2013 CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

1 **Consolidated statement of income** 1

2 **Consolidated statement of comprehensive income** 2

3 **Consolidated statement of financial position** 3

4 **Consolidated statement of cash flows** 4

5 **Consolidated statement of changes in stockholders' equity** 5

6 **Notes to the consolidated financial statements** 6

NOTE 1 ACCOUNTING POLICIES 6
NOTE 2 SCOPE OF CONSOLIDATION 10
NOTE 3 SEGMENT REPORTING 17
NOTE 4 OPERATING DATA 20
NOTE 5 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS 26
NOTE 6 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT 37
NOTE 7 OTHER PROVISIONS AND CONTINGENT LIABILITIES 46
NOTE 8 FINANCING AND FINANCIAL INSTRUMENTS 48
NOTE 9 ASSOCIATES AND JOINT VENTURES 65
NOTE 10 INCOME TAXES 67
NOTE 11 STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE 70
NOTE 12 BREAKDOWN OF CASH FLOWS 72
NOTE 13 SUBSEQUENT EVENTS 74
NOTE 14 LIST OF CONSOLIDATED COMPANIES 75

7 **Statutory Auditors' report on the consolidated financial statements** 80

8 **Cross-reference table for the notes to the 2013/2012 financial statements** 82

1 Consolidated statement of income

(in millions of euros)	*Notes*	2013	2012
CONTINUING OPERATIONS			
SALES	*4.1*	**12,110**	**11,759**
Cost of sales	*4.3*	(10,037)	(9,811)
GROSS MARGIN	*4.3*	**2,073**	**1,948**
% of sales		*17.1%*	*16.6%*
Research and Development expenditure, net	*4.5.2*	(643)	(598)
Selling expenses		(196)	(196)
Administrative expenses		(439)	(429)
OPERATING MARGIN	*4.5.1*	**795**	**725**
% of sales		*6.6%*	*6.2%*
Other income and expenses	*4.6.2*	(67)	(53)
OPERATING INCOME	*4.6.1*	**728**	**672**
Interest expense	*8.2.1*	(108)	(117)
Interest income	*8.2.1*	8	14
Other financial income and expenses [(1)]	*8.2.2*	(47)	(39)
Share in net earnings of associates	*9.1.1*	7	14
INCOME BEFORE INCOME TAXES		**588**	**544**
Income taxes	*10.1*	(119)	(146)
INCOME FROM CONTINUING OPERATIONS		**469**	**398**
DISCONTINUED OPERATIONS			
Income (loss) from discontinued operations, net of tax		-	(2)
NET INCOME FOR THE YEAR		**469**	**396**
Attributable to:			
• Owners of the Company		439	371
• Non-controlling interests		30	25
Earnings per share:			
• Basic earnings per share *(in euros)*	*11.2.1*	5.71	4.91
• Diluted earnings per share (*in euros*)	*11.2.2*	5.71	4.91
Earnings per share from continuing operations:			
• Basic earnings per share (*in euros*)		5.71	4.93
• Diluted earnings per share (*in euros*)		5.71	4.93

(1) The amount of other financial income and expenses shown for 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes in the expected return on plan assets resulting from the retrospective application of the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1).

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

2 Consolidated statement of comprehensive income

(in millions of euros)	**2013**	**2012**
NET INCOME FOR THE YEAR	**469**	**396**
Share of changes in comprehensive income from associates	(7)	(9)
o/w income taxes	-	-
Translation adjustment	(163)	(35)
o/w income taxes	-	-
Cash flow hedges:		
• gains (losses) taken to equity	(19)	(3)
• (gains) losses transferred to income (loss) for the year	17	6
o/w income taxes	*1*	*(1)*
Remeasurement of available-for-sale financial assets	-	-
o/w income taxes	-	-
Other comprehensive income (loss) recycled to income	**(172)**	**(41)**
Actuarial gains (losses) on defined benefit plans [1]	106	(129)
o/w income taxes	*(6)*	*27*
Other comprehensive income (loss) not recycled to income	**106**	**(129)**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(66)**	**(170)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**403**	**226**
Attributable to:		
• Owners of the Company	380	200
• Non-controlling interests	23	26

(1) The amount of actuarial gains and losses on defined benefit plans shown for 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes in the expected return on plan assets resulting from the retrospective application of the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1).

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

3 Consolidated statement of financial position

(*in millions of euros*)	*Notes*	December 31, 2013	December 31, 2012
ASSETS			
Goodwill [(1)]	*6.1*	1,248	1,327
Other intangible assets	*6.2*	850	736
Property, plant and equipment	*6.3*	2,181	2,075
Investments in associates [(1)]	*9.1.2*	103	107
Other non-current financial assets		72	27
Deferred tax assets	*10.2*	246	220
NON-CURRENT ASSETS		**4,700**	**4,492**
Inventories, net	*4.4*	848	789
Accounts and notes receivable, net	*4.2*	1,521	1,517
Other current assets		386	378
Taxes recoverable		33	48
Other current financial assets		36	20
Cash and cash equivalents	*8.1.3.2*	1,510	1,334
Assets held for sale	*2.2.1.1*	8	342
CURRENT ASSETS		**4,342**	**4,428**
TOTAL ASSETS		**9,042**	**8,920**
EQUITY AND LIABILITIES			
Share capital	*11.1.1*	238	238
Additional paid-in capital	*11.1.2*	1,434	1,434
Translation adjustment	*11.1.3*	18	183
Retained earnings [(2)]	*11.1.4*	690	197
STOCKHOLDERS' EQUITY		**2,380**	**2,052**
Non-controlling interests	*11.1.7*	153	143
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS		**2,533**	**2,195**
Provisions for pensions and other employee benefits – long-term portion [(2)]	*5.3*	721	864
Other provisions – long-term portion [(2)]	*7.1*	191	221
Long-term debt – long-term portion	*8.1.2.1*	1,520	1,564
Other financial liabilities – long-term portion		7	17
Subsidies and grants – long-term portion		23	19
Deferred tax liabilities	*10.2*	26	26
NON-CURRENT LIABILITIES		**2,488**	**2,711**
Accounts and notes payable		2,441	2,209
Provisions for pensions and other employee benefits – current portion	*5.3*	70	54
Other provisions – current portion	*7.1*	160	199
Subsidies and grants – current portion		13	14
Taxes payable		54	40
Other current liabilities		902	783
Current portion of long-term debt	*8.1.2.1*	110	440
Other financial liabilities – current portion		21	10
Short-term debt	*8.1.2.2*	246	73
Liabilities held for sale	*2.2.1.1*	4	192
CURRENT LIABILITIES		**4,021**	**4,014**
TOTAL EQUITY AND LIABILITIES		**9,042**	**8,920**

(1) *The amount of goodwill shown for December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes made following the acquisition of a controlling interest in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.2.2.1).*

(2) *The consolidated statement of financial position shown for December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes resulting from the retrospective application of the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1).*

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

4 Consolidated statement of cash flows

(in millions of euros)	*Notes*	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year [1]		469	396
Share in net earnings of associates		(7)	(14)
Net dividends received from associates		7	3
Expenses (income) with no cash effect [1]	*12.1*	569	539
Cost of net debt		100	103
Income taxes (current and deferred)		119	146
GROSS OPERATING CASH FLOWS		**1,257**	**1,173**
Income taxes paid		(151)	(186)
Changes in working capital	*12.2*	232	(49)
NET CASH FROM OPERATING ACTIVITIES		**1,338**	**938**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(316)	(269)
Acquisitions of property, plant and equipment		(598)	(603)
Disposals of property, plant and equipment and intangible assets		5	15
Net change in non-current financial assets		(7)	49
Acquisitions of investments with gain of control, net of cash acquired	*12.3*	(5)	(19)
Disposals of investments with loss of control, net of cash transferred	*12.3*	170	(10)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**(751)**	**(837)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(115)	(106)
Dividends paid to non-controlling interests in consolidated subsidiaries		(14)	(18)
Issuance of share capital		-	5
Sale (purchase) of treasury stock		53	23
Issuance of long-term debt	*12.4*	25	530
Interest paid		(111)	(83)
Interest received		9	17
Repayments of long-term debt	*12.4*	(397)	(368)
Acquisition of interests without gain of control	*12.5*	(4)	(60)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**(554)**	**(60)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH		**(9)**	**(22)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**24**	**19**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,239**	**1,220**
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,263**	**1,239**
o/w:			
• Cash and cash equivalents		1,510	1,334
• Short-term debt		(246)	(73)
• Portion of cash-related assets and liabilities held for sale [2]		(1)	(22)

(1) The amounts of net income and of expenses (income) with no cash effect shown for 2012 differ from those presented in the 2012 consolidated financial statements published in February 2013 since they have been adjusted to reflect changes in the return on plan assets resulting from the retrospective application of the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1).

(2) The assets and liabilities relating to the Access Mechanisms business were reclassified within assets and liabilities held for sale at December 31, 2012. At December 31, 2013, only the Indian entity of the Access Mechanisms business was still classified within assets and liabilities held for sale, since the sale of this business had not yet been finalized at the reporting date (see Note 2.2.1.1).

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
75,028,390	**STOCKHOLDERS' EQUITY AT JANUARY 1, 2012**	**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 year [(1)]	-	-	-	371	371	25	**396**
	Other comprehensive income (loss), net of tax [(1)]	-	-	(47)	(124)	(171)	1	**(170)**
	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**
	Dividends paid	-	-	-	(115)	(115)	(14)	**(129)**
1,539,151	Treasury stock	-	-	-	54	54	-	**54**
	Capital increase	-	-	-	-	-	-	**-**
	Share-based payment	-	-	-	9	9	-	**9**
	Other movements	-	-	-	-	-	1	**1**
	TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**(52)**	**(52)**	**(13)**	**(65)**
	Net income for the year	-	-	-	439	439	30	**469**
	Other comprehensive income (loss), net of tax	-	-	(165)	106	(59)	(7)	**(66)**
	TOTAL COMPREHENSIVE INCOME (LOSS)	**-**	**-**	**(165)**	**545**	**380**	**23**	**403**
77,642,818	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2013**	**238**	**1,434**	**18**	**690**	**2,380**	**153**	**2,533**

(1) The consolidated statement of stockholders' equity shown for December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes in the expected return on plan assets resulting from the retrospective application of the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1).

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

6 Notes to the consolidated financial statements

In accordance with the recommendations issued by the French financial markets authority (*Autorité des marchés financiers* – AMF), the presentation of the Notes to the consolidated financial statements has been changed from the previous financial year in order to make them more readable and relevant. With the exception of general accounting policies, most other accounting policies previously included in Note 1 are now included in the other Notes. The previous Notes 4, 5 and 6 which discussed the statement of income, statement of financial position and other information, are now arranged by main subject in Notes 4 to 13.

A cross-reference table linking the presentation used for the consolidated financial statements at December 31, 2013 with the presentation used at December 31, 2012 is provided at the end of the consolidated financial statements in section 8.

Note 1 Accounting policies

The consolidated financial statements of the Valeo Group for the year ended December 31, 2013 include:

- the accounts of Valeo;
- the accounts of its subsidiaries;
- the accounts of entities jointly controlled by Valeo (joint ventures) 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 *société anonyme* (joint-stock corporation) listed on the Paris Stock Exchange, whose head office is located at 43, rue Bayen, 75017 Paris.

Valeo's consolidated financial statements for the year ended December 31, 2013 were authorized for issue by the Board of Directors on February 20, 2014.

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

1.1 Accounting standards applied

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

1.1.1 Standards, amendments and interpretations adopted by the European Union and obligatorily applicable for reporting periods beginning on or after January 1, 2013

1.1.1.1 Amendment to IAS 19 – "Employee Benefits"

The IASB published an amendment to IAS 19 – "Employee Benefits", which was adopted by the European Union on June 6, 2012.

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

The main changes resulting from this amendment are as follows:

- actuarial gains and losses arising on defined benefit plans may no longer be accounted for using the "corridor" method;
- the method used to calculate interest cost no longer takes into account the expected return on plan assets; and
- obligations relating to unvested past service costs are recognized immediately in income.

This amendment only has a limited impact on the Group's consolidated financial statements, since Valeo already recognized actuarial gains and losses within other comprehensive income.

The two main restatements in the consolidated financial statements for the year ended December 31, 2013 are:

- the immediate recognition of obligations relating to unrecognized past service costs: this represents an increase of 4 million euros in the provision for pensions at December 31, 2012 (increase of 5 million euros at January 1, 2012). The impact of applying this change in the 2012 and 2013 consolidated statement of income is not material;
- the change in the expected return on plan assets, due to the use of a rate of return on plan assets equal to the discount rate, regardless of the strategic plan asset allocation: this represents a decrease in financial income (within other financial income and expenses) of 9 million euros in 2012 and 11 million euros in 2013, offset by an actuarial gain of the same amount in other comprehensive income.

Two further adjustments are also required in certain countries:

- a 2 million euro decrease in restructuring provisions in respect of early retirement plans in Germany, due to the IFRIC's January 2012 interpretation regarding the accounting treatment of bonus payments to employees in exchange for a reduction in working hours;
- a 2 million euro decrease in provisions for pensions in the UK, following clarification as to the accounting treatment of plan administration costs, which are not included in the pension provision but expensed as incurred.

To meet the disclosure requirements for consolidated financial statements, the information set out in Note 5.3 on provisions for pensions and other employee benefits now also includes details of the sensitivity of obligations to the inflation rate (see Note 5.3.7) and of expected disbursements over the next ten years (see Note 5.3.9).

1.1.1.2 Other standards, amendments and interpretations

The IASB also published IFRS 13 – "Fair Value Measurement", the amendment to IFRS 7, and its annual improvements to IFRS for the period 2009-2011.

IFRS 13 provides a single IFRS framework for measuring fair value and indicates how to measure the fair value of both financial and non-financial assets and liabilities. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements. The application of IFRS 13 did not have a material impact on the Group's fair value measurements mainly because the financial instruments used by the Group have short-term maturities. IFRS 13 also requires specific disclosures about fair value measurements in the Notes to financial statements. Note 8.1.1 includes the additional disclosures required at the reporting date in this respect.

The amendment to IFRS 7 – "Disclosures - Offsetting Financial Assets and Financial Liabilities" (effective January 1, 2013) prescribes the circumstances in which financial assets and liabilities may be offset and the disclosures required in this case.

The two main types of agreement concerned by this amendment are:

- offsetting (netting) agreements which allow assets and liabilities to be offset in the statement of financial position, particularly those agreements which provide for a right of set-off in the event of default of the counterparty bank;
- other legally enforceable netting agreements, including the impact of the associated financial collateral.

Since the Group has not entered into any agreements with its counterparty banks that include an offsetting clause, it is not concerned by this amendment.

The annual improvements to IFRS for 2009-2011 have no impact on the Group's consolidated financial statements.

1.1.2 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, 2013 and not early adopted by the Group

1.1.2.1 Standards and amendments dealing with consolidation

The IASB published the following standards and amendments dealing with consolidation:

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

These standards and amendments on consolidation were adopted by the European Union on December 11, 2012 and are obligatorily applicable for reporting periods beginning on or after January 1, 2014, with earlier adoption permitted for 2013. Valeo did not choose to early adopt these standards or amendments.

The nature of control over entities less than 70%-owned by Valeo either directly or indirectly was reviewed in light of the criteria defined by IFRS 10. The findings of this review were in line with the findings of the reviews of control carried out prior to the first-time application of IFRS 10. Accordingly, the first-time application of IFRS 10 at January 1, 2014 is not expected to have an impact on the Group's consolidated financial statements.

IFRS 11 is likely to have the biggest impact on the Group's consolidated financial statements, since Valeo currently proportionately consolidates its joint ventures. Following an analysis of the contracts underlying these joint arrangements, the Group classified all of these entities as joint ventures and not joint operations. Accordingly, these joint ventures will be consolidated using the equity method pursuant to IFRS 11.

In the statement of income as published for the year ended December 31, 2013, the application of IFRS 11 would have reduced consolidated sales by around 433 million euros (419 million euros in 2012) and reduced the consolidated operating margin by 30 million euros (15 million euros in 2012). However, IFRS 11 would have increased the share in net earnings of equity accounted companies (including associates and joint ventures) by 17 million euros in 2013 (11 million euros in 2012).

The amounts recorded for 2013 and 2012 in the Group's consolidated financial statements in respect of proportionately consolidated joint ventures are detailed in Note 9.2 and Note 8.1.3.2 (cash and cash equivalents).

IFRS 12 prescribes all of the disclosures required as regards an entity's interests in subsidiaries, joint arrangements and associates. The Notes to the 2014 consolidated financial statements will contain the additional disclosures required on first-time application of IFRS 12.

1.1.2.2 Other standards, amendments and interpretations

The IASB also published the following amendments:

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

Based on a preliminary analysis, these amendments would not have a material impact on the Group's consolidated financial statements.

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

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

- IFRS 9 – “Financial Instruments”, along with amendments to IFRS 9;
- IFRIC 21 – "Levies";
- Amendments to IAS 19 – "Defined Benefit Plans: Employee Contributions";
- Annual improvements to IFRS for 2010-2012 and 2011-2013.

The Group is awaiting the definitive version of IFRS 9 which could lead to adjustments in its consolidated financial statements. Only two phases of the three-phase standard have been completed (published in November 2009 and November 2013, respectively) and the impacts of IFRS 9 cannot be analyzed independently of the as-yet unpublished section on impairment of financial assets.

IFRIC 21 specifies when to recognize a liability for a levy imposed by a government (excluding income taxes). This interpretation may result in adjustments to the Group's consolidated financial statements as it could change the date on which a liability for a levy should be recognized, based on whether or not a current obligation exists at the reporting date.

The other new publications should not affect the Group's consolidated financial statements.

1.2 Basis of preparation

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

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

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

Key estimates and assumptions adopted by the Group to prepare its financial statements for the year ended December 31, 2013 chiefly concern:

- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 6);
- estimates of provisions, particularly for pensions and other employee benefits and for the risks linked to warranties (see Notes 5.3 and 7.1);
- the measurement of the recoverable amount of deferred tax assets (see Note 10.2).

1.3 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 recorded in first-half 2013 following the acquisition of a controlling interest in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.2.2.1), the amount of goodwill shown differs from that presented in the 2012 consolidated financial statements published in February 2013 by an amount of 5 million euros.

The 2012 consolidated financial statements included in this report differ from those published in February 2013 due to the retrospective application of the amended IAS 19, effective as of January 1, 2013. Details of all such adjustments and restatements are provided in Note 1.1.1.1.

Note 2 Scope of consolidation

2.1 Accounting policies relating to the scope of consolidation

2.1.1 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 intercompany 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 intercompany disposals of assets, intercompany profits included in inventories and intercompany 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 policies. 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.

2.1.2 Foreign currency translation

2.1.2.1 Foreign currency financial statements

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

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

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

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

2.1.2.2 Foreign currency transactions

■ General

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

■ Net investment

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

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

2.1.3 Business combinations

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

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

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

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

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

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

Costs directly attributable to the combination are expensed as incurred.

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

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

2.1.4 Transactions involving non-controlling interests

The revised IAS 27 (effective as of January 1, 2010) modified the accounting treatment applicable to non-controlling interests, and changes in non-controlling interests that do not result in a change of control have been recognized in equity since that date. In the event of an acquisition of additional shares in an entity already controlled by the Group, the difference between the acquisition price of the shares and the additional interest acquired by the Group in consolidated equity is recorded in stockholders' equity. The value of the entity's identifiable assets and liabilities (including goodwill) for consolidation purposes remains unchanged.

2.1.5 Assets and liabilities held for sale and discontinued operations

When the Group expects to recover the value of an asset or a group of assets through its sale rather than through continuing use, such assets are presented separately under "Assets held for sale" in the statement of financial position. Any liabilities related to such assets are also presented under a separate caption within liabilities in the statement of financial position. Assets classified as held for sale are valued at the lower of their carrying amount and their estimated sale price less costs to sell, and are therefore no longer subject to depreciation and amortization. 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 coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

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

2.2 Changes in the scope of consolidation

2.2.1 Transactions carried out in 2013

2.2.1.1 Sale of the Access Mechanisms business

On June 25, 2012, Valeo announced that it was in negotiations to sell its Access Mechanisms business (Comfort 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 therefore classified as assets and liabilities held for sale in the consolidated statement of financial position from June 30, 2012. This reclassification within assets and liabilities held for sale also led to the discontinuation of depreciation and amortization of the property, plant and equipment and intangible assets dedicated to this business from that date.

In a particularly uncertain economic environment across Europe, on November 30, 2012 Valeo announced the execution of a contract for the sale of its Access Mechanisms business for an enterprise value of 223 million euros.

In the year ended December 31, 2012, the Group estimated the likely consequences of the sale of the Access Mechanisms business and as a result, recognized an impairment loss totaling 44 million euros in other income and expenses (see Note 4.6.2). This amount included 15 million euros in future IT, legal and operating costs to be incurred directly in connection with the sale and spin-off of the business.

The sale was approved by the anti-trust authorities on February 7, 2013 and was completed on May 24, 2013 (with effect from April 30, 2013) for an enterprise value of 203 million euros. At this date, it did not include the interest in the Indian joint venture, whose assets and liabilities were still classified as held for sale at December 31, 2013 in accordance with IFRS 5. The sale of this interest took place on February 18, 2014 (see Note 2.2.3.2).

An additional expense of 28 million euros was recognized in other income and expenses in 2013, relating mainly to the adverse impacts of the delay in the sale of the Indian Access Mechanisms entity and of the change in the net assets sold over the period.

The main items in the statement of financial position for this business that were sold on April 30, 2013 and had been reclassified as held for sale at December 31, 2012 prior to recognition of the 44 million euro impairment loss, are as follows:

(*in millions of euros*)	April 30, 2013 [1]	December 31, 2012
ASSETS		
Goodwill	128	128
Other intangible assets	25	23
Property, plant and equipment	109	103
Deferred tax assets	4	3
Non-current assets	**266**	**257**
Inventories, net	38	35
Accounts and notes receivable, net	107	88
Other current assets	14	5
Taxes recoverable	3	1
Current assets	**162**	**129**
TOTAL ASSETS	**428**	**386**
EQUITY AND LIABILITIES		
Translation adjustment	16	13
Retained earnings	209	181
Stockholders' equity	**225**	**194**
Provisions – long-term portion	16	16
Deferred tax liabilities	2	-
Non-current liabilities	**18**	**16**
Accounts and notes payable	119	107
Provisions – current portion	4	5
Taxes payable	4	1
Other current liabilities	43	40
Current portion of long-term debt	-	1
Short-term debt	15	22
Current liabilities	**185**	**176**
TOTAL EQUITY AND LIABILITIES	**428**	**386**

(1) The items sold at April 30, 2013 do not include the assets and liabilities of the Indian entity which continue to be classified as held for sale at December 31, 2013.

In first-half 2013 and up to the date of the sale, the Access Mechanisms business (including the Indian entity) contributed 195 million euros (569 million euros in 2012) to sales, and 4 million euros (15 million euros in 2012) to operating margin. Including cash and cash equivalents sold, this sale resulted in a net inflow of 170 million euros in the consolidated statement of cash flows for 2013.

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

2.2.1.2 Acquisition of Eltek Electric Vehicles

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

The purchase price includes payment of a fixed amount of 3 million euros and a maximum earnout payment of 12 million euros, calculated on the basis of the order intake between 2013 and 2020. The provisional valuation of this earnout payment led the Group to recognize a purchase price of 13 million euros, including an earnout of 10 million euros, recorded in other current liabilities in the consolidated statement of financial position at December 31, 2013.

The purchase price was allocated to Eltek Electric Vehicles' assets and liabilities on a provisional basis over the last quarter of 2013, in accordance with IFRS 3 (revised). The purchase price allocation led to the recognition of 7 million euros in goodwill at the acquisition date, essentially reflecting the synergies to be derived from combining the acquiree's technological expertise with the Group's commercial strength. This acquisition will be incorporated within the Powertrain Systems Business Group and will enable Valeo to accelerate and expand the development of its offer for hybrid and electric vehicles. Valeo will also complete its offer in power electronics by adding high efficiency conversion solutions to the ongoing development of high efficiency inverters with several top original equipment manufacturers.

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

2.2.1.3 Put and call option contract between Valeo and Osram GmbH

On June 13, 2013 Valeo and Osram GmbH agreed on an option contract by which, if the reciprocal options are exercised by Osram or Valeo in early 2014, Valeo would acquire or would be committed to acquire Osram's shares in the companies' joint operations in North America, Valeo Sylvania LLC (Visibility Systems Business Group). Until then, Valeo and Osram would continue operating in North America under a 50%-50% joint venture and the governance of this entity would be not modified. Accordingly, this contract did not result in any changes to the published consolidated financial statements for the year ended December 31, 2013, since the joint venture continues to be proportionately consolidated.

Osram GmbH exercised its put option under the contract in early January 2014, leading Valeo to purchase all of the shares concerned (see Note 2.2.3.1). An analysis of this put option at December 31, 2013 is provided in Note 2.3.1.1.

2.2.2 Transactions carried out in 2012

2.2.2.1 Alliance strengthened between Valeo and Ichikoh

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 contributed their respective Chinese Lighting operations. Valeo and Ichikoh respectively own 85% and 15% of the capital of this entity.

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 Auto Lighting Co. Ltd and Valeo Lighting Hubei Technical Center Co. Ltd.

As a result, Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd was fully consolidated in Valeo's financial statements as 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 in 2012 within other income and expenses.

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. Goodwill as calculated under the partial goodwill method amounted to 47 million euros at the acquisition date (including a 5 million euro adjustment recognized in first-half 2013).

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

Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd, which is now fully consolidated, contributed 72 million euros to Valeo's sales in 2013 (44 million euros in 2012 when it was proportionately consolidated).

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

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

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

Valeo and V. Johnson Enterprises formed a new company called Detroit Thermal Systems to acquire the Climate Control business of Automotive Components Holdings, a company controlled 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 new 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.

As from the start of second-half 2013, this activity began to produce climate control systems and components for the automotive industry at the new Romulus plant in Michigan and continues to meet current product supply commitments to Ford. The acquisition is set to 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 by 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 were therefore 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 euro impact on the Group's consolidated financial statements, recorded in share in net earnings of associates.

2.2.2.3 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 euro decrease in consolidated stockholders' equity on the "Retained earnings" line 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.

2.2.3 Subsequent events

2.2.3.1 Acquisition of Osram's shares in Valeo Sylvania

In accordance with the agreement dated June 13, 2013 (see Note 2.2.1.3), Osram GmbH exercised its put option to sell Valeo its entire stake in their North American joint venture, Valeo Sylvania LLC, for a price of 104 million US dollars (equivalent to three times 2014 EBITDA as estimated by Valeo). After completion of the sale on January 21, 2014, Valeo will own all of Valeo Sylvania's capital stock and will assume control of Valeo Sylvania LLC in the US, and its Mexican subsidiary Valeo Sylvania Illuminacion.

In 2013, these two proportionately consolidated entities contributed 198 million euros to consolidated sales.

These entities will be fully consolidated as from January 1, 2014. They will be accounted for by the equity method in the comparative 2013 financial statements to be included in the 2014 financial statements due to the first-time application of IFRS 10 and IFRS 11 at January 1, 2014. In accordance with IFRS 3 (revised), income arising on the revaluation of the previously-held equity interest will be recognized in the consolidated statement of income for 2014.

2.2.3.2 Sale of the interest in Minda Valeo Security Systems

On February 18, 2014, Valeo completed the sale of its entire interest in India-based 50%-50% joint venture (part of the former Access Mechanisms business) to Minda Capital Limited.

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

2.3.1 Commitments given

2.3.1.1 Put and call option contract between Valeo and Osram regarding Valeo Sylvania

As discussed in Note 2.2.1.3, on June 13, 2013 Valeo and Osram GmbH agreed on an option contract by which, if the reciprocal options are exercised by Osram or Valeo in early 2014, Valeo would acquire or would be committed to acquire Osram's shares in the companies' joint venture in North America, Valeo Sylvania, LLC.

At December 31, 2013, no financial liabilities were recognized in the Group's consolidated financial statements in respect of the obligation arising from the put option granted to Osram: since the fair value of Osram's stake in the company was considered as being higher than the option exercise price, the value of the option for accounting purposes is zero.

2.3.1.2 Put option granted in respect of Detroit Thermal Systems

Valeo and V. Johnson Enterprises set up the company Detroit Thermal Systems (see Note 2.2.2.2). Valeo and V. Johnson Enterprises had a respective 49% and 51% interest in this company at December 31, 2013.

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

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

2.3.1.3 Put option granted in respect of Valeo Unisia Transmissions

At December 31, 2013, Valeo and Hitachi owned 66% and 34%, respectively, of Japanese firm Valeo Unisia Transmissions K.K.

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

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

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

2.3.1.4 Other commitments given

Other commitments given relate to guarantees granted by Valeo in connection with divestments. These totaled 66 million euros at December 31, 2013 versus 42 million euros at December 31, 2012. The rise in the amount of commitments given in the year relates chiefly to the sale of the Access Mechanisms business (see Note 2.2.1.1).

2.3.2 Commitments received

Commitments received totaled 60 million euros at December 31, 2013 (59 million euros at December 31, 2012) and correspond to guarantees granted to Valeo in connection with its acquisitions.

In 2012, Valeo received an amount of 6 million euros in commitments within the scope of the alliance with Ichikoh in the Lighting business in China (see Note 2.2.2.1).

Note 3 Segment reporting

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

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

The Group's four reportable segments are:

- Powertrain Systems, comprising five Product Groups: Electrical Systems, Transmission Systems, Electronics, Combustion Engine Systems, and Expertise and Services. 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 systems to electric vehicles.
- Thermal Systems, comprising four Product Groups: Climate Control, Powertrain Thermal Systems, Climate Control Compressors, and Front End Modules. This Business Group develops and manufactures systems, modules and components to ensure thermal energy for the management of powertrain and comfort for each passenger at all stages in the use of a vehicle. These systems help to significantly reduce fuel consumption, CO^2 emissions and other pollutants and harmful particles from vehicles equipped with internal combustion engines. They also help expand travel range and battery life for hybrid and electric vehicles.
- Comfort and Driving Assistance Systems, comprising three Product Groups: Interior Controls, Driving Assistance and Interior Electronics. This Business Group previously included the Access Mechanisms Product Group, which was sold in the first half of 2013 (see Note 2.2.1.1). The Business Group develops interfaces between the driver, the vehicle and the surrounding environment, and helps improve safety and comfort. Intuitive driving is the Business Group's key focus, with four complementary priorities: easy, ergonomic interaction with the vehicle for the driver; driving agility with better visibility of the surrounding environment, connectivity and safe, personalized access.
- Visibility Systems, comprising two Product Groups: Lighting Systems and Wiper Systems. This Business Group develops and manufactures efficient and innovative systems which support the driver at all times, day and night, so that the driver has perfect visibility, thus improving the safety of the driver and passengers.

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

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

The key performance indicators for each segment are as follows:

- sales;
- EBITDA, which represents operating income (loss) before depreciation and amortization expense, impairment losses included in operating margin, and other income and expenses (see Note 4.6);
- net Research and Development expenditure (see Note 4.5.2.2);
- 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:

2013

(in millions of euros)	Powertrain Systems	Thermal Systems	Comfort and Driving Assistance Systems	Visibility Systems	Other	Total
Sales						
• segment (excluding Group)	3,358	3,366	2,229	3,129	28	**12,110**
• intersegment (Group)	42	32	21	54	(149)	**-**
EBITDA	**351**	**394**	**294**	**298**	**19**	**1,356**
Research and Development expenditure, net	(165)	(152)	(169)	(148)	(9)	**(643)**
Investments in property, plant and equipment and intangible assets	261	178	232	252	16	**939**
Segment assets	1,510	1,115	1,142	1,314	46	**5,127**

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 (2)	**331**	**385**	**300**	**222**	**22**	**1,260**
Research and Development expenditure, net (2)	(145)	(147)	(169)	(129)	(8)	**(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	1,234	39	**4,927**

(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 2.2.1.1) for 289 million euros. The segment assets shown for Visibility Systems at December 31, 2012 differ from those published in February 2013 since they have been adjusted to reflect changes made following the acquisition of a controlling interest in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.2.2.1).

(2) The breakdown of EBITDA and net Research and Development expenditure by Business Group shown for 2012 was adjusted to take better account of certain items previously classified within "Other". This adjustment is not material taken as a whole.

3.2 Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating income:

(in millions of euros)	2013	2012
EBITDA	**1,356**	**1,260**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses [1]	(561)	(535)
Other income and expenses	(67)	(53)
Operating income	**728**	**672**

(1) Impairment losses recorded in operating margin only.

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	December 31, 2013	December 31, 2012
Segment assets	**5,127**	**4,927**
Accounts and notes receivable	1,521	1,517
Other current assets	386	378
Taxes recoverable	33	48
Assets held for sale	8	342
Financial assets	1,721	1,488
Deferred tax assets	246	220
TOTAL GROUP ASSETS	**9,042**	**8,920**

3.3 Reporting by geographic area

2013

(in millions of euros)	External sales by market	Sales by production area	Non-current assets [1]
France	1,154	2,796	806
Other European countries and Africa	5,158	3,870	954
North America	2,143	2,027	350
South America	602	536	92
Asia	3,053	3,303	932
Eliminations	-	(422)	-
TOTAL	**12,110**	**12,110**	**3,134**

(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.

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**

(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.

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 reclassified as “Assets held for sale” (see Note 2.2.1.1) in an amount of 126 million euros, including 86 million euros in Europe and 25 million euros in South America.

3.4 Breakdown of sales by major customer

In 2013, two global automakers represented 31.9% of the Valeo Group’s sales, and each of these individually accounts for more than 10% of the Group’s sales.

In 2012, two global automakers represented individually more than 10% of the Group's sales, and together represented 33.4% of the Group’s sales.

Note 4 Operating data

4.1 Sales

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

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

Group sales rose 3.0% to 12,110 million euros in 2013 from 11,759 million euros in 2012.

Like-for-like (comparable Group structure and exchange rate basis), consolidated sales for 2013 climbed 8.9% on the previous year. Changes in the scope of consolidation during the year (sale of the Access Mechanisms business - see Note 2.2.1.1) and adverse foreign exchange fluctuations over the period (particularly the yen and Brazilian real) had a negative impact of 2.8% and 3.1%, respectively, on sales.

4.2 Accounts and notes receivable

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

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

For recurring or one-off transactions, accounts and notes receivable may be discounted and sold to banks. In 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 of 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 of 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.

(in millions of euros)	December 31, 2013	December 31, 2012
Accounts and notes receivable, gross	1,536	1,537
Impairment	(15)	(20)
Accounts and notes receivable, net	**1,521**	**1,517**

Accounts and notes receivable relating to the Access Mechanisms business, reclassified as held for sale at December 31, 2012 (see Note 2.2.1.1), included gross accounts and notes receivable amounting to 90 million euros and impairment losses totaling 2 million euros. At December 31, 2013, only the accounts and notes receivable relating to the Indian Access Mechanisms entity were classified as held for sale in an amount of 3 million euros.

Prior to reclassification as held for sale, gross accounts and notes receivable not yet due and less than one month past due at December 31, 2013 totaled 1,455 million euros and 44 million euros, respectively, and represented 97% of total gross accounts and notes receivable, the same percentage as at end-2012 (see Note 8.3.3). A description of the Group's credit risk management policy is set out in Chapter I 4.7 of the management report.

Accounts and notes receivable falling due after December 31, 2013 for which substantially all risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position, represent an amount of 186 million euros at December 31, 2013 versus 72 million euros at December 31, 2012. A total of 61 million euros out of this amount of 186 million euros relates to transfer operations carried out on a recurring basis (61 million euros at December 31, 2012).

4.3 Gross margin and cost of sales

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

Gross margin totaled 2,073 million euros in 2013, or 17.1% of sales (16.6% of sales in 2012). Cost of sales can be analyzed as follows:

(in millions of euros)	2013	2012
Raw materials consumed	(7,113)	(6,895)
Labor	(1,566)	(1,555)
Direct production costs and production overheads	(1,018)	(1,019)
Depreciation and amortization [(1)]	(340)	(342)
Cost of sales	**(10,037)**	**(9,811)**

(1) This amount does not include amortization charged against capitalized development costs, which is recognized in net Research and Development expenditure.

The 2013 depreciation and amortization expense takes into account the positive 6 million euro impact of discontinuing depreciation and amortization on the Access Mechanisms business (see Note 2.2.1.1) up to the date of the sale (positive 8 million euro impact in 2012), and the positive 28 million euro impact of the revised useful life of certain items of property, plant and equipment as from the second half of 2012 (see Note 6.3), compared to a positive impact of 14 million euros in 2012.

4.4 Inventories

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

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

Inventories of finished products and work-in-progress are carried at production cost. Production cost includes the cost of raw materials, supplies and labor used in production, and other direct production and indirect plant costs, excluding overheads not related to production. These costs are determined by the "First-in-First-out" (FIFO) method which, due to the rapid inventory turnover rate, approximates the latest cost at the end of the reporting period.

Tooling used in the production of a specific project is subjected to an economic analysis of contractual relations with the automaker in order to determine which party has control over the associated future risks and rewards. Tooling is capitalized in the consolidated statement of financial position (see Note 6.2 on property, plant and equipment) when Valeo has control over these risks and rewards, or is carried in inventories (until it is sold) if no such control exists. A provision is made for any potential loss on the tooling contract (corresponding to the difference between the customer's contribution and the cost of the tooling) as soon as the amount of the loss is known.

At December 31, 2013, inventories break down as follows:

	December 31, 2013			December 31, 2012
(in millions of euros)	Gross carrying amount	Impairment	Net carrying amount	Net carrying amount
Raw materials	358	(58)	**300**	271
Work-in-progress	90	(10)	**80**	77
Finished goods, supplies and specific tooling	533	(65)	**468**	441
Inventories, net	**981**	**(133)**	**848**	**789**

Impairment losses taken against inventories amounted to 133 million euros at December 31, 2013 (130 million euros at December 31, 2012), including an allowance (net of reversals) of 9 million euros during the period. Allowances to provisions for impairment of inventories net of reversals amounted to 1 million euros in 2012.

At December 31, 2012, inventories relating to the Access Mechanisms business that had been reclassified as held for sale (see Note 2.2.1.1) included gross inventories for 41 million euros and 6 million euros in impairment.

4.5 Operating margin and Research and Development expenditure

4.5.1 Operating margin

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

Operating margin totaled 795 million euros in 2013, or 6.6% of sales (6.2% of sales in 2012).

4.5.2 Research and Development expenditure

4.5.2.1 Capitalized development costs

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

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

Development costs are capitalized where the Group can demonstrate:

- that it has the intention and the technical and financial resources to complete the development, evidenced mainly by an engagement letter from the customer stating that Valeo has been chosen as supplier for the project;
- that the intangible asset will generate future economic benefits, i.e., based on whether the project is expected to generate an adequate margin;
- 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.

Changes in capitalized development expenditure in 2013 and 2012 are analyzed below:

(in millions of euros)	**2013**	**2012**
GROSS CARRYING AMOUNT AT JANUARY 1	**1,290**	**1,174**
Accumulated amortization and impairment	(777)	(747)
NET CARRYING AMOUNT AT JANUARY 1	**513**	**427**
Capitalized development expenditure	290	244
Disposals	-	(3)
Changes in scope of consolidation	4	4
Impairment	(10)	(11)
Amortization	(145)	(126)
Translation adjustment	(12)	(2)
Reclassifications	(2)	(20)
NET CARRYING AMOUNT AT DECEMBER 31	**638**	**513**

At December 31, 2012, a total of 21 million euros in capitalized development expenditure was reclassified in “Assets held for sale" due to the disposal of the Access Mechanisms business (see Note 2.2.1.1).

4.5.2.2 Research and Development expenditure, net

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

Net Research and Development expenditure can be analyzed as follows for 2012 and 2013:

(in millions of euros)	**2013**	**2012**
Research and Development expenditure	(1,070)	(1,006)
Contributions received and subsidies	292	301
Capitalized development expenditure	290	244
Amortization and impairment of capitalized development expenditure	(155)	(137)
Research and Development expenditure, net	**(643)**	**(598)**

The Group continued to step up its Research and Development efforts in 2013 to meet the significant increase in its order book over the past three years.

The amortization expense booked in 2013 includes a positive impact of 2 million euros (4 million euros in second-half 2012) as a result of discontinuing depreciation and amortization on the Access Mechanisms business up to the date it was sold (see Note 2.2.1.1).

4.6 Operating income and other income and expenses

4.6.1 Operating income

Operating income includes all income and expenses other than:

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

Operating income totaled 728 million euros in 2013 versus 672 million euros in 2012.

4.6.2 Other income and expenses

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

This caption mainly includes:

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

Other income and expenses can be analyzed as follows in 2013 and 2012:

(in millions of euros)	*Notes*	2013	2012
Capital gains and losses arising on changes in the scope of consolidation:			
• Sale of the Access Mechanisms business	*2.2.1.1*	(28)	(49)
• Valeo-Ichikoh alliance	*2.2.2.1*	-	30
Claims and litigation:			
• Anti-trust proceedings	*7.2*	(16)	(19)
• Other disputes	*7.1*	(4)	3
Restructuring plans	*7.1*	(16)	(11)
Impairment of fixed assets	*6.4*	-	(9)
Other		(3)	2
Other income and expenses		**(67)**	**(53)**

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

In the year ended December 31, 2012, the Group estimated the likely consequences of the sale of the Access Mechanisms business (see Note 2.2.1.1) and as a result, recognized an impairment loss for 44 million euros. A total of 5 million euros in costs already incurred in connection with the sale transaction was also booked. An additional expense of 28 million euros was recognized in 2013, relating mainly to the adverse impacts of the delay in the sale of the Indian Access Mechanisms entity and to the change in the net assets sold over the period.

In 2012, a total of 30 million euros was recognized in income on remeasuring to fair value the Group's previously-held direct and indirect interest in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.2.2.1) following the strengthening of the alliance between Valeo and Ichikoh.

4.6.2.2 Claims and litigation

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

In 2013, the Group booked 10 million euros in respect of a settlement indemnity paid by Valeo Japan Co. Ltd (see Note 7.2) and 6 million euros in legal fees in connection with these proceedings (19 million euros in 2012).

4.6.2.3 Restructuring plans

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

The amount recognized in this caption in 2012 mainly includes expenses relating to a restructuring plan in Spain that was announced in the last quarter of that year.

4.6.2.4 Impairment of fixed assets

As a result of the CGU impairment tests carried out in the year ended December 31, 2012, an impairment loss of 9 million euros was recognized against the Engine Management Systems Product Line (see Note 6.4).

Note 5 Personnel expenses and employee benefits

5.1 Headcount

The Group had a total headcount of 74,800 at December 31, 2013 including temporary staff (72,600 at December 31, 2012).

5.2 Employee benefits

Employee benefits are measured in accordance with the amended IAS 19, effective as of January 1, 2013. They comprise both short- and long-term benefits.

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

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

Long-term benefits cover two categories of employee benefits:

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

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

These benefits are broken down into:

- defined contribution plans, under which the employer pays fixed contributions on a regular basis and has no legal or constructive obligation to pay further contributions. These are recognized in expenses based on calls for contributions;
- defined benefit plans, under which the employer guarantees a future level of benefits. An obligation under defined benefit plans (see Note 5.3) is recognized in liabilities in the statement of financial position.

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

(*in millions of euros*)	2013	2012
Wages and salaries [1]	2,076	1,967
Social security charges	434	458
Share-based payment	9	9
Pension expenses under defined contribution plans	78	70
TOTAL	**2,597**	**2,504**

(1) Including temporary staff.

In France, the amended Finance Law for 2012 introduced a new tax credit: *Crédit d'impôt pour la compétitivité et l'emploi* (CICE), with effect from January 1, 2013. It is calculated on the basis of certain salaries paid to employees in French companies and is paid by the French State irrespective of the entity's situation as regards corporate income tax. It does not fall within the scope of IAS 12 – "Income Taxes". The CICE is recognized as a deduction from personnel expenses within consolidated operating income and represented income of 10 million euros in 2013.

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

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

5.3 Provisions for pensions and other employee benefits

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

The pension provision is equal to the present value of Valeo's future benefit obligation less, where appropriate, the fair value of plan assets in funds allocated to finance such benefits. An asset is only recognized on overfunded plans if it represents future economic benefits that are available to the Group.

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

Discount rates are determined by reference to market yields at the valuation date on high quality corporate bonds with a term consistent with that of the employee benefits concerned.

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

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

The expense recognized in the statement of income includes:

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

5.3.1 Description of the plans in force within the Group

The Group has set up a large number of defined benefit plans covering most of its current and former employees. The specific characteristics of these plans (benefit formula, funded status) varies depending on the laws and regulations prevailing in each country in which its employees work. At December 31, 2013, 94% of provisions are related to post-employment benefits, while the remaining 6% cover other long-term benefits.

The main post-employment defined benefit plans concern:

- supplementary pension benefits in Germany, Japan, the UK and the US, which top up the statutory pension plans in force in those countries:
  Pension entitlement is calculated based on end-of-career salaries and number of years' service within the Group. Certain plans are pre-funded due to legal requirements in some countries (UK/US) or as a result of the choice made by the company on setting up the plan (Japan).
  Most plans in the US have been frozen and no longer give rise to any additional benefits;
- retirement termination benefits in France or severance benefits in South Korea, Mexico and Italy:
  These benefits are fixed amounts and are calculated depending on the number of years' service and the employee's annual compensation, either at the retirement date (as in France) or at the date the employee leaves the company for whatever reason (retirement, resignation or redundancy) - as in Italy, Mexico and South Korea;
- health cover during retirement in the United States:
  Valeo pays into health plans and life insurance plans for certain retired employees in the US. These plans are not funded and have all been frozen (the last plan was frozen as of January 1, 2012). Accordingly, no additional benefits have since been offered by these plans to plan participants still working for the Group;
- top-up retirement plans for certain Group managers and executives in France. Only one such plan is still in operation (since January 1, 2010) and concerns a specific level of Valeo management (*cadres hors catégorie*); the portion of these obligations relating to the Group's executive managers in France is detailed in Note 5.5.

The table below shows the average duration of the Group's main plans and the employees covered by these plans in each region at December 31, 2013:

	France	Other European countries	North America	Asia	Total
Active Valeo employees	12,307	12,499	7,138	7,019	**38,963**
Active employees having left the Group	-	1,843	2,840	30	**4,713**
Retirees	-	3,984	2,550	227	**6,761**
Total employees	**12,307**	**18,326**	**12,528**	**7,276**	**50,437**
Average duration of post-employment benefits *(in number of years)*	11	18	14	9	

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

All of these plans are accounted for as described above.

5.3.2 Actuarial assumptions

To calculate discount rates for the year ended December 31, 2013, the Group used the same benchmarks as in previous years.

The discount rates used in the countries representing the Group's most significant obligations were as follows:

Country	Benchmark index (%)	December 31, 2013	December 31, 2012
Eurozone	iBoxx Euro-Corporate AA 10-year+	3.3	3.0
United Kingdom	iBoxx £-Corporate AA 15-year+	4.4	4.0
United States	Citigroup Pension Discount Curve	4.5	3.5
Japan	10-year government bonds	0.9	1.0
South Korea	10-year government bonds	3.5	3.0

The weighted average long-term salary inflation rate was around 3.5% at December 31, 2013, largely unchanged from December 31, 2012.

The rate of increase for medical costs in the US used to value the Group's main obligations was 8.5% at December 31, 2013 (9.0% at December 31, 2012), gradually reducing to 5% by 2032. This assumption is largely similar to that used in 2012.

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

5.3.3 Breakdown and movements in obligations

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

2013

(*in millions of euros*)	France	Other European countries	North America	Asia	Total
Present value of unfunded obligations	186	335	94	53	**668**
Present value of funded obligations	24	77	341	78	**520**
Market value of plan assets	(6)	(60)	(277)	(54)	**(397)**
Provisions recognized at December 31, 2013	**204**	**352**	**158**	**77**	**791**
Permanent employees at December 31, 2013 (1)	12,067	18,905	8,442	10,091	**49,505**

(1) *Permanent employees shown in the table 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 2013. The Group's pension obligations in North America are significant, since a large portion of these obligations relates to retired personnel or employees having left the Group.*

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	74 (2)	407	90	**596**
Market value of plan assets	(8)	(53)	(275)	(48)	**(384)**
Provisions recognized at December 31, 2012	**197 (3)**	**371**	**243**	**107**	**918**
Permanent employees at December 31, 2012 (1)	12,803	17,865	7,629	17,104	**55,401**

(1) *Permanent employees shown in the table 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 2012. The Group's pension obligations in North America are significant, since a large portion of these obligations relates to retired personnel or employees having left the Group.*

(2) *The amount of benefit obligations shown for the UK at December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect the clarification of accounting for plan administration costs under the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1).*

(3) *The amount of provisions shown for France at December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect the immediate recognition of past service costs following the retrospective application of the amended IAS 19 (see Note 1.1.1.1).*

The decrease in permanent staff numbers in Asia in 2013 results from a change in the rules for determining the number of employees on indefinite-term contracts in China. According to local practices, employees are usually hired under a first fixed-term (renewable) five-year contract before transferring to an indefinite-term contract. Employees hired under such fixed-term contracts are now excluded from the permanent staff count, whereas before they were included within this category.

Movements in obligations in 2012 and 2013 are shown in the tables below by major geographic area:

2013

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2013	**205**	**424**	**518**	**155**	**1,302**
Actuarial gains and losses recognized in other comprehensive income	(1)	(20)	(59)	(2)	**(82)**
Benefits paid	(15)	(14)	(25)	(13)	**(67)**
Translation adjustment	-	(2)	(20)	(24)	**(46)**
Reclassification	-	-	-	1	**1**
Expenses (income) for the year:	21	24	21	14	**80**
• *service cost*	*16*	*12*	*2*	*11*	***41***
• *interest cost*	*6*	*13*	*18*	*3*	***40***
• *other*	*(1)*	*(1)*	*1*	*-*	***(1)***
BENEFIT OBLIGATIONS AT DECEMBER 31, 2013	**210**	**412**	**435**	**131**	**1,188**

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

2012

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2012	**162**	**321** [(1)]	**494**	**153**	**1,130**
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)**
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**	**424**	**518**	**155**	**1,302**

(1) The amount of benefit obligations shown for the UK at January 1, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect the clarification of accounting for plan administration costs under the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1).

In 2012, the actuarial gains and losses recognized in the year, leading to an increase of 180 million euros in the Group's obligation, were chiefly due to the sharp fall in the discount rate in eurozone countries.

5.3.4 Movements in provisions

Movements in provisions in 2013 and 2012 are shown in the table below:

(*in millions of euros*)	France	Other European countries	North America	Asia	Total
PROVISIONS AT JANUARY 1, 2012 [1]	**157**	**276**	**237**	**109**	**779**
Actuarial gains and losses recognized in other comprehensive income [2]	38	96	19	3	**156**
Amounts used during the year	(13)	(16)	(18)	(13)	**(60)**
Reclassification	(7)	(6)	-	1	**(12)**
Translation adjustment	-	1	(5)	(6)	**(10)**
Expenses (income) for the year:	22	20	10	13	**65**
• *service cost*	*12*	*6*	*1*	*10*	***29***
• *net interest cost [2]*	*8*	*13*	*9*	*3*	***33***
• *other*	*2*	*1*	-	-	***3***
PROVISIONS AT DECEMBER 31, 2012	**197**	**371**	**243**	**107**	**918**
Actuarial gains and losses recognized in other comprehensive income	(1)	(24)	(81)	(6)	**(112)**
Amounts used during the year	(13)	(16)	(8)	(23)	**(60)**
Reclassification	-	-	-	1	**1**
Translation adjustment	-	(1)	(8)	(15)	**(24)**
Expenses (income) for the year:	21	22	12	13	**68**
• *service cost*	*16*	*12*	*2*	*11*	***41***
• *net interest cost*	*6*	*11*	*9*	*2*	***28***
• *other*	*(1)*	*(1)*	*1*	-	***(1)***
PROVISIONS AT DECEMBER 31, 2013	**204**	**352**	**158**	**77**	**791**
Of which current portion (less than one year)	20	16	15	19	**70**

(1) The amounts of provisions shown for the UK and France at January 1, 2012 differ from those presented in the 2012 consolidated financial statements published in February 2013 since they have been adjusted to reflect changes resulting from the retrospective application of the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1). The change in the provision amount for France results from the immediate recognition of past service costs. The change in the provision amount for the UK relates to the clarification of the accounting for plan administration costs.

(2) The net interest cost and actuarial gains and losses recognized in other comprehensive income and shown for 2012 differ from those presented in the 2012 consolidated financial statements published in February 2013. This is because the rate of return used in the calculations is now equivalent to the discount rate in accordance with the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1).

An expense of 68 million euros was recognized in 2013 in respect of pensions and other employee benefits (65 million euros in 2012), of which 40 million euros were included in operating margin and 28 million euros in other financial income and expenses.

5.3.5 Breakdown and movements in plan assets

The breakdown of plan assets at December 31, 2013 and 2012 is shown in the tables below:

2013

(in millions of euros)	France	Other European countries	North America	Asia	Total
Cash at bank	-	-	10	18	**28**
Shares	6	35	158	13	**212**
Government bonds	-	13	27	10	**50**
Corporate bonds	-	12	82	13	**107**
Breakdown of plan assets at December 31, 2013	**6**	**60**	**277**	**54**	**397**

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**

These assets are managed by specialized asset management companies.

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

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

Movements in the value of plan assets in 2013 and 2012 can be analyzed as follows:

2013

(in millions of euros)	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2013	**8**	**53**	**275**	**48**	**384**
Expected return on plan assets	-	2	9	1	**12**
Contributions paid to external funds	4	4	1	17	**26**
Benefits paid	(6)	(2)	(18)	(7)	**(33)**
Actuarial gains and losses	-	4	22	4	**30**
Translation adjustment	-	(1)	(12)	(9)	**(22)**
PLAN ASSETS AT DECEMBER 31, 2013	**6**	**60**	**277**	**54**	**397**

The fair value of plan assets continued to rise in 2013, chiefly due to actual returns on these assets totaling 42 million euros. The difference between actual returns and the 12 million euros in expected returns, recognized in other financial income and expenses, accounts for the 30 million euros of actuarial gains resulting from experience adjustments. These actuarial gains were recognized within other comprehensive income in 2013.

Contributions of 26 million euros were paid to external funds in 2013. Contributions in 2014 are estimated at 29 million euros.

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 [(1)]	-	2	11	1	**14**
Contributions paid to external funds	4	5	11	10	**30**
Benefits paid	(1)	(3)	(16)	(6)	**(26)**
Actuarial gains and losses [(1)]	-	3	17	4	**24**
Translation adjustment	-	1	(5)	(5)	**(9)**
PLAN ASSETS AT DECEMBER 31, 2012	**8**	**53**	**275**	**48**	**384**

(1) *The expected return on plan assets and the actuarial gains and losses recognized in other comprehensive income and shown for 2012 differ from those presented in the 2012 consolidated financial statements published in February 2013. This is because the rate of return used in the calculations is now equivalent to the discount rate in accordance with the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1).*

5.3.6 Data for previous years

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

(*in millions of euros*)	2013	2012 [(1)]	2011	2010	2009
Benefit obligations	1,188	1,302	1,132	988	886
Financial assets	(397)	(384)	(351)	(330)	(269)
Net benefit obligations	**791**	**918**	**781**	**658**	**617**
Actuarial (losses) and gains recognized in other comprehensive income [(2)]	112	(156)	(90)	(30)	(16)

(1) *The data shown for 2012 differ from those presented in the 2012 consolidated financial statements published in February 2013 since they have been adjusted to reflect the retrospective application of the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1).*

(2) *Actuarial gains recognized in other comprehensive income in 2013 for 112 million euros mainly include 82 million euros of actuarial gains arising on changes in actuarial assumptions regarding pension obligations and 30 million euros of actuarial gains due to experience adjustments on plan assets.*

5.3.7 Sensitivity of obligations

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

A 0.5 pt increase or decrease in these rates would have the following impact on the projected benefit obligation at December 31, 2013:

(*in millions of euros*)	France	Other European countries	North America	Asia	Total
Discount rate					
Impact of a 0.5 pt rise	(11)	(36)	(25)	(5)	**(77)**
Impact of a 0.5 pt fall	12	38	26	5	**81**
Wage growth rate					
Impact of a 0.5 pt rise	12	26	1	2	**41**
Impact of a 0.5 pt fall	(10)	(25)	(1)	(2)	**(38)**

At December 31, 2013, the value of the Group's benefit obligation is less sensitive to changes in the salary inflation rate than to changes in the discount rate, particularly in the United States. This is due to the existence of plans which have now been frozen and which only bear obligations in relation to the Group's former employees.

Changes in the discount and inflation rates only have a limited impact on 2014 service cost. A 0.5 pt decrease in the discount rate would lead to an additional expense of 3 million euros, while a 0.5 pt increase in the discount rate would reduce the expense by 2 million euros.

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 benefit obligation or expense for the period.

5.3.8 Sensitivity of plan assets

A decrease of 1 pt in the discount rate used to calculate the expected return on plan assets would reduce the financial income recognized on these assets in 2013 by 3 million euros. An increase of 1 pt in the expected return on plan assets would have the opposite effect.

5.3.9 Estimated payouts over the next 10 years

Payouts due over the next 10 years in respect of pensions and other employee benefits recognized under liabilities in the consolidated statement of financial position can be estimated as follows:

(in millions of euros)	**France**	**Other European countries**	**North America**	**Asia**	**Total**
2014	20	14	27	7	**68**
2015	20	15	28	10	**73**
2016	18	15	28	10	**71**
2017	10	15	27	9	**61**
2018	12	15	27	9	**63**
2019/2023	75	87	131	49	**342**
TOTAL	**155**	**161**	**268**	**94**	**678**

5.4 Share-based payment

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

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

There were no stock subscription options outstanding at either December 31, 2013 or 2012.

The terms and conditions of the shareholder-approved employee stock option and free share plans operated by Valeo at December 31, 2013 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, 2013	Expiration date
2006	1,309,250	-	32.63	192,202	2014
2007	250,000	-	36.97	75,000	2015
2007	1,677,000	-	36.82	398,718	2015
2008	426,750	-	31.41	111,855	2016
2010	1,000,000	*611,365*	24.07	633,753	2018
2011	292,840	*210,370*	42.41	249,340	2019
2012	367,160	*265,230*	40.78	342,860	2020
TOTAL	**5,323,000**	**1,086,965**		**2,003,728**	

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

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

Terms and conditions of free share plans

Year in which the plan was set up	Number of free shares authorized	*of which subject to conditions* [1]	Number of shares not yet issued at December 31, 2013	Year of vesting [2]
2010	400,000	178,769	119,669	2012/2014
2011	326,860	126,480	283,058	2014/2016
2012	213,140	117,220	200,297	2015/2017
2013	473,814	223,314	460,388	2016/2018
TOTAL	**1,413,814**	**645,783**	**1,063,412**	

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

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

Movements in stock option and free share plans in 2013 and 2012 are detailed below:

2013

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

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 issued	580,300	25.80
Options canceled	(171,009)	21.04
Options expired	(64,795)	29.48
Options exercised	(780,784)	21.74
OPTIONS NOT EXERCISED/FREE SHARES NOT ISSUED AT DECEMBER 31, 2012	**4,213,131**	**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.

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

2013

	2013	
	Free shares	
	France	Other countries
Share price at grant date (*in euros*)	42.6	42.6
Risk-free rate (%)	0.6	0.9
Dividend rate (%)	5.8	-
Fair value of equity instruments (*in euros*)	**35.2**	**32.7**

An expense of 9 million euros was booked both in 2013 and 2012 in respect of stock option and free share plans.

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.

5.5 Executive compensation (Related party transactions)

At December 31, 2013, executives comprise the 14 members of the Group's Operating 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 2013 and in 2012.

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

- a termination benefit in the event of termination related to a change in control or of strategy (except on the grounds of gross misconduct in the performance of his duties) equal to 24 months of his annual fixed and target variable compensation and based on a scale which takes into account the partial or total fulfillment of five performance criteria;
- a non-competition payment over a period of 12 months in the event of his departure from the Company. If this clause is adopted, the Chief Executive Officer will receive a non-competition payment equal to 12 months of compensation (calculated on the same basis as the termination benefit). If Valeo invokes this clause, the amount owed will reduce his termination benefit.

The Group recognized an expense of 1 million euros in 2013 (2 million euros in 2012) in respect of stock subscription and purchase options and free share awards awarded to its executives. An expense was also recorded in relation to pension obligations for executive personnel in an amount of 2 million euros in 2013 (1 million euros in 2012). At December 31, 2013, provisions included in the Group's statement of financial position in respect of these pension obligations amounted to 14 million euros (10 million euros at December 31, 2012).

5.6 French statutory training entitlement (Off-balance sheet commitments)

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 994,019 hours at December 31, 2013 (1,173,568 hours at December 31, 2012), representing a usage rate of around 3.36%.

Note 6 Intangible assets and property, plant and equipment

6.1 Goodwill

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

Goodwill is not amortized but is tested for impairment at least once a year and whenever there is an indication that it may be impaired. Impairment tests are carried out as described in Note 6.4.

Changes in goodwill in 2013 and 2012 are analyzed below:

(in millions of euros)	2013	2012
NET GOODWILL AT JANUARY 1	**1,327**	**1,438**
Acquisitions during the year (1)	9	55
Translation adjustment	(88)	(38)
Reclassification	-	(128)
NET GOODWILL AT DECEMBER 31	**1,248**	**1,327**
Including accumulated impairment losses at December 31	-	-

(1) The amount of goodwill shown for December 31, 2012 differs from the amount presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes made following the acquisition of a controlling interest in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.2.2.1).

The decrease in goodwill in 2013 results from the impact of exchange rate fluctuations totaling 88 million euros, of which 62 million euros relates to the depreciation of the yen.

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 2.2.1.1), and to a lesser extent, from the depreciation in the 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 2.2.2.1) and the end-2011 acquisition of the Chery group's lighting company in China.

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

(in millions of euros)	December 31, 2013	December 31, 2012
Powertrain Systems	329	326
Thermal Systems	301	341
Comfort and Driving Assistance Systems	285	318
Visibility Systems (1)	332	341
Other	1	1
Goodwill	**1,248**	**1,327**

(1) The amount of goodwill shown for Visibility Systems at December 31, 2012 differs from the amount presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes made following the acquisition of a controlling interest in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.2.2.1).

6.2 Other intangible assets

Separately acquired intangible assets are initially recognized at cost in accordance with IAS 38. Intangible assets acquired as part of a business combination are recognized at fair value, separately from goodwill. Intangible assets are subsequently carried at cost, less accumulated amortization and impairment losses. They are tested for impairment using the methodology described in Note 6.4.

Capitalized development costs recognized within other intangible assets in the statement of financial position correspond to projects for specific customer applications that draw on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization as described above in Note 4.5.2.1. Costs incurred before the formal decision to develop the product are included in expenses for the period. Costs incurred after the launch of volume production are considered as production costs.

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

- Software — 3 to 5 years
- Patents and licenses — based on their useful lives or duration of protection
- Capitalized development expenditure — 4 years
- Customer relationships acquired — up to 25 years
- Other intangible assets — 3 to 5 years

Other intangible assets can be analyzed as follows:

	December 31, 2013			December 31, 2012
(in millions of euros)	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
Software	193	(173)	**20**	14
Patents and licences	104	(79)	**25**	31
Capitalized development expenditure	1,524	(886)	**638**	513
Customer relationships and other intangible assets	261	(94)	**167**	178
Other intangible assets	**2,082**	**(1,232)**	**850**	**736**

Changes in intangible assets in 2013 and 2012 are analyzed below:

(in millions of euros)	Software	Patents and licences	Capitalized development expenditure	Customer relationships and other intangible assets	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2013	**190**	**108**	**1,290**	**262**	**1,850**
Accumulated amortization and impairment	(176)	(77)	(777)	(84)	**(1,114)**
NET CARRYING AMOUNT AT JANUARY 1, 2013	**14**	**31**	**513**	**178**	**736**
Acquisitions	6	-	290	19	**315**
Disposals	-	-	-	(1)	**(1)**
Changes in scope of consolidation	-	-	4	1	**5**
Impairment	-	-	(10)	(1)	**(11)**
Amortization	(10)	(4)	(145)	(14)	**(173)**
Translation adjustment	(1)	(4)	(12)	(14)	**(31)**
Reclassifications	11	2	(2)	(1)	**10**
NET CARRYING AMOUNT AT DECEMBER 31, 2013	**20**	**25**	**638**	**167**	**850**

(in millions of euros)	Software	Patents and licences	Capitalized development expenditure	Customer relationships 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, was reclassified in assets held for sale due to the disposal of the Access Mechanisms business (see Note 2.2.1.1). 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 2.2.2.1) for 12 million euros and with the end-2011 acquisition of Wuhu Ruby Automotive Lighting Systems for 9 million euros.

6.3 Property, plant and equipment

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

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

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

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

■ Depreciation method and useful life

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

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

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

■ Tooling

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

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

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

	December 31, 2013			December 31, 2012
(in millions of euros)	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	198	(14)	**184**	**213**
Buildings	1,103	(709)	**394**	**350**
Machinery and industrial equipment	4,335	(3,338)	**997**	**892**
Specific tooling	1,430	(1,283)	**147**	**139**
Other property, plant and equipment	481	(407)	**74**	**67**
Property, plant and equipment in progress	388	(3)	**385**	**414**
Property, plant and equipment	**7,935**	**(5,754)**	**2,181**	**2,075**

No material amounts of property, plant and equipment had been pledged as security at December 31, 2013.

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 equipment, the useful life of some of them was increased from 8 years to 12 or 15 years as of July 1, 2012. This chiefly concerned processing facilities (presses) along with heat and surface treatment equipment.

In accordance with IAS 8, the change was accounted for as a change in accounting estimate and all residual useful lives of the assets concerned were modified on a prospective basis. This applied to any non-current assets not fully depreciated at July 1, 2012 and to all new non-current assets brought into service since that date.

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

Changes in property, plant and equipment in 2013 and 2012 are analyzed below:

(*in millions of euros*)	Land	Buildings	Machinery and industrial equipment	Specific tooling	Other property, plant and equipment	Property, plant and equipment in progress	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2013	**227**	**1,050**	**4,224**	**1,469**	**484**	**417**	**7,871**
Accumulated depreciation and impairment	(14)	(700)	(3,332)	(1,330)	(417)	(3)	**(5,796)**
NET CARRYING AMOUNT AT JANUARY 1, 2013	**213**	**350**	**892**	**139**	**67**	**414**	**2,075**
Acquisitions	5	64	167	53	28	307	**624**
Disposals	-	2	(8)	(4)	-	(4)	**(14)**
Changes in scope of consolidation	-	-	1	1	1	-	**3**
Impairment	-	-	4	1	-	-	**5**
Depreciation	(1)	(46)	(229)	(74)	(32)	-	**(382)**
Translation adjustment	(23)	(17)	(44)	(6)	(3)	(15)	**(108)**
Reclassifications	(10)	41	214	37	13	(317)	**(22)**
NET CARRYING AMOUNT AT DECEMBER 31, 2013	**184**	**394**	**997**	**147**	**74**	**385**	**2,181**

(*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 was reclassified in “Assets held for sale” due to the disposal of the Access Mechanisms business (see Note 2.2.1.1).

Finance leases

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

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

Leases in which the lessor retains substantially all the risks and rewards related to ownership of the leased asset are classified as operating leases. Lease payments under an operating lease are recognized as an operating expense on a straight-line basis over the lease term. Outstanding lease payments are detailed in Note 6.5.1.

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

(in millions of euros)	December 31, 2013	December 31, 2012
Buildings	5	1
Machinery and industrial equipment	5	6
Specific tooling	-	1
Other property, plant and equipment	4	2
TOTAL	**14**	**10**

6.4 Impairment losses on non-current assets

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

Cash-generating units (CGUs) and goodwill

CGUs are operating entities that generate independent cash flows. Based on the Group's organizational structure, CGUs generally correspond to groups of production sites belonging to the same Product Line or Product Group. A total of 25 CGUs had been identified at end-December 2013. CGUs represent the level at which all property, plant and equipment and intangible assets are tested for impairment if there is an indication that they may be impaired. However, specific impairment tests may be carried out on certain idle property, plant and equipment and intangible assets.

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

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

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

Impairment tests

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

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

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

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

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

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

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

Impairment losses recognized for goodwill may not be reversed.

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

6.4.1 Impairment testing

The tests are carried out using the following assumptions:

- the projections used are based on past experience, macroeconomic data for the automotive market, order books and products under development;
- a perpetuity growth rate of 1%, which is the same as that used in 2012 and remains below the average long-term growth rate for the Group's business sector;
- a post-tax discount rate (WACC) of 8.5% (9.0% in 2012), 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 5.0% (as in 2012), a risk-free interest rate of 1.6% (as in 2012), and an industry beta of 1.4 (1.6 in 2012).

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.

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

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

The medium-term business plans for 2014-2018 are underpinned by the following assumptions:

- world automotive production of 100 million vehicles in 2018, representing average annual growth of 3.5% over the term of the business plan. This is consistent with several independent external forecasts available in October 2013, when the business plan was revised. At the end of the period covered by the business plan, Asia and the Middle East should represent 52% of global production, Europe and Africa 25%, North America 18% 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 130 yen throughout the term covered by the business plan; and at the end of the business plan period, 1 euro for: 1.29 US dollars, 7.50 yuan, 1,340 South Korean won and 2.97 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.

6.4.2 Goodwill

No impairment losses were recognized against goodwill in 2013 as a result of the impairment tests carried out at the level of Business Groups in line with the methodology described above. This was also the case in 2012.

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

	Margin of the test	Impact on the margin of the test			
(in millions of euros)	Based on assumptions for 2013	WACC of 9.0% (+0.5 pt)	Perpetuity growth rate of 0.5% (-0.5 pt)	Decrease of the operating income rate used to determine the terminal value by 0.5 pt	Combination of the three factors
Powertrain Systems Business Group	2,075	(230)	(182)	(190)	(550)
Thermal Systems Business Group	2,263	(205)	(163)	(159)	(482)
Comfort and Driving Assistance Systems Business Group	789	(131)	(105)	(99)	(308)
Visibility Systems Business Group	1,343	(176)	(141)	(146)	(422)

The Comfort & 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 rate used to determine the terminal value fell by 4 pts (3 pts in 2012) or if the WACC increased by 5 pts (3 pts in 2012).

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

The main impairment indicators used by the Group as the basis for impairment tests of cash-generating units (CGUs) are a negative operating margin for 2013 or a fall of more than 20% in 2013 sales compared to 2012.

The scope of the CGUs tested for impairment was defined at the end of October 2013 and remained unchanged at the end of the period, since no adverse events occurred. Three CGUs were selected:

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

No impairment losses were recognized against the three CGUs as a result of these tests at December 31, 2013.

The Group recorded an impairment loss of 9 million euros against its Engine Management Systems Product Line (part of the Powertrain Systems Business Group) as a result of the impairment tests carried out in 2012.

6.4.5 Sensitivity of CGU impairment tests

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

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

The impact on this margin of changes in key assumptions is set out in the following table for each CGU:

	Margin of the test	Impact on the margin of the test			
(in millions of euros)	Based on assumptions for 2013	WACC of 9.0% (+0.5 pt)	Perpetuity growth rate of 0.5% (-0.5 pt)	Decrease of the operating income rate used to determine the terminal value by 0.5 pt	Combination of the three factors
Components Product Line CGU	193	(21)	(16)	(15)	(47)
Electronics and Engine Control Units CGU	114	(27)	(21)	(22)	(63)
Interior Electronics Product Group CGU	45	(8)	(6)	(8)	(19)

The last two CGUs in the above table proved more sensitive to changes in assumptions than the other CGU. Their recoverable amount would be equal to their net carrying amount if the operating margin rate used to determine the terminal value fell by 3 pts and the WACC increased by 3 pts for Electronics and Engine Control Units, or if these two values increased by 5 pts for Interior Electronics.

6.5 Off-balance sheet commitments relating to non-current assets and leases

6.5.1 Lease commitments

Future minimum lease commitments in force at December 31, 2013 and 2012 (excluding capital leases) are as follows:

(in millions of euros)	December 31, 2013	December 31, 2012
Less than 1 year	45	39
1 to 5 years	81	75
More than 5 years	8	5
TOTAL	**134**	**119**

Lease rentals recognized as expenses in the period in respect of outstanding lease agreements (excluding payments under finance leases) totaled 57 million euros in 2013 and 58 million euros in 2012.

Lease commitments in respect of capital leases are as follows at December 31, 2013 and 2012:

(in millions of euros)	December 31, 2013	December 31, 2012
Future minimum lease payments		
Less than 1 year	3	4
1 to 5 years	8	7
More than 5 years	-	-
TOTAL	11	11
Of which interest charges	-	-

(in millions of euros)	December 31, 2013	December 31, 2012
Present value of future lease payments		
Less than 1 year	3	4
1 to 5 years	8	7
More than 5 years	-	-
TOTAL	11	11

6.5.2 Other commitments given

Valeo had given binding asset purchase commitments totaling 207 million euros at December 31, 2013 (222 million euros at December 31, 2012).

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

(in millions of euros)	December 31, 2013	December 31, 2012
Property, plant and equipment	1	1
Financial assets	7	7
TOTAL	8	8

Note 7 Other provisions and contingent liabilities

7.1 Other provisions

A provision is recognized when:

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

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

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.

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

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

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

Movements in provisions in 2013 and 2012 are shown in the table below:

(in millions of euros)	2013	2012
PROVISIONS AT JANUARY 1 [(1)]	**420**	**478**
Amounts used during the year	(106)	(104)
Impact of changes in scope of consolidation	-	4
Translation adjustment	(16)	(7)
Reclassification	1	(4)
Additions	141	112
Reversals	(89)	(59)
PROVISIONS AT DECEMBER 31 [(1)]	**351**	**420**
Of which current portion (less than one year)	160	199

(1) The data for 2012 differ from those presented in the 2012 consolidated financial statements published in February 2013 since they have been adjusted to reflect the retrospective application of the amended IAS 19, applicable as of January 1, 2013 to early retirement plans in Germany (see Note 1.1.1.1).

At December 31, 2013 and 2012, provisions break down as follows:

(in millions of euros)	December 31, 2013	December 31, 2012
Provisions for product warranties	160	185
Provisions for tax-related disputes	47	66
Provisions for restructuring costs [(1)]	43	42
Environmental provisions	17	20
Provisions for loss-making contracts	5	13
Provisions for employee-related and other disputes	79	94
Provisions for other contingencies	**351**	**420**

(1) The provision amount shown for December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect the retrospective application of the amended IAS 19, applicable as of January 1, 2013 to early retirement plans in Germany (see Note 1.1.1.1).

The decrease in provisions for customer warranties in 2013 chiefly reflects the ongoing improvement in quality delivered by the Group to its customers and the remedy of certain specific quality risks in the period.

Provisions for tax disputes include a 27 million euro provision set aside for a tax dispute with the French tax authorities brought by Valeo before the administrative court in September 2003. This dispute 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.

At December 31, 2012, provisions for tax disputes included a 10 million euro 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 the Spanish tax authorities to have left the tax group due to insufficient stockholders' equity. Its tax losses could not therefore be utilized. The amount was paid to the tax authorities in 2013.

The 79 million euros recognized within "Provisions for employee-related and other disputes" chiefly includes provisions for employee-related risks and various disputes arising in connection with Valeo's operating activities across the globe.

7.2 Contingent liabilities

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

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

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

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

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

Three class actions were recently filed against Valeo Group companies with the United States District Court for the Eastern District of Michigan, and three other class actions before the Supreme Court of British Columbia in Canada. Due to the state of these proceedings, we are unable to assess their likely outcome. However, Valeo cannot rule out that they could have a material adverse impact on the Group's future earnings.

Outside the US, investigations by the European antitrust authorities are still in progress. At this stage, the Group is unable to predict the outcome of these investigations or of any compensation claims. However, it cannot rule out that they may have a material adverse impact on its future earnings.

Note 8 Financing and financial instruments

8.1 Financial assets and liabilities

Financial assets and liabilities mainly comprise:

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

8.1.1 Fair value of financial assets and liabilities

(in millions of euros)	2013 carrying amount under IAS 39			December 31, 2013	December 31, 2012
	Amortized cost	Fair value through equity	Fair value through income	Carrying amount	Carrying amount
ASSETS					
Non-current financial assets:					
• Investments in non-consolidated companies	-	4	-	**4**	4
• Loans	1	-	-	**1**	3
• Deposits and guarantees	-	-	15	**15**	16
• Other non-current financial assets	-	-	9	**9**	4
• Trading derivatives	-	-	43	**43**	-
Accounts and notes receivable	1,521	-	-	**1,521**	1,517
Other current financial assets:					
• Hedging derivatives	-	1	-	**1**	2
• Trading derivatives	-	-	35	**35**	18
Assets held for sale (1)	3	-	-	**3**	88
Cash and cash equivalents	-	-	1,510	**1,510**	1,334
LIABILITIES					
Non-current financial liabilities:					
• Hedging derivatives	-	7	-	**7**	14
• Trading derivatives	-	-	-	**-**	3
Bonds	993	-	-	**993**	1,303
Syndicated loan	249	-	-	**249**	248
EIB loans	228	-	-	**228**	283
Other long-term debt	160	-	-	**160**	170
Accounts and notes payable	2,441	-	-	**2,441**	2,209
Other current financial liabilities:					
• Hedging derivatives	-	11	-	**11**	2
• Trading derivatives	-	-	10	**10**	8
Liabilities held for sale (1)	3	-	-	**3**	130
Short-term debt	246	-	-	**246**	73

(1) The assets and liabilities relating to the Access Mechanisms business were reclassified within assets and liabilities held for sale at December 31, 2012. At December 31, 2013, only the Indian entity of the Access Mechanisms business was still classified within assets and liabilities held for sale, since the sale of this company had not yet been finalized at the reporting date (see Note 2.2.1.1).

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

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

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

The fair value of bonds totaled 1,124 million euros at December 31, 2013 versus 1,435 million euros at December 31, 2012.

The fair value of the syndicated loan and EIB loans is estimated by discounting future cash flows at the market interest rate at the end of the reporting period, taking into account the Group's issuer spreads. The issuer spreads reflect the spread on Valeo's five-year credit default swaps. This method corresponds to Level 2 in the fair value hierarchy.

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

- 0.92% for the 250 million euro syndicated loan;
- 0.92% for the 169 million euro EIB loan;
- 1.02% (five-year CDS including the US dollar/euro basis swap of 0.11%) for the EIB loan drawn in US dollars.

At December 31, 2013, the fair values of these instruments are estimated at 252 million euros for the syndicated loan and 244 million euros for the EIB loans (247 million euros and 303 million euros, respectively, at December 31, 2012).

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

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

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

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

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

8.1.2 Gross debt

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

At December 31, 2013, the Group's gross debt can be analyzed as follows:

(*in millions of euros*)	December 31, 2013	December 31, 2012
Long-term debt – long-term portion (Note 8.1.2.1)	1,520	1,564
Current portion of long-term debt (Note 8.1.2.1)	110	440
Short-term debt (Note 8.1.2.2)	246	73
Portion of liabilities held for sale related to gross debt	1	23
Gross debt	**1,877**	**2,100**

8.1.2.1 Long-term debt

This caption primarily includes bonds and other borrowings.

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

Hedge accounting is generally applied to debt hedged by interest rate swaps.

Analysis of long-term debt

(in millions of euros)	December 31, 2013	December 31, 2012
Bonds	993	1,303
Syndicated loans	249	248
EIB loans	228	283
Lease obligations	11	11
Other borrowings	102	106
Accrued interest	47	54
Portion of liabilities held for sale related to long-term debt	-	(1)
Long-term debt	**1,630**	**2,004**

The decrease in long-term debt in 2013 chiefly reflects the redemption of the 311 million euro bond issue on June 24, 2013 and the partial repayment of the EIB loans in an amount of 56 million euros on August 5, 2013.

At December 31, 2013, long-term debt chiefly includes:

- 500 million euros in seven-year bonds maturing in 2018 and issued by Valeo on May 12, 2011. These bonds were issued as part of its Euro Medium Term Note program and pay 4.875% interest. The effective interest rate is 5.09%;
- 500 million euros in five-year bonds maturing in 2017 and issued by Valeo on January 19, 2012. These bonds were issued as part of its Euro Medium Term Note 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/yen cross currency swap for 237 million euros was set up on inception of the loan for the same maturity. The Group unwound part of the cross currency swap in an amount of 35 million euros on December 5, 2013;
- two loans taken out with the European Investment Bank (EIB) for a total amount of 244 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 euro loan (on which an amount of 169 million euros was outstanding at December 31, 2013 following repayment of the first installment) was taken out on August 5, 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 euro loan, the subsidy was initially estimated at 28 million euros and was recognized within liabilities in the statement of financial position. It is subsequently booked against Research and Development expenditure at the same time as the completion of the projects it is intended to finance. The impact on income in 2013 is 5 million euros. The loan is carried at amortized cost for an amount of 158 million euros at December 31, 2013, and has an effective interest rate of 6.29%;
  - 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 2013 is 2 million euros. The loan is carried at amortized cost for an amount of 70 million euros at December 31, 2013;

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

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

Maturities of long-term debt – long term portion

(*in millions of euros*)	2015	2016	2017	2018	2019 and beyond	Total
Bonds	-	-	497	496	-	**993**
Syndicated loan	-	249	-	-	-	**249**
EIB loans	69	71	18	18	-	**176**
Lease obligations	2	1	-	5	-	**8**
Other borrowings	40	16	6	5	27	**94**
TOTAL	**111**	**337**	**521**	**524**	**27**	**1,520**

Current portion of long-term debt

(*in millions of euros*)	December 31, 2013	December 31, 2012
Bond	-	311
EIB loans	52	51
Lease obligations	3	4
Other borrowings	8	21
Accrued interest	47	54
Portion of liabilities held for sale related to long-term debt	-	(1)
Current portion of long-term debt	**110**	**440**

At December 31, 2013, the current portion of long-term debt relates primarily to an installment of the EIB loans due in August 2014.

At December 31, 2012, the current portion of long-term debt related primarily to the 311 million euro bond issue maturing in June 2013 and the first installment on the EIB loans paid in August 2013.

8.1.2.2 Short-term debt

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

(*in millions of euros*)	December 31, 2013	December 31, 2012
Commercial paper	109	30
Short-term loans and overdrafts	138	65
Cash-related portion of liabilities held for sale	(1)	(22)
Short-term debt	**246**	**73**

The 138 million euros recorded on the “Short-term loans and overdrafts” line relate mainly to overdraft facilities.

8.1.3 Net debt

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

(in millions of euros)	December 31, 2013	December 31, 2012
Long-term debt - long-term portion (Note 8.1.2.1)	1,520	1,564
Current portion of long-term debt (Note 8.1.2.1)	110	440
Loans and other non-current financial assets (Note 8.1.3.1)	(1)	(3)
Portion of liabilities held for sale related to long-term debt	-	1
Long-term debt	**1,629**	**2,002**
Short-term debt (Note 8.1.2.2)	246	73
Cash and cash equivalents (Note 8.1.3.2)	(1,510)	(1,334)
Cash-related portion of liabilities held for sale	1	22
Short-term cash position	**(1,263)**	**(1,239)**
Net debt	**366**	**763**

8.1.3.1 Long-term loans and receivables

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

8.1.3.2 Cash and cash equivalents

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

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

(in millions of euros)	December 31, 2013	December 31, 2012
Marketable securities	815	793
Cash	695	541
Cash and cash equivalents	**1,510**	**1,334**

Marketable securities consist of money market funds (SICAV) for 815 million euros.

Cash equivalents include term deposits for 90 million euros.

These items were measured using Level 1 inputs.

In China and Brazil, where exchange control restrictions may exist, cash and cash equivalents amounted to 210 million euros at December 31, 2013, compared to 157 million euros at December 31, 2012. In these countries, the Group has set up local cash pooling arrangements and regularly receives dividends from several companies.

The remaining amount of cash and cash equivalents, which corresponds to the share of the Group's partners in fully consolidated companies that are not wholly owned by Valeo, totaled 45 million euros at December 31, 2013 and 48 million euros at December 31, 2012.

Cash and cash equivalents in proportionately consolidated companies totaled 38 million euros at December 31, 2013 and 50 million euros at December 31, 2012.

8.1.3.3 Analysis of net debt by currency

Net debt can be analyzed as follows by currency:

(in millions of euros)	December 31, 2013	December 31, 2012
Euro	654	1,082
US dollar	45	(66)
Yen	(57)	(6)
Brazilian real	21	(7)
South-korean won	(98)	(96)
Yuan	(171)	(95)
Other currencies	(28)	(49)
TOTAL	**366**	**763**

8.1.4 Derivative financial instruments

Derivatives are recognized in the statement of financial position at fair value under other non-current financial assets or other non-current financial liabilities when the underlying transaction matures beyond one year, and under other current financial assets or other current financial liabilities when the underlying transaction matures within one year.

The accounting impact of changes in the fair value of these derivative instruments depends on whether or not hedge accounting is applied.

When hedge accounting is applied:

- for fair value hedges of assets and liabilities recognized in the statement of financial position, the hedged item of these assets or liabilities is stated at fair value. 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.

Foreign currency derivatives

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

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

Commodity derivatives

In principle, the Group applies cash flow hedge accounting. Gains and losses relating to the effective portion of the hedge are reclassified from other comprehensive income to operating income when the hedged position itself affects income. Gains and losses relating to the ineffective portion of the hedge are recognized in other financial income and expenses. 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.

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

The fair value of financial instruments at December 31, 2013 and 2012 is set out below:

(in millions of euros)	December 31, 2013	December 31, 2012
ASSETS		
Hedging derivatives:		
• Foreign currency derivatives	43	-
• Interest rate derivatives	-	-
Total other non-current financial assets	**43**	**-**
Hedging derivatives:		
• Foreign currency derivatives	-	-
• Commodity derivatives	1	2
Trading derivatives:		
• Foreign currency derivatives	35	18
• Commodity derivatives	-	-
Total other current financial assets	**36**	**20**
LIABILITIES		
Hedging derivatives:		
• Foreign currency derivatives	-	(3)
• Interest rate derivatives	(7)	(14)
Total other non-current financial liabilities	**(7)**	**(17)**
Hedging derivatives:		
• Interest rate derivatives	-	-
• Commodity derivatives	(4)	(1)
• Foreign currency derivatives	(7)	(1)
Trading derivatives:		
• Foreign currency derivatives	(10)	(8)
• Commodity derivatives	-	-
Total other current financial liabilities	**(21)**	**(10)**

The impact of financial instruments on income for the years ended December 31, 2013 and December 31, 2012 is set out in Note 8.3.

8.1.4.1 Fair value of foreign currency derivatives

(*in millions of euros*)	December 31, 2013		December 31, 2012	
	Nominal	Fair value	Nominal	Fair value
Forward foreign currency purchases	35	2	4	-
Forward foreign currency sales	(76)	4	(38)	2
Currency swaps	(488)	29	(547)	16
Cross currency swaps	(202)	43	-	-
Total assets	**(731)**	**78**	**(581)**	**18**
Forward foreign currency purchases	238	(9)	121	(4)
Forward foreign currency sales	(42)	(1)	(5)	-
Currency swaps	(359)	(7)	99	(5)
Cross currency swaps	-	-	(237)	(3)
Total liabilities	**(163)**	**(17)**	**(22)**	**(12)**
Net impact	**-**	**61**	**-**	**6**

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

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

(*in millions of euros*)	December 31, 2013		December 31, 2012	
	Nominal	Fair value	Nominal	Fair value
Swaps – Purchases	50	1	61	2
Swaps – Sales	(1)	-	-	-
Total assets	**49**	**1**	**61**	**2**
Swaps – Purchases	74	(4)	29	(1)
Swaps – Sales	-	-	(1)	-
Total liabilities	**74**	**(4)**	**28**	**(1)**
Net impact	**-**	**(3)**	**-**	**1**

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.

8.1.4.3 Fair value of interest rate derivatives

(*in millions of euros*)	December 31, 2013		December 31, 2012	
	Nominal	Fair value	Nominal	Fair value
Interest rate swaps:				
EIB loans	169	(7)	225	(14)
Total liabilities	**169**	**(7)**	**225**	**(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.

8.1.5 Other financial assets and liabilities

8.1.5.1 Other non-current financial assets and liabilities

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

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

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

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

8.1.5.2 Other current financial assets and liabilities

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

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

Accounts and notes receivable are detailed in Note 4.2.

8.2 Financial income and expenses

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

8.2.1 Cost of net debt

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

(in millions of euros)	2013	2012
Interest expense [1]	(108)	(117)
Interest income	8	14
Cost of net debt	**(100)**	**(103)**

(1) Including 5 million euros of finance costs in 2013 on undrawn credit lines (6 million euros in 2012).

The cost of debt was virtually stable in 2013. The decrease in interest expense following the June 2013 redemption of the 311 million euro bond issued in 2005 was offset by a fall in interest earned on cash and cash equivalents due to very low market interest rates.

8.2.2 Other financial income and expenses

Other financial income and expenses notably include:

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

(in millions of euros)	**2013**	**2012**
Net interest cost on provisions for pensions and other employee benefits (1)	(27)	(33)
Currency gains (losses)	(15)	(7)
Gains (losses) on commodity derivatives (trading and ineffective portion)	(1)	-
Gains (losses) on interest rate derivatives (ineffective portion)	-	4
Other	(4)	(3)
Other financial income and expenses	**(47)**	**(39)**

(1) The amount of other financial income and expenses shown for December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes in the expected return on plan assets resulting from the retrospective application of the amended IAS 19 (see Note 1.1.1.1).

8.3 Risk management policy

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

8.3.1 Market risks

8.3.1.1 Foreign currency risk

A detailed description of the Group’s foreign currency risk management policy is set out in Chapter 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 generally not eligible for hedge accounting within the meaning of IAS 39. Exceptionally, the Group applies hedge accounting to highly probable future cash flows from the date the derivatives are contracted.

At December 31, 2013, a 7 million euro loss was recognized in other comprehensive income in respect of derivatives used as hedging instruments. An unrealized loss of 1 million euros recognized in other comprehensive income at December 31, 2012 and arising on currency hedges was reclassified in full to operating income in 2013.

The Group set up a cross currency swap in yen for 237 million euros on inception of its 250 million euro syndicated loan taken out to finance Japanese group Niles. This derivative is not eligible for hedge accounting within the meaning of IAS 39. The Group unwound part of the cross currency swap in an amount of 35 million euros on December 5, 2013. The fair value of this swap was 43 million euros at December 31, 2013.

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

	December 31, 2013				December 31, 2012
(in millions of euros)	USD	JPY	EUR	Total	Total
Accounts and notes receivable	147	25	373	**545**	**508**
Other financial assets	462	166	91	**719**	**933**
Accounts and notes payable	(140)	(30)	(479)	**(649)**	**(564)**
Long-term debt	(87)	(29)	(301)	**(417)**	**(362)**
Gross exposure	**382**	**132**	**(316)**	**198**	**515**
Forward sales	(1,284)	(224)	(65)	**(1,573)**	**(922)**
Forward purchases	1,018	107	8	**1,133**	**335**
Net exposure	**116**	**15**	**(373)**	**(242)**	**(72)**

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, 2012, the breakdown by currency of the net exposure in the statement of financial position for a negative amount of 72 million euros is as follows:

- a positive amount of 93 million euros relating to the US dollar;
- a positive amount of 5 million euros relating to the yen;
- a negative amount of 170 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 1.38 US dollars, 144.72 yen and 27.43 Czech koruna to 1 euro at December 31, 2013 (1.32 US dollars, 113.61 yen and 25.15 Czech koruna, respectively, at December 31, 2012).

An increase of 10% in the value of the euro against these currencies at December 31, 2013 and December 31, 2012 would have had the following pre-tax impacts:

2013

(in millions of euros)	Income gain (loss)	Equity gain (loss)
Exposure US dollar	(3)	(9)
Exposure yen	(2)	(1)
Exposure euro	(9)	(3)
TOTAL	(14)	(13)

2012

(in millions of euros)	Income gain (loss)	Equity gain (loss)
Exposure US dollar	(9)	-
Exposure yen	-	-
Exposure euro	(14)	(6)
TOTAL	(23)	(6)

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, 2013 would have the opposite effect to the one shown above.

8.3.1.2 Commodity risk

A detailed description of the Group's commodity risk management policy is set out in Chapter 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, 2013 and December 31, 2012 break down as follows:

(in tons)	December 31, 2013	December 31, 2012
Aluminum	49,548	22,664
Secondary aluminum	10,500	7,721
Copper	7,537	6,461
Zinc	1,082	2,681
TOTAL	**68,667**	**39,527**

To take advantage of record low prices for aluminum and aluminum alloy, the Group entered into hedges for these two metals covering a longer period of up to one year.

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized loss of 3 million euros related to existing hedges was recognized directly in other comprehensive income for 2013 in accordance with IAS 39.

An unrealized gain of 1 million euros recognized in other comprehensive income in 2012 and arising on commodity hedges purchased in first-half 2013 was reclassified in full to operating income in 2013.

■ Analysis of the sensitivity of net equity to metal price risk

The table below shows the pre-tax impact on equity and income of a 10% variation in metal futures prices at December 31, 2013 and 2012.

	December 31, 2013		December 31, 2012	
(in millions of euros)	Income gain (loss)	Equity gain (loss)	Income gain (loss)	Equity gain (loss)
Impact of a 10% rise in metal futures prices	-	10	-	7
Impact of a 10% fall in metal futures prices	-	(10)	-	(7)

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

8.3.1.3 Interest rate risk

A detailed description of the Group's interest rate risk management policy is set out in Chapter 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, 2013, the impact on other comprehensive income of changes in the fair value of this swap was a positive 7 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:

2013

	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount		
(in millions of euros)	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	58	303	1,073	440	16	11	1,147	754	**1,901**
Loans	-	-	-	(1)	-	-	-	(1)	**(1)**
Cash and cash equivalents	-	(1,510)	-	-	-	-	-	(1,510)	**(1,510)**
Net position before hedging	**58**	**(1,207)**	**1,073**	**439**	**16**	**11**	**1,147**	**(757)**	**390**
Derivative instruments	56	(56)	113	(113)	-	-	169	(169)	-
Net position after hedging	**114**	**(1,263)**	**1,186**	**326**	**16**	**11**	**1,316**	**(926)**	**390**

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**

Analysis of sensitivity to interest rate risk

At December 31, 2013, 71% of long-term debt is at fixed rates (77% at December 31, 2012).

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

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

2013

(in millions of euros)	**Income gain (loss)**	**Equity gain (loss)**
Impact of a 1% rise in interest rates	9	5

2012

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

Similarly, at December 31, 2013, a sudden 1% fall in interest rates would have the opposite impacts for the same amount.

8.3.1.4 Equity risk

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

Assets financing pension plans are detailed in Note 5.3.5.

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

8.3.2 Liquidity risk

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

The Group has to ensure that it maintains very broad access to liquidity in order to meet its commitments and investment requirements. It therefore borrows long-term funds on banking and capital markets.

At December 31, 2013, Valeo had 1.5 billion euros in cash and cash equivalents (1.3 billion euros at December 31, 2012). Cash comprises bank deposits for 695 million euros and cash equivalents (mainly money market funds) for 815 million euros.

Other sources of liquidity were as follows:

- confirmed bank credit lines totaling 1.1 billion euros with an average maturity of 2.7 years, under which no amounts had been drawn at December 31, 2013. These bilateral credit lines were taken out with nine leading banks with an average rating of A from S&P's and A2 from Moody's;
- a short-term commercial paper financing program for a maximum amount of 1.2 billion euros. However, given Valeo's debt rating, the regulations applicable to monetary funds currently restrict its access to this market;
- a Euro Medium Term Note financing program for a maximum of 2 billion euros, on which 1 billion euros had been drawn at December 31, 2013.

  Valeo made several bond issues under its Euro Medium Term Note financing program:

  - 500 million euros in bonds issued in January 2012 and redeemable on January 19, 2017, paying fixed interest of 5.75%;
  - 500 million euros in bonds issued in May 2011 and redeemable on May 11, 2018, paying fixed interest of 4.875%.

In order to extend the average maturity of its debt and take advantage of record low market interest rates, on January 15, 2014 Valeo issued a 700 million euro bond under this Euro Medium Term Note program. This bond is redeemable in January 2024 and pays a coupon of 3.25%.

The new bond issue allowed the Group, by means of an exchange transaction, to buy back and cancel 354 million euros worth of outstanding 2017 bonds and 227 million euros worth of outstanding 2018 bonds, bringing the Group's average debt maturity to six years.

Covenants: The credit lines, syndicated loan and EIB loans are subject to an early repayment clause related to the Group's net debt-to-EBITDA ratio, which must not exceed 3.25. In this case, EBITDA is defined as the Group's operating margin, before depreciation, amortization and impairment. It therefore excludes other income and expenses, except for restructuring costs in excess of 50 million euros. At December 31, 2013, the ratio calculated over 12 months was 0.27.

The two bonds include an option granted to the bondholders who can request early repayment or redemption of their bonds in the event of a change of control at Valeo leading to a 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).

The Group's bank credit lines and long-term debt include "cross default" clauses. This means that if a given amount of debt is deemed to be in default, then the other debt amounts may also be deemed to be in default. At the date of issue of these consolidated financial statements, the Group expects to comply with all debt covenants.

On April 26, 2013, Standard & Poor's Rating Services confirmed its "BBB/A-2" long-term and short-term corporate credit ratings for Valeo with a stable outlook.

On January 2, 2014, Moody's Rating Services confirmed its "Baa3/P3" long-term and short-term corporate credit ratings for Valeo with a stable outlook.

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

■ Residual contractual maturities of non-derivative financial instruments

The future cash flows presented below, comprising both interest payments and reimbursements, are not discounted. The forward interest rate curve at December 31, 2013 was used for variable-rate interest.

At December 31, 2013

(in millions of euros)	Carrying amount	Contractual cash flows						Total
		2014	2015	2016	2017	2018	2019 and beyond	
Bonds	993	53	53	53	553	524	-	**1,236**
EIB loans	228	63	80	79	20	20	-	**262**
Syndicated loan	249	4	5	253	-	-	-	**262**
Other long-term debt	160	58	42	17	6	10	27	**160**
Accounts and notes payable	2,441	2,441	-	-	-	-	-	**2,441**
Short-term debt	246	246	-	-	-	-	-	**246**

■ Residual contractual maturities of derivative financial instruments

The European Central Bank (ECB) closing rates and forward rates at December 31, 2013 were used to value foreign exchange derivatives. The London Metal Exchange (LME) forward rates at December 31, 2013 were used for commodity derivatives, while the forward interest rate curve at December 31, 2013 was used for interest rate swaps.

At December 31, 2013

(in millions of euros)	Carrying amount	Contractual cash flows						Total
		2014	2015	2016	2017	2018	2019 and beyond	
Forward foreign currency contracts used as hedges:								
• Assets	6	6	-	-	-	-	-	**6**
• Liabilities	(10)	(9)	(1)	-	-	-	-	**(10)**
Currency swaps used as hedges:								
• Assets	72	30	2	44	-	-	-	**76**
• Liabilities	(7)	(6)	(1)	-	-	-	-	**(7)**
Commodity derivatives:								
• Assets	1	1	-	-	-	-	-	**1**
• Liabilities	(4)	(4)	-	-	-	-	-	**(4)**
Interest rate swaps:								
• Assets	-	-	-	-	-	-	-	**-**
• Liabilities	(7)	(5)	(3)	(1)	-	-	-	**(9)**

8.3.3 Credit risk

A detailed description of the Group's credit rate risk management policy is set out in Chapters I.4.5 and 1.4.7 of the management report.

■ 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 2013, with the European market declining and markets in the rest of the world on an uptrend. Valeo continues to closely monitor credit risk. The average days' sales outstanding stood at 45 days at December 31, 2013, compared to 49 days at December 31, 2012. At December 31, 2013, Valeo's largest customer accounted for 15% of the Group's accounts and notes receivable (16% at December 31, 2012).

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

(in millions of euros)	December 31, 2013	December 31, 2012
Not yet due	1,455	1,519
Less than 1 month past due	44	67
More than 1 month but less than 1 year past due	35	34
More than 1 year past due	5	7
Portion of accounts and notes receivable reclassified in assets held for sale [1]	(3)	(90)
Accounts and notes receivable, gross	**1,536**	**1,537**

(1) The assets and liabilities relating to the Access Mechanisms business were reclassified within assets and liabilities held for sale at December 31, 2012. At December 31, 2013, only the Indian entity of the Access Mechanisms business was still classified within assets and liabilities held for sale, since the sale of this business had not yet been finalized at the reporting date (see Note 2.2.1.1).

Past due receivables were written down in an amount of 15 million euros in 2013 (22 million euros in 2012, including 2 million euros relating to the Access Mechanisms business).

8.4 Subsequent events

In order to extend the average maturity of its debt and take advantage of record low market interest rates, on January 15, 2014 Valeo issued a 700 million euro bond as part of its Euro Medium Term Note program. This bond is redeemable in January 2024 and pays a coupon of 3.25%.

The new bond issue allowed the Group, by means of an exchange transaction, to buy back and cancel 354 million euros worth of outstanding 2017 bonds and 227 million euros worth of outstanding 2018 bonds, bringing the Group's average debt maturity to six years.

8.5 Off-balance sheet commitments relating to Group financing

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

Note 9 Associates and joint ventures

9.1 Investments in associates

9.1.1 Share in net earnings of associates

(in millions of euros)	2013	2012
Ichikoh	5	6
Faw Valeo Climate Control Systems (China)	4	4
Detroit Thermal Systems	-	5
Other	(2)	(1)
Share in net earnings of associates	**7**	**14**

The amount reported for Detroit Thermal Systems in 2012 mainly includes 6 million euros relating to the acquisition of the climate control business from Automotive Components Holdings (see Note 2.2.2.2).

9.1.2 Investments in associates

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

(in millions of euros)	2013	2012
INVESTMENTS IN ASSOCIATES AT JANUARY 1	**107**	**104**
Share in net earnings of associates	7	14
Dividend payments	(7)	-
Impact of changes in scope of consolidation [1]	4	(2)
Translation adjustment [2]	(12)	(10)
Other	4	1
INVESTMENTS IN ASSOCIATES AT DECEMBER 31	**103**	**107**

(1) The amount of investments in associates shown for December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes made following the acquisition of a controlling interest in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.2.2.1).

(2) Reflecting mainly the impact of changes in the yen on the Group’s interest in Ichikoh.

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

	Ownership interest *(in %)*		Carrying amount *(in millions of euros)*	
	2013	2012	2013	2012
Ichikoh [1]	31.6	31.6	61	62
FAW Valeo Climate Control	36.5	36.5	30	34
Detroit Thermal Systems	49.0	49.0	12	9
Other	-	-	-	2
Investments in associates	**-**	**-**	**103**	**107**

(1) The amount of investments in associates shown for December 31, 2012 differs from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes made following the acquisition of a controlling interest in Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd (see Note 2.2.2.1).

Ichikoh Industries Ltd. is listed on the Tokyo Stock Exchange. The market value of Valeo's interest in Ichikoh was 35 million euros at December 31, 2013 and 38 million euros at December 31, 2012. The carrying amount of the investment in the Group's consolidated financial statements 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)	**2013**	**2012**
Sales	811	973
Net income for the year	22	39

(in millions of euros)	**December 31, 2013**	**December 31, 2012**
Total assets	674	659
Total liabilities	475	467

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

9.1.3 Transactions with associates (Related parties)

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)	**2013**	**2012**
Sales of goods and services	20	19
Purchases of goods and services	(37)	(10)
Interest and dividends received	7	-

(in millions of euros)	**December 31, 2013**	**December 31, 2012**
Accounts and notes receivable	4	3
Accounts and notes payable	13	18
Net debt (cash)	11	7

9.2 Joint ventures

9.2.1 Information on 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)	**2013**	**2012**
Sales	551	482
Operating expenses	(522)	(467)

(in millions of euros)	December 31, 2013	December 31, 2012
Non-current assets	134	116
Current assets	240	234
Non-current liabilities	52	50
Current liabilities	258	246

9.2.2 Transactions with joint ventures (Related parties)

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)	2013	2012
Sales of goods and services	50	30
Purchases of goods and services	(59)	(29)
Interest and dividends received	19	17

(in millions of euros)	December 31, 2013	December 31, 2012
Accounts and notes receivable	34	27
Accounts and notes payable	19	6
Net debt (cash)	(21)	(17)

Note 10 Income taxes

10.1 Income taxes

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

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

10.1.1 Breakdown of income tax expense

(in millions of euros)	2013	2012
Current taxes	(169)	(132)
Deferred taxes	50	(14)
Income taxes	**(119)**	**(146)**

The Group recognized income tax expense of 119 million euros in 2013, corresponding to an effective tax rate of 20.5%. This includes a positive impact of 9 pts relating to the partial recognition of deferred tax assets arising on the tax consolidation group in the United States.

No deferred tax assets had been recognized in the past few years in respect of the Group’s tax consolidation group in the United States. The tax situation of this scope improved significantly in 2013 and the five-year fiscal outlook is brighter. A deferred tax asset of 70 million US dollars (53 million euros) was therefore recognized on this tax consolidation in 2013 in respect of previously unrecognized tax loss carryforwards

.

10.1.2 Tax proof

(in millions of euros)	2013	2012
Net income before income taxes excluding share in net earnings of associates [(1)]	**581**	**530**
Standard tax rate in France [(2)]	(34.4%)	(34.4%)
Theoretical income tax expense [(1)]	**(200)**	**(182)**
Impact of:		
• unrecognized deferred tax assets and unused tax losses (current year) [(1)]	(26)	(50)
• recognition of previously unrecognized deferred tax assets	61	5
• other tax rates	45	49
• utilization of prior-year tax losses	4	-
• permanent differences between accounting income and taxable income	9	29
• tax credits	2	18
• *Cotisation sur la Valeur Ajoutée des Entreprises (CVAE)*	(14)	(15)
Group income tax expense	**(119)**	**(146)**

(1) The amounts shown for 2012 differ from that presented in the 2012 consolidated financial statements published in February 2013 since it has been adjusted to reflect changes in the expected return on plan assets resulting from the retrospective application of the amended IAS 19, effective as of January 1, 2013 (see Note 1.1.1.1).

(2) The temporary additional 10.7% levy applied in France has not been included for the purposes of calculating the standard tax rate as Valeo does not believe it will be liable for French corporate income tax during the application period.

In 2013, the unrecognized deferred tax assets and tax losses for the period not utilized by the Group's main countries relate essentially to France for 20 million euros (24 million euros in 2012). As indicated above, deferred tax assets totaling 53 million euros were recognized in the US in 2013, whereas 18 million euros of deferred tax assets were not recognized in 2012, since the probability of recovery was deemed too low.

The positive 45 million euro impact relating to different tax rates than the standard tax rate is broken down by major country in the table below:

Country	**Tax rate**	2013	2012
China	25.0%	12	11
Poland	19.0%	12	12
South Korea	24.2%	9	8
Thailand	20.0%	7	6
Czech Republic	19.0%	4	9
Other	-	1	3
TOTAL		**45**	**49**

In France, an expense of 3 million euros was recognized in "Income tax expense" corresponding to the additional 3% tax on dividend payouts in France.

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 2013 therefore includes a net expense of 14 million euros in respect of CVAE (15 million euros in 2012).

10.2 Deferred taxes

Deferred taxes are accounted for using the liability method for all temporary differences between the tax base and the carrying amount of assets and liabilities in the consolidated financial statements, and for all tax loss carryforwards.

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

Deferred tax assets are only recognized to the extent that it appears probable that the Valeo Group will generate future taxable profits against which these tax assets will be able to be recovered.

The Group reviews the probability of future recovery of deferred tax assets on a periodic basis for each tax entity. This review can, if applicable, lead the Group to derecognize deferred tax assets that it had recognized in prior years. The probability of recovery is assessed 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).

Deferred taxes broken down by temporary differences are shown below:

(in millions of euros)	December 31, 2013	December 31, 2012
Loss carryforwards	1,046	1,052
Capitalized development expenditure	(154)	(122)
Pensions and other employee benefits	180	246
Other provisions	62	87
Inventories	40	23
Provisions for restructuring costs	10	13
Tooling	4	1
Non-current assets	41	3
Other	107	108
Total deferred taxes, gross	**1,336**	**1,411**
Unrecognized deferred tax assets	(1,116)	(1,217)
Total deferred taxes	**220**	**194**
o/w:		
• Deferred tax assets	246	220
• Deferred tax liabilities	(26)	(26)

No net deferred tax assets were recognized on tax loss carryforwards or temporary differences arising on the tax consolidation group in France, corresponding to an amount of 539 million euros at December 31, 2013. A portion of deferred tax assets (53 million euros) was recognized in connection with the US tax consolidation group in 2013, due to an improved economic outlook. Residual unrecognized net deferred tax assets total 383 million euros.

At December 31, 2013, 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 2014 through 2018	74	18
Tax losses available for carryforward in 2019 and thereafter	1,126	428
Tax losses available for carryforward indefinitely	1,531	514
Current tax loss carryforwards	**2,731**	**960**
Unrecognized deferred tax assets on temporary differences		156
TOTAL		**1,116**

Note 11 Stockholders' equity and earnings per share

11.1 Stockholders’ equity

11.1.1 Share capital

At December 31, 2013, Valeo’s share capital totaled 238 million euros, divided into 79,462,540 shares of common stock (of which 1,819,722 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 (3,111,546 shares at December 31, 2013).

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

The Group may be required to buy back treasury shares on the market to cover its obligations with regard to stock option and free share plans, as well as Company savings plans and the liquidity agreement. This liquidity agreement was executed with an investment services provider on April 22, 2004 pursuant to the Code of Ethics published by the French Association of Investment Firms (*Association Française des Entreprises d’Investissement* – AFEI). At December 31, 2013, 3,500 shares and 19,535,815 euros had been allocated to this liquidity agreement compared with 60,000 shares and 15,312,092 euros at December 31, 2012. On the date the liquidity agreement was signed, 220,000 Valeo shares and 6,600,000 euros were allocated for its implementation.

11.1.2 Additional paid-in capital

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

11.1.3 Translation adjustment

Movements in the translation adjustment (attributable to the Group) in the year resulted in an unrealized loss of 165 million euros (unrealized loss of 47 million euros at December 31, 2012), mainly reflecting the fall in value of the yen (95 million euros) and to a lesser extent, the Brazilian real and Turkish lira (35 million euros and 19 million euros, respectively) in 2013.

11.1.4 Retained earnings

Retained earnings include attributable income for the year of 439 million euros prior to appropriation.

11.1.5 Dividends per share

The balance of the parent company's distributable retained earnings (prior to appropriation of 2013 net income) is 1,826 million euros in 2013 (1,714 million euros in 2012).

A dividend of 1.50 euros per share was paid in 2013, representing a total payout of 115 million euros. The dividend paid in 2012 was 1.40 euros per share, representing a total payout of 106 million euros.

11.1.6 Treasury stock

At December 31, 2013, Valeo owns 1,819,722 of its own shares, representing 2.3% of share capital (December 31, 2012: 3,358,873 shares, representing 4.2% of share capital).

11.1.7 Non-controlling interests

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

(in millions of euros)	2013	2012
Non-controlling interests at January 1	**143**	**144**
Equity in net earnings	30	25
Dividends paid	(14)	(18)
Capital increase	-	1
Translation adjustment	(7)	2
Actuarial gains (losses) on defined benefit plans	-	(1)
Changes in scope of consolidation	1	(10)
Non-controlling interests at December 31	**153**	**143**

Changes in the scope of consolidation in 2012 were mainly due to the acquisition of shares in Valeo Automotive Air Conditioning Hubei Co. Ltd (see Note 2.2.2.3) for 21 million euros, partially offset by the strengthening of the alliance with Ichikoh in the lighting business in China (see Note 2.2.2.1), representing an amount of 12 million euros.

11.2 Earnings per share

11.2.1 Basic 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.

	2013	2012
Net income attributable to owners of the Company *(in millions of euros)*	439	371
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	76,873	75,540
Basic earnings per share *(in euros)*	**5.71**	**4.91**

11.2.2 Diluted earnings per share

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.

	2013	2012
Net income attributable to owners of the Company *(in millions of euros)*	439	371
Weighted average number of shares outstanding *(in thousands of shares)*	76,873	75,540
Stock options *(in thousands of options)*	-	34
Weighted average number of shares used for the calculation of diluted earnings per share *(in thousands of shares)*	76,873	75,574
Diluted earnings per share *(in euros)*	**5.71**	**4.91**

Note 12 Breakdown of cash flows

12.1 Expenses (income) with no cash effect

(in millions of euros)	2013	2012
Depreciation, amortization and impairment of non-current assets	561	544
Net additions to (reversals from) provisions	(42)	(38)
Losses (gains) on sales of non-current assets	13	8
Expenses related to share-based payment	9	9
Losses (gains) on remeasurement of previously-held interest	-	(30)
Impairment of assets and liabilities held for sale	28	46
TOTAL	**569**	**539**

In 2013, impairment losses taken against assets and liabilities held for sale mainly relate to the 28 million euro impairment loss recognized on the Access Mechanisms business (44 million euros in 2012, see Note 2.2.1.1).

12.2 Changes in working capital

Changes in the main components of working capital between 2013 and 2012 are shown in the table below:

(in millions of euros)	2013	2012
Inventories	(108)	(66)
Accounts and notes receivable	(85)	101
Accounts and notes payable	337	(18)
Other receivables and payables	88	(66)
TOTAL	**232**	**(49)**

Accounts and notes receivable falling due after December 31, 2013 for which substantially all risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position are detailed in Note 4.2.

At December 31, 2012, other receivables included 152 million euros relating to research tax credits in France for 2010, 2011 and 2012. At December 31, 2013, only the 52 million euro research tax credit receivable in France for 2013 is shown in this caption, since the research tax credit receivables relating to the previous years were transferred on June 28, 2013 (the 2010 research tax credit receivable) and December 4, 2013 (the 2011 and 2012 research tax credit receivable). The cost of these transfers for the Group, recognized in cost of net debt for 2013, was slightly less than 4 million euros.

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

The main transaction affecting the scope of consolidation in 2013 was the sale of the Access Mechanisms business (see Note 2.2.1.1), generating a net inflow of 170 million euros.

Changes in the scope of consolidation had a negative impact of 19 million euros in 2012, of which 10 million euros related to the strengthening of the alliance between Valeo and Ichikoh in the Lighting business in China (see Note 2.2.2.1).

12.4 Issuance and repayment of long-term debt

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

In 2012, issuance of long-term debt mainly related to the new 500 million euro 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.

12.5 Acquisitions of equity interests without control

The Group's acquisition of non-controlling interests in the Chinese firm Valeo Automotive Air Conditioning Hubei Co. Ltd (see Note 2.2.2.3) resulted in a cash outflow of 52 million euros in 2012. The creation of Detroit Thermal Systems (see Note 2.2.2.2) reduced cash by 4 million euros in the same period.

Note 13 Subsequent events

To Valeo's knowledge, no events have occurred since December 31, 2013 that could have a material impact on the Group's business, financial position or assets and liabilities, with the exception of those discussed in Notes 2.2.3 and 8.4.

Note 14 List of consolidated companies

Company	December 31, 2013 % voting rights	December 31, 2013 % interest	December 31, 2012 % voting rights	December 31, 2012 % 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 (4)	-	-	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	100	100	100	100
Valeo Management Services	100	100	100	100
Valeo Matériaux de Friction	100	100	100	100
Valeo Plastic Omnium S.N.C. (2)	50	50	50	50
Valeo Sécurité Habitacle	100	100	100	100
Valeo Service	100	100	100	100
Valeo Systèmes de Contrôle Moteur	100	100	100	100
Valeo Systèmes d'Essuyage	100	100	100	100
Valeo Systèmes Thermiques	100	100	100	100
Valeo Vision	100	100	100	100
Spain				
Telma Retarder España, S.A.	100	100	100	100
Valeo Climatización, S.A.	100	100	100	100
Valeo España, S.A.	100	100	100	100
Valeo Iberica S.A.	100	100	100	100
Valeo Iluminación, S.A.	100	100	100	100
Valeo Plastic Omnium S.L. (2)	50	50	50	50
Valeo Service España, S.A.	100	100	100	100
Valeo Sistemas Electricos, S.L.	100	100	100	100
Valeo Termico, S.A.	100	100	100	100
Portugal				
Cablagens Do Ave	100	100	100	100
Italy				
Valeo Service Italia, S.p.A.	99.9	99.9	99.9	99.9
Valeo, S.p.A.	100	100	100	100
CAM Italy S.p.A. (5)	-	-	100	100

(1) Companies accounted for by the equity method.
(2) Companies consolidated on a proportionate basis.
(3) See Note 2.2.2.1.
(4) Mergers or liquidations.
(5) See Note 2.2.1.1.
(6) See Note 2.2.1.2.

Company	December 31, 2013		December 31, 2012	
	% voting rights	% interest	% voting rights	% interest
Germany				
Valeo Auto-Electric GmbH	100	100	100	100
Valeo GmbH [4]	-	-	100	100
Valeo Grundvermögen Verwaltung GmbH [4]	-	-	100	100
Valeo GmbH (ex Valeo Holding Deutschland GmbH) [4]	100	100	100	100
Valeo Klimasysteme GmbH	100	100	100	100
Valeo Klimasysteme Verwaltung SAS & Co. KG [4]	-	-	100	100
Valeo Schalter und Sensoren GmbH	100	100	100	100
Valeo Service Deutschland GmbH	100	100	100	100
Valeo Sicherheitssysteme GmbH [5]	-	-	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]	85.0	89.7	85.0	89.7
Belgium				
Valeo Service Belgique	100	100	100	100
Valeo Vision Belgique	100	100	100	100
Luxembourg				
Coreval	100	100	100	100
Norway				
Valeo Powertrain Energy Conversion AS [6]	100	100	-	-
Netherlands				
Valeo Holding Netherlands B.V.	100	100	100	100
Valeo International Holding B.V.	100	100	100	100
CAM Holding Europe B.V. [5]	-	-	100	100
Valeo Service Benelux B.V.	100	100	100	100
Czech Republic				
Valeo Autoklimatizace k.s.	100	100	100	100
Valeo Compressor Europe s.r.o.	100	100	100	100
Valeo Vymeniky Tepla k.s.	100	100	100	100
Slovakia				
Valeo Slovakia S.r.o. [5]	-	-	100	100

(1) Companies accounted for by the equity method.
(2) Companies consolidated on a proportionate basis.
(3) See Note 2.2.2.1.
(4) Mergers or liquidations.
(5) See Note 2.2.1.1.
(6) See Note 2.2.1.2.

Company	December 31, 2013 % voting rights	December 31, 2013 % interest	December 31, 2012 % voting rights	December 31, 2012 % interest
Poland				
Valeo Autosystemy Sp.ZO.O.	100	100	100	100
Valeo Electric and Electronic Systems Sp.ZO.O.	100	100	100	100
Valeo Service Eastern Europe Sp.ZO.O.	100	100	100	100
Hungary				
Valeo Auto-Electric Hungary LLC	100	100	100	100
Romania				
Valeo Lighting Injection SA	100	100	100	100
Valeo Sisteme Termice S.R.L.	100	100	100	100
Russia				
Valeo Climate Control Tomilino LLC	100	100	100	100
Valeo Service Limited Liability Company	100	100	100	100
Turkey				
Valeo Otomotiv Dagitim A.S. (4)	-	-	100	100
Valeo Otomotiv Sistemleri Endustrisi A.S.	100	100	100	100
AFRICA				
Tunisia				
DAV Tunisie	100	100	100	100
Valeo Embrayages Tunisie SA	100	100	100	100
Valeo Tunisie S.A.	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 North America, Inc (ex Valeo Electrical Systems, Inc.)	100	100	100	100
Valeo Engine Cooling, Inc. (4)	-	-	100	100
Valeo Front End Module, Inc (4)	-	-	100	100
Valeo Investment Holdings, Inc.	100	100	100	100
Valeo Radar Systems, Inc.	100	100	100	100
Valeo Switches and Detection Systems, Inc. (4)	-	-	100	100
Valeo Sylvania, LLC (2)	50	50	50	50
Valeo, Inc. (4)	-	-	100	100
Detroit Thermal Systems LLC (1)	49	49	49	49
Detroit Thermal Systems Leverage Lender LLC (1)	49	49	-	-

(1) Companies accounted for by the equity method.
(2) Companies consolidated on a proportionate basis.
(3) See Note 2.2.2.1.
(4) Mergers or liquidations.
(5) See Note 2.2.1.1.
(6) See Note 2.2.1.2.

Company	December 31, 2013		December 31, 2012	
	% voting rights	% interest	% voting rights	% interest
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 (Thaïland) Co. Ltd	74.9	74.9	74.9	74.9
Niles (Thailand) Co. Ltd	100	100	100	100
South Korea				
Valeo Automotive Korea	100	100	100	100
Valeo Compressor Korea Co., Ltd (4)	-	-	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 Metals Co. Ltd (1)	49	49	49	49
Indonesia				
PT Valeo AC Indonesia	100	100	100	100
Taiwan				
Niles CTE Electronic Co. Ltd	51	51	51	51

(1) Companies accounted for by the equity method.
(2) Companies consolidated on a proportionate basis.
(3) See Note 2.2.2.1.
(4) Mergers or liquidations.
(5) See Note 2.2.1.1.
(6) See Note 2.2.1.2.

Company	December 31, 2013		December 31, 2012	
	% voting rights	% interest	% voting rights	% interest
Japan				
Ichikoh Industries Limited (1)	31.6	31.6	31.6	31.6
Valeo Japan Co.Ltd	100	100	100	100
Valeo Unisia Transmissions K.K.	66	66	66	66
Niles Co.Ltd (4)	-	-	100	100
Jonan Industrial Co. Ltd (4)	-	-	100	100
Akita Niles Co.Ltd (4)	-	-	100	100
Nitto Manufacturing Co. Ltd	87.2	87.2	87.2	87.2
Niles Personnel Service Co. Ltd (4)	-	-	100	100
AMI CO. Ltd (4)	-	-	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 (3)	85	89.7	85	89.7
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	85	89.7
Nanjing Valeo Clutch Co. Ltd (2)	75	55	75	55
Shanghai Valeo Automotive Electrical Systems Company Ltd (2)	50	50	50	50
Shenyang Valeo Pyeong-Hwa Transmission Systems Co., Ltd.	100	50	-	-
Tianjin Valeo Xinyue Auto Parts Co., Ltd	60	60	-	-
Taizhou Valeo-Wenling Automotive Systems Company 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	100	100
Valeo Automotive Security Systems (Wuxi) Co. Ltd (5)	-	-	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	85	89.7
Valeo Management (Beijing) Co. Ltd	100	100	100	100
Valeo Shanghai Automotive Electric Motors & Wiper Systems Co., Ltd	55	55	55	55
Valeo Management (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	85	89.7
Wuhu Valeo Automotive Lighting Systems (3)	80	71.8	80	71.8
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 Limited	60	60	60	60

(1) Companies accounted for by the equity method.
(2) Companies consolidated on a proportionate basis.
(3) See Note 2.2.2.1.
(4) Mergers or liquidations.
(5) See Note 2.2.1.1.
(6) See Note 2.2.1.2.

7 Statutory Auditors' report on the consolidated financial statements

Year ended December 31, 2013

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

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

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

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2013, 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, 2013 and of the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to Note 1.1.1 to the consolidated financial statements, which describes the new standards, amendments and interpretations which have been applied by your company as from January 1, 2013.

II. Justifications of our assessments

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

- Note 5.3 to the consolidated financial statements specifies the methods of valuing provisions for pensions and other employee benefits. Our work consisted in reviewing the actuarial data and assumptions used as well as the calculations made and verifying that the notes to the consolidated financial statements provide appropriate information;
- Note 6.4 to the consolidated financial statements sets out the methods implemented by your company to test goodwill, to assess whether there is any indication of impairment of the fixed assets and, where applicable, to perform an impairment test for these same assets. Our work consisted in examining the methods and assumptions used by your company during the implementation of these tests and verifying that the notes to the consolidated financial statements provide appropriate information;
- Note 7.1 to the consolidated financial statements describes the methods of valuing provisions intended to cover your company's obligations in respect of guarantees granted to its clients and specific quality risks. Our work consisted in examining the available documentation and the translation into figures of the assumptions used and assessing the reasonableness of the estimates used;
- Note 10.2 to the consolidated financial statements specifies the methods of recognizing and valuing deferred tax assets. Our work consisted in assessing the hypotheses underlying the probability of future recovery of such assets and verifying that the notes to the consolidated financial statements provide appropriate information.

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

III. Specific verification

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

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

Courbevoie and Paris-La Défense, February 20, 2014

The Statutory Auditors

French original signed by

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

8 Cross-reference table for the notes to the 2013/2012 financial statements

	2013	2012
Accounting policies	Note 1	Note 1
Accounting standards applied	**1.1**	**1.1**
Basis of preparation	**1.2**	**1.2**
Restatement of prior-year financial information	**1.3**	**1.21**
Scope of consolidation	Note 2	Notes 1/2/6
Accounting policies relating to scope of consolidation	**2.1**	**Note 1**
Consolidation methods	2.1.1	1.3
Foreign currency translation	2.1.2	1.4
Business combinations	2.1.3	1.10
Transactions involving non-controlling interests	2.1.4	1.10
Assets and liabilities held for sale and discontinued operations	2.1.5	1.20
Changes in the scope of consolidation	**2.2**	**Note 2**
Transactions carried out in 2013	2.2.1	5.8
Transactions carried out in 2012	2.2.2	2.1
Subsequent events	2.2.3	6.8
Off-balance sheet commitments relating to the scope of consolidation	**2.3**	**6.3.1**
Segment reporting	Note 3	Note 3
Key segment performance indicators	**3.1**	**3.1**
Reconciliation with Group data	**3.2**	**3.2**
Reporting by geographic area	**3.3**	**3.3**
Breakdown of sales by major customer	**3.4**	**3.4**
Operating data	Note 4	Notes 1/4/5
Sales	**4.1**	**1.5/4.1**
Accounts and notes receivable	**4.2**	**1.14.4/5.7**
Gross margin and cost of sales	**4.3**	**1.6/4.2**
Inventories	**4.4**	**1.15/5.6**
Operating margin and Research and Development expenditure	**4.5**	**1.6/1.11.1/4.3/5.2**
Operating income and other income and expenses	**4.6**	**1.6/4.5**
Personnel expenses and employee benefits	Note 5	Notes 1/4/5/6
Headcount	**5.1**	**4.4**
Employee benefits	**5.2**	**1.17/4.4**
Provisions for pensions and other employee benefits	**5.3**	**1.17.2/5.10**
Share-based payment	**5.4**	**1.16/5.9.1**
Executive compensation (related party transactions)	**5.5**	**6.6.1**
French statutory training entitlement (Off-balance sheet commitments)	**5.6**	**6.5**

	2013	2012
Intangible assets and property, plant and equipment	Note 6	Notes 1/4/5/6
Goodwill	**6.1**	**1.10/5.1**
Other intangible assets	**6.2**	**1.11/5.2**
Property, plant and equipment	**6.3**	**1.12/5.3**
Impairment losses on non-current assets	**6.4**	**1.13/4.5.2**
Off-balance sheet commitments relating to non-current assets and leases	**6.5**	**6.3.3**
Other provisions and contingent liabilities	Note 7	Notes 1/5/6
Other provisions	**7.1**	**1.18/5.11**
Contingent liabilities	**7.2**	**1.18/6.4**
Financing and financial instruments	Note 8	Notes 1/4/5/6
Financial assets and liabilities	**8.1**	**1.14/6.1/5.12**
Fair value of financial assets and liabilities	8.1.1	6.1.1
Gross debt	8.1.2	1.14/5.12
Net debt	8.1.3	1.14/5.12
Derivative financial instruments	8.1.4	1.14/6.1.2
Other financial assets and liabilities	8.1.5	1.14
Financial income and expenses	**8.2**	**1.7/4.6/4.7**
Cost of net debt	8.2.1	1.7/4.6
Other financial income and expenses	8.2.2	1.7/4.7
Risk management policy	**8.3**	**6.2**
Subsequent events	**8.4**	**6.8**
Off-balance sheet commitments relating to Group financing	**8.5**	**6.3.2**
Associates and joint ventures	Note 9	Notes 4/5/6
Investments in associates	**9.1**	**4.8/5.4/6.6.2**
Share in net earnings of associates	9.1.1	4.8
Investments in associates	9.1.2	5.4
Transactions with associates (related parties)	9.1.3	6.6.2
Joint ventures	**9.2**	**6.6.3/6.7**
Information on joint ventures	9.2.1	6.7
Transactions with joint ventures (related parties)	9.2.2	6.6.3
Income taxes	Note 10	Notes 1/4/5
Income taxes	**10.1**	**1.8/4.9**
Deferred taxes	**10.2**	**1.8/5.5**
Stockholders' equity and earnings per share	Note 11	Notes 1/4/5
Stockholders' equity	**11.1**	**5.9**
Earnings per share	**11.2**	**1.9/4.10**
Breakdown of cash flows	Note 12	5.13
Subsequent events	Note 13	6.8
List of consolidated companies	Note 14	Note 7