions;
- gains and losses on foreign exchange transactions or non-ferrous metals purchases that do not meet the definition of hedges under IAS 39 dealing with financial instruments;
- the cost of credit insurance and write-downs taken in respect of credit risk and losses on bad debts in the event of client default;
- the net interest cost arising on provisions for pensions and other employee benefits, which include the impact of unwinding the discount on the obligations to take into account the passage of time, and financial income related to the expected return on plan assets.

(in millions of euros)	**2014**	2013
Net interest cost on provisions for pensions and other employee benefits	(27)	(26)
Currency gains (losses)	(15)	(15)
Gains (losses) on commodity derivatives (trading and ineffective portion)	-	(1)
Gains (losses) on interest rate derivatives (ineffective portion)	(1)	-
Other	(3)	(4)
Other financial income and expenses	**(46)**	**(46)**

8.3 Risk management policy

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

8.3.1 Market risks

8.3.1.1 Foreign currency risk

A detailed description of the Group's foreign currency risk management policy is set out in the management report in section I.4.3.

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 generally 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.

At December 31, 2014, a 17 million euro gain was recognized in other comprehensive income in respect of derivatives used as hedging instruments. An unrealized loss of 7 million euros recognized in other comprehensive income at December 31, 2013 in respect of currency hedges was reclassified in full to operating income in 2014.

The Group set up a cross currency swap in yen for 237 million euros on inception of its 250 million euro syndicated loan taken out to finance Japanese group Niles. This derivative is not eligible for hedge accounting within the meaning of IAS 39. This swap was unwound in an amount of 35 million euros in 2013, and subsequently for 52 million euros and then 17 million euros in 2014. The fair value of this cross currency swap was 28 million euros at December 31, 2014.

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

	December 31, 2014				December 31, 2013
(in millions of euros)	**USD**	**JPY**	**EUR**	**Total**	Total
Accounts and notes receivable	135	10	297	**442**	**545**
Other financial assets	521	100	96	**717**	**719**
Accounts and notes payable	(106)	(22)	(573)	**(701)**	**(649)**
Long-term debt	(156)	(11)	(276)	**(443)**	**(417)**
Gross exposure	**394**	**77**	**(456)**	**15**	**198**
Forward sales	(1,063)	(157)	(79)	**(1,299)**	**(1,573)**
Forward purchases	889	100	15	**1,004**	**1,133**
Net exposure	**220**	**20**	**(520)**	**(280)**	**(242)**

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.

At December 31, 2013, the breakdown by currency of the net exposure in the statement of financial position for a negative amount of 242 million euros is as follows:

- a positive amount of 116 million euros relating to the US dollar;
- a positive amount of 15 million euros relating to the yen;
- a negative amount of 373 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 1.21 US dollars, 145.23 yen, and 27.73 Czech koruna for 1 euro at December 31, 2014 (1.38 US dollars, 144.72 yen and 27.43 Czech koruna, respectively, at December 31, 2013).

An increase of 10% in the value of the euro against these currencies at December 31, 2014 and December 31, 2013 would have had the following pre-tax impacts:

	December 31, 2014		December 31, 2013	
(in millions of euros)	**Income Gain (loss)**	**Equity Gain (loss)**	Income Gain (loss)	Equity Gain (loss)
Exposure US dollar	(3)	(19)	(3)	(9)
Exposure yen	(1)	(1)	(2)	(1)
Exposure euro	(10)	(6)	(9)	(3)
TOTAL	**(14)**	**(26)**	**(14)**	**(13)**

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, 2014 would have the opposite effect to the one shown above.

8.3.1.2 Commodity risk

The Group's commodity risk management policy is described in 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, 2014 and December 31, 2013 break down as follows:

(in tons)	**December 31, 2014**	December 31, 2013
Aluminum	28,404	49,548
Secondary aluminum	11,745	10,500
Copper	8,787	7,537
Zinc	763	1,082
TOTAL	**49,699**	**68,667**

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized loss of 2 million euros related to existing hedges was recognized directly in other comprehensive income for 2014 in accordance with IAS 39.

An unrealized loss of 3 million euros recognized in other comprehensive income in 2013 and arising on commodity hedges purchased in first-half 2014 was reclassified in full to operating income in 2014.

Analysis of the sensitivity of net equity to metal price risk

The table below shows the pre-tax impact on equity and income of a 10% variation in metal futures prices at December 31, 2014 and 2013.

	December 31, 2014		December 31, 2013	
(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	-	9	-	10
Impact of a 10% fall in metal futures prices	-	(9)	-	(10)

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

8.3.1.3 Interest rate risk

The Group's interest rate risk management policy is described in section I.4.4.

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 changes in the value of its fixed-rate debt are designated as fair value hedges under IAS 39. These derivatives are remeasured 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. In 2014, changes in the fair value of this swap had a positive impact of 3 million euros on other comprehensive income.

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

2014

	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	51	334	490	370	724	-	1,265	704	**1,969**
Loans	-	-	-	(1)	-	-	-	(1)	**(1)**
Cash and cash equivalents	-	(1,497)	-	-	-	-	-	(1,497)	**(1,497)**
Net position before hedging	**51**	**(1,163)**	**490**	**369**	**724**	**-**	**1,265**	**(794)**	**471**
Derivative instruments	56	(56)	57	(57)	-	-	113	(113)	-
Net position after hedging	**107**	**(1,219)**	**547**	**312**	**724**	**-**	**1,378**	**(907)**	**471**

2013

	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	58	307	1,073	411	16	11	1,147	729	**1,876**
Loans	-	-	-	(1)	-	-	-	(1)	**(1)**
Cash and cash equivalents	-	(1,500)	-	-	-	-	-	(1,500)	**(1,500)**
Net position before hedging	**58**	**(1,193)**	**1,073**	**410**	**16**	**11**	**1,147**	**(772)**	**375**
Derivative instruments	56	(56)	113	(113)	-	-	169	(169)	-
Net position after hedging	**114**	**(1,249)**	**1,186**	**297**	**16**	**11**	**1,316**	**(941)**	**375**

Analysis of sensitivity to interest rate risk

At December 31, 2014, 72% of long-term debt is at fixed rates (71% at December 31, 2013).

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 pre-tax impact on income and other comprehensive income of a sudden 1% rise in the interest rates applied to variable-rate financial assets and liabilities, after hedging:

	December 31, 2014		December 31, 2013	
(in millions of euros)	**Income Gain (loss)**	**Equity Gain (loss)**	Income Gain (loss)	Equity Gain (loss)
Impact of a 1% rise in interest rates	12	3	9	5

Similarly, at December 31, 2014, a sudden 1% fall in interest rates would have the opposite impacts for the same amount.

8.3.1.4 Equity risk

The Group's equity risk management policy is described in the management report in section I.4.6.

Assets financing pension plans (plan assets) are detailed in Note 5.3.5.

The Group's cash and cash equivalents are set out in Note 8.1.3.2.

8.3.2 Liquidity risk

The Group's liquidity risk management policy is described in the management report in section I.4.1.

The Group looks to maintain very broad access to liquidity in order to meet its commitments and investment requirements. To do this, it borrows from banks and on capital markets, which exposes it to liquidity risk in the event that these markets partly or wholly dry up.

At December 31, 2014 and December 31, 2013, Valeo had 1.5 billion euros in cash and cash equivalents. Cash comprises bank deposits for 681 million euros and cash equivalents (mainly money market funds) for 816 million euros.

Other sources of liquidity were as follows:

- confirmed bank credit lines with an average maturity of 3.8 years, representing an aggregate amount of 1.2 billion euros. None of these credit lines had been drawn down at December 31, 2014. These bilateral credit lines were taken out with nine leading banks with an average rating of A+ from S&P and A1 from Moody's;
- a short-term commercial paper financing program for a maximum amount of 1.2 billion euros. However, given Valeo's debt rating, the regulations applicable to monetary funds currently restrict its access to this market;
- a Euro Medium Term Note financing program for a maximum of 2 billion euros, on which 1.1 billion euros had been drawn at December 31, 2014.

Covenants: the syndicated 250 million euro loan, along with the credit lines and the two EIB (European Investment Bank) loans are subject to a covenant stipulating that the Group's net-debt-to-EBITDA ratio must not exceed 3.25. At December 31, 2014, this ratio calculated over 12 months was 0.22 or 0.23 based on the definitions of the agreements.

The bonds 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 leading to a withdrawal of the rating or a downgrade in the rating to below investment grade (assuming that the bonds were previously rated investment grade). 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).

The 250 million euro syndicated loan also includes a clause allowing the lenders to demand repayment of the loan in the event of a change of control at Valeo. For the two EIB loans, the EIB may ask the borrower to put up security or collateral in the event of a change of control, or otherwise request early repayment of the loans.

The Group's bank credit lines and long-term debt include "cross default" clauses. This means that if a given amount of debt is deemed to be in default, then the other debt amounts may also be deemed to be in default.

At the date of issue of these consolidated financial statements, the Group expects to comply with all debt covenants.

The ratings of Standard & Poor's and Moody's confirm Valeo's investment grade status:

- on January 12, 2015, Standard & Poor's Rating Services confirmed its "BBB/A-2" long-term and short-term corporate credit ratings for Valeo with a stable outlook;
- on August 15, 2014, Moody's Rating Services confirmed its "Baa3/P3" long-term and short-term corporate credit ratings for Valeo with a positive outlook (upgraded from a stable outlook previously).

Residual contractual maturities of non-derivative financial instruments

The future cash flows presented below, comprising both interest payments and principal repayments, are not discounted. The forward interest rate curve at December 31, 2014 was used for variable-rate interest.

At December 31, 2014

(in millions of euros)	Carrying amount	Contractual cash flows						Total
		2015	2016	2017	2018	2019	2020 and beyond	
Bonds	1,030	44	44	190	310	23	814	**1,425**
EIB (European Investment Bank) loans	187	82	81	23	22	-	-	**209**
Syndicated loan	249	3	252	-	-	-	-	**255**
Other long-term debt	116	52	19	6	5	10	24	**116**
Accounts and notes payable	2,700	2,700	-	-	-	-	-	**2,700**
Short-term debt	257	257	-	-	-	-	-	**257**

Residual contractual maturities of derivative financial instruments

The European Central Bank (ECB) closing rates and forward rates at December 31, 2014 were used to value foreign currency derivatives. The London Metal Exchange (LME) forward rates at December 31, 2014 were used for commodity derivatives, while the forward interest rate curve at December 31, 2014 was used for interest rate swaps.

At December 31, 2014

(in millions of euros)	Carrying amount	Contractual cash flows						Total
		2015	2016	2017	2018	2019	2020 and beyond	
Forward foreign currency contracts used as hedges:								
• Assets	23	23	-	-	-	-	-	**23**
• Liabilities	(9)	(8)	-	(1)	-	-	-	**(9)**
Currency swaps used as hedges:								
• Assets	47	21	28	-	-	-	-	**49**
• Liabilities	(78)	(78)	-	-	-	-	-	**(78)**
Commodity derivatives:								
• Assets	2	2	-	-	-	-	-	**2**
• Liabilities	(4)	(4)	-	-	-	-	-	**(4)**
Interest rate swaps:								
• Assets	-	-	-	-	-	-	-	**-**
• Liabilities	(4)	(4)	(2)	-	-	-	-	**(6)**

8.3.3 Credit risk

The Group's credit risk management policy is described in the management report in sections I.4.5 and I.4.7.

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.

Customer credit risk

Valeo is exposed to credit risk and, more specifically, the risk of default by its customers. Valeo operates exclusively in the automotive industry and works with all automakers. Valeo continued to closely monitor credit risk notwithstanding the broadly upbeat economic climate (barring South America and India) in 2014.

Note 4.2 presents an analysis of the amount and age of accounts and notes receivable.

8.4 Off-balance sheet commitments relating to Group financing

Off-balance sheet commitments (covenants) relating to Group financing are detailed in Note 8.3.2 on liquidity risk.

Note 9 Income taxes

9.1 Income taxes

Income tax expense includes current income taxes and deferred taxes of consolidated companies.

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

9.1.1 Breakdown of income tax expense

(in millions of euros)	2014	2013 restated[1]
Current taxes	(171)	(163)
Deferred taxes	42	50
Income tax expense	**(129)**	**(113)**

(1) Income tax expense shown for 2013 differs from that presented in the 2013 consolidated financial statements published in February 2014 since it has been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

The Group recognized income tax expense of 129 million euros in 2014, corresponding to an effective tax rate of 19.2%.

This includes a positive impact of 52 million euros relating to the recognition of deferred tax assets in Mexico and a positive impact of 22 million euros arising on the partial recognition of deferred tax assets on the tax consolidation group in the United States.

No deferred tax assets had been recognized in the past few years in respect of Valeo's tax consolidation group in the United States. The earnings of this scope and the five-year profitability outlook according to the tax plan improved significantly as from 2013. In 2014, Valeo therefore recognized a deferred tax asset of 22 million euros on this tax consolidation (51 million euros recognized in 2013).

In Mexico, deferred tax assets were recognized in 2014 owing to the ongoing legal reorganization process.

These positive impacts on income tax expense were partly offset by the cancellation of 20 million euros in deferred taxes previously recognized in Brazil, due to the particularly tough economic climate in the country.

9.1.2 Tax proof

(in millions of euros)	2014	2013 restated[1]
Net income before income taxes excluding share in net earnings (losses) of associates	**671**	**555**
Standard tax rate in France[2]	(34.4%)	(34.4%)
Theoretical income tax expense	**(231)**	**(191)**
Impact of:		
• unrecognized deferred tax assets and unused tax losses (current year)	(87)	(23)
• recognition of previously unrecognized deferred tax assets	57	61
• other tax rates	52	41
• utilization of prior-year tax losses	90	4
• permanent differences between accounting income and taxable income	3	7
• tax credits	2	2
• *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE)	(15)	(14)
Group income tax expense	**(129)**	**(113)**

(1) The amounts shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).
(2) The temporary additional 10.7% levy applied in France 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.

In 2014, unrecognized deferred tax assets and tax losses for the period not utilized by the Group's main countries relate essentially to France for 26 million euros (20 million euros in 2013) and Brazil for 36 million euros (20 million euros on previously recognized deferred taxes and 16 million euros in respect of deferred taxes for the period).

Previously unrecognized deferred tax assets for 57 million euros essentially relate to deferred tax assets recognized in Mexico in 2014.

The positive 52 million euro impact relating to other tax rates is broken down by major country in the table below:

Country	Tax rate	2014	2013 restated[1]
China	*25.0%*	22	10
Poland	*19.0%*	13	12
South Korea	*24.2%*	12	8
Thailand	*20.0%*	5	7
Turkey	*20.0%*	5	5
Czech Republic	*19.0%*	5	4
Japan	*35.6%/38.0%*[2]	(5)	(1)
United States	*40.0%*	(8)	(1)
Other		3	(3)
TOTAL		**52**	**41**

(1) Data shown for 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).
(2) The tax rate in Japan takes into account the decrease in the rate applicable as from 2015.

Utilizations of prior-year tax losses for which no deferred tax assets had been recognized chiefly reflect the use of 63 million euros in tax losses on the US tax consolidation group, 15 million euros in Mexico, and 11 million euros in Japan.

At the end of 2009, Valeo considered that the *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE) tax on Company value added met the definition of income tax set out in IAS 12. Income tax in 2014 therefore includes a net expense of 15 million euros in respect of the CVAE tax (14 million euros in 2013).

9.2 Deferred taxes

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 carryforwards.

The main temporary differences relate to tax loss carryforwards, 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.

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 using the approach deemed most appropriate in light of the entity's legal and tax organization, tax history and projected taxable earnings outlook. These are assessed on the basis of a tax plan which uses assumptions consistent with those used in the medium-term business plans and budgets prepared by the Group's entities and approved by General 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).

Deferred taxes broken down by temporary differences are shown below:

(in millions of euros)	**December 31, 2014**	December 31, 2013 restated[(1)]
Loss carryforwards	1,035	1,045
Capitalized development expenditure	(177)	(154)
Pensions and other employee benefits	236	175
Other provisions	74	59
Inventories	42	39
Provisions for restructuring costs	12	10
Tooling	(1)	4
Non-current assets	46	40
Other	98	105
Total deferred taxes, gross	**1,365**	**1,323**
Unrecognized deferred tax assets	(1,043)	(1,111)
Total deferred taxes	**322**	**212**
o/w:		
• Deferred tax assets	359	238
• Deferred tax liabilities	(37)	(26)

(1) Deferred taxes shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

No net deferred tax assets were recognized on either tax loss carryforwards or temporary differences arising on the tax consolidation group in France, representing an amount of 525 million euros at December 31, 2014.

A total of 89 million euros in deferred tax assets was recognized in Mexico at December 31, 2014 (51 million euros at December 31, 2013), due to an improved economic outlook. Residual unrecognized net deferred tax assets in connection with this tax consolidation group total 341 million euros at December 31, 2014 (383 million euros at December 31, 2013).

A total of 66 million euros in deferred tax assets was recognized in Mexico at December 31, 2014 owing to the ongoing legal reorganization and Valeo's acquisition of a controlling interest in Valeo Sylvania Iluminacion.

In contrast, due to particularly tough economic conditions in Brazil, no deferred assets were recognized for this country at December 31, 2014. Net deferred tax assets recognized at December 31, 2013 totaled 20 million euros. Unrecognized net deferred tax assets represented 36 million euros at December 31, 2014.

At December 31, 2014, 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 2015 through 2019	49	11
Tax losses available for carryforward in 2020 and thereafter	1,034	400
Tax losses available for carryforward indefinitely	1,701	559
Current tax loss carryforwards	**2,784**	**970**
Unrecognized deferred tax assets on temporary differences		73
TOTAL		**1,043**

Note 10 Stockholders' equity and earnings per share

10.1 Stockholders' equity

10.1.1 Share capital

At December 31, 2014, Valeo's share capital totaled 238 million euros, divided into 79,462,540 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 carry double voting rights (5,149,785 shares at December 31, 2014).

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 shares 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 agreement. This liquidity agreement was executed with an investment services provider on April 22, 2004 pursuant to the Code of Ethics published by the French Association of Investment Firms (*Association Française des Entreprises d'Investissement* – AFEI). At December 31, 2014, 9,000 shares and 19,302,904 euros had been allocated to this liquidity agreement compared with 3,500 shares and 19,535,815 euros at December 31, 2013. On the date the liquidity agreement was signed, 220,000 Valeo shares and 6,600,000 euros were allocated for its implementation.

10.1.2 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.

10.1.3 Translation adjustment

Movements in the translation adjustment (attributable to the Group) in the year resulted in an unrealized gain of 127 million euros (unrealized loss of 165 million euros at December 31, 2013), mainly reflecting the increase in the value of the yuan (69 million euros) and to a lesser extent, the South Korean and Thai currencies (30 million euros and 19 million euros, respectively) in 2014.

10.1.4 Consolidated retained earnings

Consolidated retained earnings include attributable income for the year of 562 million euros prior to appropriation.

10.1.5 Dividend per share

The balance of the parent company's distributable retained earnings (prior to appropriation of 2014 net income) is 1,819 million euros in 2014 and 1,826 million euros in 2013.

A dividend of 1.70 euros per share was paid in 2014, representing a total payout of 132 million euros. The dividend paid in 2013 was 1.50 euros per share, representing a total payout of 115 million euros.

10.1.6 Stockholders' equity and share buyback program

At December 31, 2014, Valeo owns 1,695,322 of its own shares, representing 2.1% of share capital (1,819,722 shares, representing 2.3% of share capital at December 31, 2013).

Valeo requested the assistance of an investment services provider to meet certain objectives of its share buyback program as authorized by the Ordinary and Extraordinary Shareholders' Meeting of May 21, 2014. The share buyback program will be allocated in full to cover any stock purchase option plans, the allotment of shares to employees under profit-sharing plans, and the implementation of any company savings plans.

Upon expiry of the agreement signed on May 27, 2014, the parties agreed that the investment services provider would sell a certain quantity of Valeo shares to Valeo, who undertook to acquire them at term, within the limit of 75 million euros and 750,000 shares, at an average price determined in an objective and independent manner by the market during the full term of the agreement. This average price could not in any case exceed the maximum purchase price set by the Ordinary and Extraordinary Shareholders' Meeting of May 21, 2014.

This agreement was effective between May 28, 2014 and August 11, 2014. Valeo was entitled to terminate the agreement at any time, except during the restricted period beginning June 30, 2014. At this date, Valeo was therefore bound to purchase all of the treasury shares acquired by the investment services provider over the term of the agreement. A liability was recognized in the financial statements at June 30, 2014 in respect of this commitment, with a corresponding reduction in equity. This liability represented Valeo's best estimate of the cash to be disbursed on expiry of the agreement and amounted to 74 million euros.

The amount of this liability subsequently changed over the term of the program in line with the price of the Valeo share and the number of shares purchased, falling to 73 million euros. The difference attributable to share price fluctuations was recognized as financial income in the income statement for the second half of 2014.

10.1.7 Non-controlling interests

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

(in millions of euros)	2014	2013 restated[1]
Non-controlling interests at January 1	**147**	**138**
Equity in net earnings	31	29
Dividends paid	(10)	(14)
Capital increase	-	-
Translation adjustment	17	(7)
Actuarial gains (losses) on defined benefit plans	-	-
Changes in scope of consolidation	24	1
Non-controlling interests at December 31	**209**	**147**

(1) Non-controlling interests shown for December 31, 2013 differ from those presented in the 2013 consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).

Changes in the scope of consolidation in 2014 mainly resulted from the acquisition of controlling interests in Valeo Samsung Thermal Systems Co. Ltd and Nanjing Valeo Clutch Co. Ltd (see Notes 2.2.1.2 and 2.2.1.4). The percent interest held by Valeo in these two companies did not change as a result of these transactions.

Non-controlling interests can be analyzed as follows:

	% interest		Carrying amount of non-controlling interests *(in millions of euros)*	
	December 31, 2014	December 31, 2013 restated[1]	**December 31, 2014**	December 31, 2013 restated[1]
Valeo Pyeong Hwa Co. Ltd Valeo Pyeong Hwa International Co. Ltd	50.0	50.0	119	93
Ichikoh entities			26	19
Other			64	35
Non-controlling interests			**209**	**147**

10.2 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.

There is no dilutive impact.

	2014	2013
Net income attributable to owners of the Company *(in millions of euros)*	562	439
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	77,705	76,873
Basic earnings per share *(in euros)*	**7.23**	**5.71**

Note 11 Breakdown of cash flows

11.1 Expenses (income) with no cash effect

(in millions of euros)	2014	2013 restated[1]
Depreciation, amortization and impairment of non-current assets	642	542
Net additions to (reversals from) provisions	(15)	(44)
Losses (gains) on sales of non-current assets	(9)	13
Expenses related to share-based payment	14	9
Impairment of assets and liabilities held for sale	-	28
TOTAL	**632**	**548**

(1) *Income and expenses with no cash effect shown for 2013 differ from those presented in the consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).*

Impairment losses taken against assets and liabilities held for sale mainly related to the 28 million euro impairment loss recognized on the Access Mechanisms business in 2013 (see Note 2.2.2.1).

11.2 Changes in working capital

Changes in the main components of working capital in 2014 and 2013 are shown in the table below:

(in millions of euros)	2014	2013 restated[1]
Inventories	(56)	(106)
Accounts and notes receivable	(82)	(79)
Accounts and notes payable	186	345
Other receivables and payables	(8)	92
TOTAL	**40**	**252**

(1) *Changes in working capital shown for 2013 differ from those presented in the consolidated financial statements published in February 2014 since they have been adjusted to reflect the impacts of applying the new consolidation standards as from January 1, 2014 on a retrospective basis (see Notes 1.1.1 and 1.3).*

Accounts and notes receivable falling due after December 31, 2014 for which substantially all risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position are detailed in Note 4.2 (accounts receivable) and in Note 4.5.2 (French research and CICE tax credit receivables).

11.3 Acquisitions and sales of equity interests with gain or loss of control

Acquisitions of controlling interests in 2014 led to a net cash outflow of 104 million euros, 111 million euros of which relates to the acquisition of Osram GmbH's shares in Valeo Sylvania (see Note 2.2.1.1).

The main transaction affecting the scope of consolidation in 2013 was the sale of the Access Mechanisms business (see Note 2.2.2.1), generating a net inflow of 170 million euros.

11.4 Issuance and repayment of long-term debt

In 2014, issuance of long-term debt mainly related to the new 700 million euro bond issue on January 22, 2014. At the time of this bond issue, the Group redeemed and canceled 354 million euros worth of outstanding 2017 bonds and 226 million euros worth of outstanding 2018 bonds, The 581 million euros redeemed are included in "Repayments of long-term debt". This line also includes the repayment of a 52 million euro annual installment on the EIB loans in August 2014. The amount of premiums and expenses paid as part of the bond redemption/exchange transaction represents 91 million euros and is recorded on a specific line in the consolidated statement of cash flows (see Note 8.1.2.1).

In 2013, repayments of long-term debt chiefly related to the redemption of the 311 million euro bond issue on June 24, 2013 and the partial repayment of the EIB loans in an amount of 56 million euros on August 5, 2013 (see Note 8.1.2.1).

Note 12 Subsequent events

To Valeo's knowledge, no events have occurred since December 31, 2014 that could have a material impact on the Group's business, financial position or assets and liabilities.

Note 13 List of consolidated companies

	December 31, 2014		December 31, 2013	
Company	% voting rights	% interest	% voting rights	% interest
EUROPE				
France				
Valeo (parent company)				
DAV	100	100	100	100
Équipement 1	100	100	100	100
Équipement 11	100	100	100	100
Équipement 2	100	100	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 Équipements Électriques Moteur	100	100	100	100
Valeo Comfort and Driving Assistance (formerly Valeo Étude Électroniques)	100	100	100	100
Valeo Finance	100	100	100	100
Valeo Compresseurs[3]	-	-	100	100
Valeo Management Services	100	100	100	100
Valeo Matériaux de Friction	100	100	100	100
Valeo Plastic Omnium SNC[1]	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[3]	-	-	100	100
Valeo Climatización, SA	100	100	100	100
Valeo España, SA	100	100	100	100
Valeo Iberica SA [3]	-	-	100	100
Valeo Iluminación, SA	100	100	100	100
Valeo Plastic Omnium SL [1] [3]	-	-	50	50
Valeo Service España, SA	100	100	100	100
Valeo Sistemas Electricos, SL [3]	-	-	100	100
Valeo Termico, SA	100	100	100	100

(1) Companies accounted for by the equity method.
(2) See Note 2.2.1.1.
(3) Mergers and liquidations.
(4) See Note 2.2.1.2.
(5) See Note 2.2.1.3.
(6) See Note 2.2.1.4.

Company	December 31, 2014 % voting rights	December 31, 2014 % interest	December 31, 2013 % voting rights	December 31, 2013 % interest
Portugal				
Cablagens Do Ave[3]	-	-	100	100
Italy				
Valeo Service Italia, SpA	99.9	99.9	99.9	99.9
Valeo, SpA	100	100	100	100
Germany				
Valeo Auto-Electric GmbH	100	100	100	100
Valeo GmbH	100	100	100	100
Valeo Klimasysteme GmbH	100	100	100	100
Valeo Schalter und Sensoren GmbH	100	100	100	100
Valeo Service Deutschland GmbH	100	100	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	100	100	100	100
Ireland				
Connaught Electronics Limited	100	100	100	100
Hi-Key Limited	100	100	100	100
Valeo Ichikoh Holding Ireland Limited	85.0	89.7	85.0	89.7
Belgium				
Valeo Service Belgique	100	100	100	100
Valeo Vision Belgique	100	100	100	100
Luxembourg				
Coreval	100	100	100	100
Norway				
Valeo Powertrain Energy Conversion AS	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
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

(1) Companies accounted for by the equity method.
(2) See Note 2.2.1.1.
(3) Mergers and liquidations.
(4) See Note 2.2.1.2.
(5) See Note 2.2.1.3.
(6) See Note 2.2.1.4.

Company	December 31, 2014		December 31, 2013	
	% voting rights	% interest	% voting rights	% interest
Hungary				
Valeo Auto-Electric Hungary LLC	100	100	100	100
Romania				
Valeo Lighting Injection SA	100	100	100	100
Valeo Sisteme Termice SRL	100	100	100	100
Russia				
Valeo Climate Control Tomilino LLC	100	100	100	100
Valeo Service Limited Liability Company	100	100	100	100
Turkey				
Valeo Otomotiv Sistemleri Endustrisi AS	100	100	100	100
AFRICA				
Tunisia				
DAV Tunisie	100	100	100	100
Valeo Embrayages Tunisie SA	100	100	100	100
Valeo Tunisie SA	100	100	100	100
Morocco				
Cablinal Maroc, SA	100	100	100	100
Valeo Vision Maroc SA	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 North America, Inc	100	100	100	100
Valeo Investment Holdings, Inc.(3)	-	-	100	100
Valeo Radar Systems, Inc.	100	100	100	100
Valeo Sylvania, LLC(2) (3)	-	-	50	50
Detroit Thermal Systems LLC(1)	49	49	49	49
Detroit Thermal Systems Leverage Lender LLC(1)	49	49	49	49
Canada				
Valeo Canada	100	100	-	-
Mexico				
Delmex de Juarez S de RL 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(3)	-	-	100	100
Valeo Sistemas Automotrices de Mexico SA de CV	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) (3)	-	-	50	50
Valeo Sylvania Services, S de RL de CV(2)	100	100	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

(1) Companies accounted for by the equity method.
(2) See Note 2.2.1.1.
(3) Mergers and liquidations.
(4) See Note 2.2.1.2.
(5) See Note 2.2.1.3.
(6) See Note 2.2.1.4.

Company	December 31, 2014		December 31, 2013	
	% voting rights	% interest	% voting rights	% interest
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 Automotive (Thailand) Co. Ltd (formerly Valeo Compressor (Thailand) Co. Ltd)	100	98.5	100	98.5
Valeo Compressor Clutch (Thailand) Co. Ltd	100	99.4	100	99.4
Valeo Siam Thermal Systems Co. Ltd	74.9	74.9	74.9	74.9
Valeo Thermal Systems Sales (Thailand) Co. Ltd	74.9	74.9	74.9	74.9
Valeo Niles (Thailand) Co. Ltd (formerly Niles (Thailand) Co. Ltd)	100	100	100	100
South Korea				
Valeo Automotive Korea	100	100	100	100
Valeo Electrical Systems Korea, Ltd	100	100	100	100
Valeo Pyeong HWA Co. Ltd	50	50	50	50
Valeo Pyeong HWA International Co. Ltd	50	50	50	50
Valeo Samsung Thermal Systems Co., Ltd(4)	50	50	50	50
Valeo Pyeong HWA Metals Co. Ltd(1)	49	49	49	49
Indonesia				
PT Valeo AC Indonesia	100	100	100	100
Taiwan				
Niles CTE Electronic Co. Ltd	51	51	51	51
Japan				
Ichikoh Industries Limited(1)	31.6	31.6	31.6	31.6
Valeo Japan Co. Ltd	100	100	100	100
Valeo Unisia Transmissions KK	66	66	66	66
Nitto Manufacturing Co. Ltd	87.2	87.2	87.2	87.2
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	85	89.7	85	89.7
Guangzhou Valeo Engine Cooling Co. Ltd	100	100	100	100
Huada Automotive Air Conditioner Co. Ltd(1)	45	45	45	45
Valeo Ichikoh (China) Autolighting Company Ltd	85	89.7	85	89.7
Nanjing Valeo Clutch Co. Ltd(6)	75	55	75	55
Shanghai Valeo Automotive Electrical Systems Company Ltd(1)	50	50	50	50
Shenyang Valeo Pyeong-Hwa Transmission Systems Co. Ltd	50	50	50	50
Tianjin Valeo Xinyue Auto Parts Co. Ltd	60	60	60	60
Taizhou Valeo-Wenling Automotive Systems Co. Ltd	100	100	100	100
Valeo Auto Parts Trading (Shanghai) Co. Ltd	100	100	100	100

(1) Companies accounted for by the equity method.
(2) See Note 2.2.1.1.
(3) Mergers and liquidations.
(4) See Note 2.2.1.2.
(5) See Note 2.2.1.3.
(6) See Note 2.2.1.4.

Company	December 31, 2014		December 31, 2013	
	% voting rights	% interest	% voting rights	% interest
China				
Valeo Automotive Air Conditioning Hubei Co. Ltd	100	100	100	100
Valeo Automotive Components and System 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	85	89.7	85	89.7
Valeo Management (Beijing) Co. Ltd	100	100	100	100
Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd	55	55	55	55
Valeo Management (Shanghai) Co. Ltd	100	100	100	100
Fuzhou Niles Electronic Co. Ltd	51	51	51	51
Valeo Niles Electronics Co. Ltd (Guangzhou) (formerly Guangzhou Niles Electronics Co. Ltd)	100	100	100	100
Guangzhou Niles Trading Co. Ltd	100	100	100	100
Valeo Friction Materials (Nanjing) Co. Ltd(6)	50	50	-	-
Shenyang Valeo Auto Lighting Co. Ltd	85	89.7	85	89.7
Wuhu Valeo Automotive Lighting Systems	85	89.7	80	71.8
India				
Amalgamations Valeo Clutch Private Ltd(1)	50	50	50	50
Minda Valeo Security Systems Private Ltd(5)	-	-	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 Service India Auto Parts Private Ltd	60	60	60	60

(1) Companies accounted for by the equity method.
(2) See Note 2.2.1.1.
(3) Mergers and liquidations.
(4) See Note 2.2.1.2.
(5) See Note 2.2.1.3.
(6) See Note 2.2.1.4.

7 Statutory Auditors' report on the consolidated financial statements

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.

Year ended December 31, 2014

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, 2014, 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, 2014 and of the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to notes 1.3.1.2, 1.3.2 and 1.3.3 to the consolidated financial statements which outline:

- the effects related to the first application of IFRS 11 – "Joint Arrangements";
- the change in the presentation of the consolidated statement of income.

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:

- Note 5.3 to the consolidated financial statements specifies the methods of valuing provisions for pensions and other employee benefits. Our work consisted in reviewing the actuarial data and assumptions used as well as the calculations made and verifying that the aforementioned note provide appropriate information.
- Note 6.4 to the consolidated financial statements sets out the methods implemented by your company to test goodwill, to assess whether there is any indication of impairment of the fixed assets and, where applicable, to 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.
- Note 7.1 to the consolidated financial statements describes the methods of 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.
- Note 9.2 to the consolidated financial statements specifies the methods of recognizing and valuing deferred tax assets. Our work consisted in assessing the hypotheses underlying the probability of future recovery of such assets and verifying that the notes to the consolidated financial statements provide appropriate information.

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 24, 2015
The statutory auditors (*French original signed by*)

MAZARS		ERNST & YOUNG et Autres	
Gaël Lamant	Lionel Gotlib	Philippe Berteaux	Gilles Puissochet