2009 Consolidated financial statements

(audited)

Contents

A. Consolidated statements of income **2**
B. Consolidated statements of comprehensive income **3**
C. Consolidated statements of financial position **4**
D. Consolidated statements of cash flows **5**
E. Consolidated statement of changes in stockholders' equity **6**
F. Notes to the consolidated financial statements **7**
1. Accounting policies 7
2. Changes in the scope of consolidation 17
3. Notes to the statement of income 18
4. Notes to the statements of financial position 23
5. Segment reporting 40
6. Additional disclosures 43
7. Restatement of prior year financial information 54
8. List of consolidated companies 55

A. Consolidated statements of income

(In millions of euros)	Notes	2009	2008
Continuing operations			
NET SALES	*3.1*	**7,499**	**8,677**
Cost of sales	*3.2*	(6,361)	(7,350)
GROSS MARGIN		**1,138**	**1,327**
% of net sales		15.2%	15.3%
Research and development expenditure, net	*3.4*	(473)	(501)
Selling expenses		(156)	(177)
Administrative expenses		(376)	(419)
OPERATING MARGIN		**133**	**230**
% of net sales		1.8%	2.7%
Other income and expenses	*3.5*	(49)	(282)
OPERATING INCOME (LOSS)		**84**	**(52)**
Interest expense	*3.6*	(69)	(68)
Interest income	*3.6*	9	23
Other financial income and expenses	*3.7*	(57)	(59)
Equity in net earnings (losses) of associates	*4.4*	(34)	9
INCOME (LOSS) BEFORE INCOME TAXES		**(67)**	**(147)**
Income taxes	*3.8*	(79)	(51)
INCOME (LOSS) FROM CONTINUING OPERATIONS		**(146)**	**(198)**
Discontinued operations			
Income (loss) from discontinued operations, net of tax	*3.9.3*	**-**	(1)
NET INCOME (LOSS) FOR THE YEAR		**(146)**	**(199)**
Attributable to:			
• Owners of the Company		(153)	(207)
• Minority interests		7	8
Earnings (loss) per share:			
• Basic earnings (loss) per share (in euros)	*3.9.1*	(2.04)	(2.73)
• Diluted earnings (loss) per share (in euros)	*3.9.2*	(2.04)	(2.73)
Earnings (loss) per share from continuing operations:			
• Basic earnings (loss) per share (in euros)		(2.04)	(2.73)
• Diluted earnings (loss) per share (in euros)		(2.04)	(2.73)

(1) The presentation of the statement of income for 2008 is different from that published in February 2009 (see Note 3.1).

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

B. Consolidated statements of comprehensive income

(In millions of euros)	2009	2008
Net income (loss) for the year	**(146)**	**(199)**
Translation adjustment	48	(28)
o/w income taxes	-	-
Actuarial gains (losses) on defined benefit plans	(13)	(60)
o/w income taxes	*3*	*(4)*
Cash flow hedges:		
• gains (losses) taken to equity	12	(13)
• (gains) losses transferred to income (loss) for the period	8	9
o/w income taxes	*(2)*	-
Remeasurement of available-for-sale financial assets	4	-
o/w income taxes	-	-
Other comprehensive income (loss) for the year, net of tax	**59**	**(92)**
Total comprehensive income (loss) for the year	**(87)**	**(291)**
Attributable to:		
• Owners of the Company	(93)	(303)
• Minority interests	6	12

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

C. Consolidated statements of financial position

(In millions of euros)	Notes	Dec. 31, 2009	Dec. 31, 2008
ASSETS			
Goodwill	*4.1*	1,146	1,154
Other intangible assets	*4.2*	535	525
Property, plant and equipment	*4.3*	1,665	1,739
Investments in associates	*4.4*	94	133
Non-current financial assets		74	24
Deferred tax assets	*4.5*	117	103
Non-current assets		**3,631**	**3,678**
Inventories	*4.6*	482	543
Accounts and notes receivable	*4.7*	1,251	1,168
Other current assets		232	248
Taxes recoverable		15	30
Other current financial assets		13	15
Assets held for sale		1	5
Cash and cash equivalents	*4.10.4*	860	661
Current assets		**2,854**	**2,670**
TOTAL ASSETS		**6,485**	**6,348**

(In millions of euros)	Notes	Dec. 31, 2009	Dec. 31, 2008
LIABILITIES AND EQUITY			
Share capital	*4.8.1*	235	235
Additional paid-in capital	*4.8.2*	1,402	1,402
Retained earnings	*4.8.4*	(404)	(326)
Stockholders' equity		**1,233**	**1,311**
Minority interests	*4.8.7*	51	51
Stockholders' equity including minority interests		**1,284**	**1,362**
Provisions - long-term portion [1]	*4.9*	749	765
Debt - long-term portion	*4.10.2*	1,526	1,299
Subsidies and grants - long-term portion [1]		25	7
Deferred tax liabilities	*4.5*	25	16
Non-current liabilities		**2,325**	**2,087**
Accounts and notes payable		1,648	1,454
Provisions - current portion	*4.9*	364	462
Subsidies and grants - current portion		13	5
Taxes payable		18	50
Other current liabilities		715	698
Current portion of long-term debt	*4.10.2*	40	26
Other current financial liabilities		5	38
Short-term debt	*4.10.3*	73	166
Current liabilities		**2,876**	**2,899**
TOTAL LIABILITIES AND EQUITY		**6,485**	**6,348**

[1] The presentation of the statements of financial position at December 31, 2008 is different from those published in February 2009. Subsidies were presented within provisions for a non-material amount. Both subsidies and provisions are now presented separately.

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

D. Consolidated statements of cash flows

(In millions of euros)	*Notes*	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) for the year		(146)	(199)
Equity in net earnings (losses) of associates		34	(9)
Net dividends received from associates		2	3
Expenses (income) with no cash effect	*4.11.1*	445	732
Cost of net debt		60	45
Income taxes (current and deferred)		79	51
Gross operating cash flows		**474**	**623**
Income taxes paid		(89)	(71)
Changes in working capital	*4.11.2*	214	179
Net cash provided by operating activities		**599**	**731**
CASH FLOWS FROM INVESTING ACTIVITIES			
Outflows relating to acquisitions of intangible assets		(150)	(160)
Outflows relating to acquisitions of property, plant and equipment		(304)	(468)
Inflows relating to disposals of property, plant and equipment		10	15
Net change in non-current financial assets		(43)	(10)
Impact of changes in scope of consolidation	*4.11.3*	(10)	52
Net cash from (used in) investing activities		**(497)**	**(571)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		-	(92)
Dividends paid to minority interests in consolidated subsisdiaries		(7)	(7)
Dividend equalization tax [1]		-	27
Issuance of share capital		1	3
Sale (purchase) of treasury stock		8	(39)
Issuance of long-term debt		228	8
Interest paid		(52)	(51)
Interest received		4	17
Repayments of long-term debt		(6)	(9)
Net cash from (used in) financing activities		**176**	**(143)**
Effect of exchange rate changes on cash		**14**	**(33)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**292**	**(16)**
Net cash and cash equivalents at beginning of period		**495**	**511**
Net cash and cash equivalents at end of period		**787**	**495**
O/w: • Cash and cash equivalents		860	661
• Short-term debt		(73)	(166)

[1] Corresponding to the refund by the State of the dividend equalization tax (*précompte mobilier*) paid by Valeo in 2000, further to the December 2007 administrative court ruling.

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

E. Consolidated statement of changes in stockholders' equity

Number of shares	(In millions of euros)	Share capital	Additional paid-in capital	Translation adjustment	Retained earnings	Stockholders' equity	Minority interests	Stockholders' equity including minority interests
76,776,813	**Stockholders' equity at January 1, 2008**	**235**	**1,402**	**57**	**44**	**1,738**	**44**	**1,782**
	Dividends	-	-	-	(92)	(92)	(7)	(99)
(1,709,695)	Treasury stock	-	-	-	(39)	(39)	-	(39)
	Capital increase	-	-	-	-	-	3	3
	Share-based payment	-	-	-	8	8	-	8
	Other movements	-	-	-	(1)	(1)	(1)	(2)
	Transactions with owners	**-**	**-**	**-**	**(124)**	**(124)**	**(5)**	**(129)**
	Net income (loss) for the year	-	-	-	(207)	(207)	8	(199)
	Other comprehensive income (loss), net of tax:							
	Translation adjustment	-	-	(32)	-	(32)	4	(28)
	Actuarial gains and losses	-	-	-	(60)	(60)	-	(60)
	Gain (loss) on cash flow hedges recognized in equity	-	-	-	(13)	(13)	-	(13)
	(Gain) loss on cash flow hedges taken to income (loss) for the year	-	-	-	9	9	-	9
	Remeasurement of available-for-sale financial assets	-	-	-	-	-	-	-
	Total other comprehensive income (loss)	-	-	(32)	(64)	(96)	4	(92)
	Total comprehensive income (loss)	**-**	**-**	**(32)**	**(271)**	**(303)**	**12**	**(291)**
75,067,118	**Stockholders' equity at December 31, 2008**	**235**	**1,402**	**25**	**(351)**	**1,311**	**51**	**1,362**
75,067,118	**Stockholders' equity at January 1, 2009**	**235**	**1,402**	**25**	**(351)**	**1,311**	**51**	**1,362**
	Dividends	-	-	-	-	-	(7)	(7)
490,380	Treasury stock	-	-	-	8	8	-	8
	Capital increase	-	-	-	-	-	1	1
	Share-based payment	-	-	-	7	7	-	7
	Other movements	-	-	-	-	-	-	-
	Transactions with owners	**-**	**-**	**-**	**15**	**15**	**(6)**	**9**
	Net income (loss) for the year	-	-	-	(153)	(153)	7	(146)
	Other comprehensive income (loss), net of tax:							
	Translation adjustment	-	-	49	-	49	(1)	48
	Actuarial gains and losses	-	-	-	(13)	(13)	-	(13)
	Gain (loss) on cash flow hedges recognized in equity	-	-	-	12	12	-	12
	(Gain) loss on cash flow hedges taken to income (loss) for the year	-	-	-	8	8	-	8
	Remeasurement of available-for-sale financial assets	-	-	-	4	4	-	4
	Total other comprehensive income (loss)	-	-	49	11	60	(1)	59
	Total comprehensive income (loss)	**-**	**-**	**49**	**(142)**	**(93)**	**6**	(87)
75,557,498	**Stockholders' equity at December 31, 2009**	**235**	**1,402**	**74**	**(478)**	**1,233**	**51**	**1,284**

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

F. Notes to the consolidated financial statements

1. Accounting policies

The consolidated financial statements of the Valeo Group for the year ended December 31, 2009 include the accounts of Valeo, its subsidiaries, and the Group's share of associates and jointly controlled entities.

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

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

Valeo's consolidated accounts were authorized for issue by the Board of Directors on February 24, 2010.

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

1.1. Accounting standards applied

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and endorsed by the European Union. The IFRS as adopted by the European Union can be consulted on the European Commission website[1].

1.1.1. Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2009

- **IAS 1 (revised) – "Presentation of Financial Statements"**

The consolidated financial statements are presented in accordance with the revised IAS 1. The impact of this revised standard on the presentation of the Group's financial statements is limited, since the main change introduced requires entities to present a statement of comprehensive income separately from equity. Most of these items were already reported by the Group in a "Statement of recognized income and expenses", and are now shown in the aforementioned statement of comprehensive income below the consolidated statements of income.

- **IFRS 8 – "Operating Segments"**

This standard, which replaces IAS 14, requires entities to present segment information on the basis of internal reports that are regularly reviewed by the entity's management in order to allocate resources to the segment and assess its performance. In accordance with IFRS 8, the Group has defined four operating segments (compared to one previously) for which it presents the key financial indicators used by management to monitor performance (see Note 5). The application of IFRS 8 has no impact on the Group's income or financial position.

- **IAS 23 (revised) – "Borrowing Costs"**

The revised IAS 23 requires entities to recognize borrowing costs as part of the carrying amount of the qualifying assets to which they relate. The application of this standard did not have a material impact on the Group's financial statements at December 31, 2009, as very few items were identified as "qualifying assets" and their value was not material.

- **IFRIC 14 – IAS 19: "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"**

This interpretation has a non-material impact on Group equity, resulting from the remeasurement of pension obligations in Japan to reflect local legislation and the characteristics of the pension plans in terms of minimum funding requirements.

- **Amendments to IFRS 7 – "Financial Instruments: Disclosures"**

These amendments introduce enhanced disclosures about fair value measurement for financial instruments and about liquidity risk. Their impact on the Group's financial information is limited, leading only to additional disclosures in Note 6.1.

- **Other amendments effective for reporting periods beginning on or after January 1, 2009 or resulting from the annual improvements to IFRS published in May 2008, do not have a material impact on the Group's financial statements.**

1.1.2. Standards, amendments and interpretations published by the International Accounting Standards Board (IASB) but not effective for reporting periods beginning on or after January 1, 2009 and not early adopted by the Group

- **IFRS 3 (revised) – "Business Combinations" and IAS 27 (revised) – "Consolidated and Separate Financial Statements"**

These two revised standards, effective for reporting periods beginning on or after July 1, 2009, will be adopted prospectively. They will mainly impact the accounting treatment for acquisitions as from January 1, 2010.

- **Amendments resulting from the annual improvements to IFRS published in April 2009**

As the Group's organization may change in 2010, Valeo is currently analyzing the impact on its financial statements of the amendment to IAS 36 regarding the methods for allocating goodwill to cash-generating units (CGUs) in line with the operating segments defined by IFRS 8. This amendment will be applicable on a prospective basis for reporting periods beginning on or after January 1, 2010.

Other standards, amendments and interpretations published by IASB are not yet effective and are not expected to have a material impact on the Group's financial statements.

1.1.3 Overview of IFRS 1 transition options

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

- business combinations carried out prior to January 1, 2004 (IFRS 3);
- pensions and other employee benefits (IAS 19). as a result, the balance of actuarial gains and losses previously recognized under French GAAP was reset to zero as of January 1, 2004;
- the translation of financial statements of foreign operations (IAS 21), leading to the elimination of cumulative translation adjustments as of January 1, 2004;
- equity instruments, with the exception of those granted after November 7, 2002 that had not yet been fully vested at January 1, 2005 (IFRS 2).

1.2. Basis of preparation

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

They have been prepared in accordance with the principal assumptions of IFRS:

- true and fair view;
- going concern;
- accrual basis of accounting;
- consistency of presentation;
- materiality and aggregation.

Preparation of the financial statements requires Valeo to make estimates and assumptions which could have an impact on the reported amounts of assets, liabilities, income and expenses. These estimates and assumptions concern both risks specific to the automotive supply business such as those relating to quality and safety (see section 3.I.2.1 of the management report in Chapter 3), as well as more general risks to which the Group is exposed on account of its industrial operations across the globe. The international climate has been severely affected by the economic crisis which has hit the automotive industry particularly hard, and in 2009 worldwide automotive production slumped by 12%.

Despite a significant improvement in certain indicators since the second quarter of 2009, the economic environment remains tough.

To counter this situation, Valeo pressed ahead with the cost cutting plans it had launched at the end of 2008. It has also tightened its rein on cash (see Note 6.2.2) and is closely monitoring the financial position of its customers and suppliers. These measures are reinforced by an ongoing analysis of the market risks to which the Group is exposed. Disclosures concerning market risk are provided in Note 6.2.1.

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

Key estimates and assumptions adopted by the Group to prepare its financial statements for the year ended December 31, 2009 chiefly concern:

- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 3.5.3);
- the amount of provisions (see Note 4.9);
- the measurement of deferred tax assets (see Note 4.5).

At the end of the reporting period, the Group expects to be able to respect its financial commitments over the coming 12 months (see section 6.2.2 on liquidity risk).

1.3. Consolidation methods

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

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

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

Companies over which Valeo exercises significant influence (associates) are accounted for by the equity method. Valeo is presumed to exercise significant influence over companies in which it owns more than 20% of the voting rights. The equity method consists of replacing the book value of the investments by the Group's equity in the associate's underlying net assets, including goodwill.

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

1.4. Foreign currency translation

Each Group company maintains its accounting records in its functional currency. A company's functional currency is the currency of the principal economic environment in which it operates, and is generally the local currency.

Transactions carried out in a currency other than the company's functional currency are translated using the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the year-end exchange rate. Non-monetary assets and liabilities denominated in foreign currency are recognized at the historical exchange rate prevailing at the transaction date. Differences arising from the translation of foreign currency transactions are recognized in income, with the exception of differences relating to loans and borrowings which are in substance an integral part of the net investment in a foreign subsidiary.

These are recorded under translation reserves in other comprehensive income, within consolidated stockholders' equity, for their net-of-tax amount until the net investment is disposed of, at which time they are recognized in income.

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

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

1.5. Net sales

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

1.6. Gross margin, operating margin and operating income

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

Operating margin is equal to the gross margin less net research and development expenditure and selling and administrative expenses. Net research and development expenditure is equal to the costs incurred during the period, including amortization charged against capitalized development costs, less contributions received from customers in respect of development costs, sales of prototypes, research tax credits and the portion of research and development subsidies granted to the Group and taken to income.

Contributions received from customers are taken to income over the period during which the corresponding products are sold, within a maximum period of four years.

Subsidies and grants received are recognized in income in line with the stage of completion of the projects to which they relate.

Operating income includes all income and expenses other than:

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

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

1.7. Financial income and expenses

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

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

Other financial income and expenses notably include:

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

1.8. Current and deferred taxes

Income tax expense includes current income taxes and deferred taxes of consolidated companies. Deferred taxes are accounted for using the liability method for all temporary differences between the tax base and the carrying amount of assets and liabilities in the consolidated financial statements and for all tax loss carry forwards. The main temporary differences relate to provisions for pensions and other employee benefits and to other temporarily non-deductible provisions. 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 necessary, lead the Group to no longer recognize deferred tax assets that it had recognized in prior years.

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

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

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

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

1.9. Earnings per share

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

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

1.10. Business combinations

All identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at their fair value at the date of transfer of control to the Group (acquisition date), independently of the recognition of any non-controlling interests.

The cost of a business combination is equal to the acquisition price, plus any costs directly attributable to the acquisition. Any excess of the acquisition cost over the fair value of the net assets acquired and liabilities and contingent liabilities recognized, is recorded in assets as goodwill. Goodwill is not amortized but is tested for impairment at least once a year.

Adjustments to the fair value of assets and liabilities acquired or assumed within the scope of business combinations and accounted for on a provisional basis (i.e., pending expert appraisals or complementary analyses) are recognized as a retrospective adjustment to goodwill if they occur within 12 months of the acquisition date. Adjustments made after this initial 12-month-period are taken directly to income unless they correct an accounting error.

1.11. Intangible assets

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

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

Development expenditure is capitalized where the Group can demonstrate:

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

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

They are subsequently amortized over a maximum period of four years as from the start of volume production.

Other intangible assets are carried at cost less any amortization and impairment losses recognized. They are amortized on a straight-line basis over their expected useful lives:

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

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

1.12. Property, plant and equipment

Property, plant and equipment are carried at cost less any depreciation and impairment losses recognized. Material revaluations, recorded in accordance with laws and regulations applicable in countries in which the Group operates have been eliminated in order to ensure that consistent valuation methods are used for all fixed assets in the Group.

Tooling specific to a given project is subjected to an economic analysis of contractual relations with the automaker in order to determine which party has control over the associated future risks and rewards. Tooling is capitalized in the statements of financial position when Valeo has control over these risks and rewards, or carried in inventories (until it is sold) if no such control exists. A provision is made for any resulting loss on the tooling contract (corresponding to the difference between the automaker's contribution and the cost of the tooling) as soon as the amount of the loss is known.

When a lease entered into by the Group as lessee transfer substantially all the risks and rewards related to ownership of an asset to the Group by the end of the lease term, the corresponding asset is recognized in property, plant and equipment in the Group's statements of financial position at an amount equal to the lower of its fair value and the present value of future minimum lease payments. This amount is subject to depreciation and, if necessary, impairment. The corresponding obligation is recorded in debt under liabilities.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets concerned:

- buildings — 20 years
- fixtures and fittings — 8 years
- machinery and tooling — 4 to 8 years
- other fixed assets — 3 to 8 years

Land is not depreciated.

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

1.13. Impairment of assets

At the end of each reporting period, the Group assesses whether there is an indication that an asset (other than a financial asset), a cash-generating unit (CGU – as defined by IAS 36), or a group of CGUs may be impaired.

CGUs are management units generating independent cash flows. In the Group's current organizational structure, they generally correspond to production sites or groups of production sites.

Intangible assets with indefinite useful lives and intangible assets which are not yet ready to be brought into service are systematically tested for impairment at least once a year. If the asset's carrying value is greater than its recoverable amount, it is written down to its recoverable amount.

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

The discount rate used is the rate that reflects both the current assessment of the time value of money and risks specific to the asset (or group of assets).

Impairment losses taken against CGU assets are allocated first to reduce the carrying amount of the goodwill related to the CGU if any, and then to the other CGU assets in proportion to their carrying amounts.

Goodwill within the Group are mainly tested at the level of product families, which comprise the main groups of CGUs to which goodwill have been allocated. Impairment losses recognized on goodwill balances are never reversed. For other assets, when an indicator shows that the asset may no longer be impaired, the amount of the impairment loss to be reversed is based on the revised recoverable value of the asset but cannot exceed the carrying amount of the asset that would have been determined had no impairment loss been recognized.

1.14. Financial assets and liabilities

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

1.14.1. Available-for-sale financial assets

This category includes shares in non-consolidated companies.

Available-for-sale financial assets are recognized at fair value upon initial recognition, with any subsequent changes in fair value recognized through other comprehensive income or income for the period in the event of a significant, prolonged decline in fair value.

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

1.14.2. Long-term loans and receivables

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

1.14.3. Other non-current financial assets

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

1.14.4. Current financial assets and liabilities

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

- **Cash and cash equivalents**

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

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

- **Trade receivables and payables**

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

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

- **Derivative financial instruments**

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

When hedge accounting is applied:

- for fair value hedges of recognized assets and liabilities, the hedged portion of these items is stated at fair value. So change in fair value is recognized through income and is offset (for the effective portion) by symmetrical changes in the fair value of the hedging instrument;
- for cash flow hedges, the effective portion of the change in fair value of the derivatives is recognized directly in other comprehensive income, while the ineffective portion is taken to other financial income and expenses;
- for hedges of net investments in foreign subsidiaries, the change in fair value of the hedging instrument is recognized in other comprehensive income (for the effective portion) until the disposal of the net investment.

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

- **Foreign currency derivatives**

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

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

- **Metals derivatives**

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

- **Interest rate derivatives**

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

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

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

1.14.5. Debt

- **Bonds and other loans**

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

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

- **OCEANE bonds**

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

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

- **Short-term debt**

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

1.15. Inventories

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

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

1.16. Share-based payment

Employee stock option and free share plans lead to the recognition of a personnel expense. This expense corresponds to the fair value of the instrument issued, and is recognized over the applicable vesting period. Fair value is estimated on the basis of valuation models adapted to the characteristics of the instruments (Black-Scholes-Merton model for options, etc.).

1.17. Pensions and other employee benefits

Pensions and other employee 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.

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;
- defined benefit plans, under which the employer guarantees a future level of benefits.

The provision for pensions and other employee benefits (including long-term benefits) is equal to the present value of Valeo's future benefit obligation less, where appropriate, the fair value of plan assets in funds allocated to finance such benefits and any adjustments made in respect of unrecognized past service cost. The provision for long-term benefits is equal to the present value of the benefit obligations.

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

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 in full in income in the period in which they were incurred.

However, actuarial gains and losses on post-employment benefits are taken directly to other comprehensive income in the year in which they arise.

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

1.18. Provisions

A provision is recognized when the Group has a legal or constructive obligation resulting from a past event, where it is probable that future outflows of resources embodying economic benefits will be necessary to settle the obligation, and where the obligation can be estimated reliably. 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 announcing its main features.

A provision for warranties is set aside to cover the estimated cost of returns of goods sold. The corresponding expense is recognized in cost of sales.

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

1.19. Subsidies and grants

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

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

1.20. Assets held for sale and discontinued operations

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

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

1.21. Segment reporting

In accordance with IFRS 8 – "Operating Segments", effective as from January 1, 2009, the Group's segment information is presented in Note 5 on the basis of internal reports that are regularly reviewed by the Group's executive management in order to allocate resources to the segments and assess their performance. Executive management represents the chief operating decision maker within the meaning of IFRS 8.

Four reportable segments (or Business Groups) have been defined, reflecting Valeo's new organization into Business Groups. The segments are issued from the aggregation of several product families, based on internal reports used by the Group's management.

The Group's four segments are:

- Comfort and Driving assistance Systems, comprising the Interior Controls and Security Systems product families. These focus on the interface between the driver and his/her environment, and contribute to enhanced comfort and safety.
- Powertrain Systems, comprising the Engine and Electrical Systems and Transmissions product families. These play an instrumental role in reducing energy consumption and CO_2 emissions.
- Thermal Systems, comprising the Climate Control, Compressors and Engine Cooling product families. These contribute to cabin comfort and the reduction of energy consumption.
- Visibility Systems, comprising Lighting Systems and Wiper Systems product families. These contribute to safety by improving visibility for the vehicle and the driver.

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

The "Other" segment refers to holding companies, disposed businesses and eliminations between the four operating segments defined above.

The key performance indicators for each operating segment set out in Note 5.1 are as follows:

- net sales;
- EBITDA, which represents operating income (loss) before depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses recorded in the operating margin (see Note 1.6);
- net research and development expenditure;
- investments in property, plant and equipment and intangible assets;
- segment assets, which include property, plant and equipment and intangible assets (including goodwill), inventories, accounts and notes receivable and other miscellaneous receivables.

2. Changes in the scope of consolidation

2.1. Transactions carried out in 2009

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

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

2.2. Transactions carried out in 2008

2.2.1. Acquisition of a controlling interest in Valeo Radar Systems, Inc.

On December 15, 2008, Valeo acquired the entire capital stock of Valeo Radar Systems, Inc. (formerly Valeo Raytheon Systems Inc.). This entity, which was previously 77.8%-owned by the Group and proportionately consolidated in line with the characteristics of the joint venture agreement, has now been fully consolidated. The acquisition of this controlling interest led to the recognition of 6 million euros in goodwill and resulted in a royalties agreement being set up in favor of the seller.

2.2.2. Incorporation of Valeo Climate Control Tomilino LLC in Russia

On June 18, 2008, Valeo signed an agreement to create a Russian-based entity 95%-held by Valeo and 5%-owned by the Russian firm Itelma. The new entity was named Valeo Climate Control Tomilino LLC, and produces heating, ventilation and air conditioning systems. The full consolidation of this entity did not have a material impact on the Group's financial statements for the year ended December 31, 2008. This company only began deliveries to the Russian market in 2009.

2.2.3. Sale of the heavy duty truck Engine Cooling business

On May 30, 2008, Valeo sold its heavy duty truck Engine Cooling business to Swedish firm EQT for 77 million euros. This transaction gave rise to a post-tax capital gain of 25 million euros in 2008, recorded under "Other income and expenses". The heavy duty truck Engine Cooling unit contributed 76 million euros to consolidated net sales for the first five months of 2008 (172 million euros for the year ended December 31, 2007).

2.2.4. Sale of Valeo Armco Engine Cooling Co

On December 20, 2008, Valeo sold its interests in the Iranian joint venture Valeo Armco Engine Cooling Co to the Armco group. The sale did not have a material impact on the 2008 financial statements.

3. Notes to the statement of income

3.1. Net sales

Group net sales fell 13.6% to 7,499 million euros in 2009 compared with 8,677 million euros in 2008, due primarily to the slump in worldwide automotive production. The decrease includes a negative impact of 0.8% resulting from changes in the scope of consolidation and a positive foreign currency impact of 0.9%.

On a comparable Group structure and exchange rate basis, consolidated net sales for 2009 fell 13.7% year-on-year.

The presentation of the statement of income for the year ended December 31, 2008 is different from that of the income statement published in February 2009. Other operating revenues totaling 151 million euros and consisting mainly of contributions received from customers in respect of development costs have been reclassified as a deduction from research and development expenditure in an amount of 138 million euros. The 13 million euro balance relating to external services or royalties received has been included in net sales, lifting the gross margin to 15.3% from 15.2%.

3.2. Cost of sales

Cost of sales can be analyzed as follows:

(In millions of euros)	2009	2008
Raw materials consumed	(4,115)	(4,815)
Labor	(1,125)	(1,310)
Direct production costs and production overheads	(764)	(846)
Depreciation and amortization [1]	(365)	(387)
Other	8	8
Cost of sales	**(6,361)**	**(7,350)**

[1] This amount does not include amortization charged against capitalized development costs, which is recognized in net research and development expenditure.

3.3. Personnel expenses

	2009	2008
Total employees at December 31 [(1)]	52,110	51,140

(1) Including temporary staff.

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

(In millions of euros)	2009	2008
Wages and salaries [(1)]	1,451	1,651
Social charges	358	367
Share-based payment	7	8
Pension expenses under defined contribution schemes	79	88

(1) Including temporary staff.

Pension expenses under defined benefit schemes are set out in Note 4.9.2.

3.4. Research and development expenditure, net

(In millions of euros)	2009	2008
Research and development expenditure	(655)	(687)
Contributions received and subsidies	182	186
Research and development expenditure, net	**(473)**	**(501)**

3.5. Other income and expenses

(In millions of euros)	2009	2008
Claims and litigation	(19)	1
Restructuring costs	(4)	(239)
Impairment of fixed assets	(23)	(58)
Other	(3)	14
Other income and expenses	**(49)**	**(282)**

3.5.1. Claims and litigation

The amount of 19 million euros recognized on the “Claims and litigation” line for the year ended December 31, 2009 mainly includes additions to provisions for disputes with current or former employees.

3.5.2. Restructuring costs

In 2008, the Group unveiled its plan to cut around 5,000 jobs worldwide. A total of 225 million euros in restructuring costs were recognized in 2008 in connection with this plan. Negotiations regarding the redundancy plan were finalized in 2009. Severance payments will continue to be paid in 2010.

3.5.3. Impairment of non-current assets

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

Impairment losses on property, plant and equipment and intangible assets result mainly from impairment tests carried out at the level of Cash-Generating Units (CGUs) for which the Group considered there were indications of impairment. The main impairment indicators used by the Group consist of an estimated negative operating margin for the year to December 31, or an estimated fall of more than 20% in sales between the second half of 2009 and the second half of 2008. The scope of the CGUs to be tested for impairment is defined in October and may be adjusted at the end of the period if events occur that could have an adverse impact on the assets concerned. The tests are carried out in November and December in accordance with the following methodology:

- The value in use of CGUs is calculated using post-tax cash flow projections covering a period of five years, prepared on the basis of the budgets and medium-term plans drawn up by Group divisions. The projections are based on past experience, macroeconomic data for the automotive market, order books and products under development. In 2009, worldwide automotive production fell 12% on the previous year. A steep fall in the early part of the year was offset by a significant improvement in certain indicators during the second half of 2009. The Group drew up its business plans for the period 2010-2014 amid this still-challenging and uncertain economic environment, using the following assumptions:
    - a 2010 budget that factors in a slight rise in sales volumes compared with 2009;
    - medium-term plans which forecast a return to 2007 volumes at the end of 2012, and in 2014 forecast volumes identical to those of 2013.
- Cash flows beyond the five-year period are extrapolated using a growth rate of 1%. This rate is the same as that used in 2008, and is below the average long-term growth rate for the Group's business sector.
- Cash flows are discounted based on a post-tax weighted average cost of capital (WACC) of 8.5% at December 31, 2009, unchanged from end-December 2008. The use of a post-tax rate results in recoverable amounts that are similar to those obtained by applying pre-tax rates to pre-tax cash flows. An independent expert was consulted in determining the method to be used to compute WACC. The method introduced in 2007 is based on a sample selection of 20 automotive suppliers.

Year ended December 31, 2009

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

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

Year ended December 31, 2008

The Group recorded net write-downs of 58 million euros as a result of impairment tests, concerning mainly:

- property, plant and equipment and intangible assets (excluding goodwill) relating to a CGU within the Compressors product family based in the Czech Republic (20 million euros);
- impairment losses recognized against assets of three CGUs based in the Americas relating to the Wiper Systems, Climate Control and Interior Controls product families (20 million euros);
- impairment losses recognized against assets belonging to a Wiper System CGU with plants based in France and Spain (10 million euros).

■ Sensitivity of CGU impairment tests to the discount rate

Year ended December 31, 2009

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

Year ended December 31, 2008

An increase of 1% in the discount rate would have resulted in an additional impairment loss of 10 million euros being recognized against the Group's intangible assets and property, plant and equipment. A 1% decrease in the discount rate would have led to a reversal of 14 million euros in impairment recognized against non-current assets. These calculations were based on an average euro/dollar exchange rate of 1.5.

- **Goodwill**

Goodwill is allocated to Cash-Generating Units (CGUs) on the basis of the product family to which it relates. Goodwill is tested for impairment at least once a year in December, using the same method and assumptions as those used for the CGUs described above. No impairment losses were recognized against goodwill for the year ended December 31, 2009 as a result of these impairment tests.

However, an impairment loss of 7 million euros was recorded against an Engine and Electrical Systems CGU to reflect the market value of this entity, which the Group plans to divest.

At December 31, 2008, these tests had not given rise to any goodwill impairment.

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

A 1% increase in the discount rate would have no impact on the results of goodwill impairment tests in the years ended December 31, 2009 or December 31, 2008.

Postponing the end of the crisis by one year would not lead to the recognition of an impairment loss against goodwill.

3.5.4. Other

In 2008, this item mainly includes capital gains totaling 25 million euros on the disposal of the heavy duty truck Engine Cooling business.

3.6. Cost of net debt

(In millions of euros)	**2009**	**2008**
Interest expense	(69)	(68)
Interest income	9	23
Cost of net debt	**(60)**	**(45)**

The cost of net debt increased during the year, owing to the rise in the borrowing rate from 4.9% in 2008 to 6.0% in 2009. The higher borrowing rate reflects a sharp rise in the cost of credit lines and cash reinvested at much lower market rates than in 2008. The borrowing rate is calculated by dividing interest expenses by average net debt.

3.7. Other financial income and expenses

(In millions of euros)	**2009**	**2008**
Interest expense on unwinding of discount on pension obligations (1)	(48)	(49)
Expected return on pension plan assets (1)	16	21
Currency gains (losses) on cash flow hedges	-	-
Currency gains (losses) on other transactions	(12)	(6)
Gains (losses) on commodity transactions (trading and ineffective portion)	(5)	(17)
Gains (losses) on fair value hedges (interest rate)	-	-
Additions to provisions for credit risk	(3)	(5)
Gains (losses) on disposals of financial assets	-	-
Unwinding of discount on provisions (excluding pension obligations)	(4)	(1)
Miscellaneous	(1)	(2)
Other financial income and expenses	**(57)**	**(59)**

(1) See Note 4.9.2.

The sudden large-volume cutbacks by customers at the end of 2008 and beginning of 2009 led to losses on commodity hedges totaling 17 million euros in 2008 and 5 million euros in 2009. Since hedged volumes were no longer in step with the Group revised commodity requirements, certain hedges were unwound on the market for a lower price than the price at which they had been bought.

3.8. Income taxes

3.8.1. Income tax expense

(In millions of euros)	2009	2008
Current taxes	(75)	(73)
Deferred taxes	(4)	22
Income taxes	**(79)**	**(51)**

3.8.2. Effective tax rate

The Group recognized income tax expense of 79 million euros in 2009, while reporting a pre-tax loss.

(In millions d'euros)	2009	2008
Net income (loss) before income taxes excluding equity in net earnings (losses) of associates	**(33)**	**(156)**
Standard tax rate in France	(34.4)	(34.4)
Theoretical income taxes	**11**	**54**
Impact of:		
• unrecognized deferred tax assets and unused tax losses (current year)	(110)	(112)
• income taxed at other rates	22	(3)
• utilization of prior-year tax losses	9	1
• permanent differences between book income and taxable income	(6)	2
• tax credits	4	7
• others impact [1]	(9)	-
Group income taxes	**(79)**	**(51)**

[1] Deferred taxes in respect of the new CVAE tax for which a provision was recognized through income in 2009

No deferred tax assets are recognized in countries where it is probable that they will not be able to be charged against future taxable income (mainly France and the US).

3.9. Earnings per share

3.9.1. Basic earnings per share

	2009	2008
Net income (loss) attributable to owners of the Company *(in millions of euros)*	(153)	(207)
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	75,312	75,922
Basic earnings (loss) per share *(in euros)*	**(2.04)**	**(2.73)**

3.9.2. Diluted earnings per share

	2009	2008
Net income (loss) attributable to owners of the Company *(in millions of euros)*	(153)	(207)
Weighted average number of shares outstanding *(in thousands of shares)*	75,312	75,922
Stock options *(in thousands of options)*	-	-
Weighted average number of shares used for the calculation of diluted earnings (loss) per share *(in thousands of shares)*	75,312	75,922
Diluted earnings (loss) per share *(in euros)*	**(2.04)**	**(2.73)**

3.9.3. Income (loss) from discontinued operations

Discontinued operations did not have a material impact on consolidated income in either 2009 or 2008.

4. Notes to the statements of financial position

4.1. Goodwill

(In millions of euros)	2009	2008
Net goodwill at January 1	**1,154**	**1,165**
Acquisitions during the year [(1)]	1	6
Price adjustments in respect of acquisitions made in previous years	-	(1)
Disposals, net	-	(31)
Translation adjustment	(2)	15
Impairment losses	(7)	-
Net goodwill at December 31	**1,146**	**1,154**
Including accumulated impairment losses at December 31	(7)	-

(1) See Note 2.1.1.

Impairment losses recognized in 2009 relate to the plan to dispose of an Engine and Electrical Systems CGU whose carrying amount was seven million euros more than its estimated market value at December 31, 2009.

In the year ended December 31, 2008, changes in goodwill chiefly reflect:

- the sale of the heavy duty truck Engine Cooling business (see Note 2.2.3);
- the acquisition of a controlling interest in Valeo Radar Systems Inc. (see Note 2.2.1).

The main goodwill balances are broken down by group of CGUs as follows:

(In millions of euros)	2009	2008
Wiper Systems	210	214
Climate Control	231	238
Interior Controls	175	176
Engine Management Systems	-	181
Security Systems	130	125
Engine and Electrical Systems	260	80
Other	140	140
Total	**1,146**	**1,154**

The Engine Management Systems and Electrical Systems product families were combined in 2009 to form the Engine and Electrical Systems product family.

4.2. Other intangible assets

(In millions of euros)	2009 Gross carrying amount	2009 Amortization and impairment losses	2009 Net carrying amount	2008 Net carrying amount
Software	177	(156)	21	28
Patents and licenses	63	(39)	24	28
Capitalized development expenditure	865	(505)	360	321
Customer relationship intangibles	141	(28)	113	121
Other	41	(24)	17	27
Other intangible assets	**1,287**	**(752)**	**535**	**525**

Customer relationship intangibles were valued within the context of acquisitions mostly carried out in 2005. Similarly, patents and licenses include assets relating to technology intangibles acquired.

Changes in intangible assets in 2009 and 2008 are analyzed below:

2009

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

2008

(In millions of euros)	Software	Patents and licenses	Capitalized development expenditure	Other intangible assets	Total
Gross at January 1, 2008	**146**	**80**	**636**	**179**	**1,041**
Accumulated amortization and impairment	(111)	(59)	(334)	(23)	(527)
Net at January 1, 2008	**35**	**21**	**302**	**156**	**514**
Acquisitions	5	1	147	7	160
Disposals	-	-	-	(1)	(1)
Changes in scope of consolidation	-	-	(4)	-	(4)
Impairment	-	-	(18)	(5)	(23)
Amortization	(16)	(6)	(95)	(10)	(127)
Translation adjustment	-	-	(1)	10	9
Reclassifications	4	12	(10)	(9)	(3)
Net at December 31, 2008	**28**	**28**	**321**	**148**	**525**

4.3. Property, plant and equipment

(In millions of euros)	2009			2008
	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	151	(14)	137	136
Buildings	1,001	(611)	390	366
Plant and equipment	3,471	(2,760)	711	740
Specific tooling	1,298	(1,145)	153	157
Other	415	(352)	63	73
Fixed assets in progress	214	(3)	211	267
Total	**6,550**	**(4,885)**	**1,665**	**1,739**

No material amounts of property, plant and equipment had been pledged as security at December 31, 2009.

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

Lease commitments

(In millions of euros)	2009	2008
Land	-	-
Buildings	-	1
Plant and equipment	5	3
Specific tooling	-	-
Other	2	3
Fixed assets in progress	-	-
Total	**7**	**7**

Changes in property, plant and equipment in 2009 and 2008 are analyzed below:

2009

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

In accordance with IFRS 5, buildings for which the Group is actively seeking buyers are classified in “Assets held for sale”.

2008

(In millions of euros)	Land	Buildings	Plant and	Specific tooling	Other	Fixed assets in progress	Total
Gross at January 1, 2008	**149**	**939**	**3,259**	**1,211**	**452**	**215**	**6,225**
Accumulated depreciation and impairment	(13)	(549)	(2,459)	(1,062)	(352)	-	(4,435)
Net at January 1, 2008	**136**	**390**	**800**	**149**	**100**	**215**	**1,790**
Acquisitions	-	19	157	67	27	208	478
Disposals	(3)	(2)	(5)	(5)	(2)	(1)	(18)
Changes in scope of consolidation	(1)	(4)	(15)	(4)	(3)	(2)	(29)
Impairment	(3)	(2)	(27)	(1)	(3)	-	(36)
Depreciation	(1)	(46)	(260)	(89)	(39)	-	(435)
Translation adjustment	8	(9)	(12)	1	(1)	(1)	(14)
Reclassifications	-	20	102	39	(6)	(152)	3
Net at December 31, 2008	**136**	**366**	**740**	**157**	**73**	**267**	**1,739**

4.4. Investments in associates

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

(In millions of euros)	2009	2008
Investments in associates at January 1	**133**	**103**
Share in net earnings (losses) of associates	(34)	9
Dividend payments	(3)	(3)
Impact of changes in scope of consolidation	-	-
Translation adjustment [(1)]	(6)	25
Other	4	(1)
Investments in associates at December 31	**94**	**133**

(1) In 2008, translation adjustments were due mainly to the impact of the appreciation in the yen on interests in Ichikoh.

Losses of associates totaling 34 million euros in 2009 mainly concern Ichikoh, which reported operating losses, costs related to restructuring measures which were completed at the end of 2009 and asset write-downs.

	Ownership interest (%)		Carrying amount (In millions of euros)	
	2009	**2008**	**2009**	**2008**
Ichikoh	31.6	31.6	63	100
Faw Valeo Climate Control	36.5	36.5	25	26
Other	-	-	6	7
Investments in associates	**-**	**-**	**94**	**133**

Ichikoh industries Ltd. is listed on the Tokyo Stock Exchange. The market value of Valeo's interest in Ichikoh is 33 million euros at December 31, 2009 (30 million euros at December 31, 2008). The carrying amount of the investment is justified by its value in use for Valeo.

The governance agreement signed in May 2008 and confirmed in 2009 reinforces Valeo's influence in the executive and operational management of the Ichikoh group, but does not give it control over the group.

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

(In millions of euros)	2009	2008
Total assets	618	841
Total liabilities	495	546
Net sales	731	876
Net income (loss) for the year	(109)	27

4.5. Deferred taxes

Deferred taxes broken down by temporary differences are shown below:

(In millions of euros)		2009	2008
Loss carryforwards		846	718
Capitalized development expenditure		(93)	(99)
Pensions and other employee benefits		147	148
Other provisions		87	65
Inventories		25	24
Provisions for reorganization costs		38	88
Tooling		1	1
Non-current assets		(14)	(3)
Other		80	32
Deferred taxes, gross		**1,117**	**974**
Unrecognized deferred tax assets		(1,025)	(887)
Deferred taxes		**92**	**87**
O/w:	• Deferred tax assets	117	103
	• Deferred tax liabilities	(25)	(16)

At December 31, 2009, 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 through 2010 to 2013	138	33
Tax losses available for carryforward in 2014 and thereafter	996	367
Tax losses available for carryforward indefinitely	1207	415
Current tax loss carryforwards	**2,341**	**815**
Unrecognized deferred tax assets on temporary differences	-	210
Total unrecognized deferred tax assets	**-**	**1,025**

4.6. Inventories

At December 31, 2009, inventories break down as follows:

(In millions of euros)	2009			2008
	Gross carrying amount	Impairment	Net carrying amount	Net carrying amount
Raw materials	206	(44)	162	181
Work-in-progress	56	(7)	49	50
Finished goods, supplies and specific tooling	325	(54)	271	312
Inventories, net	**587**	**(105)**	**482**	**543**

Impairment losses taken against inventories amounted to 105 million euros at December 31, 2009 (101 million euros at December 31, 2008), including an allowance (net of reversals) of 14 million euros during the year.

Allowances to provisions for impairment of inventories net of reversals in 2008 amounted to 8 million euros.

4.7. Accounts and notes receivable

(In millions of euros)	2009	2008
Accounts and notes receivable, gross	1,277	1,200
Impairment	(26)	(32)
Accounts and notes receivable, net	**1,251**	**1,168**

At December 31, 2009, gross trade receivables not yet due and less than one month past due amounted to 1,208 million euros and 39 million euros, respectively, and represent 98 % of total gross trade receivables (see Note 6.2.2.).

4.8. Stockholders' equity

4.8.1. Share capital

At December 31, 2009, Valeo's share capital, totaled 235 million euros, comprising 78,209,617 shares of fully paid-up common stock with a par value of 3 euros (see Note 4.8.6). Shares that have been registered in the name of the same holder for at least four years carry double voting rights (2,333,908 shares at December 31, 2009).

Valeo's share capital would rise to 270 million euros (89,913,379 shares) in the event of:

- the exercise of stock subscription options granted to Valeo Group employees;
- the conversion of bonds issued as part of the OCEANE program into new shares (see Note 4.10.2).

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 in particular to prevent net debt from exceeding 100% of stockholders' equity for any prolonged period of time.

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

- **The following employee stock subscription, stock purchase and free share plans approved by the Annual General Meeting were outstanding at December 31, 2009:**

Terms and conditions of stock subscription option plans

Year in which plan was set up	Number of shares subject to options	Exercise price of options (in euros) (1)	Number of shares outstanding at December 31, 2009 (2)	Expiration date
2002	420,000	43,84	173,922	2010
2002	600,000	28,30	101,969	2010
2003	700,000	23,51	218,002	2011
2003	780,000	32,91	394,983	2011
2004	1,123,200	28.46	709,447	2012
Total	**3,623,200**		**1,598,323**	

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

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

Terms and conditions of stock purchase option plans

Year in which plan was set up	Number of shares subject to options	Exercise price of options (in euros) (1)	Number of shares outstanding at December 31, 2009 (2)	Expiration date
2003	500,000	32.91	253,342	2011
2004	280,800	32.74	178,388	2012
2005	650,000	32.32	422,750	2013
2006	187,000	33.75	187,000	2014
2006	1,309,250	32.63	928,500	2014
2007	250,000	36.97	250,000	2015
2007	1,677,000	36.82	1,270,750	2015
2008	426,750	31.41	366,000	2016
Total	**5,280,800**		**3,856,730**	

(1) Exercise price equal to 100% of the average Valeo share price over the 20 trading days preceding the meeting of the Board of Directors or Management Board, or 100% of the average purchase price of treasury stock held if higher than the quoted price for Valeo shares.

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

Terms and conditions of free share awards

Year in which plan was set up	Number of free shares granted	Number of shares not yet issued at December 31, 2009	Year of vesting
2007	100,000	79,000	2010
Total	**100,000**	**79,000**	

- **Movements in these plans can be analyzed as follows:**

2009

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

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

2008

	Number of options and free shares	Weighted average exercise price
Options not exercised at January 1, 2008	**7,526,508**	**33.13**
Options granted/Free shares to be issued	426,750	31.41
Options cancelled	(1,068,719)	38.36
Options expired	-	-
Options exercised	(250,075)	-
Options not exercised/Free shares not issued at December 31	**6,634,464**	**33.43**
Options which can be exercised at December 31, 2008	**3,851,714**	**33.67**

- **The principal data and assumptions underlying the valuation of equity instruments at fair value are provided below for 2008 only, since no new plan was awarded in 2009:**

Stock option	**2008**
Share price at grant date (euros)	22.6
Expected volatility (%)	39.7
Risk-free rate (%)	4.0
Dividend rate (%)	3.9
Duration of the option (years)	8.0
Fair value of equity instruments (euros)	**4.0**

Expected volatility is determined as being the implicit volatility at the grant date. The maturity of four years used for stock option and stock subscription plans corresponds to the period during which the availability of options is restricted by tax legislation, and is considered to represent the life of the option.

An expense of 7 million euros was booked in 2009 in respect of stock options plans and free share awards (8 million euros in 2008).

4.8.2. Additional paid-in capital

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

4.8.3. Translation adjustment

At December 31, 2009, this caption primarily includes gains and losses arising from the translation of the net assets of Valeo's Brazilian and Asian subsidiaries.

4.8.4. Retained earnings

Retained earnings include the (153) million loss for the year prior to allocation.

4.8.5. Dividends per share

The balance of the parent company's distributable retained earnings amounts to 1,514 million euros in 2009, before allocation of the 2009 net loss. Distributable retained earnings amounted to 1,544 million euros in 2008.

No dividends were paid in 2009.

Dividends paid in 2008 totaled 92 million euros, representing 1.20 euro per share.

4.8.6. Treasury stock

At December 31, 2009, Valeo owns 2,652,119 of its own shares, representing 3.39% of share capital (December 31, 2008: 3,142,499 shares, representing 4.02% of share capital).

4.8.7. Minority interests

Changes in minority interests can be analyzed as follows:

(In millions of euros)	**2009**	**2008**
Minority interests at January 1	**51**	**44**
Equity in net earnings	7	8
Dividends paid	(7)	(7)
Capital increase	1	3
Translation adjustment	(1)	4
Changes in scope of consolidation	-	(1)
Minority interests at December 31	**51**	**51**

4.9. Provisions

Changes in provisions can be analyzed as follows:

(In millions of euros)	Provisions for reorganization costs	Provisions for pensions and other employee benefits	Other provisions	Total
Provisions at January 1, 2008	**127**	**608**	**358**	**1,093**
Amounts used during the year	(50)	(65)	(60)	**(175)**
Impact of changes in scope of consolidation	-	(12)	(5)	**(17)**
Translation adjustment	4	2	-	**6**
Reclassification	(1)	(9)	5	**(5)**
Additions	240	30	73	**343**
Unwinding of discount	1	28	-	**29**
Reversals	(7)	(27)	(69)	**(103)**
Actuarial gains and losses recognized through equity	-	56	-	**56**
Provisions at December 31, 2008	**314**	**611**	**302**	**1,227**
Amounts used during the year	(151)	(61)	(68)	**(280)**
Impact of changes in scope of consolidation	-	-	-	**-**
Translation adjustment	(2)	(3)	4	**(1)**
Reclassification	-	2	4	**6**
Additions	31	22	126	**179**
Unwinding of discount	3	32	-	**35**
Reversals	(31)	(9)	(29)	**(69)**
Actuarial gains and losses recognized through equity	-	16	-	**16**
Provisions at December 31, 2009	**164**	**610**	**339**	**1,113**
Of which current portion (less than 1 year)	**122**	**51**	**191**	**364**

4.9.1. Provisions for reorganization costs

Provisions for reorganization costs and other employee-related expenses amount to 164 million at December 31, 2009 and 314 million euros at December 31, 2008. The sharp decrease in this caption over the period reflects the significant expenses incurred in connection with the announced plan to cut 5,000 jobs worldwide, for which a provision had been set aside in full at the end of 2008.

4.9.2. Provisions for pensions and other employee benefits

- **Description of the plans in force within the Group**

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

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

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

- **Actuarial assumptions**

The actuarial assumptions used by the Group to calculate its obligations relating to pensions and other employee benefits take into account the specific demographic and financial conditions of each Group company and each country in which the Group operates.

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.

To calculate discount rates for the year ended December 31, 2009, 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:

		2009	2008
Benchmark	(%)	Basis	Basis
iBoxx Euro-Corporate AA 10-year+	Euro zone	5.3	6.0
iBoxx £-Corporate AA 15-year+	United Kingdom	5.7	6.5
Citigroup Pension Discount Curve	United States	5.7	6.1
10-year government bonds	Japan	2.0	2.0
10-year government bonds	South Korea	5.3	4.0

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

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

(%)	2009	2008
United States	8.0	8.0
United Kingdom	6.7	6.3
Japan	2.7	2.7

The weighted average long-term salary inflation rate was 3.5% at December 31, 2009, unchanged from December 31, 2008.

The rate of increase for medical costs in the United States used to value the Group's obligations at December 31, 2009 was 9.9% up to the end of 2010, gradually reducing to 5% over the following 22 years. This assumption is largely similar to that used in 2008.

Breakdown of obligations

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

(In millions of euros)	France	Other European countries	North America	Other countries	Total
Present value of unfunded obligations	110	203	103	44	460
Present value of funded obligations	18	43	274	48	383
Market value of plan assets	(1)	(29)	(157)	(38)	(225)
Deficit	**127**	**217**	**220**	**54**	**618**
Unrecognized past service cost	(7)	-	-	-	(7)
Provisions recognized at December 31, 2008	**120**	**217**	**220**	**54**	**611**

■ **Movements in provisions**

(In millions of euros)	France	Other European countries	North America	Other countries	Total
Provisions at January 1, 2008	**159**	**251**	**155**	**43**	**608**
Actuarial gains and losses recognized through equity	(6)	(26)	74	14	56
Amounts used during the year	(27)	(14)	(16)	(8)	(65)
Impact of changes in scope of consolidation	-	(8)	(4)	-	(12)
Reclassification	(9)	-	-	-	(9)
Translation adjustment	-	(4)	10	(4)	2
Expenses (income) for the year:	**3**	**18**	**1**	**9**	**31**
• *Service cost*	*(9)*	*6*	*(3)*	*9*	*3*
• *Interest cost*	*9*	*15*	*22*	*3*	*49*
• *Past service cost*	*3*	-	-	-	*3*
• *Expected return on plan assets*	-	*(3)*	*(17)*	*(1)*	*(21)*
• *Other*	-	-	*(1)*	*(2)*	*(3)*
Provisions at December 31, 2008	**120**	**217**	**220**	**54**	**611**
Actuarial gains and losses recognized through equity	11	29	(24)	-	16
Amounts used during the year	(12)	(15)	(24)	(10)	(61)
Impact of changes in scope of consolidation	-	-	-	-	-
Reclassification	2	-	-	-	2
Translation adjustment	-	1	(6)	2	(3)
Expenses (income) for the year:	**12**	**16**	**9**	**8**	**45**
• *Service cost*	*4*	*3*	*1*	*7*	*15*
• *Interest cost*	*8*	*15*	*22*	*3*	*48*
• *Past service cost*	*(1)*	-	-	-	*(1)*
• *Expected return on plan assets*	-	*(2)*	*(13)*	*(1)*	*(16)*
• *Other*	*1*	-	*(1)*	*(1)*	*(1)*
Provisions at December 31, 2009	**133**	**248**	**175**	**54**	**610**
Of which current portion (less than 1 year)	11	10	27	3	51

Expenses booked in respect of pensions and other employee benefit obligations totaled 45 million euros in 2009 versus 31 million euros in 2008.

In 2008, this caption had been reduced by a write-back of 16 million euros regarding pension obligations in France following the announcement of the workforce adjustment plan as employee benefit obligations relating to the redundancies announced had already been included in provisions for reorganization costs.

■ **Movements in obligations**

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

(In millions of euros)	France	Other European countries	North America	Other	Total
Benefit obligations at January 1, 2008	**190**	**295**	**366**	**82**	**933**
Service cost	(9)	6	(3)	9	3
Interest cost	10	14	22	3	49
Benefits paid	(30)	(14)	(19)	(11)	(74)
Actuarial gains and losses	(8)	(34)	(4)	7	(39)
Impact of changes in scope of consolidation	-	(8)	(4)	-	(12)
Reclassification [1]	(9)	-	-	-	(9)
Other	(16)	-	-	-	(16)
Translation adjustments	-	(13)	19	2	8
Benefit obligations at December 31, 2008	**128**	**246**	**377**	**92**	**843**

- **Movements in plan assets**

(In millions of euros)	France	Other European countries	North America	Other	Total
Plan assets at January 1, 2008	**6**	**44**	**211**	**39**	**300**
Expected return on plan assets	-	2	18	1	21
Contributions paid to external funds	2	2	10	3	17
Benefits paid	(5)	(2)	(12)	(6)	(25)
Actuarial gains and losses	(2)	(9)	(78)	(6)	(95)
Translation adjustments	-	(8)	8	7	7
Plan assets at December 31, 2008	**1**	**29**	**157**	**38**	**225**
Expected return on plan assets	-	2	13	1	16
Contributions paid to external funds	2	3	16	4	25
Benefits paid	(1)	(2)	(13)	(9)	(25)
Actuarial gains and losses	-	3	31	1	35
Translation adjustments	-	2	(7)	(2)	(7)
Plan assets at December 31, 2009	**2**	**37**	**197**	**33**	**269**

After the collapse in equity markets in 2008, the fair value of plan assets increased in 2009 in line with the uptrend in equity prices. This explains the 35 million euros in experience adjustments arising on plan assets, corresponding to the difference between actual and expected returns on these assets. These actuarial differences were credited to equity at December 31, 2009.

The actual return on plan assets was 51 million euros in 2009, compared with a negative 74 million in 2008.

Contributions of 25 million euros were paid to external funds in 2009. Contributions in 2010 are estimated at 27 million euros.

- **Breakdown of plan assets**

(In millions of euros)	France	Other European countries	North America	Other	Total
Cash at bank	-	-	11	6	17
Shares	1	29	98	12	140
Government bonds	-	-	35	20	55
Corporate bonds	-	-	13	-	13
Breakdown of plan assets at December 31, 2008	**1**	**29**	**157**	**38**	**225**
Cash at bank	-	-	4	6	10
Shares	2	25	125	10	162
Government bonds	-	6	10	17	33
Corporate bonds	-	6	58	-	64
Breakdown of plan assets at December 31, 2009	**2**	**37**	**197**	**33**	**269**

Data for previous financial years

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

(In millions of euros)	2009	2008	2007	2006	2005
Obligations	886	843	933	1,074	1,188
Financial assets	(269)	(225)	(300)	(301)	(294)
Net obligations	**617**	**618**	**633**	**773**	**894**
Actuarial (losses) gains recognized in equity [1]	(16)	(56)	79	27	(50)

[1] Including actuarial gains of 35 million euros resulting from experience adjustments on financial assets, and actuarial losses of 51 million euros resulting from changes in actuarial assumptions.

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

The discount rates applied in each region have a significant impact on the amount of the Group's benefit obligations. Accordingly, a 0.5% rise in discount rates would reduce the projected benefit obligation by 46 million euros and service cost by around 1 million euros. A 0.5% fall in discount rates would have the opposite effect.

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

Sensitivity of plan assets to rates of return

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

4.9.3. Other provisions

(In millions of euros)	2009	2008
Provisions for product warranties	156	133
Other	183	169
Other provisions	**339**	**302**

In 2009, the "Other" caption includes provisions for tax risks (58 million euros) and provisions for site rehabilitation or environmental obligations (22 million euros). The balance of this caption is intended to cover claims and litigation regarding prices, disputes with current or former employees, and other operational risks.

4.10. Debt

4.10.1. Gross debt

At December 31, 2009, the Group's gross debt can be analyzed as follows:

(In millions of euros)	2009	2008
Long-term debt (Note 4.10.2)	1,526	1,299
Current portion of long-term debt (Note 4.10.2)	40	26
Short-term debt (Note 4.10.3)	73	166
Gross debt	**1,639**	**1,491**

4.10.2. Long-term debt

Analysis of long-term debt

(In millions of euros)	2009	2008
Bonds	597	596
OCEANE bonds	453	444
Syndicated loans	223	222
European Investment Bank loan	197	-
Lease obligations	7	6
Other borrowings	61	32
Accrued interest	28	25
Long-term debt	**1,566**	**1,325**

Long-term debt includes:

- 600 million euros worth of eight-year bonds issued by Valeo on June 24, 2005 and paying a fixed coupon of 3.75%. These bonds were issued in the context of the Euro Medium Term Notes program. The effective interest rate on these bonds is 3.89%;
- 463 million euros worth of bonds convertible for new shares and/or exchangeable for existing shares ("OCEANE") issued on August 4, 2003, representing 9,975,754 bonds with a nominal value of 46.4 euros each. The interest on these bonds is 2.375% per annum payable in arrears on January 1 of each year. Bearers of the bonds may request conversion and/or exchange into common stock at any time, on the basis of 1.013 Valeo share for one bond. In addition, Valeo has a call option that may be exercised if the average share price over 10 consecutive trading days during the 20 trading days preceding the early redemption call exceeds 130% of the conversion price. The effective interest rate of the OCEANE bonds is 4.54% (4.46% excluding the call). This debt will be redeemed in full at par on January 1, 2011;
- two seven-year syndicated loans for a total amount of 225 million euros issued on July 29, 2005. These loans were renegotiated in June 2009. Based on a quantitative and qualitative analysis of the changes in these loans, the Group did not consider that its initial debt had been extinguished and it is therefore maintained in the statements of financial position. These loans and the related hedges have the following characteristics:
  - the first loan is at a variable rate and incorporates a floor and a cap limiting the interest rate to between 5.51% and 7.71% at all times. The loan is hedged by a swap offsetting the optional position on the loan, placing Valeo as a net variable-rate borrower (3-month Euribor + 4%);
  - the second loan is at a fixed rate of 6.5% and incorporates a swap option that enables the Group to opt for a variable rate in 2010. It is hedged by a derivative which has identical characteristics to those of the option included in the loan, placing Valeo as a net variable-rate borrower (3-month Euribor + 4%);
- a 225 million euro loan taken out with the European Investment Bank (EIB) at the end of July 2009. The loan is for a seven-year term, repayable in four equal annual installments as from 2013, and bears variable interest (6-month Euribor + 2.46%). An interest rate swap was taken out in respect of this new loan, exchanging Euribor for a fixed rate of 3.37%. This deferred swap will be effective as from August 5, 2010.

This EIB reduced-rate loan was granted as part of funding for costs incurred by the Group in research projects looking at ways to reduce fuel consumption and CO_2 emissions and improve active safety. In accordance with IAS 20, a subsidy was calculated as the difference between the market interest rate for a similar loan at the date the loan was granted, and the interest rate granted by the EIB. The subsidy was estimated at 28 million euros. It is recognized in statements of financial position liabilities. It will be booked against research and development expenditure at the same time as the completion of the projects it is intended to finance. In 2009, the impact on income totaled 3 million euros. The loan was carried at amortized cost for an amount of 197 million euros, and has an effective interest rate of 6.65%.

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

- **Maturities of long-term debt**

(In millions of euros)	2011	2012	2013	2014	2015 and beyond	Total
Bonds	-	-	597	-	-	**597**
OCEANE bonds	453	-	-	-	-	**453**
Syndicated loans	-	223	-	-	-	**223**
EIB loan	-	-	38	53	106	**197**
Lease obligations	4	1	-	-	-	**5**
Other borrowings	13	10	-	4	24	**51**
Total	**470**	**234**	**635**	**57**	**130**	**1,526**

- **Current portion of long term debt**

The current portion of long term debt are partly made up of accrued interest for an amount of 28 million euros. These are interest relating to the OCEANE bonds (11 million euros to be paid in January 1, 2010) and to the eight year bonds (12 million euros to be paid in June 2010).

4.10.3. Short-term debt

(In millions of euros)	2009	2008
Commercial paper	5	34
Short-term loans and overdrafts	68	132
Short-term debt	**73**	**166**

The 68 million euros are mainly overdraft facilities.

4.10.4. Cash and cash equivalents

(In millions of euros)	2009	2008
Marketable securities	633	365
Cash	227	296
Cash and cash equivalents	**860**	**661**

Marketable securities consist of money market funds (SICAV) for 633 million euros.

4.10.5. Net debt

Net debt is defined as all long-term debt (including the current portion) and short-term debt, less loans, other non-current financial assets and cash and cash equivalents.

- **Breakdown of net debt**

(In millions of euros)	2009	2008
Long-term debt (Note 4.10.2)	1,526	1,299
Current portion of long-term debt (Note 4.10.2)	40	26
Loans and other non-current financial assets	(57)	(9)
Long-term debt	**1,509**	**1,316**
Short-term debt (Note 4.10.3)	73	166
Cash and cash equivalents (Note 4.10.4)	(860)	(661)
Net cash and cash equivalents	**(787)**	**(495)**
Net debt	**722**	**821**

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

4.10.6. Analysis of net debt by currency

Net debt can be analyzed as follows by currency:

(In millions of euros)	2009	2008
Euro	876	881
US dollar	(35)	(21)
Yen	4	8
Brazilian real	(67)	(16)
Korean won	(21)	(15)
Chinese yuan	(24)	(31)
Other currencies	(11)	15
Total	**722**	**821**

4.11. Breakdown of cash flows

4.11.1. Expenses (income) with no cash effect

(In millions of euros)	2009	2008
Expenses (income) with no cash effect		
Depreciation, amortization and impairment of non-current assets	560	623
Net additions to (reversals from) provisions	(127)	104
Losses (gains) on sales of non-current assets	5	(13)
Expenses related to share-based payment	7	8
Unrealized gains and losses on financial instruments	-	12
Other expenses (income) with no cash effect	-	(2)
Total	**445**	**732**

4.11.2. Changes in working capital

(In millions of euros)	2009	2008
Changes in working capital		
Inventories	69	59
Accounts and notes receivable	(79)	505
Accounts and notes payable	193	(366)
Other receivables and payables	31	(19)
Total	**214**	**179**

The sharp rise in accounts and notes payable reflects the significant upturn in business between the fourth quarter of 2009 and the fourth quarter of 2008. However, the business upturn had a smaller impact on accounts and notes receivable, owing to the reduction in the customer overdues and a greater volume of sales made to auto makers with shorter payment times.

4.11.3. Impact of changes in the scope of consolidation

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

- additional cash outflows of 7 million euros on the sale of the Wiring Harness activity in December 2007, which had no impact on income (loss) for 2009;
- acquisition of the entire capital stock of Valeo Fawer Compressor (Changchun) Co., Ltd in November 2009. This company was proportionately consolidated in 2008 and is fully consolidated in 2009, resulting in a cash outflow of 4 million euros.

Changes in the scope of consolidation in 2008 had a positive impact of 52 million euros on consolidated cash flows. This amount results mainly from:

- collection of the proceeds on the sale of the heavy duty truck Engine Cooling business from Swedish firm EQT (net of cash and cash equivalents sold and expenses paid in 2008) for 73 million euros;
- cash outflows of 19 million euros on the sale of the Wiring Harness activity in December 2007 pursuant to the sale agreement. A provision had been set aside in 2007 for the full amount of this expense, which therefore had no impact on 2008 income.

5. Segment reporting

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

Changes in the Group's management in 2009 prompted modifications to internal reporting, recognized on a retrospective basis in accordance with IFRS 8.29. Four reportable segments (or Business Groups) have been defined, reflecting Valeo's new organization into Business Groups. The segments are issued from the aggregation of several product families, based on internal reports used by the Group's management.

The Group's four segments are:

- Comfort and Driving assistance Systems, comprising the Interior Controls and Security Systems product families. These focus on the interface between the driver and his/her environment, and contribute to enhanced comfort and safety.
- Powertrain Systems, comprising the Engine and Electrical Systems and Transmissions product families. These play an instrumental role in reducing energy consumption and CO_2 emissions.
- Thermal Systems, comprising the Climate Control, Compressors and Engine Cooling product families. These contribute to cabin comfort and the reduction of energy consumption.
- Visibility Systems, comprising Lighting Systems and Wiper Systems product families. These contribute to safety by improving visibility for the vehicle and the driver.

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

The "Other" segment refers to holding companies, disposed businesses and eliminations between the four operating segments defined above.

5.1. Key segment performance indicators

The key performance indicators for each segment are shown below:

(In millions of euros)	Comfort and Driving assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	TOTAL
2009						
Net sales						
▪ segment (excluding Group)	1,315	1,999	2,243	1,922	20	7,499
▪ intersegment (Group)	29	12	15	16	(72)	-
EBITDA [1]	**106**	**207**	**180**	**146**	**31**	**670**
Research and development expenditure, net	(118)	(126)	(124)	(110)	5	(473)
Investments in property, plant and equipment and intangible assets	112	167	86	110	4	479
Segment assets [2]	1,007	1,612	1,308	1,260	139	5,326
2008						
Net sales						
▪ segment (excluding Group)	1,520	2,218	2,728	2,113	98	8,677
▪ intersegment (Group)	29	10	4	20	(63)	-
EBITDA [1]	**142**	**241**	**229**	**151**	**29**	**792**
Research and development expenditure, net	(130)	(113)	(143)	(112)	(3)	(501)
Investments in property, plant and equipment and intangible assets for the period	147	211	122	151	7	638
Segment assets [2]	1,006	1,546	1,370	1,392	94	5,408

[1] EBITDA represents operating income (loss) before depreciation, amortization and other income and expenses.

[2] Segment assets include property, plant and equipment and intangible assets (including goodwill), inventories, accounts and notes receivable and other miscellaneous receivables.

5.2. Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating income (loss):

(In millions of euros)	2009	2008
EBITDA	**670**	**792**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses [1]	(537)	(562)
Other income and expenses	(49)	(282)
Operating income (loss)	**84**	**(52)**

[1] Impairment losses recorded in the operating margin.

Total segment assets reconcile to total Group assets as follows:

(In millions of euros)	2009	2008
Segment assets	**5,326**	**5,408**
Assets held for sale	1	5
Financial assets	1,041	832
Deferred tax assets	117	103
Total Group assets	**6,485**	**6,348**

5.3 Reporting by geographic area

2009

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

2008

(In millions of euros)	**External net sales by market**	**Net sales by production area**	**Non current assets [(1)]**
France	1,475	2,574	855
Other European countries	4,275	3,569	812
North America	1,043	949	212
South America	600	563	114
Asia	1,284	1,284	404
Eliminations	-	(262)	-
Total	**8,677**	**8,677**	**2,397**

(1) Non current assets consist of tangible and intangible assets (excluding goodwill) and investments in associates. Goodwill balances cannot be broken down by geographical area as they are allocated to groups of CGUs which belong to several areas.

5.4 Breakdown of sales by major customer

Three major auto makers represent 45.5% of the Group’s sales, and each of these individually accounts for more than 10% of the Group’s sales.

6. Additional disclosures

6.1. Financial instruments

6.1.1. Fair value of financial instruments

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

	2009	2009 Carrying amount under IAS 39			2008
(In millions of euros)	Carrying amount	Amortized cost	Fair value through equity	Fair value through income	Carrying amount
ASSETS					
Non-current financial assets:					
• Investments in non-consolidated companies	2	-	2	-	4
• Loans	57	57	-	-	9
• Deposits and guarantees	12	-	-	12	8
• Other non-current financial assets	3	-	-	3	3
Accounts and notes receivable	1,251	1,251	-	-	1,168
Other current financial assets:					
• Hedging derivatives	10	-	10	-	1
• Trading derivatives	3	-	-	3	14
• Other	-	-	-	-	-
Cash and cash equivalents	860	-	-	860	661
LIABILITIES					
Bonds	597	597	-	-	596
OCEANE convertible bonds (debt component)	453	453	-	-	444
Syndicated loans	223	223	-	-	222
EIB loan	197	197	-	-	-
Other long-term debt	96	96	-	-	63
Accounts and notes payable	1,648	1,648	-	-	1,454
Other current financial liabilities:					
• Hedging derivatives	3	-	3	-	20
• Trading derivatives	2	-	-	2	18
Short-term debt	73	73	-	-	166

The principal terms and conditions of borrowings (bonds, OCEANE convertible bonds, syndicated loans and EIB loans) are detailed in Note 4.10.2, while the basis for recognition is set out in Note 1.14.

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

Level 1: prices directly based on quoted prices in active markets;

Level 2: prices established using valuation techniques drawing on observable inputs;

Level 3: prices established using valuation techniques drawing on non-observable inputs.

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

The fair value of bonds is calculated on the basis of listed prices in an active bond market, and amounted to 568 million euros at December 31, 2009 and 455 million euros at December 31, 2008.

The fair value of the debt component of the OCEANE convertible bonds, syndicated loans and EIB loan is estimated by discounting future cash flows at the market rate of interest as of the end of the reporting period, taking into account the Group's issuer spread. Issuer spreads were estimated at 1.9% (source: Markit Reuters) for the EIB loan, at 2.8% (source: BNP Paribas) for the OCEANE bonds, and at 1.52% (source: Bloomberg) for syndicated loans. These reflect the spread on Valeo 1.3-year and 7-year credit default swaps, respectively. At December 31, 2009, the fair values of these instruments were estimated at 228 million euros for the EIB loan, 453 million euros for the OCEANE bonds and 240 million euros for the syndicated loan (397 million euros for the OCEANE bonds and 186 million euros for the syndicated loans at end 2008).

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

6.1.2. Fair value of derivatives

At December 31

(In millions of euros)	**2009**	**2008**
ASSETS		
Hedging derivatives:		
• Commodity derivatives	10	1
Trading derivatives:		
• Foreign currency derivatives	2	14
• Commodity derivatives	1	-
Total other current financial assets	**13**	**15**
LIABILITIES		
Hedging derivatives:		
• Foreign currency derivatives	-	(3)
• Interest rate derivatives	(3)	(3)
• Commodity derivatives	-	(14)
Trading derivatives:		
• Foreign currency derivatives	(2)	(8)
• Commodity derivatives	-	(10)
Total other current financial liabilities	**(5)**	**(38)**

The impact of financial instruments on income (loss) for the years ended December 31, 2009 and December 31, 2008 is set out in Note 3.7.

6.1.2.1. Fair value of foreign currency derivatives

At December 31

	2009		**2008**	
(In millions of euros)	**Nominal**	**Fair value**	**Nominal**	**Fair value**
Forward foreign currency purchases	15	1	18	6
Forward foreign currency sales	(28)	-	(48)	4
Currency swaps	128	1	(20)	4
Total assets	**115**	**2**	**(50)**	**14**
Forward foreign currency purchases	31	(1)	56	(5)
Forward foreign currency sales	(9)	-	(30)	(1)
Currency swaps	69	(1)	(158)	(5)
Total liabilities	**91**	**(2)**	**(132)**	**(11)**
Net impact		**0**		**3**

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

6.1.2.2. Fair value of commodity (metals) derivatives

At December 31

(In millions of euros)	2009 Nominal	2009 Fair value	2008 Nominal	2008 Fair value
Swaps – Purchases	85	11	1	-
Swaps – Sales	-	-	(5)	1
Total assets	**85**	**11**	**(4)**	**1**
Swaps – Purchases	5	-	69	(24)
Swaps – Sales	(3)	-	(2)	-
Total liabilities	**2**	**-**	**67**	**(24)**
Net impact		**11**		**(23)**

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

6.1.2.3. Fair value of interest rate derivatives

(In millions of euros)	2009 Nominal	2009 Fair value	2008 Nominal	2008 Fair value
Interest rate swaps	450	(3)	225	(3)
Total liabilities	**450**	**(3)**	**225**	**(3)**

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

6.2. Risk management policy

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

6.2.1. Market risks

6.2.1.1. Foreign currency risk

Exposure to foreign currency risk

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

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

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

	2009				2008
(In millions of euros)	**USD**	**JPY**	**EUR**	**Total**	**Total**
Accounts and notes receivable	68	8	293	369	291
Other financial assets	275	9	104	388	353
Accounts and notes payable	(35)	(15)	(316)	(366)	(303)
Long-term debt	-	(20)	(383)	(403)	(444)
Gross exposure	**308**	**(18)**	**(302)**	**(12)**	**(103)**
Forward sales	(308)	(8)	(25)	(341)	(316)
Forward purchases	21	39	13	73	93
Net exposure	**21**	**13**	**(314)**	**(280)**	**(326)**

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

At December 31, 2008, the breakdown by currency of the net exposure recognized in the statements of financial position for (326) million euros is as follows:

- (24) million euros relating to the US dollar;
- 19 million euros relating to the yen;
- (321) 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 1.44 US dollars, 133.15 Japanese yen and 26.47 Czech koruna to 1 euro at December 31, 2009 (USD 1.39, JPY 126.14 and CZK 26.88, respectively, at December 31, 2008).

An increase of 10% in the value of the euro against these currencies at December 31, 2009 and December 31, 2008 would have the following impacts:

At December 31

(In millions of euros)	**Income: gain (loss)**	**Equity: gain (loss)**
American dollar exposure	(2)	-
Yen exposure	(1)	-
Euro exposure	(5)	(26)
Total for 2009	**(8)**	**(26)**
American dollar exposure	2	-
Yen exposure	(2)	-
Euro exposure	(10)	(22)
Total for 2008	**(10)**	**(22)**

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 the US dollar and Japanese yen at December 31, 2009 would have the opposite effect to the one shown above.

Net investment risk

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

Where the Group contracts net investment hedges, the resulting gain or loss is deferred through equity until such time that all or part of the foreign investment is sold.

No derivative instrument hedging a net investment in a foreign operation is recognized in the Group's statements of financial position at December 31, 2009.

6.2.1.2. Commodity risk

Exposure to commodity risk

A detailed description of the Group's policy for managing commodity risk is provided in the management report (see Chapter 3, section 3.I.3.2).

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

The volume of non-ferrous metals hedged at December 31, 2009 and December 31, 2008 break down as follows:

At December 31

In tons	**2009**	**2008**
Aluminium	22,000	26,000
Secondary aluminium	8,000	8,000
Copper	9,000	-
Zinc	5,000	5,000
Total	**44,000**	**39,000**

Base metals derivatives used by the Group are designated as cash flow hedges under IAS 39. An unrealized gain of 10 million euros related to existing hedges was recognized directly in equity at December 31, 2009 in accordance with IAS 39. Income (loss) for the period includes a loss of 5 million euros on commodity transactions (see Note 3.7).

An unrealized loss of 13 million euros on commodity hedges purchased in second-half 2008 had been recognized in equity at December 31, 2008. The loss was reclassified in full to operating income in the first half of 2009.

Analysis of the sensitivity of net equity to metal price risk

The table below shows the impact on equity and income of a 10% variation in metal futures prices at December 31, 2009.

(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	-	8	(1)	4
Impact of a 10% decrease in metal futures prices	-	(8)	1	(4)

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

6.2.1.3. Interest rate risk

Exposure to interest rate risk

The Group's policy for managing interest rate risk is detailed in the management report (see Chapter 3, section 3.I.3.3).

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

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

On August 5, 2009, the Group set up an interest rate swap to hedge the variable-rate interest on its loan from the EIB. This derivative qualifies for cash flow hedge accounting. The fair value of the swap is initially recognized in the statements of financial position, with subsequent changes in fair value taken to equity until the hedged interest falls due. At December 31, 2009, the impact in equity of changes in the fair value of this swap totaled 2 million euros.

The Group's financing rate was 6% in 2009 (4.9% in 2008).

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

At December 31, 2009

(In millions of euros)	Less than 1 year		1 to 5 years		More than 5 years		Total nominal values		
	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	40	73	1,315	117	24	113	1,379	303	1,682
Loans	-	-	-	(57)	-	-	-	(57)	(57)
Cash and cash equivalents	-	(860)	-	-	-	-	-	(860)	(860)
Net position before hedging	**40**	**(787)**	**1,315**	**60**	**24**	**113**	**1,379**	**(614)**	**765**
Derivative instruments	-	225	(113)	(112)	113	(113)	-	-	-
Net position after hedging	**40**	**(562)**	**1,202**	**(52)**	**137**	**-**	**1,379**	**(614)**	**765**

At December 31, 2008

(In millions of euros)	Less than 1 year		1 to 5 years		More than 5 years		Total nominal values		
	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	26	166	1,326	-	-	-	1,352	166	1,518
Loans	-	-	-	(9)	-	-	-	(9)	(9)
Cash and cash equivalents	-	(661)	-	-	-	-	-	(661)	(661)
Net position before hedging	**26**	**(495)**	**1,326**	**(9)**	**-**	**-**	**1,352**	**(504)**	**848**
Derivative instruments	-	225	(225)	-	-	-	(225)	225	-
Net position after hedging	**26**	**(270)**	**1,101**	**(9)**	**-**	**-**	**1,127**	**(279)**	**848**

Analysis of sensitivity to interest rate risk

At December 31, 2009, 72% of long-term debt is at fixed rates (83% at December 31, 2008). As from August 5, 2010, the date the swap hedging the EIB loan comes into effect, 85% of the Group's borrowings will be at fixed rates (based on a comparable debt structure).

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

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

2009

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

2008

(In millions of euros)	Income: gain (loss)	Equity: gain (loss)
Impact of a 1% rise in interest rates	2	-

Similarly, at December 31, 2009 a sudden 1% fall in interest rates would have the opposite impacts for the same amount.

6.2.1.4. Equity risk

A detailed description of the Group's policy for managing equity risk is provided in the management report (see Chapter 3, section 3.I.3.4).

The assets making up the pension funds are detailed in Note 4.9.2.

The Group's cash and cash equivalents are set out in Note 4.10.4.

6.2.2. Liquidity risk

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

At December 31, 2009, Valeo had 860 million euros in cash (661 million euros at end-2008). The Group's other sources of liquidity are:

- confirmed bank credit lines totaling 1 billion euros with an average maturity of 2.4 years. None of these credit lines had been drawn down at December 31, 2009 or December 31, 2008;
- a short-term commercial paper financing program for a maximum amount of 1.2 billion euros, and a medium- and long- term Euro Medium Term Notes financing program for a maximum amount of 2 billion euros. Valeo's access to the commercial paper market has been restricted since Moody's cut its credit rating on January 7, 2009. Since that date, its short-term debt has been rated "not prime".

Covenants: The credit lines in place, together with the two syndicated loans, and the EIB loan are subject to an early repayment clause related to the Group's debt/EBITDA ratio, which must not exceed 3.5 in 2009 and 3.25 thereafter. EBITDA in this case represents the Group's operating margin before depreciation, amortization and impairment. Other income and expenses are therefore excluded from EBITDA, with the exception of restructuring costs totaling more than 75 million euros in 2010 and 50 million euros thereafter. Failure to comply with this ratio would cause the credit lines to be suspended – triggering early repayment of any drawdowns already made – the syndicated loans and the EIB loan to be repaid. At December 31, 2009, the ratio calculated over 12 months was 1.1.

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

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

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

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

Future cash flows presented below, both interest payments and reimbursements are not discounted. The interest rate forward curve at December 31, 2009 was used.

At December 31, 2009

	Carrying amount	**Contractual cash flows**	**Contractual cash flows Payment schedule**					
(In millions of euros)		**Total**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015 and beyond**
Bonds	597	**692**	23	23	23	623	-	-
OCEANE bonds	453	**485**	11	474	-	-	-	-
Syndicated loans	223	**265**	13	14	238	-	-	-
EIB loan	197	**291**	9	10	13	69	67	123
Other long-term debt	96	**96**	40	17	11	-	4	24
Accounts and notes payable	1,648	**1,648**	1,648	-	-	-	-	-
Short-term debt	73	**73**	73	-	-	-	-	-

The cash available to the Group and its confirmed bank credit lines will allow Valeo to meet the redemption obligations on its OCEANE convertible bonds at January 1, 2011.

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

The European Central Bank (ECB) closing and forward rates at December 31, 2009 have been used to valorize the foreign exchange financial derivatives. As regards the commodity financial derivatives, the London Metal Exchange (LME) forward rates at December 31, 2009 were used. As regards the interest rates swap, the interest rates forward curve at December 31, 2009 was used.

At December 31, 2009

(In millions of euros)	Carrying amount	Contractual cash flows Total	Contractual cash flows Payment schedule 2010	2011	2012	2013	2014	2015 and beyond
Forward foreign currency contracts used as hedges:								
• Assets	(1)	**1**	1	-	-	-	-	-
• Liabilities	(1)	**(1)**	(1)	-	-	-	-	-
Foreign currency swaps used as hedges:								
• Assets	1	**1**	1	-	-	-	-	-
• Liabilities	(1)	**(1)**	(1)	-	-	-	-	-
Commodity derivatives:								
• Assets	11	**11**	11	-	-	-	-	-
• Liabilities	-	**-**	-	-	-	-	-	-
Interest rate swaps:								
• Assets	-	**-**	-	-	-	-	-	-
• Liabilities	(3)	**(1)**	1	(4)	-	-	1	1

■ **Credit risk can be analyzed as follows:**

Counterparty risk

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

Commercial credit risk

Valeo is exposed to credit risk arising on its commercial operations, particularly the risk of default by its customers. Valeo operates exclusively in the automotive industry, which has been considerably weakened by the current crisis. As a result, Valeo has reinforced its oversight of credit risk and payment behaviour, which can be the focus of bilateral negotiations with customers on a case-by-case basis. The average days sales' outstanding stood at 61 days at December 31, 2009.

Valeo works with all automakers in the industry, including the three largest US automakers. At December 31, 2009, the Group was owed 51 million euros by the American entities of the three firms (4% of the total accounts and notes receivable).

At December 31, 2009, Valeo's largest customer accounts for 16% of the Group's accounts and notes receivable.

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

(In millions of euros)	Gross carrying amount 2009	Gross carrying amount 2008
Not yet due	1,208	1,045
Less than 1 month past due	39	107
More than 1 month but less than 12 months past due	22	33
More than 1 year past due	8	15
Total	**1,277**	**1,200**

Past due balances were impaired at December 31, 2009 totaling 26 million euros.

6.3. Commitments given

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

6.3.1. Lease commitments

Future minimum lease commitments existing at December 31, 2009 (excluding capital leases) are as follows:

(In millions of euros)	2009	2008
Less than 1 year	38	36
1 to 5 years	54	52
More than 5 years	11	12
Total	**103**	**100**

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

(In millions of euros)	2009	2008
Rent	51	49

Lease commitments in respect of capital leases are as follows:

At December 31

(In millions of euros)	2009	2008
Future minimum lease payments		
Less than 1 year	3	2
1 to 5 years	5	4
More than 5 years	1	1
Total future minimum lease payments	**9**	**7**
Of which interest charges	(2)	(1)
Present value of future lease payments		
Less than 1 year	2	2
1 to 5 years	5	3
More than 5 years	-	1
Total present value of future lease payments	**7**	**6**

6.3.2. Other commitments given

Valeo has also given the following commitments:

(In millions of euros)	2009	2008
Guarantees given	2	2
Non-cancelable asset purchase commitments	88	93
Other commitments given	141	140
Total	**231**	**235**

Other commitments correspond to warranties granted by Valeo in the context of sale transactions.

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

(In millions of euros)	2009	2008
Property, plant and equipment	1	1
Financial assets	12	13
Total	**13**	**14**

6.3.3 Put options

At December 31, 2009, Hitachi and Valeo owned 34% and 66%, respectively, of Japanese firm Valeo Unisia Transmissions K.K.

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

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

At December 31, 2009, the joint venture had total equity of 38 million euros prior to appropriation of income.

6.4. Commitments received

The vendor warranty received from Johnson Controls Inc. in connection with the Group's acquisition of Johnson's Engine Electronics business expired on March 1, 2009. Valeo has received no other material commitments.

6.5. Contingent liabilities

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

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

6.6. French statutory training entitlement

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

The cumulative volume of training hours corresponding to Group employees' vested rights under the French statutory training entitlement was 1,034,000 hours at December 31, 2009 (1,240,976 hours at December 31, 2008), representing a usage rate of around 7%.

6.7. Related party transactions

6.7.1. Management remuneration

Management is comprised of the 15 members of the Group's Operating Committee. In 2008, management consisted of the 27 members of the Management Committee. Remuneration paid to management in 2009 and 2008 is shown in the table below. Remuneration paid to the Chief Executive Officer is not included.

(In millions of euros)	2009	2008
Salaries and other short-term benefits	7	14
Total	**7**	**14**

The Group recognized 1 million euros related to stock subscription and stock option plans and free share awards in 2009 (3 million euros in 2008). It also recorded expenses in relation to pension obligations for management personnel in an amount of 2 million euros (3 million euros in 2008). At December 31, 2009, provisions included in the Group's statements of financial position in respect of these obligations amounted to 10 million euros (18 million euros at December 31, 2008).

6.7.2. Transactions with associates

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

(In millions of euros)	**2009**	**2008**
Sales of goods and services	11	22
Purchases of goods and services	(10)	(12)
Interest and dividends received	3	3

(In millions of euros)	**2009**	**2008**
Operating receivables	3	3
Operating payables	7	6

6.7.3. Transactions with joint ventures

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

(In millions of euros)	**2009**	**2008**
Sales of goods and services	17	25
Purchases of goods and services	(14)	(14)
Interest and dividends received	16	17

(In millions of euros)	**2009**	**2008**
Operating receivables	9	10
Operating payables	6	5
Net debt	7	1

6.8. Joint ventures

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

(In millions of euros)	2009	2008
Non-current assets	84	91
Current assets	154	127
Non-current liabilities	22	26
Current liabilities	110	94
Net sales	315	348
Operating expenses	289	335

7. Restatement of prior year financial information

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

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

No events occurred in 2009 requiring the 2008 financial statements published in February 2009 to be restated.

8. List of consolidated companies

Company	2009 % voting rights	2009 % interest	2008 % voting rights	2008 % interest
EUROPE				
France				
Valeo S.A. (parent company)				
DAV	100	100	100	100
Equipement 1	100	100	100	100
Equipement 11	100	100	100	100
Equipement 2	100	100	100	100
SC2N	100	100	100	100
Société de Participations Valeo	100	100	100	100
Telma	100	100	100	100
Valeo Bayen	100	100	100	100
Valeo Embrayages	100	100	100	100
Valeo Equipements Electriques Moteur	100	100	100	100
Valeo Etudes Electroniques	100	100	100	100
Valeo Finance	100	100	100	100
Valeo Four Seasons (2)	50	50	50	50
Valeo Interior Controls	100	100	100	100
Valeo Management Services	100	100	100	100
Valeo Matériaux de Friction	100	100	100	100
Valeo Plastic Omnium S.N.C. (2)	50	50	50	50
Valeo Sécurité Habitacle	100	100	100	100
Valeo Service	100	100	100	100
Valeo Systèmes de Contrôle Moteur	100	100	100	100
Valeo Systèmes d'Essuyage	100	100	100	100
Valeo Systèmes Thermiques	100	100	100	100
Valeo Thermique Habitacle	100	100	100	100
Valeo Vision	100	100	100	100
Spain				
Telma Retarder España, S.A.	100	100	100	100
Valeo Climatización, S.A.	100	100	100	100
Valeo España, S.A.	100	100	100	100
Valeo Iluminación, S.A.	99.8	99.8	99.8	99.8
Valeo Materiales de Fricción, S.A.	100	100	100	100
Valeo Plastic Omnium S.L. (2)	50	50	50	50
Valeo Service España, S.A.	100	100	100	100
Valeo Sistemas de Seguridad y de Cierre, S.A.	100	100	100	100
Valeo Sistemas Electricos, S.L.	100	100	100	100
Valeo Termico, S.A.	100	100	100	100

(1) Company accounted for by the equity method.
(2) Company consolidated on a proportionate basis.
(3) Company sold or wound up in 2009.
(4) Company proportionately integrated in 2008 and fully consolidated in 2009

Company	2009		2008	
	% voting rights	% interest	% voting rights	% interest
Portugal				
Cablagens do Ave	100	100	100	100
Italy				
Valeo Commutazione S.r.l.	99.9	99.9	99.9	99.9
Valeo Service Italia, S.p.A.	99.9	99.9	99.9	99.9
Valeo Sistemi di Climatizzazione, S.p.A.	99.9	99.9	99.9	99.9
Valeo, S.p.A.	99.9	99.9	99.9	99.9
Germany				
Valeo Auto-Electric Beteiligungs GmbH	100	100	100	100
Valeo Auto-Electric GmbH	100	100	100	100
Valeo Compressor Europe GmbH	100	100	100	100
Valeo Germany Holding GmbH	100	100	100	100
Valeo Gmbh (formerly Valeo Beleuchtung Deutschland GmbH)	100	100	100	100
Valeo Grundvermogen Verwaltung GmbH	100	100	100	100
Valeo Holding Deutschland GmbH	100	100	100	100
Valeo Klimasysteme GmbH	100	100	100	100
Valeo Klimasysteme Verwaltung SAS & Co. KG	100	100	100	100
Valeo Schalter und Sensoren GmbH	100	100	100	100
Valeo Service Deutschland GmbH	100	100	100	100
Valeo Sicherheitssysteme GmbH	100	100	100	100
Valeo Verwaltungs-Beteiligungs GmbH & Co. KG	100	100	100	100
Valeo Wischersysteme GmbH	100	100	100	100
United Kingdom				
Telma Retarder Ltd	100	100	100	100
Valeo (UK) Limited	100	100	100	100
Valeo Climate Control Limited	100	100	100	100
Valeo Engine Cooling UK Ltd	100	100	100	100
Valeo Service UK Limited	100	100	100	100
Ireland				
C.E.L. (Sales) Limited [3]	-	-	100	100
CEL Limited [3]	-	-	100	100
Connaught Electronics Limited	100	100	100	100
HI-KEY Limited	100	100	100	100
Belgium				
Valeo Service Belgique	100	100	100	100
Valeo Vision Belgique	100	100	100	100
Luxembourg				
Coreval	100	100	100	100

[1] Company accounted for by the equity method.
[2] Company consolidated on a proportionate basis.
[3] Company sold or wound up in 2009.
[4] Company proportionately integrated in 2008 and fully consolidated in 2009.

Company	2009 % voting rights	2009 % interest	2008 % voting rights	2008 % interest
Netherlands				
Valeo Holding Netherlands B.V.	100	100	100	100
Valeo International Holding B.V.	100	100	100	100
Valeo Service Benelux B.V.	100	100	100	100
Czech Republic				
Connaught Electronics CZ Spol S.r.o.	100	100	100	100
Sylea Tchequia S.r.o. (3)	-	-	100	100
Valeo Autoklimatizace k.s.	100	100	100	100
Valeo Compressor Europe S.r.o.	100	100	100	100
Valeo Vymeniky Tepla k.s.	100	100	100	100
Slovakia				
Valeo Slovakia S.r.o.	100	100	100	100
Poland				
Valeo Autosystemy Sp.zo.o.	100	100	100	100
Valeo Electric and Electronic Systems Sp.zo.o.	100	100	100	100
Valeo Service Eastern Europe Sp.zo.o.	100	100	100	100
Hungary				
Valeo Auto-Electric Hungary LLC	100	100	100	100
Romania				
Valeo Lighting Assembly SRL	100	100	100	100
Valeo Lighting Injection SA	51	51	51	51
Valeo Sisteme Termice S.r.l.	100	100	100	100
Russia				
Valeo Climate Control Tomilino LLC	95	95	95	95
Valeo Service Limited Liability Company	100	100	100	100
Turkey				
Nursan OK (1)	40	40	40	40
Valeo Otomotiv Dagitim A.S.	100	100	100	100
Valeo Otomotiv Sistemleri Endustrisi A.S.	100	100	100	100
AFRICA				
Tunisia				
Dav Tunisie	100	100	100	100
Valeo Embrayages Tunisie S.A.	100	100	100	100
Morocco				
Cablinal Maroc, S.A.	100	100	100	100
Egypt				
Valeo Interbranch Automotive Software Egypt	100	100	100	100
South Africa				
Valeo Systems South Africa (Proprietary) Ltd.	51	51	51	51

(1) Company accounted for by the equity method.
(2) Company consolidated on a proportionate basis.
(3) Company sold or wound up in 2009.
(4) Company proportionately integrated in 2008 and fully consolidated in 2009.

Company	2009 % voting rights	2009 % interest	2008 % voting rights	2008 % interest
NORTH AMERICA				
United States				
Telma Retarder Inc.	100	100	100	100
Valeo Aftermarket, Inc.	100	100	100	100
Valeo Climate Control Corp.	100	100	100	100
Valeo Compressor North America, Inc.	100	100	100	100
Valeo Electrical Systems, Inc.	100	100	100	100
Valeo Engine Cooling, Inc.	100	100	-	-
Valeo Friction Materials, Inc.	100	100	100	100
Valeo Front End Module, Inc.	100	100	-	-
Valeo Investment Holdings, Inc.	100	100	100	100
Valeo Radar Systems, Inc.	100	100	100	100
Valeo Switches and Detection Systems, Inc.	100	100	100	100
Valeo Sylvania, LLC [2]	50	50	50	50
Valeo Thermal Systems NA, Inc.	-	-	100	100
Valeo, Inc.	100	100	100	100
Mexico				
Delmex de Juarez S de RL de CV	100	100	100	100
Telma Retarder de Mexico, SA de CV	100	100	100	100
Valeo Automotive Electrical Systems de Mexico, SA de CV [3]	-	-	100	100
Valeo Climate Control de Mexico Servicios S de RL de CV	100	100	100	100
Valeo Climate Control de Mexico, SA de CV	100	100	100	100
Valeo Materiales de Friccion de Mexico SA de CV (merged into Valeo Sistemas Electricos 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]	50	50	50	50
Valeo Sylvania Services S de RL de CV [2]	50	50	50	50
Valeo Termico Servicios, S de RL de CV	100	100	100	100
Valeo Transmisiones Servicios de Mexico S de RL de CV	100	100	100	100
SOUTH AMERICA				
Brazil				
Valeo Sistemas Automotivos Ltda	100	100	100	100
Argentina				
Cibie Argentina, SA	100	100	100	100
Emelar Sociedad Anonima	100	100	100	100
Valeo Embragues Argentina, SA	100	100	100	100
Valeo Termico Argentina, SA	100	100	100	100
ASIA				
Thailand				
Valeo Compressor (Thailand) Co. Ltd	98.5	98.5	98.5	98.5
Valeo Compressor (Thailand) Co. Ltd	97.3	97.3	97.3	97.3
Valeo Siam Thermal Systems Co. Ltd	74.9	74.9	74.9	74.9
Valeo Thermal Systems Sales (Thaïland) Co. Ltd	74.9	74.9	74.9	74.9

[1] Company accounted for by the equity method.
[2] Company consolidated on a proportionate basis.
[3] Company sold or wound up in 2009.
[4] Company proportionately integrated in 2008 and fully consolidated in 2009.

Company	2009		2008	
	% voting rights	% interest	% voting rights	% interest
South Korea				
Dae Myong Precision Corporation	100	100	100	100
Valeo Compressor Korea Co., Ltd	100	100	100	100
Valeo Electrical Systems Korea, Ltd	100	100	100	100
Valeo Pyeong Hwa Co. Ltd [2]	50	50	50	50
Valeo Pyeong Hwa International Ltd [2]	50	50	50	50
Valeo Samsung Thermal Systems Co., Ltd [2]	50	50	50	50
Valeo Thermal Systems Korea Co. Ltd	100	100	100	100
Japan				
Ichikoh Industries Ltd [1]	31.6	31.6	31.6	31.6
Valeo Engine Cooling Japan Co. Ltd	100	100	100	100
Valeo Thermal Systems Japan Corporation	100	100	100	100
Valeo Unisia Transmissions K.K.	66	66	66	66
China				
Faw-Valeo Climate Control Systems Co. Ltd [1]	36.5	36.5	36.5	36.5
Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd [2]	50	50	50	50
Guangzhou Valeo Engine Cooling Co. Ltd	100	100	100	100
Huada Automotive Air Conditioner Co. Ltd [1]	30	30	30	30
Hubei Valeo Autolighting Company Ltd	100	100	100	100
Nanjing Valeo Clutch Co. Ltd [2]	55	55	55	55
Shanghai Valeo Automotive Electrical Systems Company Ltd [2]	50	50	50	50
Taizhou Valeo-Wenling Automotive Systems Company Ltd	100	100	100	100
Telma Vehicle Braking System (Shanghai) Company Ltd	70	70	70	70
Valeo Auto Parts Trading (Shanghai). Co. Ltd	100	100	100	100
Valeo Automotive Air Conditioning Hubei Co. Ltd	55	55	55	55
Valeo Automotive Security Systems (Wuxi) Co. Ltd	100	100	100	100
Valeo Automotive Transmissions Systems (Nanjing) Co. Ltd	100	100	100	100
Valeo Engine Cooling (Foshan) Co.Ltd	100	100	-	-
Valeo Engine Cooling (Shashi) Co.Ltd	100	100	100	100
Valeo Compressor (Changchun) Co. Ltd (formerly Valeo Fawer Compressor (Changchun) Co. Ltd) [4]	100	100	60	60
Valeo Interior Controls (Shenzhen) Co., Ltd	100	100	100	100
Valeo Lighting Hubei Technical Center Co. Ltd	100	100	100	100
Valeo Management (Beijing) Co.Ltd	100	100	100	100
Valeo Shanghai Automotive Electric Motors & Wiper Systems Co., Ltd	55	55	55	55
Indonesia				
PT Valeo AC Indonesia [1]	49	49	49	49
India				
Amalgamations Valeo Clutch Private Ltd [2]	50	50	50	50
Minda Valeo Security Systems Private Limited [2]	50	50	50	50
Valeo Engineering Center (India) Private Limited	100	100	100	100
Valeo Friction Materials India Limited	60	60	60	60
Valeo Lighting Systems (India) Private Ltd.	95	95	95	95
Valeo Minda Electrical Systems India Private Limited	66.7	66.7	66.7	66.7

[1] Company accounted for by the equity method.
[2] Company consolidated on a proportionate basis.
[3] Company sold or wound up in 2009.
[4] Company proportionately integrated in 2008 and fully consolidated in 2009.