CONSOLIDATED FINANCIAL STATEMENTS

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1 Consolidated statement of income

(in millions of euros)	*Notes*	**2012**	**2011**
CONTINUING OPERATIONS			
SALES	*4.1*	**11,759**	**10,868**
Cost of sales	*4.2*	(9,811)	(9,025)
GROSS MARGIN		**1,948**	**1,843**
% of sales		16.6%	17.0%
Research and Development expenditure, net	*4.3*	(598)	(561)
Selling expenses		(196)	(181)
Administrative expenses		(429)	(397)
OPERATING MARGIN		**725**	**704**
% of sales		6.2%	6.5%
Other income and expenses	*4.5*	(53)	-
OPERATING INCOME		**672**	**704**
Interest expense	*4.6*	(117)	(90)
Interest income	*4.6*	14	19
Other financial income and expenses	*4.7*	(30)	(35)
Share in net earnings of associates	*4.8*	14	2
INCOME BEFORE INCOME TAXES		**553**	**600**
Income taxes	*4.9*	(146)	(148)
INCOME FROM CONTINUING OPERATIONS		**407**	**452**
DISCONTINUED OPERATIONS			
Income (loss) from discontinued operations, net of tax		(2)	(1)
NET INCOME FOR THE YEAR		**405**	**451**
Attributable to:			
• Owners of the Company		380	427
• Non-controlling interests		25	24
Earnings per share:			
• Basic earnings per share *(in euros)*	*4.10.1*	5.03	5.68
• Diluted earnings per share (*in euros*)	*4.10.2*	5.03	5.67
Earnings per share from continuing operations:			
• Basic earnings per share (*in euros*)		5.05	5.70
• Diluted earnings per share (*in euros*)		5.05	5.69

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

2 Consolidated statement of comprehensive income

(in millions of euros)	**2012**	**2011**
Net income for the year	**405**	**451**
Share of changes in comprehensive income from associates	(9)	7
o/w income taxes	-	-
Translation adjustment	(35)	-
o/w income taxes	-	-
Cash flow hedges:		
• gains (losses) taken to equity	(3)	(25)
• (gains) losses transferred to income (loss) for the year	6	4
o/w income taxes	*(1)*	-
Remeasurement of available-for-sale financial assets	-	-
o/w income taxes	-	-
Other comprehensive income (loss) recycled to income	***(41)***	***(14)***
Actuarial gains (losses) on defined benefit plans	(138)	(90)
o/w income taxes	*27*	-
Other comprehensive income (loss) not recycled to income	***(138)***	***(90)***
Other comprehensive income (loss) for the year, net of tax	**(179)**	**(104)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**226**	**347**
Attributable to:		
• Owners of the Company	200	316
• Non-controlling interests	26	31

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

3 Consolidated statement of financial position

(in millions of euros)	*Notes*	**2012**	**2011**
ASSETS			
Goodwill [1]	*5.1*	1,322	1,438
Other intangible assets [1]	*5.2*	736	643
Property, plant and equipment	*5.3*	2,075	1,956
Investments in associates	*5.4*	112	104
Other non-current financial assets		27	91
Deferred tax assets	*5.5*	220	223
Non-current assets		**4,492**	**4,455**
Inventories [1]	*5.6*	789	765
Accounts and notes receivable	*5.7*	1,517	1,705
Other current assets		378	312
Taxes recoverable		48	20
Other current financial assets		20	10
Assets held for sale	*5.8*	342	2
Cash and cash equivalents	*5.12.4*	1,334	1,295
Current assets		**4,428**	**4,109**
TOTAL ASSETS		**8,920**	**8,564**
EQUITY AND LIABILITIES			
Share capital	*5.9.1*	238	238
Additional paid-in capital	*5.9.2*	1,434	1,429
Translation adjustment	*5.9.3*	183	230
Retained earnings	*5.9.4*	197	39
Stockholders' equity		**2,052**	**1,936**
Non-controlling interests	*5.9.7*	143	144
Stockholders' equity including non-controlling interests		**2,195**	**2,080**
Provisions for pensions and other employee benefits - long-term portion	*5.10*	862	712
Other provisions - long-term portion	*5.11*	223	282
Long-term debt - long-term portion	*5.12.2*	1,564	1,494
Other financial liabilities - long-term portion		17	51
Subsidies and grants - long-term portion		19	23
Deferred tax liabilities [1]	*5.5*	26	26
Non-current liabilities		**2,711**	**2,588**
Accounts and notes payable [1]		2,209	2,338
Provisions for pensions and other employee benefits - current portion	*5.10*	54	64
Other provisions - current portion	*5.11*	199	198
Subsidies and grants - current portion		14	9
Taxes payable		40	59
Other current liabilities [1]		783	826
Current portion of long-term debt	*5.12.2*	440	307
Other financial liabilities - current portion		10	20
Liabilities held for sale	*5.8*	192	-
Short-term debt	*5.12.3*	73	75
Current liabilities		**4,014**	**3,896**
TOTAL EQUITY AND LIABILITIES		**8,920**	**8,564**

(1) The presentation of the statement of financial position at December 31, 2011 has been modified compared to the version published in February 2012 to reflect the definitive adjustments made to the acquired assets and liabilities of Niles (see Note 2.2.1) and Controlled Power Technologies (see Note 2.2.3). These adjustments were not material taken as a whole.

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

4 Consolidated statement of cash flows

(in millions of euros)	*Notes*	**2012**	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		405	451
Share in net earnings (losses) of associates		(14)	(2)
Net dividends received from associates		3	-
Expenses (income) with no cash effect	*5.13.1*	530	429
Cost of net debt		103	71
Income taxes (current and deferred)		146	148
Gross operating cash flows		**1,173**	**1,097**
Income taxes paid		(186)	(169)
Changes in working capital	*5.13.2*	(49)	(29)
Net cash from operating activities		**938**	**899**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(269)	(193)
Acquisitions of property, plant and equipment		(603)	(490)
Disposals of property, plant and equipment		15	17
Net change in non-current financial assets		49	17
Acquisitions of investments (gain of control), net of cash acquired	*5.13.3*	(19)	(270)
Disposals of investments (loss of control), net of cash transfered		(10)	1
Net cash used in investing activities		**(837)**	**(918)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(106)	(91)
Dividends paid to non-controlling interests in consolidated subsidiaries		(18)	(19)
Issuance of share capital		5	22
Sale (purchase) of treasury stock		23	(18)
Issuance of long-term debt	*5.13.4*	530	843
Interest paid		(83)	(74)
Interest received		17	17
Repayments of long-term debt	*5.13.4*	(368)	(681)
Acquisition of interests without gain of control	*5.13.5*	(60)	-
Net cash used in financing activities		**(60)**	**(1)**
Effect of exchange rate changes on cash		**(22)**	**1**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**19**	**(19)**
Net cash and cash equivalents at beginning of year		**1,220**	**1,239**
Net cash and cash equivalents at end of year		**1,239**	**1,220**
o/w : • Cash and cash equivalents		1,334	1,295
• Short-term debt		(73)	(75)
• Portion of cash-related assets and liabilities held for sale [1]		(22)	-

(1) The assets and liabilities relating to the Access Mechanisms businesses were reclassified within assets and liabilities held for sale at December 31, 2012 (see Note 2.1.1).

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

5 Consolidated statement of changes in stockholders' equity

Number of shares	(*in millions of euros*)	Share capital	Additional paid-in capital	Translation adjustment	Retained earnings	Stockholders' equity including non-controlling interests: Stockholders' equity	Non-controlling interests	Total
75,090,160	**Stockholders' equity at January 1, 2011**	**236**	**1,412**	**230**	**(170)**	**1,708**	**62**	**1,770**
	Dividends paid	-	-	-	(91)	(91)	(17)	**(108)**
(702,568)	Treasury stock	-	-	-	(23)	(23)	-	**(23)**
640,798	Capital increase	2	17	-	-	19	-	**19**
	Share-based payment	-	-	-	8	8	-	**8**
	Other movements	-	-	-	(1)	(1)	68	**67**
	Transactions with owners	***2***	***17***	***-***	***(107)***	***(88)***	***51***	***(37)***
	Net income for the period	-	-	-	427	427	24	451
	Other comprehensive income (loss), net of tax	-	-	-	(111)	(111)	7	**(104)**
	Total comprehensive income (loss)	***-***	***-***	***-***	***316***	***316***	***31***	***347***
75,028,390	**Stockholders' equity at December 31, 2011**	**238**	**1,429**	**230**	**39**	**1,936**	**144**	**2,080**
	Dividends paid	-	-	-	(106)	(106)	(18)	**(124)**
882,333	Treasury stock	-	-	-	23	23	-	**23**
192,944	Capital increase	-	5	-	-	5	1	**6**
	Share-based payment	-	-	-	9	9	-	**9**
	Other movements	-	-	-	(15)	(15)	(10)	**(25)**
	Transactions with owners	***-***	***5***	***-***	***(89)***	***(84)***	***(27)***	***(111)***
	Net income for the period	-	-	-	380	380	25	**405**
	Other comprehensive income (loss), net of tax	-	-	(47)	(133)	(180)	1	**(179)**
	Total comprehensive income (loss)	***-***	***-***	***(47)***	***247***	***200***	***26***	***226***
76,103,667	**Stockholders' equity at December 31, 2012**	**238**	**1,434**	**183**	**197**	**2,052**	**143**	**2,195**

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

6 Notes to the consolidated financial statements

Note 1 Accounting policies

The consolidated financial statements of the Valeo Group for the year ended December 31, 2012 include

- the accounts of Valeo;
- the accounts of its subsidiaries;
- the accounts of entities jointly controlled by Valeo which are proportionately consolidated;
- Valeo's share in the net assets and earnings of associates.

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

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

Valeo's consolidated financial statements were authorized for issue by the Board of Directors on February 21, 2013.

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

1.1 Accounting standards applied

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

1.1.1 Standards, amendments and interpretations adopted by the European Union and obligatorily applicable for reporting periods beginning on or after January 1, 2012

The amendment to IFRS 7 – "Financial Instruments: Disclosures - Transfers of Financial Assets" led to additional disclosures in Note 5.7 concerning the derecognition of some accounts and notes receivable.

1.1.2 Standards, amendments and interpretations adopted by the European Union and obligatorily applicable for reporting periods beginning on or after July 1, 2012

The IASB published an amendment to IAS 1 – "Presentation of Items of Other Comprehensive Income", which was adopted by the European Union on June 5, 2012. This amendment only has a limited impact on the Group's consolidated financial statements, since Valeo's statement of comprehensive income already presents items that can be recycled to income separately from those that cannot, as well as the related tax effect.

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

1.1.3 Standards, amendments and interpretations published by the IASB and adopted by the European Union but not obligatorily applicable for reporting periods beginning on or after January 1, 2012 and not early adopted by the Group

The IASB published an amendment to IAS 19 – "Employee Benefits", which was adopted by the European Union on June 6, 2012. This amendment is effective for reporting periods beginning on or after January 1, 2013 and is only expected to have a limited impact on the Group's consolidated financial statements, since Valeo already recognizes actuarial gains and losses in other comprehensive income (see Note 1.17).

One of only two expected impacts of the amended IAS 19 is the immediate recognition of obligations related to unrecognized past service costs. This would have represented an increase of 4 million euros of the provision for pensions at December 31, 2012 (5 million euros at December 31, 2011), and other comprehensive income would have been adjusted accordingly. The impact of this change on the 2011 and 2012 consolidated statement of income would not have been material.

The other expected impact concerns changes to the expected return on plan assets due to the use of one return on plan assets equal to the discount rate, regardless of the strategic asset allocation. In 2012, the change in the expected return on plan assets would have given rise to a 9 million euros decrease in financial income (5 million euros decrease in 2011) within other financial income and expenses, offset by an actuarial gain in the same amount in other comprehensive income. In 2013, the anticipated impact would be an 11 million euros decrease in financial income within other financial income and expenses, offset by an actuarial gain of the same amount in other comprehensive income.

The IASB also published the following standards dealing with consolidation:

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

These standards were adopted by the European Union on December 11, 2012 and are obligatorily applicable for reporting periods beginning on or after January 1, 2014. This is one year later than the effective date set by the IASB.

Based on our analyses, only IFRS 11 is expected to have a material impact on the Group's consolidated financial statements. This is because the Group proportionately consolidates its joint ventures. Following an analysis of joint arrangements, the Group classified all of these entities as joint ventures and not joint operations. Accordingly, these joint ventures would be accounted for using the equity method in accordance with IFRS 11. In the statement of income, as published this year, this change would have led to a 419 million euros decrease in 2012 consolidated sales (410 million euros decrease in 2011) and a fall of 15 million euros in the 2012 consolidated operating margin (30 million euros fall in 2011). Conversely, the share in net earnings from associates would have increased by 11 million euros in 2012 (26 million euros in 2011). The amounts recorded for 2011 and 2012 in the Group's consolidated financial statements in respect of proportionately consolidated joint ventures are detailed in Note 6.7.

The IASB also published IFRS 13 – "Fair Value Measurement" as well as amendments to IAS 12, IAS 32 and IFRS 7. Based on a preliminary analysis, the Group does not expect the adoption of IFRS 13 and of the amendments to have a material impact on its consolidated financial statements.

1.1.4 Standards, amendments and interpretations published by the IASB but not yet adopted by the European Union, not obligatorily applicable for reporting periods beginning on or after January 1, 2012

The Annual Improvements to IFRS, published in May 2012, are not expected to have a material impact on the Group's consolidated financial statements.

1.1.5 Overview of IFRS 1 transition options

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

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

1.2 Basis of preparation

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

Preparation of the financial statements requires Valeo to make estimates and assumptions which could have an impact on the reported amounts of assets, liabilities, income and expenses. These estimates and assumptions concern both risks specific to the automotive supply business such as those relating to quality and safety, as well as more general risks to which the Group is exposed on account of its industrial operations across the globe (see management report chapter I).

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

The medium-term business plans for 2013-2017 are underpinned by the following assumptions:

- world automotive production of 101 million vehicles in 2017, representing average annual growth of 4.5% over the term of the business plan. This is consistent with several independent external forecasts available in October 2012, when the business plan was revised. At the end of the period covered by the business plan, Asia and the Middle East should represent 54% of global production, Europe and Africa 24%, North America 17% and South America 5%;
- exchange rate assumptions are based on projections of a panel of banks. The exchange rates used for the main currencies featured in the business plan are 1 euro for 1.34 US dollars throughout the term covered by the business plan; and at the end of the business plan period, 1 euro for: 7.90 Chinese yuans; 107 Japanese yen, 1,380 Korean won and 2.29 Brazilian real;
- Group sales were forecast based on the orders known at the time the business plan was drawn up and by reference to an estimate of the orders to be taken over the term of the business plan. These target order numbers represent less than 30% of cumulative original equipment sales over the five-year forecast period and around 50% of original equipment sales for the final year.

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

Key estimates and assumptions adopted by the Group to prepare its financial statements for the year ended December 31, 2012 chiefly concern:

- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Notes 1.12, 1.13 and 4.5.2);
- estimates of provisions, particularly for pensions and other employee benefits and for the risks linked to warranties (see Notes 5.10 and 5.11);
- the measurement of deferred tax assets (see Note 5.5).

1.3 Consolidation methods

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

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

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

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

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

1.4.1 Foreign currency financial statements

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

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

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

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

1.4.2 Foreign currency transactions

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

Differences arising from the translation of foreign currency transactions are recognized in income, with the exception of differences relating to loans and borrowings which are considered in substance to be an integral part of the net investment in a foreign subsidiary whose functional currency is not the euro.

These differences are recorded under "Translation adjustment" in other comprehensive income for their net-of-tax amount until the disposal of the net investment, or when partial or full repayment of these loans or borrowings is highly probable.

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

1.5 Sales

In accordance with IAS 18, sales primarily include sales of finished goods and all tooling revenues. Sales are measured at the fair value of the consideration received, net of any trade discounts and volume rebates and any VAT or other taxes. Sales are recognized at the date on which the Group transfers substantially all the risks and rewards of ownership to the buyer and retains neither continuing managerial involvement nor effective control over the goods sold.

In cases where the Group retains control of the future risks and rewards related to tooling, any contributions received from customers are recognized over the duration of the manufacturing phase of the project, within the limit of four years.

1.6 Gross margin, operating margin and operating income

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

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

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

Operating income includes all income and expenses other than:

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

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

1.7 Financial income and expenses

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

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

Other financial income and expenses notably include:

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

1.8 Current and deferred taxes

Income tax expense includes current income taxes and deferred taxes of consolidated companies. Deferred taxes are accounted for using the liability method for all temporary differences between the tax base and the carrying amount of assets and liabilities in the consolidated financial statements and for all tax loss carryforwards.

The main temporary differences relate to tax loss carryforwards, provisions for pensions and other employee benefits, other temporarily non-deductible provisions and capitalized development costs. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the temporary differences reverse, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax assets are only recognized to the extent that it appears probable that the Valeo Group will generate future taxable profits against which these tax assets will be able to be recovered. The Group reviews the probability of future recovery of deferred tax assets on a periodic basis for each tax entity. This review can, if applicable, lead the Group to derecognize deferred tax assets that it had recognized in prior years. The probability of recovery is assessed based on a tax plan indicating the forecast level of taxable income. The taxable income used in the assessment is based on taxable income obtained over a five-year period. The assumptions used in the tax plan are consistent with those used to prepare the medium-term business plans and budgets prepared by the Group’s entities and approved by management. Taxes payable and tax credits receivable on planned dividend distributions by subsidiaries are recorded in the statement of income.

Deferred tax assets and liabilities are offset when a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities concern income taxes levied by the same taxation authority. Current tax assets and liabilities are offset when the taxes are levied by the same taxation authority and if that authority allows the tax entity to settle on a net basis. In France, Valeo elected for tax consolidation. The tax group includes the parent company and its principal French subsidiaries that are eligible for tax consolidation. Valeo also elected for tax consolidation for its subsidiaries in other countries where this is permitted by local legislation (Germany, Spain, the United Kingdom and the United States).

1.9 Earnings per share

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

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

1.10 Business combinations and transactions involving non-controlling interests

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

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

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

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

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

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

Costs directly attributable to the combination are expensed as incurred.

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

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

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

Goodwill is not amortized but is tested for impairment at least once a year and whenever there is an indication that it may be impaired. Impairment tests are carried out as described in Note 1.13.

1.11 Intangible assets

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

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

1.11.1 Development costs

Innovation can be analyzed as either Research or Development. Research is an activity which can lead to new scientific or technical knowledge and understanding. Development is the application of research findings with a view to creating new products, before the start of commercial production.

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

Development costs are capitalized where the Group can demonstrate:

- that it has the intention and the technical and financial resources to complete the development;
- 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. Costs incurred before the formal decision to develop the product are included in expenses for the period. Costs incurred after the launch of volume production are considered as production costs.

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

1.11.2 Other intangible assets

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

- Software: 3 to 5 years
- Patents and licenses: based on their useful lives or duration of protection
- Customer relationships acquired: up to 25 years
- Other intangible assets: 3 to 5 years

1.12 Property, plant and equipment

Separately acquired property, plant and equipment are initially recognized at cost in accordance with IAS 16. Cost includes expenses directly attributable to the acquisition of the asset and the estimated cost of the Group's obligation to rehabilitate certain assets, where appropriate. Property, plant and equipment acquired as part of a business combination are recognized at fair value, separately from goodwill.

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

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

Property, plant and equipment are tested for impairment using the methodology described in Note 1.13.

1.12.1 Depreciation method and useful life

All property, plant and equipment except land are depreciated over their estimated useful lives using the components approach.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

- Buildings — 20 years
- Fixtures and fittings — 8 years
- Machinery and industrial equipments — 8 to 15 years
- Other property, plant and equipment — 3 to 8 years

In accordance with IAS 16, the residual value and useful life of property, plant and equipment should be revised at least annually at the end of each reporting period. Following a review of the useful lives of assets classified as machinery and industrial equipments, the useful life of some of them was increased from 8 years to 12 or 15 years as of July 1, 2012. This change chiefly concerns processing facilities (presses) along with heat and surface treatment equipment.

In accordance with IAS 8, the change has been accounted for as a change in accounting estimate and all residual useful lives of the assets concerned have been modified on a prospective basis. This applies to any non-current assets not fully depreciated at July 1, 2012 and to all new non-current assets brought into service in the second half of 2012.

This change gives rise to a 14 million euros decrease in the depreciation expense for second-half 2012. The estimated impact of this change in 2013 is 28 million euros.

1.12.2 Tooling

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

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

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

1.12.3 Finance leases

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

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

Leases in which the lessor retains substantially all the risks and rewards related to ownership of the leased asset are classified as operating leases. Lease payments under an operating lease are recognized as an operating expense on a straight-line basis over the lease term. Outstanding lease payments are detailed in Note 6.3.3.

1.13 Impairment of assets

Property, plant and equipment and intangible assets with definite useful lives are tested for impairment whenever objective indicators exist that they may be impaired. Goodwill and intangible assets not yet ready to be brought into service are tested for impairment at least once a year and whenever there is an indication that they may be impaired.

The main impairment indicators used by the Group to test impairment are a negative operating margin for the period or an expected fall of more than 20 % in year-on-year sales.

1.13.1 Cash-generating units and goodwill

CGUs are operating entities that generate independent cash flows. Based on the Group's organizational structure, CGUs generally correspond to groups of production sites belonging to the same Product Line or Product Group. A total of 27 CGUs had been identified at end-December 2012. CGUs represent the level at which all property, plant and equipment and intangible assets are tested for impairment if there is an indicator that they may be impaired. However, specific impairment tests may be carried out on certain idle property, plant and equipment and intangible assets.

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

At the end of the reporting period, goodwill was tested for impairment using the same methodology and assumptions as those described below for CGUs (see Note 1.13.2).

1.13.2 Impairment tests

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

Fair value less costs to sell is determined using available information allowing Valeo to establish a best estimate of the selling price net of the costs necessary to make the sale, between knowledgeable, willing parties in an arm's length transaction. Value in use corresponds to the present value of the future cash flows expected to be derived from an asset or group of assets, taking into account its residual value.

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

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

- post-tax cash flow projections covering a period of five years, prepared on the basis of the budgets and medium-term business plans drawn up by Group entities and approved by General Management, are discounted;
- cash flows beyond the five-year period are extrapolated by applying a perpetuity growth rate to normative forecast cash flows, corresponding to the last year of the medium-term plan adjusted where applicable for non-recurring items;
- cash flows are discounted based on a rate which reflects current market assessments of the time value of money and the risks specific to the asset (or group of assets). This rate corresponds to the post-tax weighted average cost of capital (WACC). The use of a post-tax rate results in recoverable amounts that are similar to those that would have been obtained by applying pre-tax rates to pre-tax cash flows.

The tests are carried out using the following assumptions:

- the projections used are based on past experience, macroeconomic data for the automotive market, order books and products under development;
- a perpetuity growth rate of 1%, which is the same as that used in 2011 and remains below the average long-term growth rate for the Group's business sector;
- a post-tax discount rate (WACC) of 9.0% (as in 2011), calculated using the method established by an independent expert in 2007. This method is based on a sample of around 20 automotive suppliers. The discount rate includes a market risk premium of 5% (4.5% in 2011), a risk-free interest rate of 1.6% (2.5% in 2011), and an industry beta of 1.6 (as in 2011).

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

Forecasts are made at the smallest level (for each CGU), based on detailed projections of the automotive market by automaker, country and model, taking into account expected products development in the CGU's order book. The key common assumptions underlying macroeconomic data are described in Note 1.2 on the basis of preparation of the financial statements.

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

1.13.3 Recognition and reversal of impairment

The impairment loss to be recognized against a CGU is allocated to the CGU's assets in proportion to their net carrying amount.

Impairment losses recognized for goodwill may not be reversed.

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

1.14 Financial assets and liabilities

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

1.14.1 Available-for-sale financial assets

This category includes shares in non-consolidated companies.

Available-for-sale financial assets are recognized at fair value upon initial recognition, with any subsequent changes in fair value recognized through other comprehensive income or in income for the period in the event of a significant or prolonged decline in fair value. Unrealized gains and losses recognized in other comprehensive income are taken to the statement of income on the disposal of these securities.

The fair value of securities listed on an active market is their market value. Unlisted securities whose fair value cannot be estimated reliably are carried at cost, and are classified in non-current financial assets.

1.14.2 Long-term loans and receivables

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

1.14.3 Other non-current financial assets and liabilities

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

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

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

When hedge accounting is applied:

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

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

1.14.4 Current financial assets and liabilities

Current financial assets and liabilities include trade receivables and payables, derivative financial instruments where the underlying is also a current item, and cash and cash equivalents.

Trade receivables and payables

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

Accounts and notes receivable may be written down for impairment. Impairment is recognized when it is probable that the receivable will not be recovered and when the amount of the loss can be measured reliably. Impairment is estimated taking into account historical loss experience, the age of the receivables and a detailed risk assessment. It is recognized in operating income or other financial income and expenses if it relates to a risk of insolvency of the debtor.

For recurring or one-off transactions, accounts and notes receivable may be discounted and sold to banks. In this case, an analysis is performed to measure the transfer of the risks and rewards inherent to ownership of the receivables. If the analysis shows that substantially all the risks and rewards are transferred, the accounts and notes receivable are removed from the consolidated statement of financial position and all of the rights created or retained on transfer are recognized. If substantially all the risks and rewards are not transferred, the accounts and notes receivable continue to be carried on the consolidated statement of financial position and a financial liability is recorded for the discounted amount.

■ Derivative financial instruments

Derivatives are recognized in the statement of financial position at fair value under other current financial assets or other current financial liabilities, when the underlying transaction matures within one year. Changes in the fair value of these derivatives are accounted for in the same way as the impact described in the section on other non-current financial assets and liabilities.

■ Foreign currency derivatives

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

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

■ Commodity derivatives

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

■ Interest rate derivatives

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

Variable interest rate hedges protect the Group against the impact of fluctuations in interest rates on its interest payments. These hedges are eligible for cash flow hedge accounting.

Hedging instruments are measured at fair value and recognized in the statement of financial position. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income, while changes in the ineffective portion are recognized in other financial income and expenses. Amounts carried in other comprehensive income in respect of the effective portion of the hedge are taken to income as the hedged interest expenses affect income.

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

■ Cash and cash equivalents

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

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

1.14.5 Debt

■ Bonds and other loans

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

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

■ 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.

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

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

These costs are determined by the "First-in-First-out" (FIFO) method which, due to the rapid inventory turnover rate, approximates the latest cost at the end of the reporting period.

Impairment losses are set aside when the probable realizable value of inventories is lower than their cost price.

As indicated in Note 1.12.2, tooling specific to a given project is recorded in inventories until it is sold, when control over the future economic benefits and risks associated with the assets are transferred back to the customer. A provision is made for any potential loss on the tooling contract (corresponding to the difference between the customer's contribution and the cost of the tooling) as soon as the amount of the loss is known.

1.16 Share-based payment

Some Group employees receive equity-settled compensation in the form of share-based payment.

The cost of these free share and stock purchase or subscription plans is recorded in personnel expenses. This expense corresponds to the fair value of the instrument issued and is recognized over the applicable vesting period. Fair value is estimated on the basis of valuation models adapted to the characteristics of the instruments (Black-Scholes-Merton model for options). The Group regularly reviews the number of potentially exercisable options. Where appropriate, the impact of any changes in these estimates is recorded in the statement of income.

1.17 Pensions and other employee benefits

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

1.17.1 Short-term benefits

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

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

1.17.2 Post-employment and other long-term benefits

These cover two categories of employee benefits:

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

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

These benefits are broken down into:

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

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

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

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

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

Discount rates are determined by reference to market yields at the valuation date on high quality corporate bonds with a term consistent with that of the employee benefits concerned. Expected long-term returns on plan assets are estimated taking into account the structure of the investment portfolio for each country. These rates are disclosed in Note 5.10.2.

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

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

The expense recognized in the statement of income includes:

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

1.18 Provisions

A provision is recognized when:

- the Group has a present legal or constructive obligation resulting from a past event;
- it is probable that future outflows of resources embodying economic benefits will be necessary to settle the obligation; and
- the amount of the obligation can be estimated reliably.

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

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

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

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

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

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

1.19 Subsidies and grants

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

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

1.20 Assets held for sale and discontinued operations

When the Group expects to recover the value of an asset or a group of assets through its sale rather than through continuing use, such assets are presented separately under "Assets held for sale" in the statement of financial position. Any liabilities related to such assets are also presented under a separate caption in the liabilities of the statement of financial position. Assets classified as held for sale are valued at the lower of their carrying amount and their estimated sale price less costs to sell, and are therefore no longer subject to depreciation and amortization. For assets not classified as discontinued operations, any related impairment losses or proceeds from their disposal are recognized through operating income.

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

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the date of sale or at an earlier date if the business meets the criteria to be recognized as an asset held for sale. Income or losses generated by these operations, as well as any capital gains or losses on disposal, are presented net of tax on a separate line of the statement of income. To provide a meaningful year-on-year comparison, the same treatment is applied to these items in the previous year.

1.21 Restatement of prior-year financial information

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

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

In connection with adjustments made to the opening acquired assets and liabilities of Niles (see Note 2.2.1), recorded in first-half 2012, and CPT (see Note 2.2.3), recorded in 2012, the consolidated statement of financial position presented is different to the version published in February 2012. These impacts are not material taken as a whole.

Note 2 Changes in the scope of consolidation

2.1 Transactions carried out in 2012

2.1.1 Planned sale of the Access Mechanisms business

On June 25, 2012, Valeo announced that it was in negotiations to sell its Access Mechanisms business (Comfort and Driving Assistance Systems Business Group) to Japan-based U-Shin. In accordance with IFRS 5, the assets and liabilities relating to the Access Mechanisms business were classified as assets and liabilities held for sale in the consolidated statement of financial position at June 30, 2012, since Valeo expected to recover their carrying amount through their sale rather than through their continuing use. Details of amounts reclassified as assets and liabilities held for sale at December 31, 2012 are provided in Note 5.8. Depreciation and amortization of property, plant and equipment and the intangible assets dedicated to this activity, ceased as soon as they were reclassified as held for sale. This reduced the depreciation and amortization expense for the second half of 2012 by 12 million euros.

The Access Mechanisms business, which is primarily mechanical-based, comprises products such as locksets, steering column locks, handles and latches. The business contributed 569 million euros to Valeo sales in 2012 (607 million euros in 2011) and 15 million euros to Valeo operating margin (14 million euros in 2011). The company employs 4,500 people at 12 plants located primarily in Europe and South America. The planned divestment is aligned with Valeo's strategy of focusing on developing products that reduce CO_2 emissions and stepping up its expansion in Asia and emerging markets.

In a particularly uncertain economic environment across Europe, on November 30, 2012 Valeo announced the execution of a contract for the sale of its Access Mechanisms business to Japan-based U-Shin for an enterprise value of 223 million euros. The disposal was approved by the antitrust authorities on February 7, 2013 and is expected to occur no later than March 31, 2013.

Based on information available at the end of the reporting period, Valeo estimated the likely consequences of the sale and took an impairment loss of 44 million euros, which was recorded in other income and expenses. This amount includes 15 million euros relating to future information technologies, legal and operating costs directly related to the sale and spin-off of the business.

2.1.2 Alliance strengthened between Valeo and Ichikoh in the Chinese lighting sector

In September 2012, as part of its development strategy in Asia, Valeo announced that it had signed an agreement to strengthen its Lighting Alliance in China with Ichikoh. A new legal entity, Valeo Ichikoh Holding Ltd, was set up, to which the two companies contribute their respective Chinese Lighting operations. The venture is 85%-owned by Valeo and 15%-owned by Ichikoh.

As consideration for the transaction, the creation of this entity resulted in the following changes in direct and indirect shareholdings in the companies included within the scope of this Alliance:

- Valeo acquired control of Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd, previously jointly controlled with Ichikoh;
- Valeo sold shares (without a loss of control) in the legal entities Wuhu Valeo Automotive Lighting Systems, Hubei Valeo Autolighting Company Ltd, Shenyang Valeo Autolighting Co. Ltd and Valeo Lighting Hubei Technical Center Ltd.

As a result, Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd is fully consolidated in Valeo's financial statements with effect from December 31, 2012. Since control was acquired by Valeo, the Group's previously-held direct or indirect interests in the acquiree were remeasured at their acquisition-date fair value, with the difference taken to income in accordance with the revised IFRS 3. Accordingly, Valeo booked income of 30 million euros, within other income and expenses for 2012. All of the assets and liabilities of this entity were measured at fair value, resulting in the recognition of a customer relationship for 12 million euros and the remeasurement of all property assets for 7 million euros. No contingent liabilities were recorded. Goodwill as calculated under the partial goodwill method amounted to 42 million euros at the acquisition date.

The value of goodwill reflects the synergies expected to derive from the transaction, which will help strengthen the Lighting business of the Visibility Systems Business Group and support the Group's position in China.

Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd, which continued to be proportionately consolidated by the Group, contributed 44 million euros to Valeo's sales in 2012 and reported an operating margin of 1 million euros.

Other movements in securities mainly result from sales (without a loss of control) of the Group's interest in the legal entities Wuhu Valeo Automotive Lighting Systems, Hubei Valeo Autolighting Company Ltd, Shenyang Valeo Autolighting Co. Ltd and Valeo Lighting Hubei Technical Center Ltd. In accordance with IAS 27 (revised), these transactions led to an increase of 27 million euros in consolidated equity at December 31, 2012.

Including cash and cash equivalents acquired, all of the above transactions had a net outflow of 10 million euros on the consolidated statement of cash flows for 2012.

2.1.3 Creation of a partnership with V. Johnson Enterprises and acquisition by that entity of Ford's climate control business

Valeo and V. Johnson Enterprises have formed a new company called Detroit Thermal Systems to acquire the climate control business of Automotive Components Holdings, a company owned by Ford Motor Company. Valeo and V. Johnson Enterprises, which is owned by an entrepreneur in Detroit, have a respective 49% and 51% interest in the company. Since Valeo exercised significant influence at the date the company was created, this associate was accounted for by the equity method, in accordance with IAS 28.

This activity will produce climate control systems and components for the automotive industry from the new Romulus plant in Michigan and will meet current product supply commitments to Ford. The acquisition will strengthen Valeo's Thermal Systems operations and its position with Ford Motor Company in North America and the rest of the world.

The definitive acquisition agreements were signed between Ford Motor Company and Automotive Components Holding with Detroit Thermal Systems on October 25, 2012. No cash was disbursed by Detroit Thermal Systems. This acquisition was treated as a business combination at the level of Detroit Thermal Systems. All of the acquiree's assets and liabilities have therefore been measured at fair value.

This led to the recognition by Detroit Thermal Systems of 12 million euros in badwill, which in turn had a positive 6 million euros impact on the Group's consolidated financial statements, recorded in share in net earnings of associates.

2.1.4 Acquisition of non-controlling interests in Chinese firm Valeo Automotive Air Conditioning Hubei Co. Ltd

Since April 23, 2012, Valeo has owned all of the capital stock of a Chinese Climate Control Systems manufacturer based in Shashi. This company, which was already fully consolidated, was previously 55%-owned by Valeo, 40%-owned by SDIC High-Tech Investment Co. Ltd and 5%-owned by Jingzhou Jiesheng Assets Management Co. Ltd. In accordance with IAS 27 (revised), this acquisition of non-controlling interests led to a 52 million euros decrease in consolidated stockholders' equity and to a cash outflow of the same amount, recorded on the "Acquisition of interests without gain of control" line in the consolidated statement of cash flows for 2012.

2.2 Transactions carried out in 2011

2.2.1 Acquisition of the Niles group

On February 23, 2011, Valeo signed an agreement with RHJ International SA and Nissan to acquire the entire capital stock of Japanese automotive supplier Niles.

As a result of this agreement, Valeo acquired control of Niles on June 30, 2011 for an enterprise value of 313 million euros (36 billion Japanese yen).

The terms and conditions for preparing the financial statements of the companies acquired set out in the purchase agreement were incompatible with Valeo’s interim accounts closing deadlines. Niles was therefore not consolidated when preparing the interim consolidated financial statements at June 30, 2011 but with effect from July 1, 2011.

The adjusted purchase price amounted to 168 million euros (19.6 billion yen) based on a 100% interest. Acquisition-related fees totaling 6 million euros were taken to income for 2011 in accordance with IFRS 3 (revised).

In accordance with IFRS 3 (revised), the purchase price was allocated on a provisional basis to Niles' assets and liabilities in second-half 2011, with the definitive allocation completed in first-half 2012. The main adjustments recognized in first-half 2012 concern customer relationship.

After the adjustments, the definitive amount of goodwill and other intangible assets acquired totaled 137 million euros and 47 million euros, respectively, at July 1, 2011 (compared to a provisional amount of 130 million euros and 53 million euros, respectively, at December 31, 2011).

The value of goodwill chiefly reflects expected synergies as the transaction will reinforce the Interior Controls activity within the Comfort and Driving Assistance Systems Business Group and strengthen the Group's foothold in Asia where Niles is a leading manufacturer of automotive switching systems.

2.2.2 Acquisition of a controlling interest in Valeo Pyeong Hwa and Valeo Pyeong Hwa International

An amendment to the partnership agreement signed on October 12, 2011 modified governance arrangements and resulted in Valeo gaining control of Valeo Pyeong Hwa and Valeo Pyeong Hwa International. These companies, which were previously jointly controlled, were fully consolidated in Valeo's consolidated financial statements as of said date.

Control of the two companies was therefore obtained with no outflow of cash.

As control was acquired by Valeo, the transaction was accounted for using the acquisition method in accordance with IFRS 3 (revised). The Group's previously-held interests in the acquiree were remeasured at their acquisition-date fair value, with the difference taken to income in accordance with the revised standard. Valeo recognized a gain of 28 million euros within other income and expenses in 2011 in respect of this transaction. All of the assets and liabilities of Valeo Pyeong Hwa were measured at fair value, resulting in the recognition of a customer relationship for 12 million euros and the remeasurement of all property assets for 13 million euros. Goodwill was calculated using the partial goodwill method and totaled 22 million euros at the acquisition date.

2.2.3 Acquisition of a company of electric supercharger technology

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

The purchase price after adjustments amounted to 35 million euros (30 million pounds sterling). The allocation of the purchase price to CPT's assets and liabilities, finalized in the second half of 2012, led to the recognition at the acquisition date of an intangible asset corresponding to technology acquired for 8 million euros and deferred tax liabilities for just over 1 million euros. As a result, goodwill was also adjusted. The goodwill of 24 million euros recorded at the acquisition date reflects the commercial synergies available to Valeo as well as its capacity to industrialize and develop the technology acquired.

2.2.4 Acquisition of Chery group's lighting company in China

As part of its development strategy in high-growth countries and particularly in China, on December 29, 2011 Valeo acquired an 80% shareholding in Chinese lighting company Wuhu Ruby Automotive Lighting Systems from Chery Technology, a subsidiary of the Chinese automaker Chery Automobile. Chery Technology retained a 20% stake in the company.

Located in Wuhu in the Anhui province, this legal entity, now known as Wuhu Valeo Automotive Lighting Systems, designs, manufactures and sells Valeo Lighting Systems products, mainly for Chery Automobile on the Chinese market. The business has been integrated within Valeo's Visibility Systems Business Group.

The adjusted purchase price was 8 million euros at the acquisition date. In view of the December 29, 2011 acquisition date and the relatively non-material amounts of assets acquired and liabilities assumed, the company was not included in the consolidated financial statements for the year ended December 31, 2011. The Group's interest was shown within "Non-current financial assets" in the statement of financial position at that date. Wuhu Valeo Automotive Lighting Systems was fully consolidated in the Group's consolidated financial statements with effect from January 1, 2012.

Fair value measurement of the assets acquired and liabilities assumed was finalized in second-half 2012 and gave rise to the recognition at the acquisition date of a customer relationship for 9 million euros, a provision for loss-making contracts for 3 million euros and an impairment loss in the amount of 2 million euros against specific tooling. Goodwill was calculated using the partial goodwill method and totaled 7 million euros at the acquisition date. It chiefly reflected the Group's strong position in fast-growing markets and the synergies expected to be unlocked with other Chinese sites within the same Product Group.

2.2.5 Acquisition of a controlling interest in Valeo Four Seasons

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

Note 3 Segment reporting

In accordance with IFRS 8 – "Operating Segments", the Group's segment information below is presented on the basis of internal reports that are regularly reviewed by the Group's General Management in order to allocate resources to the segments and assess their performance. General Management represents the chief operating decision maker within the meaning of IFRS 8.

Four reportable segments have been identified, corresponding to Valeo's organization into Business Groups. There is no aggregation of operating segments.

The Group's four reportable segments are:

- Powertrain Systems, comprising four Product Groups: Electrical Systems, Transmission Systems, Combustion Engine Systems and Electronics. This Business Group develops innovative Powertrain solutions aimed at reducing fuel consumption and CO_2 emissions without compromising on the pleasure and dynamics of driving. These innovations cover a comprehensive range of products, from the optimization of internal combustion engines, the varying levels of vehicle electrification, as well as Stop-start technology to the electric vehicles;

- Thermal Systems, comprising four Product Groups: Climate Control, Powertrain Thermal Systems, Climate Control Compressors and Front-End Modules. This Business Group develops and manufactures systems, modules and components to ensure thermal energy for the management of Powertrain and comfort for each passenger at all stages in the use of a vehicle;

- Comfort and Driving Assistance Systems, comprising four Product Groups: Interior Controls, Driving Assistance, Interior Electronics and Access Mechanisms (this latter business is to be sold – see Note 2.1.1.). This Business Group develops interfaces between the driver, the vehicle and the surrounding environment, and helps improve safety and comfort;

- Visibility Systems, comprising three Product Groups: Lighting Systems, Wiper Systems and Wiper Motors. This Business Group develops and manufactures efficient and innovative systems which support the driver at all times, day and night, so that the driver has perfect visibility, thus improving the safety of the driver and of passengers.

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

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

The key performance indicators for each segment are as follows:

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

3.1 Key segment performance indicators

The key performance indicators for each segment are shown below:

2012

(in millions of euros)	Powertrain Systems	Thermal Systems	Comfort and Driving Assistance Systems	Visibility Systems	Other	Total
Sales						
• segment (excluding Group)	3,237	3,313	2,487	2,698	24	**11,759**
• intersegment (Group)	29	27	23	36	(115)	**-**
EBITDA	**329**	**383**	**298**	**220**	**30**	**1,260**
Research and Development expenditure, net	(147)	(149)	(171)	(131)	-	**(598)**
Investments in property, plant and equipment and intangible assets	262	148	214	234	21	**879**
Segment assets [(1)]	1,467	1,074	1,113	1,229	39	**4,922**

(1) The segment assets shown for the Comfort and Driving Assistance Systems Business Group at December 31, 2012 do not include the segment assets relating to the Access Mechanisms business reclassified in "Assets held for sale" (see Note 2.1.1) for 289 million euros.

2011

(in millions of euros)	Powertrain Systems	Thermal Systems	Comfort and Driving Assistance Systems	Visibility Systems	Other	Total
Sales						
• segment (excluding Group)	3,099	3,110	2,124	2,511	24	**10,868**
• intersegment (Group)	27	30	33	38	(128)	**-**
EBITDA	**268**	**359**	**264**	**279**	**42**	**1,212**
Research and Development expenditure, net	(130)	(154)	(153)	(124)	-	**(561)**
Investments in property, plant and equipment and intangible assets	226	117	209	156	9	**717**
Segment assets [(1)]	1,407	1,068	1,323	979	25	**4,802**

(1) The segment assets shown above for 2011 for Comfort and Driving Assistance Systems Business Group have been modified compared to those published in February 2012 in order to reflect the adjustments made to the acquired assets and liabilities of CPT (see Note 2.2.3) in 2012. The impact of these adjustments is 2 million euros.

3.2 Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating income:

(in millions of euros)	**2012**	**2011**
EBITDA	**1,260**	**1,212**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses[(1)]	(535)	(508)
Other income and expenses	(53)	-
Operating income	**672**	**704**

(1) Impairment losses recorded in operating margin only.

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	**2012**	2011 [(1)]
Segment assets	**4,922**	**4,802**
Accounts and notes receivable	1,517	1,705
Other current assets	378	312
Taxes recoverable	48	20
Assets held for sale	342	2
Financial assets	1,493	1,500
Deferred tax assets	220	223
Total Group assets	**8,920**	**8,564**

(1) The reconciliation shown above for 2011 has been modified compared to the version published in February 2012 in order to reflect the adjustments made to the acquired assets and liabilities of Niles and CPT in 2012.

3.3 Reporting by geographic area

2012

(in millions of euros)	**External sales by market**	**Sales by production area**	**Non-current assets[(1)]**
France	1,290	2,793	774
Other European countries and Africa	4,943	3,771	846
North America	1,921	1,768	341
South America	686	625	97
Asia	2,919	3,183	865
Eliminations	-	(381)	-
TOTAL	**11,759**	**11,759**	**2,923**

Non-current assets shown by geographic area at December 31, 2012 do not include non-current assets relating to the Access Mechanisms business, which were classified in "Assets held for sale" (see Note 2.1.1) in an amount of 126 million euros, including 86 million euros in Europe and 25 million euros in South America.

2011

(in millions of euros)	**External sales by market**	**Sales by production area**	**Non-current assets**[1]
France	1,437	2,959	735
Other European countries and Africa	4,901	3,715	790
North America	1,509	1,396	289
South America	767	728	127
Asia	2,254	2,411	762
Eliminations	-	(341)	-
TOTAL	**10,868**	**10,868**	**2,703**

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

The non-current segment assets for the "Other European countries and Africa" and "Asia" lines shown above for 2011 have been modified compared to those published in February 2012 in order to reflect the adjustments made to the acquired assets and liabilities of Niles and CPT (see Notes 2.2.1 and 2.2.3) in 2012. The resulting impact of 2 million euros is not material.

3.4 Breakdown of sales by major customer

Two major global automakers represent 33.4% of the Valeo Group's sales, and each of these individually accounts for more than 10% of the Group's sales.

Three major global automakers represented individually more than 10% and globally 43.3% of the Group's sales.

Note 4 Notes to the statement of income

4.1 Sales

Group sales rose 8.2% in 2012 to 11,759 million euros from 10,868 million euros in 2011. Changes in the scope of consolidation had a positive 3.2% impact on sales, while exchange rate fluctuations had a positive impact of 2.5%.

Like-for-like (comparable Group structure and exchange rate basis), consolidated sales for 2012 climbed 2.5% on the previous year.

4.2 Cost of sales

Cost of sales can be analyzed as follows:

(in millions of euros)	**2012**	**2011**
Raw materials consumed	(6,895)	(6,295)
Labor	(1,555)	(1,433)
Direct production costs and production overheads	(1,019)	(968)
Depreciation and amortization [(1)]	(342)	(329)
Cost of sales	**(9,811)**	**(9,025)**

(1) This amount does not include amortization charged against capitalized development costs, which is recognized in net Research and Development expenditure. The 2012 depreciation and amortization expense takes into account the positive 8 million euros impact of discontinuing depreciation and amortization on the Access Mechanisms business (see Note 2.1.1) and the positive 14 million euros impact of the revised useful life of certain items of property, plant and equipment (see Note 1.12.1).

4.3 Research and Development expenditure, net

(in millions of euros)	**2012**	**2011**
Research and Development expenditure	(1,006)	(879)
Contributions received and subsidies	301	262
Capitalized development expenditure	244	177
Amortization and impairment of capitalized development expenditure	(137)	(121)
Research and Development expenditure, net	**(598)**	**(561)**

The Group stepped up its Research and Development efforts in 2012 to meet the significant increase of its order book.

The amortization expense for 2012 includes a favorable impact of 4 million euros as a result of discontinuing depreciation and amortization on the Access Mechanisms business (see Note 2.1.1).

4.4 Personnel expenses

	2012	**2011**
Total employees at December 31 [(1)]	72,600	67,930

(1) Including temporary staff.

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

(in millions of euros)	**2012**	**2011**
Wages and salaries [(1)]	1,967	1,808
Social security charges	458	422
Share-based payment	9	8
Pension expenses under defined contribution schemes	70	64

(1) Including temporary staff.

Pension expenses under defined benefit plans are set out in Note 5.10.

4.5 Other income and expenses

(in millions of euros)	**2012**	**2011**
Claims and litigation	3	1
Restructuring costs	(11)	7
Impairment of fixed assets	(9)	(25)
Impairment of the Access Mechanisms business	(44)	-
Other	8	17
Other income and expenses	**(53)**	**-**

4.5.1 Restructuring costs

The amount recognized in this caption in 2012 chiefly includes expenses relating to restructuring operations at certain plants, including a restructuring plan in Spain that was announced in the last quarter of the year.

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

4.5.2 Impairment of fixed assets

Impairment tests were carried out using the assumptions described in Note 1.13.2.

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

The main impairment indicators used by the Group as the basis for impairment tests of cash-generating units (CGUs) are a projected negative operating margin for 2012 or a fall of more than 20% in 2012 sales compared to 2011.

The scope of the CGUs tested for impairment was defined at the end of October 2012 and remained unchanged at the end of the period, since no adverse events occurred.

Three CGUs were selected:

- the Engine Management Systems Product Line;
- the Air Management Systems Product Line;
- the Electronics Product Group.

As a result of these tests, the Group recorded an impairment loss of 9 million euros for 2012 on its Engine Management Systems Product Line (part of the Powertrain Systems Business Group). In 2011, the impairment tests carried out had no impact on the consolidated financial statements.

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

Sensitivity of CGU impairment tests

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

- 0.5 pt increase in the discount rate;
- 0.5 pt decrease in the perpetuity growth rate;
- 0.5 pt decrease in the rate of operating margin on sales used to determine the terminal value.

The sensitivity analysis showed that for the Air Management Systems Product Line and Electronics Product Group, these changes in assumptions would not have impacted the results of impairment tests either individually or taken as a whole.

For the Engine Management Systems Product Line, the sensitivity analysis showed that impairment would need to be increased by:

- 6 million euros if the WACC rose by 0.5 pt;
- 5 million euros if the perpetuity growth rate fell by 0.5 pt;
- 9 million euros if the rate of operating margin on sales used to determine the terminal value fell by 0.5 pt

Conversely, the sensitivity analysis showed that the impairment loss recognized against the Engine Management Systems Product Line would be reduced by:

- 8 million euros if the WACC fell by 0.5 pt;
- 6 million euros if the perpetuity growth rate increased by 0.5 pt;
- 9 million euros if the rate of operating margin on sales used to determine the terminal value increased by 0.5 pt.

Goodwill

No impairment losses were recognized against goodwill in 2012 as a result of the impairment tests carried out at the level of Business Groups in line with the methodology described in Note 1.13.2. This was also the case in 2011.

Sensitivity of goodwill impairment tests

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

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

- 0.5 pt increase in the discount rate;
- 0.5 pt decrease in the perpetuity growth rate;
- 0.5 pt decrease in the rate of operating margin on sales used to determine the terminal value.

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

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

	Margin of the test	Impact on the margin of the test			
(in millions of euros)	Based on assumptions for 2012	WACC of 9.5% (+0.5 pt)	Perpetuity growth rate of 0.5% (-0.5 pt)	Decrease of the operating margin rate used to determine the terminal value by 0.5 pt	Combination of the three factors
Powertrain Systems Business Group	1,266	(169)	(132)	(163)	(427)
Thermal Systems Business Group	1,833	(160)	(124)	(134)	(385)
Comfort and Driving Assistance Systems Business Group	448	(104)	(82)	(84)	(249)
Visibility Systems Business Group	894	(127)	(101)	(129)	(327)

The Comfort and Driving Assistance Business Group proved more sensitive to changes in assumptions than the other Business Groups. Its recoverable amount would be equal to its net carrying amount if the operating margin used to determine the terminal value fell by 3 pt or if the WACC increased by 3 pt.

4.5.3 Impairment loss of the Access Mechanisms business

In the year ended December 31, 2012, the Group estimated the likely impacts of the sale of the Access Mechanisms business (see Note 2.1.1) and as a result, recognized an impairment loss totaling 44 million euros. This amount includes 15 million euros relating to future IT, legal and operating costs directly related to the sale and spin-off of the business.

4.5.4 Other

In 2012, this caption includes the 30 million euros gain on remeasuring at fair value the interest previously held in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.1.2). This was partially offset by 19 million euros in legal costs arising in relation to anti-trust proceedings and by the costs already incurred in connection with the sale of the Access Mechanisms business currently in progress amounting to 5 million euros.

In 2011, this caption mainly included capital gains on the acquisition of a controlling interest in Valeo Pyeong Hwa and Valeo Pyeong Hwa International (see Note 2.2.2), reduced in part by acquisition fees relating to the Niles transaction, as described in Note 2.2.1.

4.6 Cost of net debt

(*in millions of euros*)	**2012**	**2011**
Interest expense (1)	(117)	(90)
Interest income	14	19
Cost of net debt	**(103)**	**(71)**

(1) Including 6 million euros of finance costs in 2012 on undrawn credit lines (7 million euros in 2011).

The rise in the cost of net debt in 2012 was mainly due to the two 500 million euros bond issues in May 2011 and January 2012, and the syndicated loan for 250 million euros set up in June 2011. This additional interest expense was offset in part by partial redemptions of bonds maturing in 2013 (200 million euros in May 2011 and 89 million euros in January 2012) and by the repayment of the two syndicated loans of 225 million euros in January 2012 (see Note 5.12.2).

4.7 Other financial income and expenses

(in millions of euros)	**2012**	**2011**
Interest expense on pension and other employee benefits [(1)]	(47)	(46)
Expected return on plan assets [(1)]	23	21
Currency gains (losses)	(7)	(5)
Gains (losses) on commodity derivatives (trading and ineffective portion)	-	(1)
Gains (losses) on interest rate derivatives (ineffective portion)	4	(1)
Other	(3)	(3)
Other financial income and expenses	**(30)**	**(35)**

(1) See Note 5.10.

4.8 Share in net earnings of associates

(in millions of euros)	**2012**	**2011**
Ichikoh	6	-
Faw Valeo Climate Control Systems (China)	4	2
Detroit Thermal Systems	5	-
Other	(1)	-
Share in net earnings of associates	**14**	**2**

The amount reported for Detroit Thermal Systems mainly includes 6 million euros relating to the acquisition of the Climate Control business from Automotive Components Holdings (see Note 2.1.3).

4.9 Income taxes

4.9.1 Income tax expense

(in millions of euros)	**2012**	**2011**
Current taxes	(132)	(156)
Deferred taxes	(14)	8
Income taxes	**(146)**	**(148)**

4.9.2 Effective tax rate

The Group recognized income tax expense of 146 million euros in 2012, corresponding to an effective tax rate of 27.2%.

(in millions of euros)	**2012**	**2011**
Net income before income taxes excluding share in net earnings of associates	**539**	**598**
Standard tax rate in France (1)	(34.4%)	(34.4%)
Theoretical income tax expense	**(185)**	**(206)**
Impact of:		
• unrecognized deferred tax assets and unused tax losses (current year) (2)	(42)	3
• other tax rates	49	32
• utilization of prior-year tax losses	-	-
• permanent differences between accounting income and taxable income	29	29
• tax credits	18	11
• CVAE (3)	(15)	(17)
Group income tax expense	**(146)**	**(148)**

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

(2) *No deferred tax assets were recognized in respect of the Group's two main tax consolidation groups (France and United-States).*

(3) *At the end of 2009, Valeo considered that the Cotisation sur la Valeur Ajoutée des Entreprises (CVAE) tax on company value added met the definition of income tax set out in IAS 12. Income tax in 2012 therefore includes a net expense of 15 million euros in respect of CVAE (17 million euros in 2011).*

4.10 Earnings per share

4.10.1 Basic earnings per share

	2012	**2011**
Net income attributable to owners of the Company *(in millions of euros)*	380	427
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	75,540	75,112
Basic earnings per share *(in euros)*	**5.03**	**5.68**

4.10.2 Diluted earnings per share

	2012	**2011**
Net income attributable to owners of the Company *(in millions of euros)*	380	427
Weighted average number of shares outstanding *(in thousands of shares)*	75,540	75,112
Stock options *(in thousands of options)*	34	154
Weighted average number of shares used for the calculation of diluted earnings per share *(in thousands of shares)*	75,574	75,266
Diluted earnings per share *(in euros)*	**5.03**	**5.67**

Note 5 Notes to the statement of financial position

5.1 Goodwill

Changes in goodwill in 2012 and 2011 are analyzed below:

(in millions of euros)	**2012**	**2011**
Net goodwill at January 1	**1,438**	**1,210**
Acquisitions during the year	50	185
Translation adjustment	(38)	43
Reclassification	(128)	-
Net goodwill at December 31	**1,322**	**1,438**
Including accumulated impairment losses at December 31	-	-

The decrease in goodwill in 2012 mainly results from the reclassification of goodwill relating to the Access Mechanisms business within assets held for sale (see Note 2.1.1), and to a lesser extent, from the depreciation in the Japanese yen over the period. These impacts were partially offset by acquisitions in the period, including the controlling interest obtained in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd in the context of the strengthened alliance between Valeo and Ichikoh (see Note 2.1.2) and the acquisition of the Chery group's lighting company in China (see Note 2.2.4).

Movements in goodwill in 2011 chiefly resulted from the following three major changes in the scope of consolidation over that period: Niles (130 million euros – see Note 2.2.1), CPT (28 million euros – see Note 2.2.3), and Valeo Pyeong Hwa and Valeo Pyeong Hwa International (22 million euros – see Note 2.2.2).

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

(in millions of euros)	**2012**	**2011**
Powertrain Systems	326	319
Thermal Systems	341	359
Comfort and Driving Assistance Systems	318	469
Visibility Systems	336	290
Other	1	1
Goodwill	**1,322**	**1,438**

The 2011 amounts shown above for Comfort and Driving Assistance and Powertrain Systems have been modified compared to those published in February 2012 in order to reflect the adjustments made to the acquired assets and liabilities of Niles (see Note 2.2.1) and CPT (see Note 2.2.3) in 2012.

5.2 Other intangible assets

(in millions of euros)	2012			2011
	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
Software	190	(176)	**14**	15
Patents and licences	108	(77)	**31**	35
Capitalized development expenditure	1,290	(777)	**513**	427
Customer relationship and other intangible assets	262	(84)	**178**	166
Intangible assets	**1,850**	**(1,114)**	**736**	**643**

The net carrying amounts of intangible assets at December 31, 2011 were modified to reflect the adjustments made to the acquired assets and liabilities of Niles (see Note 2.2.1) and CPT (see Note 2.2.3), finalized in 2012.

Changes in intangible assets in 2012 and 2011 are analyzed below:

2012

(in millions of euros)	Software	Patents and licences	Capitalized development expenditure	Customer relationship and other intangible assets	Total
Gross carrying amount at January 1, 2012	**201**	**114**	**1,174**	**237**	**1,726**
Accumulated amortization and impairment	(186)	(79)	(747)	(71)	**(1,083)**
Net carrying amount at January 1, 2012	**15**	**35**	**427**	**166**	**643**
Acquisitions	6	1	244	21	**272**
Disposals	(1)	-	(3)	-	**(4)**
Changes in scope of consolidation	-	-	4	22	**26**
Impairment	-	-	(11)	(5)	**(16)**
Amortization	(8)	(5)	(126)	(12)	**(151)**
Translation adjustment	-	(2)	(2)	(7)	**(11)**
Reclassifications	2	2	(20)	(7)	**(23)**
Net carrying amount at December 31, 2012	**14**	**31**	**513**	**178**	**736**

At December 31, 2012, a total of 23 million euros in intangible assets, including 21 million euros in capitalized development costs, were reclassified in assets held for sale due to the disposal of the Access Mechanisms business currently in progress (see Note 2.1.1). Customer relationships recognized at December 31, 2012 include those valued in the year in connection with the controlling interest acquired in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.1.2) for 12 million euros and with the acquisition of Wuhu Ruby Automotive Lighting Systems (see Note 2.2.4) for 9 million euros.

2011

(in millions of euros)	Software	Patents and licences	Capitalized development expenditure	Customer relationship and other intangible assets	Total
Gross carrying amount at January 1, 2011	**185**	**84**	**1,018**	**179**	**1,466**
Accumulated amortization and impairment	(170)	(57)	(630)	(65)	**(922)**
Net carrying amount at January 1, 2011	**15**	**27**	**388**	**114**	**544**
Acquisitions	6	1	177	9	**193**
Disposals	(1)	-	(13)	-	**(14)**
Changes in scope of consolidation	3	24	1	44	**72**
Impairment	-	(14)	-	-	**(14)**
Amortization	(10)	(7)	(121)	(8)	**(146)**
Translation adjustment	1	3	-	8	**12**
Reclassifications	1	1	(5)	(1)	**(4)**
Net carrying amount at December 31, 2011	**15**	**35**	**427**	**166**	**643**

In 2011, new customer relationships were valued within the context of acquisitions, including those recognized on the acquisition of Niles and on the controlling interest acquired in Valeo Pyeong Hwa and Valeo Pyeong Hwa International. Patents and licenses in 2011 also included assets relating to technologies acquired, and in particular those in relation to Niles.

The amounts for 2011 shown above have been modified compared to those published in February 2012 in order to reflect the adjustments made to the acquired assets and liabilities of Niles (see Note 2.2.1) and CPT (see Note 2.2.3) in 2012. These included recognition of acquired technology for CPT (8 million euros) and a reduction in customer relationship for Niles (6 million euros).

5.3 Property, plant and equipment

	2012			2011
(in millions of euros)	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	227	(14)	**213**	208
Buildings	1,050	(700)	**350**	387
Machinery and industrial equipment	4,224	(3,332)	**892**	814
Specific tooling	1,469	(1,330)	**139**	126
Other property, plant and equipment	484	(417)	**67**	67
Property, plant and equipment in progress	417	(3)	**414**	354
TOTAL	**7,871**	**(5,796)**	**2,075**	**1,956**

No material amounts of property, plant and equipment had been pledged as security at December 31, 2012.

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

(in millions of euros)	**2012**	**2011**
Buildings	1	1
Machinery and industrial equipment	6	7
Specific tooling	1	1
Other property, plant and equipment	2	3
TOTAL	**10**	**12**

Changes in property, plant and equipment in 2012 and 2011 are analyzed below:

2012

(in millions of euros)	**Land**	**Buildings**	**Machinery and industrial equipment**	**Specific tooling**	**Other property, plant and equipment**	**Property, plant and equipment in progress**	**Total**
Gross carrying amount at January 1, 2012	**223**	**1,077**	**4,179**	**1,529**	**497**	**356**	**7,861**
Accumulated depreciation and impairment	(15)	(690)	(3,365)	(1,403)	(430)	(2)	**(5,905)**
Net carrying amount at January 1, 2012	**208**	**387**	**814**	**126**	**67**	**354**	**1,956**
Acquisitions	7	20	187	48	24	321	**607**
Disposals	(1)	-	(3)	1	(3)	(1)	**(7)**
Changes in scope of consolidation	8	5	6	-	1	7	**27**
Impairment	-	-	4	1	-	2	**7**
Depreciation	-	(47)	(237)	(72)	(28)	-	**(384)**
Translation adjustment	(11)	(3)	(6)	(1)	(1)	(2)	**(24)**
Reclassifications	2	(12)	127	36	7	(267)	**(107)**
Net carrying amount at December 31, 2012	**213**	**350**	**892**	**139**	**67**	**414**	**2,075**

At December 31, 2012, a total of 103 million euros in property, plant and equipment were reclassified in assets held for sale due to the disposal of the Access Mechanisms business currently in progress (see Note 2.1.1).

2011

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

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

5.4 Investments in associates

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

(in millions of euros)	2012	2011
Investments in associates at January 1	**104**	**104**
Share in net earnings of associates	14	2
Dividend payments	-	(3)
Impact of changes in scope of consolidation	3	(6)
Translation adjustment [1]	(10)	7
Other	1	-
Investments in associates at December 31	**112**	**104**

(1) Reflecting mainly the impact of changes in the Japanese yen on the Group's interest in Ichikoh.

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

	Ownership interest *(%)*		**Carrying amount** *(in millions of euros)*	
	2012	**2011**	**2012**	**2011**
Ichikoh	31.6	31.6	67	74
Faw Valeo Climate Control	36.5	36.5	34	30
Detroit Thermal Systems	49.0	-	9	-
Other	-	-	2	-
Investments in associates	**-**	**-**	**112**	**104**

Ichikoh Industries Ltd is listed on the Tokyo Stock Exchange. The market value of Valeo's interest in Ichikoh was 38 million euros at both December 31, 2012 and 2011. The carrying amount of the investment in the consolidated financial statements of the Group is justified by its value in use for Valeo.

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

(in millions of euros)	2012	2011
Total assets	659	720
Total liabilities	467	561
Sales	973	861
Net income for the year	39	3

These data are presented based on a 100% holding and according to local GAAP.

5.5 Deferred taxes

Deferred taxes broken down by temporary differences are shown below:

(in millions of euros)	**2012**	**2011**
Loss carryforwards	1,052	956
Capitalized development expenditure	(122)	(107)
Pensions and other employee benefits	246	209
Other provisions	87	99
Inventories	23	26
Provisions for restructuring costs	13	15
Tooling	1	1
Non-current assets	3	10
Other	108	106
Deferred taxes, gross	**1,411**	**1,315**
Unrecognized deferred tax assets	(1,217)	(1,118)
Deferred taxes	**194**	**197**
o/w : • Deferred tax assets	220	223
• Deferred tax liabilities	(26)	(26)

2011 deferred taxes have been modified compared to the version published in February 2012 to reflect the definitive adjustments made to the acquired assets and liabilities of CPT (see Note 2.2.3)

At December 31, 2012, deferred tax assets not recognized by the Group can be analyzed as follows:

(in millions of euros)	**Tax basis**	**Potential tax saving**
Tax losses available for carryforward from 2013 through 2016	34	9
Tax losses available for carryforward in 2017 and thereafter	1,386	509
Tax losses available for carryforward indefinitely	1,397	476
Current tax loss carryforwards	**2,817**	**994**
Unrecognized deferred tax assets on temporary differences	-	223
Total unrecognized deferred tax assets	**-**	**1,217**

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

5.6 Inventories

At December 31, 2012, inventories break down as follows:

	2012			**2011**
(in millions of euros)	**Gross carrying amount**	**Impairment**	**Net carrying amount**	**Net carrying amount**
Raw materials	324	(53)	**271**	277
Work-in-progress	87	(10)	**77**	79
Finished goods, supplies and specific tooling	508	(67)	**441**	409
Inventories, net	**919**	**(130)**	**789**	**765**

Impairment losses taken against inventories amounted to 130 million euros at December 31, 2012 (135 million euros at December 31, 2011), including an allowance (net of reversals) of 1 million euros during the period.

Inventories relating to the Access Mechanisms business, reclassified as held for sale at December 31, 2012 (see Note 2.1.1), include gross inventories for 41 million euros and 6 million euros in impairment.

Allowances to provisions for impairment of inventories net of reversals in 2011 amounted to 5 million euros.

5.7 Accounts and notes receivable

(in millions of euros)	**2012**	**2011**
Accounts and notes receivable, gross	1,537	1,727
Impairment	(20)	(22)
Accounts and notes receivable, net	**1,517**	**1,705**

Accounts and notes receivable relating to the Access Mechanisms business, reclassified as held for sale at December 31, 2012 (see Note 2.1.1), include gross accounts and notes receivable amounting to 90 million euros and impairment losses totalling 2 million euros. Prior to reclassification as held for sale, gross accounts and notes receivable not yet due and less than one month past due totaled 1,519 million euros and 67 million euros, respectively, and represented 97% of total gross accounts and notes receivable (see Note 6.2.3).

Accounts and notes receivable falling due after December 31 for which substantially all risks and rewards have been transferred and which are no longer carried in assets on the statement of financial position, represent an amount of 72 million euros in 2012 versus 51 million euros in 2011.

A total of 61 million euros out of this amount of 72 million euros relates to transfer operations renewed on a systematic basis.

5.8 Assets and liabilities held for sale

As indicated in Note 2.1.1, due to the project of sale of the Access Mechanisms business, all of the assets and liabilities relating to this activity have been reclassified as held for sale.

The main items in the statement of financial position for this business that were reclassified at December 31, 2012 are set out below, prior to recognition of the 44 million euros impairment loss and after elimination of intragroup balances:

(in millions of euros)	**2012**		**2012**
ASSETS		**EQUITY AND LIABILITIES**	
Goodwill	128	Translation adjustment	13
Other intangible assets	23	Retained earnings	181
Property, plant and equipment	103	**Stockholders' equity**	**194**
Non-current financial assets	-	Provisions - long-term portion	16
Deferred tax assets	3	**Non-current liabilities**	**16**
Non-current assets	**257**	Accounts and notes payable	107
Inventories	35	Provisions - current portion	5
Accounts and notes receivable	88	Taxes payable	1
Other current assets	5	Other current liabilities	40
Taxes recoverable	1	Current portion of long-term debt	1
Cash and cash equivalents	-	Short-term debt	22
Current assets	**129**	**Current liabilities**	**176**
TOTAL ASSETS	**386**	**TOTAL EQUITY AND LIABILITIES**	**386**

5.9 Stockholders' equity

5.9.1 Share capital

At December 31, 2012, Valeo's share capital totaled 238 million euros, divided into 79,462,540 shares of common stock (of which 3,358,873 treasury shares) with a par value of 3 euros each, all fully paid-up. Shares that have been registered in the name of the same holder for at least four years carry double voting rights (3,531,886 shares at December 31, 2012).

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

The Group may be required to buy back treasury shares on the market to cover its obligations with regard to stock option and free share plans, as well as Company savings plans and the liquidity contract.

This liquidity agreement was executed with an investment services provider on April 22, 2004 pursuant to the code of ethics published by the French Association of Investment Firms (AFEI). At December 31, 2012, 60,000 shares and 15,312,092 euros had been allocated to this liquidity agreement compared with 352,000 shares and 3,707,328 euros at December 31, 2011. On the date the liquidity agreement was signed, 220,000 Valeo shares and 6,600,000 euros were allocated for its implementation.

■ Terms and conditions of stock option and free share plans

The terms and conditions of the shareholder-approved employee stock option and free share plans operated by Valeo at December 31, 2012 were as follows:

Terms and conditions of stock option plans

Year in which the plan was set up	Number of shares under option	*of which subject to conditions* [(1)]	Option exercise price *(in euros)* [(2)]	Number of shares not yet issued at December 31, 2012	Expiration date
2005	650,000	-	32.32	192,360	2013
2006	1,309,250	-	32.63	493,360	2014
2007	250,000	-	36.97	250,000	2015
2007	1,677,000	-	36.82	967,653	2015
2008	426,750	-	31.41	254,592	2016
2010	1,000,000	611,365	24.07	801,500	2018
2011	292,840	210,370	42.41	266,760	2019
2012	367,160	265,230	40.78	359,360	2020
TOTAL	**5,973,000**	**1,086,965**		**3,585,585**	

(1) These stock options are subject to the Group meeting performance conditions.

(2) The exercise price equals 100% of the average Valeo share price over the 20 trading days preceding the Board of Directors' meeting granting the options, or 100% of the average purchase price of treasury share held if this is higher than the Valeo quoted share price.

Terms and conditions of free share plans

Year in which the plan was set up	Number of free shares authorized	*of which subject to conditions* [(1)]	Number of shares not yet tendered at December 31, 2012	Year of vesting [(2)]
2010	400,000	178,112	126,474	2012/2014
2011	326,860	126,480	291,538	2014/2016
2012	213,140	117,220	208,684	2015/2017
TOTAL	**940,000**	**421,812**	**626,696**	

(1) These free shares are subject to the Group meeting performance conditions.

(2) The vesting year varies depending on the country in which the plan's beneficiaries are based

■ Movements in stock option and free share plans

2012

	Number of options and free shares granted [(1)]	Weighted average exercise price
Options not exercised at January 1, 2012	**4,649,419**	**27.52**
Options granted/Free shares to be tendered	580,300	25.80
Options canceled	(171,859)	21.04
Options expired	(64,795)	29.48
Options exercised	(780,784)	21.74
Options not exercised/Free shares not issued at December 31	**4,212,281**	**28.59**
Options which can be exercised at December 31, 2012	**2,959,465**	**31.92**

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

2011

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

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

■ Main assumptions underlying the valuation of equity instruments

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

2012

	2012			
	Free shares		Stock options	
	France	Other countries	France	Other countries
Share price at grant date *(in euros)*	40.2	40.2	40.2	40.2
Expected volatility *(%)*	-	-	42.8	53.7
Risk-free rate *(%)*	1.1	1.5	1.3	1.1
Dividend rate *(%)*	4.1	-	3.9	3.9
Duration of the option *(in years)*	-	-	8	8
Fair value of equity instruments *(in euros)*	**32.6**	**32.6**	**10.1**	**11.7**

Expected volatility is determined as being the historic volatility calculated over a period equal to the duration of the options. The maturity used 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. This was four years for options granted to employees in France and three years for options granted to employees in other countries.

An expense of 9 million euros was booked in 2012 in respect of stock option and free share plans (8 million euros in 2011).

2011

	2011				
	Free shares			Stock options	
	France	Italy	Other countries	France	Other countries
Share price at grant date *(in euros)*	42.6	42.6	42.6	42.6	42.6
Expected volatility *(%)*	-	-	-	43.8	43.8
Risk-free rate *(%)*	2.3	2.3	2.7	2.5	2.3
Dividend rate *(%)*	4.0	4.0	-	3.7	3.6
Duration of the option *(in years)*	-	-	-	8	8
Fair value of equity instruments *(in euros)*	**34.6**	**32.3**	**35.3**	**12.7**	**10.8**

5.9.2 Additional paid-in capital

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

5.9.3 Translation adjustment

Movements in the translation adjustment in the period resulted in an unrealized loss of 47 million euros, mainly reflecting the depreciation of the Brazilian and Japanese currencies in 2012.

5.9.4 Retained earnings

Retained earnings include income for the year of 380 million euros prior to appropriation.

5.9.5 Dividends per share

The balance of the parent company's distributable retained earnings (before appropriation of 2012 net income) is 1,714 million euros in 2012 (1,592 million euros in 2011).

A dividend of 1.40 euro per share was paid in 2012, representing a total payout of 106 million euros. The dividend paid in 2011 was 1.20 euro per share, representing a total payout of 91 million euros.

5.9.6 Treasury shares

At December 31, 2012, Valeo owns 3,358,873 of its own shares, representing 4.2% of share capital (December 31, 2011: 4,241,206 shares, representing 5.4% of share capital).

5.9.7 Non-controlling interests

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

(in millions of euros)	**2012**	**2011**
Non-controlling interests at January 1	**144**	**62**
Equity in net earnings	25	24
Dividends paid	(18)	(17)
Capital increase	1	-
Translation adjustment	2	7
Actuarial gains (losses) on defined benefit plans	(1)	-
Changes in scope of consolidation	(10)	68
Non-controlling interests at December 31	**143**	**144**

The impact of changes in the scope of consolidation in 2012 was mainly due to the acquisition of shares in Valeo Automotive Air Conditioning Hubei Co. Ltd (see Note 2.1.4) for 21 million euros, partially offset by the impact of the alliance with Ichikoh in the lighting business in China (see Note 2.2.2), representing an amount of 12 million euros.

The impact of changes in the scope of consolidation in 2011 was mainly due to the acquisition of controlling interests in Valeo Pyeong Hwa and Valeo Pyeong Hwa International.

5.10 Provisions for pensions and other employee benefits

5.10.1 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:

- supplementary pension benefits (France, Germany, Japan, United Kingdom, United States) which top up the statutory pension plans in force in those countries;
- termination benefits (France, Italy, South Korea);
- the payment of certain medical and life insurance costs for retired employees (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.

5.10.2 Actuarial assumptions

To calculate discount rates for the year ended December 31, 2012, 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:

(%)		December 31, 2012	December 31, 2011
iBoxx Euro-Corporate AA 10-year+	Eurozone	3.0	4.8
iBoxx £-Corporate AA 15-year+	United Kingdom	4.0	4.8
Citigroup Pension Discount Curve	United States	3.5	4.1
10-year government bonds	Japan	1.0	1.4
10-year government bonds	South Korea	3.0	4.0

The sensitivity of the Group's main obligations to a 0.5 pt rise or fall in discount rates is set out in Note 5.10.7.

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

(%)	December 31, 2012	December 31, 2011
United States	7.3	7.3
United Kingdom	4.7	6.0
Japan	3.3	3.8

The weighted average long-term salary inflation rate was around 3.5% at December 31, 2012, largely unchanged from December 31, 2011.

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

5.10.3 Breakdown and movements in obligations

Pension obligations break down as follows by major geographic area:

2012

(in millions of euros)	France	Other European countries	North America	Asia	Total
Present value of unfunded obligations	180	350	111	65	**706**
Present value of funded obligations	25	76	407	90	**598**
Market value of plan assets	(8)	(53)	(275)	(48)	**(384)**
Deficit	**197**	**373**	**243**	**107**	**920**
Unrecognized past service cost	(4)	-	-	-	**(4)**
Provisions recognized at December 31, 2012	**193**	**373**	**243**	**107**	**916**
Permanent employees at December 31, 2012 [1]	12,803	17,865	7,629	17,104	**55,401**

2011

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

(1) *Permanent employees shown in the tables above do not include permanent staff in South America, for which no obligation was recognized in respect of pensions or other long-term benefits in 2011 or 2012. The Group's pension obligations in North America are significant, since a significant portion of these obligations relates to retired personnel or employees having left the Group.*

Movements in obligations in 2011 and 2012 are shown below by major geographic area:

2012

(in millions of euros)	France	Other European countries	North America	Asia	Total
Benefit obligations at January 1, 2012	**162**	**323**	**494**	**153**	**1,132**
Actuarial gains and losses recognized in other comprehensive income	38	99	36	7	**180**
Benefits paid	(10)	(14)	(23)	(9)	**(56)**
Translation adjustment	-	2	(10)	(11)	**(19)**
Reclassification	(7)	(6)	-	1	**(12)**
Impact of changes in scope of consolidation	-	-	-	-	**-**
Expenses (income) for the year:	**22**	**22**	**21**	**14**	**79**
Service cost	*12*	*6*	*1*	*10*	***29***
Interest cost	*8*	*15*	*20*	*4*	***47***
Other	*2*	*1*	*-*	*-*	***3***
Benefit obligations at December 31, 2012	**205**	**426**	**518**	**155**	**1,304**

The actuarial gains and losses recognized in the year, leading to an increase of 180 million euros in the Group's obligation, arose chiefly due to the sharp fall in the discount rate in eurozone countries.

2011

(in millions of euros)	France	Other European countries	North America	Asia	Total
Benefit obligations at January 1, 2011	**152**	**313**	**425**	**98**	**988**
Actuarial gains and losses recognized in other comprehensive income	7	4	56	-	**67**
Benefits paid	(15)	(13)	(21)	(13)	**(62)**
Translation adjustment	-	3	16	14	**33**
Reclassification	-	-	-	(1)	**(1)**
Impact of changes in scope of consolidation	-	-	-	44	**44**
Expenses (income) for the year:	**18**	**16**	**18**	**11**	**63**
Service cost	*10*	*4*	*1*	*8*	***23***
Interest cost	*7*	*15*	*21*	*3*	***46***
Other	*1*	*(3)*	*(4)*	*-*	***(6)***
Benefit obligations at December 31, 2011	**162**	**323**	**494**	**153**	**1,132**

The 67 million euros in actuarial gains and losses mainly reflects the fall in discount rates in countries where the Group's obligations are the most significant, in particular the United States.

Changes in the scope of consolidation during the period led to an increase of 44 million euros in the Group's obligation, mainly in Japan as a result of the acquisition of Niles.

5.10.4 Movements in provisions

Movements in provisions in 2012 and 2011 are shown in the table below:

(in millions of euros)	France	Other European countries	North America	Asia	Total
Provisions at January 1, 2011	**142**	**271**	**180**	**58**	**651**
Actuarial gains and losses recognized in other comprehensive income	7	6	76	1	**90**
Amounts used during the year	(17)	(14)	(28)	(11)	**(70)**
Impact of changes in scope of consolidation	-	-	-	44	**44**
Reclassification	-	-	-	(1)	**(1)**
Translation adjustment	-	1	9	8	**18**
Expenses (income) for the year:	**20**	**14**	**-**	**10**	**44**
• *Service cost*	*10*	*4*	*1*	*8*	***23***
• *Interest cost*	*7*	*15*	*21*	*3*	***46***
• *Past service cost*	*2*	*-*	*-*	*-*	***2***
• *Expected return on plan assets*	*-*	*(2)*	*(18)*	*(1)*	***(21)***
• *Other*	*1*	*(3)*	*(4)*	*-*	***(6)***
Provisions at December 31, 2011	**152**	**278**	**237**	**109**	**776**
Actuarial gains and losses recognized in other comprehensive income	38	96	27	4	**165**
Amounts used during the year	(13)	(16)	(18)	(13)	**(60)**
Impact of changes in scope of consolidation	-	-	-	-	**-**
Reclassification	(7)	(6)	-	1	**(12)**
Translation adjustment	-	1	(5)	(6)	**(10)**
Expenses (income) for the year:	**23**	**20**	**2**	**12**	**57**
• *Service cost*	*12*	*6*	*1*	*10*	***29***
• *Interest cost*	*8*	*15*	*20*	*4*	***47***
• *Past service cost*	*1*	*-*	*-*	*-*	***1***
• *Expected return on plan assets*	*-*	*(2)*	*(19)*	*(2)*	***(23)***
• *Other*	*2*	*1*	*-*	*-*	***3***
Provisions at December 31, 2012	**193**	**373**	**243**	**107**	**916**
Of which current portion (less than one year)	13	16	14	11	**54**

An expense of 57 million euros was recognized in 2012 in respect of pensions and other employee benefits (44 million euros in 2011), of which 33 million euros were included in operating margin and 24 million euros in other financial income and expenses.

5.10.5 Breakdown and movements in plan assets

The breakdown of plan assets at December 31, 2012 and 2011 is shown in the tables below:

2012

(in millions of euros)	France	Other European countries	North America	Asia	Total
Cash at bank	-	3	10	10	**23**
Shares	8	30	145	14	**197**
Government bonds	-	10	29	12	**51**
Corporate bonds	-	10	91	12	**113**
Breakdown of plan assets at December 31, 2012	**8**	**53**	**275**	**48**	**384**

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

2011

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

Movements in the value of plan assets in 2012 and 2011 can be analyzed as follows:

2012

(in millions of euros)	France	Other European countries	North America	Asia	Total
Plan assets at January 1, 2012	**5**	**45**	**257**	**44**	**351**
Expected return on plan assets	-	2	19	2	**23**
Contributions paid to external funds	4	5	11	10	**30**
Benefits paid	(1)	(3)	(16)	(6)	**(26)**
Actuarial gains and losses	-	3	9	3	**15**
Translation adjustment	-	1	(5)	(5)	**(9)**
Plan assets at December 31, 2012	**8**	**53**	**275**	**48**	**384**

The fair value of plan assets continued to rise in 2012, chiefly due to actual returns on these assets totaling 38 million euros. The difference between actual returns and the 23 million euros in expected returns, recognized in other financial income and expenses, accounts for the 15 million euros of actuarial gains resulting from experience adjustments. These actuarial gains were credited to other comprehensive income in 2012.

Contributions of 30 million euros were paid to external funds in 2012. Contributions in 2013 are estimated at 14 million euros.

2011

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

5.10.6 Data for previous years

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

(in millions of euros)	2012	2011	2010	2009	2008
Obligations	1,304	1,132	988	886	843
Financial assets	(384)	(351)	(330)	(269)	(225)
Net obligations	**920**	**781**	**658**	**617**	**618**
Actuarial (losses) and gains recognized in other comprehensive income [1]	(165)	(90)	(30)	(16)	(56)

(1) Actuarial losses recognized in equity in 2012 for 165 million euros mainly include 177 million euros of actuarial losses arising on changes in assumptions regarding pension obligations, partially offset by 15 million euros in actuarial gains due to experience adjustments on financial assets.

5.10.7 Sensitivity of obligations

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

A 0.5 pt increase or decrease in discount rates would have the following impact on the projected benefit obligation at December 31, 2012:

(in millions of euros)	Eurozone	United Kingdom	United States	Japan	South Korea	Other countries	Total
Benefit obligations at December 31, 2012	*549*	*74*	*503*	*103*	*47*	*28*	***1,304***
Impact of a 0.5 pt rise in discount rates	(42)	(7)	(32)	(4)	(2)	(2)	**(89)**
Impact of a 0.5 pt fall in discount rates	45	7	34	4	2	2	**94**

A 0.5 pt increase in the discount rate would reduce service cost for 2013 by around 3 million euros, while a 0.5 pt decrease in the discount rate would have the opposite effect.

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

5.10.8 Sensitivity of plan assets

A decrease of 1 pt in the expected return on plan assets would reduce the financial income recognized on these assets in 2013 by around 4 million euros. An increase of 1 pt in the expected return on plan assets would have the opposite effect.

5.11 Other provisions

Changes in provisions can be analyzed as follows:

(in millions of euros)	Provisions for restructuring costs	Provisions for other risks	Total
Provisions at January 1, 2011	**107**	**425**	**532**
Amounts used during the year	(38)	(68)	**(106)**
Impact of changes in scope of consolidation	-	15	**15**
Translation adjustment	-	-	**-**
Reclassification	1	(1)	**-**
Additions	6	110	**116**
Unwinding of discount	1	-	**1**
Reversals	(17)	(61)	**(78)**
Provisions at December 31, 2011	**60**	**420**	**480**
Amounts used during the year	(15)	(89)	**(104)**
Impact of changes in scope of consolidation	-	4	**4**
Translation adjustment	(1)	(6)	**(7)**
Reclassification	(5)	1	**(4)**
Additions	11	101	**112**
Unwinding of discount	-	-	**-**
Reversals	(6)	(53)	**(59)**
Provisions at December 31, 2012	**44**	**378**	**422**
Of which current portion (less than one year)	**14**	**185**	**199**

5.11.1 Provisions for restructuring costs

Provisions for restructuring costs totaled 44 million euros at December 31, 2012 versus 60 million euros at December 31, 2011. The decrease in 2012 results mainly from expenditures and reversals of outstanding provisions set aside for the restructuring plan launched in 2010 on setting up the new organization of the Group.

5.11.2 Provisions for other contingencies

(in millions of euros)	2012	2011
Provisions for product warranties	185	192
Provisions for tax-related disputes	66	72
Environmental provisions	20	22
Provisions for loss making contracts	13	16
Provisions for employee-related and other disputes	94	118
Provisions for other contingencies	**378**	**420**

Provisions for product warranties include provisions set aside on a statistical basis to cover returns of goods and services under warranty and provisions for specific quality risks arising in situations not covered by usual warranties.

Provisions for tax disputes include a 27 million euros provision set aside for a tax dispute with the French tax authorities brought by Valeo before the administrative court in September 2003. This dispute is based on the allegedly unlawful nature of the dividend withholding tax paid on dividend payouts made in 2000. In a ruling at the end of December 2007, the administrative court found in favor of Valeo, which was reimbursed in an amount of 27 million euros in April 2008. Since the tax authorities lodged an appeal against this decision, Valeo set aside a provision for the full amount received, due to uncertainties surrounding existing case law on the matter.

Provisions for tax disputes also include a 10 million euros provision relating to an ongoing dispute before the Spanish courts regarding fiscal years 1992 to 1995. One of the companies belonging to the Spanish tax consolidation group was considered by Spanish tax authorities to have left the tax group due to insufficient stockholders' equity. Its tax losses could not be utilized.

The 94 million euros recognized within "Provisions for employee-related and other disputes" chiefly includes provisions for employee-related risks, including asbestos risks for 40 million euros and various disputes arising in connection with Valeo's operating activities across the globe.

5.12 Net debt

5.12.1 Gross debt

At December 31, 2012, the Group's gross debt can be analyzed as follows:

(in millions of euros)	**2012**	**2011**
Long-term debt - Long-term portion (Note 5.12.2)	1,564	1,494
Current portion of long-term debt (Note 5.12.2)	440	307
Short-term debt (Note 5.12.3)	73	75
Portion of liabilities held for sale related to the gross debt (Note 5.8)	23	-
Gross debt	**2,100**	**1,876**

5.12.2 Long-term debt

■ Analysis of long-term debt

(in millions of euros)	**2012**	**2011**
Bonds	1,303	893
Syndicated loans	248	472
European Investment Bank loans	283	281
Lease obligations	11	14
Other borrow ings	106	110
Accrued interest	54	31
Portion of liabilities held for sale related to long-term debt (Note 5.8)	(1)	-
Total long-term debt	**2,004**	**1,801**

The net rise in long-term debt in 2012 is essentially due to the three factors described below:

- on January 19, 2012, Valeo carried out a 500 million euros bond issue within the scope of its Euro Medium Term Note, medium and long term financing program. The bonds are redeemable in January 2017 and pay a fixed coupon of 5.75%;
- at the same time as the bond issue, Valeo launched a redemption offer for holders of its 2013 bonds. A total of 89 million euros in bonds was redeemed as a result of this offer. These transactions allow Valeo to extend the average maturity of its debt and smooth its repayment profile, reducing the amount due in 2013 by 89 million euros in exchange for 500 million euros with a revised maturity of 2017;
- on January 30, 2012, Valeo repaid the two syndicated loans ahead of maturity due to expire at the end of July 2012, using the proceeds from its January 19, 2012 bond issue.

At December 31, 2012, long-term debt chiefly includes:

- a 311 million euros bond issued by Valeo as part of its Euro Medium Term Note program. These eight-year bonds were initially issued for an amount of 600 million euros on June 24, 2005. In May 2011, Valeo redeemed one-third of these outstanding bonds, representing a nominal amount of 200 million euros, at 101.8% of par. In January 2012, Valeo redeemed an additional portion of these bonds, representing a nominal amount of 89 million euros, at 101.6% of par. These two transactions were accounted for as an extinguishment of debt, with the difference between the carrying amount of the debt extinguished and the amount paid to bondholders together with brokerage fees recognized in interest expenses for 5 million euros in 2011 and 2 million euros in 2012. The effective interest rate on the outstanding bonds remains unchanged at 3.89%;
- 500 million euros worth of seven-year bonds maturing in 2018 and issued by Valeo on May 12, 2011. These bonds were issued as part of the Euro Medium Term Note program and pay 4.875% interest. The effective interest rate is 5.09%;
- 500 million euros worth of five-year bonds maturing in 2017 and issued by Valeo on January 19, 2012. These bonds were issued as part of the Euro Medium Term Notes program and pay 5.75% interest. The effective interest rate is 5.92%;
- a syndicated five-year loan contracted by the Group at June 30, 2011 for 250 million euros in connection with the financing of Niles. The loan was taken out with three banks within the scope of a club deal and bears variable interest at 3-month Euribor +1.3%. A euro/Japanese yen cross currency swap for 237 million euros was set up on inception of the loan for the same maturity;
- two loans taken out with the European Investment Bank (EIB) for a total amount of 300 million euros. These EIB reduced-rate loans were granted as part of funding for costs incurred by the Group in research projects looking at ways to reduce fuel consumption and CO_2 emissions and improve active safety:
  - a first 225 million euros loan was taken out on 5 August 2009 for a seven-year term, repayable in four equal annual installments as from 2013. This loan bears variable interest (6-month Euribor + 2.46%). An interest rate swap was taken out in respect of this loan, exchanging Euribor for a fixed rate of 3.37%;
  - a second loan, drawn down in USD in an amount of 103 million dollars, was taken out for a seven-year term on November 3, 2011, repayable in four equal annual installments as from 2015. This loan bears variable interest at 6-month USD Libor + 1.9%. A currency swap was taken out at the same time as the loan.

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:

- for the first 225 million euros loan, the subsidy was estimated at 28 million euros and was recognized within liabilities in the statement of financial position. It is subsequently booked against Research and Development expenditure at the same time as the completion of the projects it is intended to finance. The impact on income in 2012 is 4.7 million euros. The loan is carried at amortized cost for an amount of 210 million euros at December 31, 2012, and has an effective interest rate of 5.84%;

- for the second 103 million US dollar loan, the subsidy was estimated at 6 million euros and is recognized within liabilities in the statement of financial position. The impact on income in 2012 is 1.5 million euros. The loan is carried at amortized cost for an amount of 73 million euros at December 31, 2012.

- other loans chiefly comprise debt contracted by Group subsidiaries at reduced rates in Spain.

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

Maturities of long-term debt-long term portion

(in millions of euros)	**2014**	**2015**	**2016**	**2017**	**2018 and beyond**	**Total**
Bonds	-	-	-	497	495	**992**
Syndicated loans	-	-	248	-	-	**248**
EIB loans	51	71	72	19	19	**232**
Lease obligations	4	2	1	-	-	**7**
Other borrow ings	30	8	21	3	23	**85**
TOTAL	**85**	**81**	**342**	**519**	**537**	**1,564**

Current portion of long-term debt

(in millions of euros)	**2012**	**2011**
Bond issue	311	**-**
Syndicated loans	-	224
EIB loans	51	-
Lease obligations	4	6
Other borrow ings	21	46
Accrued interest	54	31
Portion of liabilities held for sale related to the long-term debt (Note 5.8)	(1)	-
Current portion of long-term debt	**440**	**307**

At December 31, 2012, the current portion of long-term debt relates mainly to the 311 million euros bond issue maturing in June 2013.

At December 31, 2011, the current portion of long-term debt related mainly to the two syndicated loans for 224 million euros maturing at the end of July 2012.

5.12.3 Short-term debt

(in millions of euros)	**2012**	**2011**
Commercial paper	30	21
Short-term loans and overdrafts	65	54
Cash portion of assets and liabilities held for sale (Note 5.8)	(22)	-
Short-term debt	**73**	**75**

The 65 million euros recorded on the “Short-term loans and overdrafts” line relate mainly to overdraft facilities.

5.12.4 Cash and cash equivalents

(in millions of euros)	**2012**	**2011**
Marketable securities	793	735
Cash	541	560
Cash and cash equivalents	**1,334**	**1,295**

Marketable securities consist of money market funds (SICAV) for 766 million euros.

The fair value of these cash equivalents was measured using Level 1 inputs (see Note 6.1.1).

In China and Brazil, where exchange control restrictions may exist, cash and cash equivalents amounted to 157 million euros at December 31, 2012, compared to 114 million euros at December 31, 2011. In these countries, the Group has set up local cash pooling arrangements and regularly receives dividends from several companies.

Cash and cash equivalents due to the Group's partners in fully consolidated companies that are not wholly owned by Valeo totaled 48 million euros at December 31, 2012 and 48 million euros at December 31, 2011.

Cash and cash equivalents in proportionately consolidated companies totaled 50 million euros at December 31, 2012 and 29 million euros at December 31, 2011.

5.12.5 Net debt

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

(in millions of euros)	**2012**	**2011**
Debt - long-term portion (Note 5.12.2)	1,564	1,494
Current portion of long-term debt (Note 5.12.2)	440	307
Loans and other non-current financial assets	(3)	(58)
Portion of liabilities held for sale related to the long-term debt (Note 5.8)	1	-
Long-term debt	**2,002**	**1,743**
Short-term debt (Note 5.12.3)	73	75
Cash and cash equivalents (Note 5.12.4)	(1,334)	(1,295)
Cash portion of assets and liabilities held for sale (Note 5.8)	22	-
Short-term cash	**(1,239)**	**(1,220)**
Net debt	**763**	**523**

5.12.6 Analysis of net debt by currency

Net debt can be analyzed as follows by currency:

(in millions of euros)	2012	2011
Euro	1,082	909
US dollar	(66)	(62)
Japanese Yen	(6)	(84)
Brazilian real	(7)	(41)
Korean w on	(96)	(67)
Chinese yuan	(95)	(58)
Other currencies	(49)	(74)
TOTAL	**763**	**523**

5.13 Breakdown of cash flows

5.13.1 Expenses (income) with no cash effect

(in millions of euros)	2012	2011
Expenses (income) w ith no cash effect		
Depreciation, amortization and impairment of non-current assets	544	534
Net additions to (reversals from) provisions	(47)	(91)
Losses (gains) on sales of non-current assets	8	2
Expenses related to share-based payment	9	8
Losses (gains) on remeasurement of previously-held interest	(30)	(24)
Impairment of assets and liabilities held for sale	46	-
TOTAL	**530**	**429**

Impairment losses taken against assets and liabilities held for sale mainly relate to the 44 million euros write-down recognized on the Access Mechanisms business (see Note 2.2.1).

5.13.2 Changes in working capital

(in millions of euros)	2012	2011
Changes in w orking capital		
Inventories	(66)	(73)
Accounts and notes receivable	101	(145)
Accounts and notes payable	(18)	238
Other receivables and payables	(66)	(49)
TOTAL	**(49)**	**(29)**

5.13.3 Acquisitions of equity interests conferring control

Changes in the scope of consolidation had a negative impact of 19 million euros in 2012, chiefly reflecting the stronger alliance between Valeo and Ichikoh in the Lighting business in China (see Note 2.1.2), resulting in a negative impact of 10 million euros over the period;

Changes in the scope of consolidation had a negative impact of 270 million euros in 2011, chiefly attributable to the two acquisitions during the year:

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

These cash outflows during the period were offset in part by a positive 20 million euros impact relating to the acquisition of a controlling interest with no cash consideration of Valeo Pyeong Hwa and Valeo Pyeong Hwa International. These entities were fully consolidated as opposed to proportionately consolidated previously.

5.13.4 Issuance and repayment of long-term debt

In 2012, issuance of long-term debt mainly relates to the new 500 million euros bond issue on January 19, 2012, redeemable in January 2017.

Repayments of long-term debt in the same period mainly include the early repayment of the two syndicated loans for 224 million euros and the redemption of 2013 bonds for 89 million euros in January 2012.

In 2011, issuance of long-term debt consisted mainly of the bonds issued on May 11, 2011 for 500 million euros and a 250 million euros loan taken out by the Group on June 30, 2011 in connection with the financing of Niles.

Repayments of long-term debt in the same period mainly included the redemption of OCEANE bonds for 463 million euros in January 2011 and the redemption of 2013 bonds for 200 million euros in May 2011 (see Note 5.12.2).

5.13.5 Acquisitions of equity interests without control

The Group's acquisition of non-controlling interests in Chinese firm Valeo Automotive Air Conditioning Hubei Co. Ltd (see Note 2.1.4) resulted in a cash outflow of 52 million euros in 2012. The creation of Detroit Thermal Systems (see Note 2.2.3) reduced cash by 4 million euros in the same period.

Note 6 Additional disclosures

6.1 Financial instruments

6.1.1 Fair value of financial instruments

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

	2012	2012 carrying amount under IAS 39			2011
(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	**4**	-	4	-	12
• Loans	**3**	3	-	-	58
• Deposits and guarantees	**16**	-	-	16	18
• Other non-current financial assets	**4**	-	-	4	3
Accounts and notes receivable	**1,517**	1,517	-	-	1,705
Other current financial assets:					
• Hedging derivatives	**2**	-	2	-	1
• Trading derivatives	**18**	-	-	18	9
Assets held for sale (1)	**88**	88	-	-	-
Cash and cash equivalents	**1,334**	-	-	1,334	1,295
LIABILITIES					
Non-current financial liabilities:					
• Hedging derivatives	**14**	-	14	-	13
• Trading derivatives	**3**	-	-	3	38
Bonds	**1,303**	1,303	-	-	893
Syndicated loans	**248**	248	-	-	472
EIB loans	**283**	283	-	-	281
Other long-term debt	**170**	170	-	-	155
Accounts and notes payable	**2,209**	2,209	-	-	2,338
Other current financial liabilities					
• Hedging derivatives	**2**	-	2	-	9
• Trading derivatives	**8**	-	-	8	11
Liabilities held for sale (1)	**130**	130	-	-	-
Short-term debt	**73**	73	-	-	75

(1) The assets and liabilities relating to the Access Mechanisms businesses were reclassified within assets and liabilities held for sale at December 31, 2012 (see Note 5.8).

The principal terms and conditions of borrowings (bonds, syndicated loan and EIB loans) are detailed in Note 5.12.2, while the basis for recognition is described in Note 1.14.

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

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

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

The fair value of bonds is calculated on the basis of quoted prices in an active bond market, and amounted to 1,435 million euros at December 31, 2012 and 887 million euros at December 31, 2011.

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

- 1.37% for the 250 million euros syndicated loan;
- 1.37% for the 225 million euros EIB loan;
- 1.67% (five-year CDS including the US dollar/euro basis swap of 0.3%) for the EIB loan drawn in US dollar.

At December 31, 2012, the fair values of these instruments are estimated at 247 million euros for the syndicated loan and 303 million euros for the EIB loans (457 million euros and 289 million euros, respectively, at December 31, 2011).

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

6.1.2 Fair value of derivatives

At December 31

(in millions of euros)	2012	2011
ASSETS		
Hedging derivatives:		
• Foreign currency derivatives	-	-
• Commodity derivatives	2	1
Trading derivatives:		
• Foreign currency derivatives	18	9
• Commodity derivatives	-	-
Total other current financial assets	**20**	**10**
LIABILITIES		
Hedging derivatives:		
• Foreign currency derivatives	(3)	(38)
• Interest rate derivatives	(14)	(13)
Total other non-current financial liabilities	**(17)**	**(51)**
Hedging derivatives:		
• Interest rate derivatives	-	(1)
• Commodity derivatives	(1)	(8)
• Foreign currency derivatives	(1)	-
Trading derivatives:		
• Foreign currency derivatives	(8)	(11)
• Commodity derivatives	-	-
Total other current financial liabilities	**(10)**	**(20)**

The impact of financial instruments on income for the years ended December 31, 2012 and December 31, 2011 is set out in Note 4.7.

Fair value of foreign currency derivatives

At December 31

(in millions of euros)	2012 Nominal	2012 Fair value	2011 Nominal	2011 Fair value
Forward foreign currency purchases	4	-	59	2
Forward foreign currency sales	(38)	2	(2)	1
Currency swaps	(547)	16	131	6
Total assets	**(581)**	**18**	**188**	**9**
Forward foreign currency purchases	121	(4)	3	-
Forward foreign currency sales	(5)	-	(28)	(1)
Currency swaps	99	(5)	(527)	(10)
Cross currency swaps	(237)	(3)	(237)	(38)
Total liabilities	**(22)**	**(12)**	**(789)**	**(49)**
Net impact	**-**	**6**	**-**	**(40)**

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

Fair value of commodity (non ferrous metals) derivatives

At December 31

(in millions of euros)	2012 Nominal	2012 Fair value	2011 Nominal	2011 Fair value
Swaps – Purchases	61	2	39	1
Swaps – Sales	-	-	-	-
Total assets	**61**	**2**	**39**	**1**
Swaps – Purchases	29	(1)	96	(8)
Swaps – Sales	(1)	-	(1)	-
Total liabilities	**28**	**(1)**	**95**	**(8)**
Net impact	**-**	**1**	**-**	**(7)**

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

Fair value of interest rate derivatives

At December 31

(in millions of euros)	2012 Nominal value	2012 Fair value	2011 Nominal value	2011 Fair value
Interest rate swaps:				
EIB loans	225	(14)	225	(13)
Syndicated loans	-	-	225	(1)
Total liabilities	**225**	**(14)**	**450**	**(14)**

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

6.2 Risk management policy

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

6.2.1 Market risks

6.2.1.1 Foreign currency risk

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

- ***Exposure to foreign currency risk***

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

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

At December 31, 2012, a 1 million euros loss was recognized in other comprehensive income in respect of derivatives used as hedging instruments.

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

	2012				2011
(in millions of euros)	**USD**	**JPY**	**EUR**	**Total**	**Total**
Accounts and notes receivable	96	23	389	**508**	**469**
Other financial assets	600	242	91	**933**	**901**
Accounts and notes payable	(84)	(38)	(442)	**(564)**	**(512)**
Long-term debt	(85)	(94)	(183)	**(362)**	**(358)**
Gross exposure	**527**	**133**	**(145)**	**515**	**500**
Forward sales	(650)	(240)	(32)	**(922)**	**(788)**
Forward purchases	216	112	7	**335**	**191**
Net exposure	**93**	**5**	**(170)**	**(72)**	**(97)**

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

At December 31, 2011, the breakdown by currency of the net exposure in the statement of financial position for a negative amount of 97 million euros is as follows:

- a positive amount of 72 million euros relating to the US dollar;
- a positive amount of 9 million euros relating to the Japanese yen;
- a negative amount of 178 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 1.32 US dollar, 113.61 Japanese yen and 25.15 Czech koruna to 1 euro at December 31, 2012 (1.29 US dollar, 100.20 Japanese yen and 25.79 Czech koruna, respectively, at December 31, 2011).

An increase of 10% in the value of the euro against these currencies at December 31, 2012 and December 31, 2011 would have had the following impacts:

2012

(in millions of euros)	Income gain (loss)	Equity gain (loss)
Exposure US dollar	(9)	-
Exposure Yen	-	-
Exposure Euro	(14)	(6)
TOTAL	**(23)**	**(6)**

2011

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

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

Assuming that all other variables remained unchanged, a 10% fall in the value of the euro against these currencies at December 31, 2012 would have the opposite effect to the one shown above.

6.2.1.2 Commodity risk

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

Exposure to commodity risk

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

Volumes of non-ferrous metals hedged at December 31, 2012 and December 31, 2011 break down as follows:

(in tons)	2012	2011
Aluminum	22,664	30,549
Secondary aluminum	7,721	10,860
Copper	6,461	9,388
Zinc	2,681	5,376
TOTAL	**39,527**	**56,173**

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized gain of 1 million euros related to existing hedges was recognized directly in other comprehensive income for 2012 in accordance with IAS 39.

An unrealized loss of 7 million euros recognized in other comprehensive income at December 31, 2011 and arising on commodity hedges purchased in second-half 2011 was reclassified in full to operating income in the first half of 2012.

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, 2012 and 2011.

	2012		2011	
(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	-	7	-	10
Impact of a 10% fall in metal futures prices	-	(7)	-	(10)

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

6.2.1.3 Interest rate risk

A detailed description of the Group's interest rate risk management policy is set out in section I.4.4. of the management report.

Exposure to interest rate risk

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

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

On August 5, 2009, the Group set up an interest rate swap to hedge the variable-rate interest on its EIB loan. This derivative was designated as a cash flow hedge. The fair value of the swap is initially recognized in the statement of financial position, with subsequent changes in fair value taken to other comprehensive income until the hedged interest falls due. At December 31, 2012, the impact on stockholders' equity of changes in the fair value of this swap was a negative 1 million euros.

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

2012

	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
(in millions of euros)	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	390	151	554	493	500	42	1,444	686	**2,130**
Loans	-	-	-	(3)	-	-	-	(3)	**(3)**
Cash and cash equivalents	-	(1,334)	-	-	-	-	-	(1,334)	**(1,334)**
Net position before hedging	**390**	**(1,183)**	**554**	**490**	**500**	**42**	**1,444**	**(651)**	**793**
Derivative instruments	56	(56)	169	(169)	-	-	225	(225)	-
Net position after hedging	**446**	**(1,239)**	**723**	**321**	**500**	**42**	**1,669**	**(876)**	**793**

2011

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

Analysis of sensitivity to interest rate risk

At December 31, 2012, 77% of long-term debt is at fixed rates (64% at December 31, 2011).

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

2012

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

2011

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

Similarly, at December 31, 2012, a sudden 1% fall in interest rates would have the opposite impacts for the same amount.

6.2.1.4 Equity risk

A detailed description of the Group's equity risk management policy is set out in section I.4.6. of the management report.

The assets comprising pension funds are detailed in Note 5.10.5.

The Group's cash and cash equivalents are set out in Note 5.12.4.

6.2.2 Liquidity risk

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

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

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

In 2011, Valeo also took out a 250 million euros loan from three banks with the aim of financing its acquisition of Niles in Japan.

The Group had a drawdown right for 75 million euros granted by the EIB which was due to expire in March 2012. This right was exercised in November 2011. The total amount of EIB loans is therefore 300 million euros.

Valeo also has:

- cash totaling 1,334 million euros at December 31, 2012;
- confirmed bank credit lines totaling 1.2 billion euros with an average maturity of 3.3 years. None of these credit lines had been drawn down at December 31, 2012 or December 31, 2011;
- a Euro Medium Term Note financing program for a maximum of 2 billion euros, on which 1,311 million euros had been drawn down at December 31, 2012;
- a short-term commercial paper financing program for a maximum amount of 1.2 billion euros. However, given Valeo's P3/A-2 short-term debt rating, the regulations applicable to monetary funds restrict its access to this market.

Covenants: The credit lines, syndicated loan and EIB loans are subject to an early repayment clause related to the Group's net debt on EBITDA ratio, which must not exceed 3.25. For this purpose, EBITDA corresponds to the Group's operating margin before depreciation, amortization and impairment. It excludes other income and expenses, except for restructuring costs in excess of 50 million euros. Failure to comply with this ratio would cause the credit lines to be suspended – triggering early repayment of any drawdowns already made – and the syndicated loan and EIB loans to be repaid. At December 31, 2012, the ratio calculated over 12 months was 0.61.

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

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

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

On September 14, 2012, the rating agency Standard & Poor's assigned Valeo's short-term debt an A-2 rating and rated its long-term debt BBB with a stable outlook.

On January 29, 2013, Moody's, another ratings agency, confirmed its ratings for the Group's short- and long-term debt at P3 and Baa3, respectively, with a stable outlook.

These two ratings confirm Valeo's investment-grade status.

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

The future cash flows presented below, comprising both interest payments and reimbursements, are not discounted. The forward interest rate curve at December 31, 2012 was used for variable-rate interest.

At December 31, 2012

(in millions of euros)	Carrying amount	Contractual cash flows Total	Contractual cash flows payment schedule 2013	2014	2015	2016	2017	2018 and beyond
Bonds	1,303	**1,612**	376	53	53	53	553	524
EIB loans	283	**330**	65	63	81	79	21	21
Syndicated loan	248	**265**	4	4	4	253	-	-
Other long-term debt	170	**170**	84	34	10	23	3	16
Accounts and notes payable	2,209	**2,209**	2,209	-	-	-	-	-
Short-term debt	73	**73**	73	-	-	-	-	-

- ### Residual contractual maturities of derivative financial instruments can be analyzed as follows:

The European Central Bank (ECB) closing rates and forward rates at December 31, 2012 have been used to value foreign exchange derivatives. The London Metal Exchange (LME) forward rates at December 31, 2012 were used for commodity derivatives, while the forward interest rate curve at December 31, 2012 was used for interest rate swaps.

At December 31, 2012

(in millions of euros)	Carrying amount	Contractual cash flows Total	Contractual cash flows payment schedule 2013	2014	2015	2016	2017	2018 and beyond
Forward foreign currency contracts used as hedges:								
• Assets	2	**2**	2	-	-	-	-	-
• Liabilities	(4)	**(4)**	(4)	-	-	-	-	-
Currency swaps used as hedges:								
• Assets	16	**16**	16	-	-	-	-	-
• Liabilities	(8)	**(4)**	(4)	1	1	(2)	-	-
Commodity derivatives								
• Assets	2	**2**	2	-	-	-	-	-
• Liabilities	(1)	**(1)**	(1)	-	-	-	-	-
Interest rate swaps:								
• Assets	-	**-**	-	-	-	-	-	-
• Liabilities	(14)	**(16)**	(7)	(5)	(3)	(1)	-	-

6.2.3 Credit risk

A detailed description of the Group's credit risk management policy is set out in sections I.4.5. and I.4.7. of the management report.

Credit risk can be analyzed as follows:

- ### Counterparty risk

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

Commercial credit risk

Valeo is exposed to credit risk and, more specifically, the risk of default by its customers. Valeo operates exclusively in the automotive industry and works with all automakers. The economic climate was mixed in 2012, with European and South American markets declining and markets in Asia and North America on an uptrend. Valeo therefore continues to closely monitor credit risk, particularly due to the inherent uncertainties regarding 2013. The average days' sales outstanding stood at 49 days at December 31, 2012, compared to 51 days at December 31, 2011.

At December 31, 2012, Valeo's largest customer accounted for 16% of the Group's accounts and notes receivable (19% at December 31, 2011).

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

(in millions of euros)	**Gross carrying amount Dec. 31, 2012**	**Gross carrying amount Dec. 31, 2011**
Not yet due	1,519	1,644
Less than 1 month past due	67	43
More than 1 month but less than 1 year past due	34	33
More than 1 year past due	7	7
Portion of accounts and notes receivable reclassified in assets held for sale [1]	(90)	-
TOTAL	**1,537**	**1,727**

At December 31, 2012, past-due receivables were written down in an amount of 22 million euros (unchanged compared to 2011), including a write-down of 2 million euros against the Access Mechanisms business reclassified within assets held for sale (see Note 5.8).

6.3 Off-balance sheet commitments

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

6.3.1 Off-balance sheet commitments relating to the consolidated Group

Put option granted in respect of Valeo Unisia Transmissions

At December 31, 2012, 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 subsidiary's Board of Directors), Hitachi reserves the right to offer its own shares to said third parties ("drag-along" right). If said third parties refuse to buy the shares, Hitachi may sell them to Valeo.

At December 31, 2012, the subsidiary had total equity of 38 million euros prior to appropriation of income.

Put option granted in respect of Detroit Thermal Systems

Valeo and V. Johnson Enterprises set up the company Detroit Thermal Systems in the year (see Note 2.1.3). This company was 51%-owned by V. Johnson Enterprises and 49%-owned by Valeo at December 31, 2012.

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

Other commitments given

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

These totaled 42 million euros at December 31, 2012 versus 86 million euros at December 31, 2011. The decrease in this caption in 2012 mainly reflects the expiry of the vendor's warranty granted by Valeo to Jabil Circuit in connection with the sale of the Meung-sur-Loire plant in 2002.

6.3.2 Off-balance sheet commitments relating to Group financing

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

6.3.3 Off-balance sheet commitments relating to operating activities

Lease commitments

Future minimum lease commitments in force at December 31, 2012 (excluding capital leases) are as follows:

(in millions of euros)	**2012**	**2011**
Less than 1 year	39	40
1 to 5 years	75	63
More than 5 years	5	14
TOTAL	**119**	**117**

Lease rentals recognized in expenses totaled 58 million euros in 2012 and 50 million euros in 2011.

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

(in millions of euros)	**2012**	**2011**
Future minimum lease payments		
Less than 1 year	4	6
1 to 5 years	7	9
More than 5 years	-	-
Total future minimum lease payments	**11**	**15**
Of which interest charges	-	(1)
Present value of future lease payments		
Less than 1 year	4	6
1 to 5 years	7	8
More than 5 years	-	-
Total present value of future lease payments	**11**	**14**

Other commitments given

Valeo has also given the following commitments:

(in millions of euros)	**2012**	**2011**
Guarantees given	3	3
Non-cancelable asset purchase commitments	222	133
Other commitments given	11	6
TOTAL	**236**	**142**

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

(in millions of euros)	**2012**	**2011**
Property, plant and equipment	1	1
Financial assets	7	7
TOTAL	**8**	**8**

Commitments received

Commitments received totaled 59 million euros at December 31, 2012. In 2011, Valeo was granted vendor warranties totaling 53 million euros on acquisitions carried out in the period (see Note 2.2). In 2012, Valeo received an amount of 6 million euros within the scope of the alliance with Ichikoh in the lighting business in China (see Note 2.1.2).

6.4 Contingent liabilities

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

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

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

To the best of Valeo's knowledge, and excluding these antitrust proceedings, there were no governmental, legal or arbitration proceedings, including proceedings in process, pending or expected, during the last 12 months, that may have, or have had in the recent past, a significant impact on the financial position or profitability of the company or the Group.

However, Valeo cannot rule out new lawsuits stemming from events or facts that are unknown at present, or where the associated risk cannot as yet be determined and/or quantified. Such lawsuits could have a significant adverse impact on the Group's earnings.

6.5 French statutory training entitlement

Under the French law of May 4, 2004 on professional training, all of the Group's French employees, regardless of their qualifications, are entitled to statutory training hours which can be accumulated and used at the employees' initiative, subject to the employer's agreement. Since 2004, each employee is entitled to at least 20 training hours a year. These can be accumulated over a period of six years up to 120 hours.

The cumulative volume of training hours corresponding to Group employees' vested rights under the French statutory training entitlement was 1,173,568 hours at December 31, 2012 (1,159,410 hours at December 31, 2011), representing a usage rate of around 3.7%.

6.6 Related party transactions

6.6.1 Executive compensation

At December 31, 2012, executives comprise the 13 members of the Group's Operations Committee, along with the Chief Executive Officer. Compensation paid to executives not holding corporate office (Operations Committee, excluding the CEO) amounted to 8 million euros in 2012 and 10 million euros in 2011. Compensation paid to the Chief Executive Officer along with any termination benefits that may be payable to the CEO are detailed in the management report in section H.1.2.

The Group recognized an expense of 2 million euros in 2012 (unchanged from 2011) in respect of stock subscription and purchase options and free share awards. An expense was also recorded in relation to pension obligations for executive personnel in an amount of 1 million euros in 2012 and 2011. At December 31, 2012, provisions included in the Group's statement of financial position in respect of these pension obligations amounted to 10 million euros (8 million euros at December 31, 2011).

6.6.2 Transactions with associates

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

(in millions of euros)	**2012**	**2011**
Sales of goods and services	19	17
Purchases of goods and services	(10)	(5)
Interest and dividends received	-	3

(in millions of euros)	**2012**	**2011**
Operating receivables	3	7
Operating payables	18	8

6.6.3 Transactions with joint ventures

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

(in millions of euros)	**2012**	**2011**
Sales of goods and services	30	34
Purchases of goods and services	(29)	(35)
Interest and dividends received	17	18

(in millions of euros)	**2012**	**2011**
Operating receivables	27	19
Operating payables	6	5
Net debt (cash)	(17)	14

6.7 Joint ventures

The following amounts are recorded in the Group's consolidated financial statements in respect of proportionately consolidated joint ventures (prior to elimination of intragroup transactions):

(in millions of euros)	**2012**	**2011**
Non-current assets	116	99
Current assets	234	193
Non-current liabilities	50	31
Current liabilities	246	186
Sales	482	484
Operating expenses	467	454

6.8 Subsequent events

To Valeo's knowledge, no other events have occurred since December 31, 2012 that could have a material impact on the Group's business, financial position or assets and liabilities.

Note 7 List of consolidated companies

Company	2012 % voting rights	2012 % interest	2011 % voting rights	2011 % interest
EUROPE				
France				
Valeo (parent company)				
DAV	100	100	100	100
Equipement 1	100	100	100	100
Equipement 11	100	100	100	100
Equipement 2	100	100	100	100
Niles Europe	100	100	100	100
SC2N	100	100	100	100
Société de Participations Valeo	100	100	100	100
Valeo Bayen	100	100	100	100
Valeo Embrayages	100	100	100	100
Valeo Equipements Electriques Moteur	100	100	100	100
Valeo Etudes Electroniques	100	100	100	100
Valeo Finance	100	100	100	100
Valeo Compresseurs (ex: Valeo Four Seasons)	100	100	100	100
Valeo Management Services	100	100	100	100
Valeo Matériaux de Friction	100	100	100	100
Valeo Plastic Omnium SNC (2)	50	50	50	50
Valeo Sécurité Habitacle	100	100	100	100
Valeo Service	100	100	100	100
Valeo Systèmes de Contrôle Moteur	100	100	100	100
Valeo Systèmes d'Essuyage	100	100	100	100
Valeo Systèmes Thermiques	100	100	100	100
Valeo Vision	100	100	100	100
Spain				
Telma Retarder España, SA	100	100	100	100
Valeo Climatización, SA	100	100	100	100
Valeo España, SA	100	100	100	100
Valeo Iberica SA	100	100	100	100
Valeo Iluminación, SA	100	100	99.8	99.8
Valeo Plastic Omnium SL(2)	50	50	50	50
Valeo Service España, SA	100	100	100	100
Valeo Sistemas Electricos, SL	100	100	100	100
Valeo Termico, SA	100	100	100	100
Portugal				
Cablagens Do Ave	100	100	100	100
Italy				
Valeo Service Italia, SpA	99.9	99.9	99.9	99.9
Valeo, SpA	100	100	100	100
CAM Italy SpA	100	100	-	-

(1) Companies accounted for by the equity method.

(2) Companies consolidated on a proportionate basis.

(3) See Note 2.1.

(4) Companies consolidated on a proportionate basis in 2011 and fully consolidated in 2012.

(5) Companies accounted for by the equity method in 2011 and fully consolidated in 2012.

Company	2012 % voting rights	2012 % interest	2011 % voting rights	2011 % interest
Germany				
Valeo AutoElectric GmbH	100	100	100	100
Valeo GmbH	100	100	100	100
Valeo Grundvermögen Verwaltung GmbH	100	100	100	100
Valeo Holding Deutschland GmbH	100	100	100	100
Valeo Klimasysteme GmbH	100	100	100	100
Valeo Klimasysteme Verwaltung SAS & Co. KG	100	100	100	100
Valeo Schalter und Sensoren GmbH	100	100	100	100
Valeo Service Deutschland GmbH	100	100	100	100
Valeo Sicherheitssysteme GmbH	100	100	100	100
Valeo Wischersysteme GmbH	100	100	100	100
United Kingdom				
Valeo (UK) Limited	100	100	100	100
Valeo Climate Control Limited	100	100	100	100
Valeo Engine Cooling UK Limited	100	100	100	100
Valeo Management Services UK Limited	100	100	100	100
Valeo Service UK Limited	100	100	100	100
Valeo Air Management UK Limited	100	100	100	100
Ireland				
Connaught Electronics Limited	100	100	100	100
HI-KEY Limited	100	100	100	100
Valeo Ichikoh Holding Ireland Limited (3)	85	89.7	-	-
Belgium				
Valeo Service Belgique	100	100	100	100
Valeo Vision Belgique	100	100	100	100
Luxembourg				
Coreval	100	100	100	100
Netherlands				
Valeo Holding Netherlands BV	100	100	100	100
Valeo International Holding BV	100	100	100	100
CAM Holding Europe BV	100	100	-	-
Valeo Service Benelux BV	100	100	100	100
Czech Republic				
Valeo Autoklimatizace ks	100	100	100	100
Valeo Compressor Europe Sro	100	100	100	100
Valeo Vymeniky Tepla ks	100	100	100	100
Slovakia				
Valeo Slovakia Sro	100	100	100	100

(1) Companies accounted for by the equity method.

(2) Companies consolidated on a proportionate basis.

(3) See Note 2.1.

(4) Companies consolidated on a proportionate basis in 2011 and fully consolidated in 2012.

(5) Companies accounted for by the equity method in 2011 and fully consolidated in 2012.

Company	2012 % voting rights	2012 % interest	2011 % voting rights	2011 % interest
Poland				
Valeo Autosystemy SpZOO	100	100	100	100
Valeo Electric and Electronic Systems SpZOO	100	100	100	100
Valeo Service Eastern Europe SpZOO	100	100	100	100
Hungary				
Valeo Auto-Electric Hungary LLC	100	100	100	100
Romania				
Valeo Lighting Injection SA	100	100	100	100
Valeo Sisteme Termice SRL	100	100	100	100
Russia				
Valeo Climate Control Tomilino LLC	100	100	95	95
Valeo Service Limited Liability Company	100	100	100	100
Turkey				
Valeo Otomotiv Dagitim AS	100	100	100	100
Valeo Otomotiv Sistemleri Endustrisi AS	100	100	100	100
AFRICA				
Tunisia				
DAV Tunisie	100	100	100	100
Valeo Embrayages Tunisie SA	100	100	100	100
Valeo Tunisie SA	100	100	100	100
Morocco				
Cablinal Maroc, SA	100	100	100	100
Valeo Vision Maroc	100	100	100	100
Egypt				
Valeo Interbranch Automotive Software Egypt	100	100	100	100
South Africa				
Valeo Systems South Africa (Proprietary) Ltd	51	51	51	51
NORTH AMERICA				
United States				
Valeo Climate Control Corp.	100	100	100	100
Valeo Compressor North America, Inc.	-	-	100	100
Valeo Electrical Systems, Inc.	100	100	100	100
Valeo Engine Cooling, Inc.	100	100	100	100
Valeo Front End Module, Inc	100	100	100	100
Valeo Investment Holdings, Inc.	100	100	100	100
Valeo Radar Systems, Inc.	100	100	100	100
Valeo Switches and Detection Systems, Inc.	100	100	100	100
Valeo Sylvania, LLC (2)	50	50	50	50
Valeo, Inc.	100	100	100	100
Niles America Wintech, Inc.	-	-	100	100
Micro Craft Inc.	-	-	100	100
Niles America Michigan, Inc.	-	-	100	100
Niles Americas Corporation	-	-	100	100
Detroit Thermal Systems LLC (1) (3)	49	49	-	-

(1) Companies accounted for by the equity method.

(2) Companies consolidated on a proportionate basis.

(3) See Note 2.1.

(4) Companies consolidated on a proportionate basis in 2011 and fully consolidated in 2012.

(5) Companies accounted for by the equity method in 2011 and fully consolidated in 2012.

Company	2012		2011	
	% voting rights	% interest	% voting rights	% interest
NORTH AMERICA				
Mexico				
Delmex de Juarez S de RL de CV	100	100	100	100
Valeo Climate Control de Mexico Servicios S de RL de CV	100	100	100	100
Valeo Climate Control de Mexico, SA de CV	100	100	100	100
Valeo Sistemas Electricos Servicios S de RL de CV	100	100	100	100
Valeo Sistemas Electricos, SA de CV	100	100	100	100
Valeo Sistemas Electronicos, S de RL de CV	100	100	100	100
Valeo Sylvania Iluminacion, S de RL de CV (2)	50	50	50	50
Valeo Sylvania Services S de RL de CV (2)	50	50	50	50
Valeo Termico Servicios, S de RL de CV	100	100	100	100
Valeo Transmisiones Servicios de Mexico S de RL de CV	100	100	100	100
SOUTH AMERICA				
Brazil				
Valeo Sistemas Automotivos Ltda	100	100	100	100
Argentina				
Cibie Argentina, SA	100	100	100	100
Emelar Sociedad Anonima	100	100	100	100
Valeo Embragues Argentina, SA	100	100	100	100
Valeo Termico Argentina, SA	100	100	100	100
ASIA				
Thailand				
Valeo Compressor (Thailand) Co. Ltd	100	98.5	100	98.5
Valeo Compressor Clutch (Thailand) Co. Ltd	100	99.4	100	99.4
Valeo Siam Thermal Systems Co. Ltd	74.9	74.9	74.9	74.9
Valeo Thermal Systems Sales (Thailand) Co. Ltd	74.9	74.9	74.9	74.9
Niles (Thailand) Co. Ltd	100	100	100	100
South Korea				
Valeo Automotive Korea (formerly 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	50	50	50	50
Valeo Pyeong HWA International Co. Ltd	50	50	50	50
Valeo Samsung Thermal Systems Co. Ltd (2)	50	50	50	50
Valeo Pyeong HWA Co. Ltd (1)	49	49	-	-
Valeo Thermal Systems Korea Co. Ltd	-	-	100	100

(1) Companies accounted for by the equity method.

(2) Companies consolidated on a proportionate basis.

(3) See Note 2.1.

(4) Companies consolidated on a proportionate basis in 2011 and fully consolidated in 2012.

(5) Companies accounted for by the equity method in 2011 and proportionately consolidated in 2012.

Company	2012 % voting rights	2012 % interest	2011 % voting rights	2011 % interest
Japan				
Ichikoh Industries Limited [(1)]	31.6	31.6	31.6	31.6
Valeo Thermal Systems Japan Corporation	100	100	100	100
Valeo Unisia Transmissions KK	66	66	66	66
Niles Co. Ltd	100	100	100	100
Jonan Industrial Co. Ltd	100	100	100	100
Akita Niles Co. Ltd	100	100	100	100
Nitto Manufacturing Co. Ltd	87.2	87.2	87.2	87.2
Niles Personnel Service Co. Ltd	100	100	100	100
AMI CO. Ltd	100	100	100	100
China				
Faw-Valeo Climate Control Systems Co. Ltd [(1)]	36.5	36.5	36.5	36.5
Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd [(4) (3)]	85	89.7	50	50
Guangzhou Valeo Engine Cooling Co. Ltd	100	100	100	100
Huada Automotive Air Conditioner Co. Ltd [(2)]	45	45	45	45
Hubei Valeo Autolighting Company Ltd [(3)]	85	89.7	100	100
Nanjing Valeo Clutch Co. Ltd [(2)]	75	55	75	55
Shanghai Valeo Automotive Electrical Systems Company Ltd [(2)]	50	50	50	50
Taizhou Valeo-Wenling Automotive Systems Ltd	100	100	100	100
Valeo Auto Parts Trading (Shanghai) Co. Ltd	100	100	100	100
Valeo Automotive Air Conditioning Hubei Co. Ltd	100	100	55	55
Valeo Automotive Security Systems (Wuxi) Co. Ltd	100	100	100	100
Valeo Automotive Transmissions Systems (Nanjing) Co. Ltd	100	100	100	100
Valeo Engine Cooling (Foshan) Co. Ltd	100	100	100	100
Valeo Engine Cooling (Shashi) Co. Ltd	100	100	100	100
Valeo Compressor (Changchun) Co. Ltd	100	100	100	100
Valeo Interior Controls (Shenzhen) Co. Ltd	100	100	100	100
Valeo Lighting Hubei Technical Center Co. Ltd [(3)]	85	89.7	100	100
Valeo Management (Beijing) Co. Ltd	100	100	100	100
Valeo Shanghai Automotive Electric Motors & Wiper Systems Co., Ltd	55	55	55	55
Valeo Management (Shanghaï) Co. Ltd	100	100	100	100
Fuzhou Niles Electronic Co. Ltd	51	51	51	51
Guangzhou Niles Electronics Co. Ltd	100	100	100	100
Guangzhou Niles Trading Co. Ltd	100	100	100	100
Shenyang Valeo Auto Lighting Co. Ltd [(3)]	85	89.7	-	-
Wuhu Valeo Automotive Lighting Systems [(3)]	80	71.8	-	-
Indonesia				
Valeo Automotive Indonesia (formerly PT Valeo AC Indonesia) [(5)]	100	100	49	49
India				
Amalgamations Valeo Clutch Private Ltd [(2)]	50	50	50	50
Minda Valeo Security Systems Private Ltd [(2)]	50	50	50	50
Valeo India Private Ltd	100	100	100	100
Valeo Friction Materials India Ltd	60	60	60	60
Valeo Lighting Systems (India) Private Ltd	100	100	100	100
Valeo Service India Auto Parts Private Ltd	60	60	-	-
Taiwan				
Niles CTE Electronic Co. Ltd	51	51	51	51

(1) Companies accounted for by the equity method.

(2) Companies consolidated on a proportionate basis.

(3) See Note 2.1.

(4) Companies consolidated on a proportionate basis in 2011 and fully consolidated in 2012.

(5) Companies accounted for by the equity method in 2011 and fully consolidated in 2012.

7 Statutory Auditors' report on the consolidated financial statements

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

This report also includes information relating to the specific verification of information given in the group's management report.

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

Year ended December 31, 2012

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meeting, we hereby report to you, for the year ended December 31, 2012, on:

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

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

I. Opinion on the consolidated financial statements

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

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the group as at December 31, 2012 and of the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

II. Justification of our assessments

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

- Note 1.12 to the consolidated financial statements describes the methods of valuing property, plant and equipment and the revision applied to the useful lives used for the depreciation related to some of those assets. Our work consisted in examining the available documentation supporting the valuation methods, the resulting figures of the changes in the useful lives of the year and in assessing the reasonableness of the information provided in the notes to the financial statements.
- Notes 1.13 and 4.5.2 to the consolidated financial statements set out the methods implemented by your company to test acquisition goodwill, assess whether there is any indication of impairment of the fixed assets and, where applicable, perform an impairment test for these same assets. Our work consisted in examining the methods and assumptions used by your company during the implementation of these tests and verifying that the notes to the consolidated financial statements provide appropriate information.
- Notes 1.17 and 5.10 to the consolidated financial statements specify the methods of valuing pension commitments and similar benefits. Our work consisted in reviewing the actuarial data and assumptions used as well as the calculations made and verifying that the notes provide appropriate information.
- Note 1.18 and 5.11 to the consolidated financial statements describes the methods for valuing provisions intended to cover your company's obligations in respect of guarantees granted to its clients and specific quality risks. Our work consisted in examining the available documentation and the translation into figures of the assumptions used and assessing the reasonableness of the estimates used.

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

III. Specific verification

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

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

Courbevoie and Paris-La Défense, February 21, 2013

The statutory auditors

French original signed by

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