2017 CONSOLIDATED FINANCIAL STATEMENTS

2017 consolidated financial statements AFR

1. Consolidated statement of income

(in millions of euros)	*Notes*	**2017**	**2016**
SALES	*4.1*	**18,550**	**16,519**
Cost of sales	*4.3*	(15,076)	(13,499)
GROSS MARGIN	*4.3*	**3,474**	**3,020**
as a % of sales		*18.7%*	*18.3%*
Research and Development expenditure, net	*4.5.1*	(1,130)	(956)
Selling expenses		(302)	(258)
Administrative expenses		(587)	(533)
OPERATING MARGIN		**1,455**	**1,273**
as a % of sales		*7.8%*	*7.7%*
Share in net earnings of equity-accounted companies	*4.5.3.1*	22	61
OPERATING MARGIN INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	**4.5**	**1,477**	**1,334**
as a % of sales		*8.0%*	*8.1%*
Other income and expenses	*4.6.2*	(67)	(33)
OPERATING INCOME INCLUDING SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	*4.6.1*	**1,410**	**1,301**
Interest expense	*8.2.1*	(88)	(90)
Interest income	*8.2.1*	15	7
Other financial income and expenses	*8.2.2*	(47)	(46)
INCOME BEFORE INCOME TAXES		**1,290**	**1,172**
Income taxes	*9.1*	(325)	(189)
NET INCOME FOR THE YEAR		**965**	**983**
Attributable to:			
■ Owners of the Company		886	925
■ Non-controlling interests	*10.1.4*	79	58
Earnings per share:			
■ Basic earnings per share *(in euros)*	*10.2*	3.72	3.91
■ Diluted earnings per share *(in euros)*	*10.2*	3.68	3.86

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

2. Consolidated statement of comprehensive income

(in millions of euros)	2017	2016
NET INCOME FOR THE YEAR	**965**	**983**
Share of changes in comprehensive income from equity-accounted companies that may subsequently be recycled to income	(7)	(8)
o/w income taxes	-	-
Translation adjustment	(331)	45
Cash flow hedges:		
▪ Gains (losses) taken to equity	44	(14)
▪ (Gains) losses transferred to income for the year	(26)	4
o/w income taxes	*(1)*	*3*
Remeasurement of available-for-sale financial assets	4	-
o/w income taxes	*(1)*	-
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY SUBSEQUENTLY BE RECYCLED TO INCOME	**(316)**	**27**
Share of changes in comprehensive income from equity-accounted companies that may not subsequently be recycled to income	-	(1)
o/w income taxes	-	-
Actuarial gains (losses) on defined benefit plans	51	(90)
o/w income taxes	*(18)*	*2*
OTHER COMPREHENSIVE INCOME (LOSS) THAT MAY NOT SUBSEQUENTLY BE RECYCLED TO INCOME	**51**	**(91)**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(265)**	**(64)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**700**	**919**
Attributable to:		
▪ Owners of the Company	642	860
▪ Non-controlling interests	58	59

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

3. Consolidated statement of financial position

(in millions of euros)	*Notes*	December 31, 2017	December 31, 2016 restated[1]
ASSETS			
Goodwill	*6.1*	2,615	1,944
Other intangible assets	*6.2*	1,830	1,372
Property, plant and equipment	*6.3*	4,055	3,063
Investments in equity-accounted companies	*4.5.3.2*	357	473
Other non-current financial assets	*8.1.1*	420	211
Assets relating to pensions and other employee benefits	*5.3*	5	-
Deferred tax assets	*9.2*	456	625
NON-CURRENT ASSETS		**9,738**	**7,688**
Inventories, net	*4.4*	1,720	1,393
Accounts and notes receivable, net	*4.2*	2,919	2,462
Other current assets	*4.5.2*	483	427
Taxes receivable		42	38
Other current financial assets	*8.1.1*	40	20
Cash and cash equivalents	*8.1.3.2*	2,436	2,359
Assets held for sale	*2.2.2.1*	41	-
CURRENT ASSETS		**7,681**	**6,699**
TOTAL ASSETS		**17,419**	**14,387**
EQUITY AND LIABILITIES			
Share capital	*10.1.1*	240	239
Additional paid-in capital	*10.1.1*	1,487	1,462
Translation adjustment	*10.1.3*	(36)	282
Retained earnings		2,723	2,134
STOCKHOLDERS' EQUITY		**4,414**	**4,117**
Non-controlling interests	*10.1.4*	649	236
STOCKHOLDERS' EQUITY INCLUDING NON-CONTROLLING INTERESTS		**5,063**	**4,353**
Provisions for pensions and other employee benefits – long-term portion	*5.3*	1,018	983
Other provisions – long-term portion	*7.1*	388	358
Long-term portion of long-term debt	*8.1.2.1*	3,237	2,069
Other financial liabilities – long-term portion	*8.1.1*	162	116
Liabilities associated with put options granted to holders of non-controlling interests – long-term portion	*8.1.2.2*	17	23
Subsidies and grants – long-term portion		43	41
Deferred tax liabilities	*9.2*	73	66
NON-CURRENT LIABILITIES		**4,938**	**3,656**
Accounts and notes payable		4,394	3,885
Provisions for pensions and other employee benefits – current portion	*5.3*	117	89
Other provisions – current portion	*7.1*	207	302
Subsidies and grants – current portion		19	18
Taxes payable		116	107
Other current liabilities		1,401	1,128
Current portion of long-term debt	*8.1.2.1*	383	225
Other financial liabilities – current portion	*8.1.1*	15	26
Liabilities associated with put options granted to holders of non-controlling interests – current portion	*8.1.2.2*	65	56
Short-term debt	*8.1.2.3*	664	542
Liabilities held for sale	*2.2.2.1*	37	-
CURRENT LIABILITIES		**7,418**	**6,378**
TOTAL EQUITY AND LIABILITIES		**17,419**	**14,387**

(1) The consolidated statement of financial position for December 31, 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9).

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

4. Consolidated statement of cash flows

(in millions of euros)	*Notes*	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		965	983
Share in net earnings of equity-accounted companies		(22)	(61)
Net dividends received from equity-accounted companies		46	43
Expenses (income) with no cash effect	*11.1*	882	854
Cost of net debt		73	83
Income taxes (current and deferred)		325	189
GROSS OPERATING CASH FLOWS		**2,269**	**2,091**
Income taxes paid		(265)	(257)
Changes in working capital	*11.2*	35	56
NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		**2,039**	**1,890**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of intangible assets		(627)	(483)
Acquisitions of property, plant and equipment(1)		(1,158)	(844)
Investment subsidies and grants received(1)		9	27
Disposals of property, plant and equipment and intangible assets		31	51
Net change in non-current financial assets		(91)	(38)
Acquisitions of investments with gain of control, net of cash acquired	*11.3*	(537)	(630)
Acquisitions of investments in associates and/or joint ventures	*11.4*	(7)	(17)
Disposals of investments with loss of control, net of cash transferred	*11.5*	(1)	22
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**(2,381)**	**(1,912)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to owners of the Company		(297)	(236)
Dividends paid to non-controlling interests in consolidated subsidiaries		(20)	(27)
Capital increase		26	29
Sale (purchase) of treasury stock	*11.6*	(73)	13
Issuance of long-term debt	*11.7*	1,486	1,112
Loan issue costs and premiums	*11.7*	(7)	(64)
Interest paid		(72)	(63)
Interest received		9	5
Repayments of long-term debt	*11.7*	(630)	(469)
Acquisitions of investments without gain of control	*11.8*	(16)	(24)
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		**406**	**276**
CASH AND CASH EQUIVALENTS RELATING TO ASSETS HELD FOR SALE		**(6)**	**-**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(103)**	**(34)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(45)**	**220**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,817**	**1,597**
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,772**	**1,817**
Of which:			
■ Cash and cash equivalents		2,436	2,359
■ Short-term debt		(664)	(542)

(1) The consolidated statement of cash flows shown for 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to present the impacts of subsidies and grants on non-current assets on a separate line within cash flows from investing activities.

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

5. Consolidated statement of changes in stockholders' equity

						Total stockholders' equity including non-controlling interests		
Number of shares outstanding	*(in millions of euros)*	Share capital	Additional paid-in capital	Cumulative translation adjustment	Retained earnings	Stockholders' equity	Non-controlling interests	Total
235,362,555	**STOCKHOLDERS' EQUITY AT JANUARY 1, 2016**	**238**	**1,434**	**245**	**1,556**	**3,473**	**219**	**3,692**
	Dividends paid	-	-	-	(236)	(236)	(27)	**(263)**
1,784,200	Treasury stock	-	-	-	13	13	-	**13**
755,511	Capital increase	1	28	-	-	29	-	**29**
	Share-based payment	-	-	-	21	21	-	**21**
	Put options granted(2)	-	-	-	(18)	(18)	(3)	**(21)**
	Other movements	-	-	-	(25)	(25)	(12)	**(37)**
	TRANSACTIONS WITH OWNERS	**1**	**28**	**-**	**(245)**	**(216)**	**(42)**	**(258)**
	Net income for the year	-	-	-	925	925	58	**983**
	Other comprehensive income (loss), net of tax	-	-	37	(102)	(65)	1	**(64)**
	TOTAL COMPREHENSIVE INCOME	**-**	**-**	**37**	**823**	**860**	**59**	**919**
237,902,266	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2016**	**239**	**1,462**	**282**	**2,134**	**4,117**	**236**	**4,353**
	Dividends paid	-	-	-	(297)	(297)	(20)	**(317)**
(488,256)	Treasury stock(1)	-	-	-	(73)	(73)	-	**(73)**
509,990	Capital increase(4)	1	25	-	-	26	-	**26**
	Share-based payment	-	-	-	27	27	-	**27**
	Put options granted(2)	-	-	-	1	1	(4)	**(3)**
	Other movements(3)	-	-	-	(29)	(29)	379	**350**
	TRANSACTIONS WITH OWNERS	**1**	**25**	**-**	**(371)**	**(345)**	**355**	**10**
	Net income for the year	-	-	-	886	886	79	**965**
	Other comprehensive income (loss), net of tax	-	-	(318)	74	(244)	(21)	**(265)**
	TOTAL COMPREHENSIVE INCOME	**-**	**-**	**(318)**	**960**	**642**	**58**	**700**
237,924,000	**STOCKHOLDERS' EQUITY AT DECEMBER 31, 2017**	**240**	**1,487**	**(36)**	**2,723**	**4,414**	**649**	**5,063**

(1) Changes in stockholders' equity attributable to treasury stock for 2017 include the impact of the share buyback program entered into with an investment services provider on March 6, 2017 in an amount of 75 million euros (see Note 10.1.1.3).

(2) This item includes changes in the fair value of liabilities relating to put options granted to holders of non-controlling interests (see Note 8.2.2.2).

(3) Other movements in non-controlling interests mainly include the impacts of the creation of Valeo-Kapec with Pyeong Hwa (see Note 2.2.1.1) and, to a lesser extent, the takeover of Ichikoh on January 20, 2017 (see Note 2.2.1.5).

(4) The terms and conditions of the July 27, 2017 capital increase reserved for employees are detailed in Note 10.1.1.1.

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

6. Notes to the consolidated financial statements

Note 1 ACCOUNTING POLICIES

The consolidated financial statements of the Valeo Group for the year ended December 31, 2017 include:

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

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

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

Valeo's consolidated financial statements for the year ended December 31, 2017 were authorized for issue by the Board of Directors on February 22, 2018.

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].

The financial statements include the information deemed material as required by the ANC in Standard no. 2016-09.

1.1.1 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning on or after January 1, 2017

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

Standards, amendments and interpretations effective for reporting periods beginning on or after January 1, 2017	
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses
Amendments to IAS 7	Disclosure Initiative

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

(1) *https://ec.europa.eu/info/law*

1.1.2 Standards, amendments and interpretations adopted by the European Union and effective for reporting periods beginning after January 1, 2017 and not early adopted by the Group

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

<table>
<tr><th>Standards, amendments and interpretations</th><th>Effective date</th><th>Impacts for the Group</th></tr>
<tr><td>IFRS 15
Revenue from Contracts with Customers</td><td>January 1, 2018</td><td>IFRS 15 will replace IAS 11, IAS 18 and the related IFRIC and SIC interpretations on revenue recognition. It introduces a new model for accounting for revenue from contracts with customers. Clarifications to the standard were published by the IASB on April 12, 2016 following publication of the "Clarifications to IFRS 15" exposure draft in July 2015.

The European Union adopted IFRS 15 on September 22, 2016.

Together with the Business Groups and Valeo Service, Valeo selected the principal transactions and contracts representing the Group's current and future activity. These were analyzed in light of the five-step model required by IFRS 15 in order to identify areas where it needs to exercise judgment and any potential changes resulting from application of the standard. The findings of this analysis are presented below.

For a given automotive project, the three main promises made by Valeo to an automaker typically identified within the scope of the analysis are:

■ Product Development, which includes determining the intrinsic technical features of parts and those related to the relevant production process. This promise is considered to be related to the promise to Supply Parts; any contributions received from customers in respect of Product Development will therefore be recognized in sales over the period of volume production, as the promise to deliver the parts is fulfilled;
■ Supply of Tooling such as molds and other equipment used to manufacture parts:
  ■ for certain businesses, the supply of molds may be considered to be a distinct promise in view of the manner in which control is transferred. In such cases, sales will be recognized at the start of volume production for the project,
  ■ the supply of other equipment used to manufacture parts is considered to be related to the supply of parts. Any contributions received in this respect will therefore be deferred and recognized over the duration of the manufacturing phase of the project and as the promise to deliver the parts is fulfilled;
■ Supply of Parts.

Valeo also considers that the contractual promise made to the automaker in the form of warranties for the parts supplied does not meet the definition of a separate performance obligation as it does not give rise to an "additional service". Warranty costs will therefore continue to be accounted for in accordance with IAS 37 – "Provisions, Contingent Liabilities and Contingent Assets".

An analysis of the relationship with the end customer under certain specific contracts has led Valeo to consider that it acts as agent in such dealings and not as principal.

The Group identified an impact on the presentation of its consolidated net income as a result of applying IFRS 15. This concerns contributions received from customers in respect of development costs and prototypes, which are currently shown as a deduction from Research and Development costs, net. These contributions will now be included on the "Sales" line as they result from a contract with a customer with a view to obtaining goods or services that are an output of the Group's ordinary activities in exchange for consideration.

The Group considers that the impacts of applying IFRS 15 will represent a decrease of around 30 million euros in consolidated retained earnings (excluding deferred taxes), mainly relating to the deferred recognition of certain contributions from customers in respect of product development, which will now be recognized in the statement of income over the period of volume production.

Aside from the above, Valeo does not expect the application of this new standard as from January 1, 2018 to have a material impact on the Group's consolidated financial statements.

Valeo will apply IFRS 15 as from January 1, 2018, with restatement of comparative periods, i.e., an adjustment to equity at January 1, 2017, and data for 2017 presented in accordance with IFRS 15.</td></tr>
</table>

Standards, amendments and interpretations	Effective date	Impacts for the Group
IFRS 9 Financial Instruments	January 1, 2018	On July 24, 2014, the IASB published the full version of IFRS 9, marking the completion of its project to replace IAS 39 on financial instruments. IFRS 9 introduces some important changes to IAS 39: ■ the approach for classifying and measuring financial assets is now based on an analysis of both the business model for each asset portfolio and the contractual terms of the financial asset in question; ■ the impairment model no longer uses the current approach based on identified losses but an approach based on expected losses; ■ the accounting for hedges has been significantly improved and more closely aligned with an entity's risk management strategy. Owing to the nature of its operations, the Group does not expect the classification and measurement of its financial assets to change significantly, with the exception of its interests in investment funds, for which changes in fair value will henceforth be recognized in income. No material impact is expected to result from the transition to IFRS 9. A detailed analysis of the impairment model for financial assets, and particularly accounts and notes receivable, was carried out in 2017. The expected credit loss impairment model prescribed by IFRS 9 results in recognizing impairment losses against accounts and notes receivable not yet due. The impact of this is not considered material. The Group considers that its existing hedging relationships meeting the qualifying criteria as effective hedges will continue to meet IFRS 9 hedge accounting criteria. Lastly, the Group considers that the impacts of applying IFRS 9 to the debt renegotiation that took place in January 2014 will represent: ■ an increase of around 12 million euros in consolidated retained earnings (excluding deferred tax) at January 1, 2017; ■ an additional annual financial expense of around 2 million euros, to be recognized over the remaining term of the renegotiated debt (i.e., over a period up to 2024).
IFRS 16 Leases	January 1, 2019	On January 13, 2016, the IASB published IFRS 16 – "Leases". IFRS 16 will replace IAS 17 and the related IFRIC and SIC interpretations, and will eliminate the different accounting treatment previously applicable to operating and finance leases. Lessees will be required to account for all leases with a term of over one year as currently required by IAS 17 for finance leases, thereby recognizing a right-of-use asset representing the right to use the underlying leased asset and a lease liability representing the obligation to make lease payments. In 2016, Valeo began to identify leases of its subsidiaries along with their main provisions. This work continued in 2017, the aim being to complete an analysis of the qualitative and quantitative impacts of this standard on the Group's consolidated financial statements in the first half of 2018. The Group has not yet decided on its transition method.

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

The IASB has published the following guidance, which is not expected to have a material impact on the Group's consolidated financial statements:

Standards, amendments and interpretations		Effective date[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
Amendments to IFRS 9	Prepayment Features	January 1, 2018
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	January 1, 2019
Annual Improvements to IFRSs 2014-2016 cycle	Various provisions	January 1, 2017/January 1, 2018
Annual Improvements to IFRSs 2015-2017 cycle	Various provisions	January 1, 2019
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
IFRIC 23	Uncertainly over Income Tax Treatments	January 1, 2019

(1) Subject to adoption by the European Union.

1.2 Basis of preparation

The financial statements are presented in euros and are rounded to the nearest 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 environment and the circumstances. The estimates and assumptions used are revised on an ongoing basis. In view of the uncertainties inherent in any assessment, the final amounts reported in Valeo's future financial statements may differ from the amounts resulting from these current estimates.

Significant estimates, judgments and assumptions adopted by the Group to prepare its financial statements for the year ended December 31, 2017 chiefly concern:

- the measurement of intangible assets recognized in the allocation of the purchase price to the assets and liabilities of Ichikoh (see Note 2.2.1.5);
- the measurement of the disposal gain arising on the takeover of Ichikoh (see Note 2.2.1.5);
- the conditions for capitalizing development expenditure (see Note 4.5.1.1);
- the measurement of the recoverable amount of property, plant and equipment and intangible assets (see Note 6);
- estimates of provisions, particularly provisions for pensions and other employee benefits and provisions for risks linked to product warranties (see Notes 5.3 and 7.1);
- the likelihood that deferred tax assets will be able to be utilized (see Note 9.2).

Note 2 SCOPE OF CONSOLIDATION

2.1 Accounting policies relating to the scope of consolidation

2.1.1 Consolidation methods

2.1.1.1 Full consolidation

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

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

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

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

2.1.1.2 Equity-method accounting for joint ventures and associates

Joint arrangements organize the sharing of control of an entity by two or more parties. These arrangements are known as joint ventures when the parties that have control of the arrangement have rights to the net assets of that arrangement.

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

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

The investment is initially recognized at cost. In accordance with IFRS 10.25, in the specific case of loss of control of a subsidiary leading to recognition of an interest in a joint venture or associate, the initial cost of this investment is equal to its fair value at the date control is lost. The investment is subsequently adjusted after the acquisition date to reflect the Group's share of the retained comprehensive income of the investee. These items may be adjusted in line with Group accounting policies.

Goodwill arising on the acquisition of associates or joint ventures is included in the carrying amount of investments in equity-accounted companies.

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

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

2.1.2 Foreign currency translation

2.1.2.1 Foreign currency financial statements

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

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

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

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

2.1.2.2 Foreign currency transactions

General principle

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

Differences arising from the translation of foreign currency transactions are generally recognized in income.

Net investment

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

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

2.1.3 Business combinations

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

- the cost of a combination is determined at 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.

Intangible assets may be recognized in respect of customer relationships that correspond in substance to contracts in progress at the date control is acquired and/or to relationships with regular customers of the acquired entity (opportunity to enter into new contracts). These intangible assets are measured based on the "excess earnings" method, whereby the value of the intangible asset corresponds to the present value of the cash flows generated by this asset, less a capital charge representing a return on the other assets concerned. Intangible assets may also be recognized in respect of patented or unpatented technologies. These assets are measured based on the "royalties" method or "replacement cost" method.

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 included within "Other income and expenses" in the period in which they are incurred.

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

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

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 presented on the "Liabilities held for sale" line in the statement of financial position. Assets classified as held for sale are valued at the lower of their carrying amount and their estimated sale price less costs to sell, and are therefore no longer subject to depreciation and amortization.

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

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

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

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

2.2 Changes in the scope of consolidation

2.2.1 Transactions that were completed

The main changes in the scope of consolidation that were finalized in 2017 and 2016 are as follows:

Description	Business Group	Transaction type	Transaction date	Note
Valeo-Kapec	Powertrain Systems	Company created with Pyeong Hwa	November 30, 2017	2.2.1.1
FTE automotive	Powertrain Systems	Takeover	October 31, 2017	2.2.1.2
Valeo Malaysia CDA Sdn (formerly Precico)	Comfort & Driving Assistance Systems	Takeover	March 31, 2017	2.2.1.3
gestigon	Comfort & Driving Assistance Systems	Takeover	February 28, 2017	2.2.1.4
Ichikoh	Visibility Systems and Valeo Service	Takeover	January 20, 2017	2.2.1.5
Valeo Siemens eAutomotive	Powertrain Systems	50/50 joint venture with Siemens	December 1, 2016	2.2.1.6
CloudMade	Comfort & Driving Assistance Systems	Interest acquired	November 10, 2016	2.2.1.7
Valeo Unisia Transmissions	Powertrain Systems	Purchase of non-controlling interests	September 30, 2016	2.2.1.8
Spheros	Thermal Systems	Takeover	April 1, 2016	2.2.1.9
peiker	Comfort & Driving Assistance Systems	Takeover	March 1, 2016	2.2.1.10
Engine Control business	Powertrain Systems	Sale	February 29, 2016	2.2.1.11

2.2.1.1 Creation of Valeo-Kapec

On February 6, 2017, Valeo announced it had signed an agreement with Pyeong Hwa group, its long-standing South Korean partner in transmission manufacturing, to create Valeo-Kapec, in which Valeo owns a 50% stake. Valeo-Kapec, headquartered in Daegu in South Korea, has a global manufacturing footprint and aims to become the world leader in torque converters for automatic and continuously variable transmissions. The partners have contributed their respective torque converter businesses, located for Valeo at Nanjing (China), Atsugi (Japan), San Louis Potosi (Mexico) and Troy (United States), and for Kapec in Daegu, Waegwan and Seongju (South Korea).

Having received the necessary regulatory clearance, Valeo and its partner Pyeong Hwa group announced the completion of the transaction on November 30, 2017.

Valeo-Kapec employs around 3,150 people. The new company is controlled by Valeo and is therefore fully consolidated in its consolidated financial statements with effect from December 1, 2017. It is forecast to generate sales of around 1 billion euros on an annualized basis.

Valeo-Kapec will capitalize on strong geographic, product and business complementarity to create purchasing, manufacturing and above all Research and Development synergies.

Valeo's contribution of assets and liabilities to Valeo-Kapec has been accounted for as an equity transaction in accordance with IFRS 10.

Given how recently the acquisition was finalized, the purchase price has been allocated to Valeo-Kapec's assets and liabilities on a provisional basis in 2017, in accordance with IFRS 3. Provisional goodwill resulting from the acquisition amounts to 200 million euros at December 31, 2017. The Group will identify and measure the identifiable assets acquired and liabilities assumed at the acquisition date in 2018. The allocation will be finalized within 12 months of the acquisition date, i.e., no later than November 30, 2018.

The main impacts of this operation are as follows:

(in millions of euros)	Allocation at December 31, 2017
PURCHASE PRICE (including the fair value of the in-kind contribution)	**458**
Identifiable assets acquired at the acquisition date	361
Identifiable liabilities assumed at the acquisition date	(103)
FAIR VALUE OF IDENTIFIABLE NET ASSETS	**258**
PROVISIONAL GOODWILL ARISING ON THE ACQUISITION	**200**

(in millions of euros)	Allocation at December 31, 2017
Net cash and cash equivalents acquired	4
Consideration paid	(114)
Acquisition costs paid during the period	(1)
NET CASH FLOWS RESULTING FROM THE ACQUISITION	**(111)**

These new South Korean operations contributed 42 million euros to consolidated sales in 2017.

2.2.1.2 Acquisition of FTE automotive

On June 2, 2016, Valeo announced it had signed an agreement with Bain Capital Private Equity, owner of FTE automotive, to acquire the entire share capital of the company for an enterprise value of 819.3 million euros, which represents an estimated 8x EBITDA for 2016.

FTE automotive, headquartered in Germany, is a leading producer of clutch and gear actuators. Its product portfolio and customer base are highly complementary to Valeo's. The acquisition will enable the Group to expand its offering of active hydraulic actuators, a strategic and fast-growing market driven by the rise of dual-clutch technology and hybrid vehicles. FTE automotive will also strengthen Valeo's aftermarket business. The company has 3,800 employees and a diversified industrial footprint in eight countries, including Germany, the Czech Republic, Slovakia, Mexico and China. FTE automotive had sales of around 550 million euros in 2016.

Clearance from the Brazilian antitrust authorities was obtained on November 3, 2016. Further to its decision to sell its Passive Hydraulic Actuator business (see Note 2.2.2.1), Valeo received clearance from the European Commission on October 13, 2017 and completed its acquisition of FTE automotive on October 31, 2017.

Given how recently the acquisition was finalized, the purchase price has been allocated to FTE automotive's assets and liabilities on a provisional basis in 2017, in accordance with IFRS 3. Provisional goodwill resulting from the acquisition amounts to 487 million euros at December 31, 2017. The Group will identify and measure the identifiable assets acquired and liabilities assumed at the acquisition date in 2018. The allocation will be finalized within 12 months of the acquisition date, i.e., no later than October 31, 2018.

The main impacts of this acquisition are as follows:

(in millions of euros)	Allocation at December 31, 2017
PURCHASE PRICE	**414**
Identifiable assets acquired at the acquisition date	449
Identifiable liabilities assumed at the acquisition date	(522)
FAIR VALUE OF IDENTIFIABLE NET ASSETS	**(73)**
PROVISIONAL GOODWILL ARISING ON THE ACQUISITION	**487**

(in millions of euros)	Allocation at December 31, 2017
Net cash and cash equivalents acquired	30
Consideration paid	(414)
Acquisition costs paid during the period	(2)
NET CASH FLOWS RESULTING FROM THE ACQUISITION	**(386)**

FTE automotive contributed 86 million euros to consolidated sales in 2017.

2.2.1.3 Acquisition of Valeo Malaysia CDA Sdn (formerly Precico)

On March 31, 2017, Valeo completed its acquisition of the entire share capital of Valeo Malaysia CDA Sdn (formerly Precico), a Malaysia-based company specialized in plastic injection molding and electronic components assembly. Valeo Malaysia CDA Sdn has been fully consolidated within the Comfort & Driving Assistance Systems Business Group since April 1, 2017.

After allocating the purchase price, provisional goodwill resulting from the acquisition amounted to 8 million euros. The purchase price accounting will be finalized within 12 months of the acquisition date.

Net cash flows resulting from the acquisition represented an outflow of 26 million euros at end-December 2017.

The transaction did not have a material impact on consolidated statement of income indicators in 2017.

2.2.1.4 Acquisition of gestigon

On February 28, 2017, Valeo completed its acquisition of the entire share capital of gestigon, a German start-up specialized in developing 3D image processing software for the vehicle cabin. gestigon has been fully consolidated within the Comfort & Driving Assistance Systems Business Group since March 1, 2017.

Designed to reinforce Valeo's technological leadership in automated driving, this acquisition provides a solution to the need to develop simple, intuitive and effective human-machine interfaces (HMIs) in a hyper-connected world. With the acquisition, Valeo will be able to develop its cabin comfort and driving assistance operations, particularly in high-growth technologies such as interior cameras and image processing.

Building on Valeo's existing Driver Monitoring system, which can sense driver drowsiness or distraction, the acquisition will lead to the development of a comprehensive offering of object and occupant detection features. Going forward, the vehicle will be able to analyze the cabin environment and seamlessly adapt to the occupants' safety needs – by activating airbags, for example.

After allocating the purchase price, provisional goodwill resulting from the acquisition amounted to 36 million euros. The purchase price accounting will be finalized by February 28, 2018 at the latest.

Net cash flows resulting from the acquisition represented an outflow of 33 million euros at end-December 2017. The acquisition agreement contains a contingent consideration clause.

The transaction did not have a material impact on consolidated statement of income indicators in 2017.

2.2.1.5 Acquisition of Ichikoh

Context of the transaction

On November 22, 2016, Valeo announced the launch of a partial takeover bid for the shares of Ichikoh, a Japanese company listed on the First Section of the Tokyo Stock Exchange. Valeo acquired an initial block of Ichikoh shares on April 27, 2000.

Valeo offered to buy shares from Ichikoh's shareholders at a price of 408 Japanese yen per share, subject to Valeo obtaining at least 50.09% of Ichikoh's capital (including the shares it already holds), with Valeo's stake being capped at 55.08% of the capital in order to maintain the liquidity of the Ichikoh share, which will continue to be listed on the Tokyo Stock Exchange.

On completion of the takeover bid, which ran from November 24, 2016 to January 12, 2017, Valeo announced that 32,383,612 shares had been tendered by other Ichikoh shareholders. As the offer was oversubscribed, the financial intermediaries reduced the shares to be acquired by Valeo on a prorated basis, by approximately 30.26%.

On December 12, 2016, Valeo announced that it had obtained the necessary approvals from the relevant antitrust authorities to proceed with the transaction.

As of settlement-delivery on January 20, 2017 following Valeo's takeover bid for 22,583,000 shares after the prorated reduction, the Group holds 55.08% of Ichikoh's capital (compared with 31.58% of its capital previously) and takes control of one of Japan's leading automotive lighting companies. As the period between the takeover date of January 20, 2017 and the date of February 1, 2017 was not deemed to be material, Ichikoh has been fully consolidated by Valeo, mainly within the Visibility Systems Business Group, since February 1, 2017.

Accounting treatment and purchase price allocation

The takeover resulted in (i) recognizing at fair value the Group's previously-held equity-accounted interest, and (ii) recognizing Ichikoh's assets and liabilities in full. Remeasuring the previously-held equity interest technically gave rise to a disposal gain of 14 million euros, which was recognized under "Share in net earnings of equity-accounted companies".

The allocation of the purchase price to Ichikoh's assets and liabilities was finalized in accordance with IFRS 3 as follows:

(in millions of euros)	Allocation at June 30, 2017	Final allocation at December 31, 2017
PURCHASE PRICE (INCLUDING THE FAIR VALUE OF THE PREVIOUSLY-HELD EQUITY INTEREST)	**145**	**145**
Identifiable assets acquired at the acquisition date	400	400
Identifiable liabilities assumed at the acquisition date	(312)	(312)
Trademarks(1)	-	22
Customer relationship(2)	-	21
Technology(3)	-	3
Unfavorable supply contracts		(9)
Customer relationship on onerous contracts	-	(8)
Deferred taxes	-	16
Temporary differences arising on remeasurement	-	(10)
Other remeasurements to fair value(4)		(12)
FAIR VALUE OF IDENTIFIABLE NET ASSETS	**88**	**111**
GOODWILL ARISING ON THE ACQUISITION	**57**	**34**

(1) The Ichikoh and PIAA trademarks have indefinite useful lives.
(2) The customer relationship is amortized over a period of between 7 and 10 years.
(3) Technology is amortized over 6 years.
(4) "Other remeasurements to fair value" include remeasurements of non-current assets and of provisions for pensions and other employee benefits.

(in millions of euros)	Allocation at June 30, 2017	Allocation at December 31, 2017
Net cash and cash equivalents acquired	86	86
Consideration paid	(62)	(62)
Acquisition costs paid during the period	(3)	(3)
NET CASH FLOWS RESULTING FROM THE ACQUISITION	**21**	**21**

The purchase of additional shares in Ichikoh also increased Valeo's indirect ownership interest in the six entities of the China Lighting Alliance, jointly held by Valeo (85%) and Ichikoh (15%) and already fully consolidated by the Group prior to the takeover of Ichikoh. In accordance with IFRS 3, this portion of the transaction is classified as a transaction between shareholders and has been considered for accounting purposes as having generated an additional cash outflow of 14 million euros.

Ichikoh's opening statement of financial position

After taking into account the adjustments outlined above, Ichikoh's opening statement of financial position is as follows:

(in millions of euros)	Opening statement of financial position February 1, 2017
ASSETS	
Other intangible assets	93
Property, plant and equipment	255
Investments in equity-accounted companies	1
Other non-current assets	55
Deferred tax assets	25
NON-CURRENT ASSETS	**429**
Inventories, net	96
Accounts and notes receivable, net	179
Other current assets	20
Taxes receivable	2
Other current financial assets	-
Cash and cash equivalents	96
Assets held for sale	-
CURRENT ASSETS	**393**
TOTAL ASSETS	**822**

(in millions of euros)	Opening statement of financial position February 1, 2017
EQUITY AND LIABILITIES	
STOCKHOLDERS' EQUITY	**102**
Non-controlling interests	99
STOCKHOLDERS' EQUITY	**201**
Provisions for pensions and other employee benefits	94
Other provisions – long-term portion	37
Long-term debt	137
Deferred tax liabilities	9
NON-CURRENT LIABILITIES	**277**
Accounts and notes payable	201
Other provisions – current portion	12
Taxes payable	2
Other payables	51
Current portion of long-term debt	69
Short-term debt	9
CURRENT LIABILITIES	**344**
TOTAL EQUITY AND LIABILITIES	**822**

Contribution to the statement of income

Excluding the six entities of the China Lighting Alliance, which are already fully consolidated, Ichikoh contributed 909 million euros to consolidated sales in 2017.

2.2.1.6 Creation of Valeo Siemens eAutomotive

On April 18, 2016, Valeo announced its plan to form a 50/50 joint venture with Siemens specialized in high-voltage powertrains. The operation was approved by the competent authorities on September 30, 2016.

The entity was set up on December 1, 2016 and aims to become a front-ranking player in the fast-growing automotive electrification market. Valeo and Siemens have joined forces to offer a comprehensive and innovative range of high-voltage (above 60V) components and systems for all types of electric vehicles (hybrids, plug-in hybrids and full electric vehicles), including e-motors, onboard chargers, inverters and DC/DC converters.

Valeo contributed its high-voltage power electronics activities, which employ around 200 people, of whom 90 are based in France. Its under-60V powertrain activity is not part of the joint venture. Siemens contributed its E-Car Powertrain Systems Business Unit (e-motors, inverters), which employs around 500 people, of whom 370 are based in Germany and 130 in China.

In accordance with IFRS 5, the assets and liabilities relating to the high-voltage powertrain systems business were recorded in assets and liabilities held for sale in the consolidated statement of financial position at June 30, 2016 in an amount of 64 million euros and 15 million euros, respectively. This reclassification also led to the discontinuation of depreciation and amortization of the property, plant and equipment and intangible assets dedicated to this business.

The net assets of the high-voltage powertrain systems business, amounting to 75 million euros, including a share of the goodwill allocated to this business, were transferred to the joint venture on December 1, 2016. In consideration for its contribution, Valeo received 50% of the share capital of Valeo Siemens eAutomotive. These shares have been included in "Investments in equity-accounted companies" for 241 million euros, corresponding to their fair value.

The Group recognized this contribution to a joint venture in accordance with IFRS 10. The loss of control of the assets and liabilities led to (i) derecognition of said assets and liabilities from the consolidated statement of financial position, (ii) recognition of the shares received in the new joint venture at their fair value, and (iii) recognition of a disposal gain equal to the difference between the fair value of the shares received and the net carrying amount of the assets and liabilities derecognized as a result of the loss of control. This disposal gain was recognized in full in December 2016 in "Other income and expenses" and represents the difference between the carrying amount of the net assets transferred by Valeo and the fair value of the equity-accounted investment. The overall proceeds from this transaction, including the disposal gain, the fair value of the put and call options and the transaction costs, totaled 159 million euros and were recorded in "Other income and expenses" in the 2016 financial statements.

In the absence of directly or indirectly observable inputs on a listed market, Valeo adopted a discounted cash flow method for the valuation based on the 2016-2020 business plan, drawn up with Siemens during the joint venture negotiations. The fair value of the equity-accounted investment corresponds to Valeo's share in the venture plus a portion of the expected synergies. The following key non-observable assumptions were used:

- a discount rate of 11.5%;
- a terminal value calculated using a perpetual growth rate of 1.5%, which is in line with the average mid- to long-term growth rate for the Group's industry and is the same as that used for impairment testing.

This technique corresponds to Level 3 in the fair value hierarchy.

At the time the joint venture was created, Siemens granted Valeo a call option and Valeo granted Siemens a put option. These options were valued by an independent expert using a probability-based approach at 35 million euros and 37 million euros, respectively at end-2016. At December 31, 2017, the fair value of the call option was 28 million euros, while the fair value of the put option was 31 million euros.

2.2.1.7 Acquisition of a stake in CloudMade

On November 10, 2016, Valeo announced its acquisition of a 50% stake in the capital of CloudMade, a developer of smart and innovative big data-driven automotive solutions such as a machine learning platform which seeks to improve and personalize vehicle comfort and safety for drivers and their passengers.

Valeo has joint control over CloudMade, which has therefore been accounted for by the equity method in its consolidated financial statements since November 10, 2016. CloudMade is part of the Comfort & Driving Assistance Systems Business Group.

This acquisition resulted in a net cash outflow of 28 million euros. The restated statement of financial position at December 31, 2016 includes the reclassification of an amount of 12 million euros from "Other non-current financial assets" to "Investments in equity-accounted companies". At December 31, 2017, final residual goodwill amounting to 26 million euros reflects both the significant trading synergies expected from the transaction and Valeo's ability to offer its customers innovative solutions ahead of its competitors.

As part of the acquisition, CloudMade granted Valeo a call option and Valeo granted CloudMade a put option. At December 31, 2017, these options were each valued at around 2 million euros by an independent expert using a probability-based approach (see Note 8.1.4.4).

2.2.1.8 Purchase of non-controlling interests in Valeo Unisia Transmissions

On September 30, 2016, Valeo acquired Hitachi's 34% stake in Valeo Unisia Transmissions KK for 24 million euros, and now holds all of this company's capital.

This acquisition did not have a material impact on the Group's consolidated financial statements since the company was previously controlled and fully consolidated by Valeo.

2.2.1.9 Acquisition of Spheros

On December 23, 2015, Valeo announced it had signed an agreement with Deutsche Beteiligungs AG (DBAG) to acquire Spheros, the worldwide leader in air conditioning systems for buses. Spheros leverages its technological leadership to supply air conditioning systems to major bus manufacturers and fleet operators. Spheros has a global sales network and a vast industrial footprint, with plants in Germany, Finland, Turkey, the United States, Brazil, China and India.

This acquisition allowed Valeo to extend its thermal management activities to the vibrant bus market. It is consistent with the Group's strategy, which aims to identify new drivers of growth, particularly in CO_2 emissions reduction.

Following clearance by the antitrust authorities, on March 31, 2016 Valeo acquired control of Spheros, which has been fully consolidated in the Group's financial statements since April 1, 2016. Spheros forms part of the Thermal Systems Business Group.

The allocation of the purchase price to Spheros' assets and liabilities was finalized in accordance with IFRS 3 as follows:

(in millions of euros)	Allocation at June 30, 2016	Allocation at December 31, 2016	Final allocation at March 31, 2017
PURCHASE PRICE	**255**	**256**	**256**
Identifiable assets acquired at the acquisition date	127	127	127
Identifiable liabilities assumed at the acquisition date	(154)	(154)	(154)
Customer relationship(1)	-	41	41
Technology(2)	-	13	13
Deferred taxes	-	(10)	(10)
Other individually non-material remeasurements to fair value	-	(10)	(19)
FAIR VALUE OF IDENTIFIABLE NET ASSETS	**(27)**	**7**	**(2)**
GOODWILL ARISING ON THE ACQUISITION	**282**	**249**	**258**

(1) The customer relationship is amortized over 12 years.
(2) Technology is amortized over 8 years.

Final goodwill resulting from the acquisition amounts to 258 million euros and chiefly reflects the operating and tax synergies expected to result from the transaction. Adjustments to the provisional amounts, determined when finalizing the purchase price allocation, have been recognized as if accounting for the business combination was completed on the acquisition date, thereby impacting the 2016 consolidated statement of financial position.

This acquisition gave rise to a net cash outflow of 326 million euros at end-December 2016.

Spheros contributed 255 million euros to consolidated sales in 2017, compared with 184 million euros over a nine-month period in 2016.

2.2.1.10 Acquisition of peiker

On December 21, 2015 Valeo announced the acquisition of German-based peiker, a major supplier of onboard telematics and mobile connectivity solutions. The transaction enabled Valeo to widen its range of connectivity solutions and strengthen its leadership in autonomous and connected vehicles, and thereby offer automakers new telematics systems equipped with the high-speed connectivity and cybersecurity features that this high-growth market demands.

Having received clearance from the antitrust authorities, on March 8, 2016 Valeo acquired control of peiker for 283 million euros. Valeo holds the entire share capital of the company, which has been fully consolidated within the Comfort & Driving Assistance Systems Business Group since March 1, 2016.

The allocation of the purchase price to peiker's assets and liabilities was finalized in accordance with IFRS 3 as follows:

(in millions of euros)	Allocation at June 30, 2016	Allocation at December 31, 2016	Final allocation at February 28, 2017
PURCHASE PRICE	**299**	**283**	**283**
Identifiable assets acquired at the acquisition date	164	164	164
Identifiable liabilities assumed at the acquisition date	(105)	(105)	(105)
Technology(1)	-	38	28
Customer relationship(2)	-	34	34
Customer relationship on onerous contracts	-	(28)	(28)
Tax liability	-	(21)	(21)
Other individually non-material remeasurements to fair value	-	(1)	(4)
FAIR VALUE OF IDENTIFIABLE NET ASSETS	**59**	**81**	**68**
GOODWILL ARISING ON THE ACQUISITION	**240**	**202**	**215**

(1) Technology is primarily amortized over 8 years.
(2) The customer relationship is amortized over 11 years.

Final goodwill resulting from the acquisition amounts to 215 million euros. Adjustments to the provisional amounts, determined when finalizing the purchase price allocation, have been recognized as if accounting for the business combination was completed on the acquisition date, thereby impacting the 2016 consolidated statement of financial position.

The value of the goodwill chiefly reflects the expected operating synergies relative to onboard telematics and connectivity, mainly attributable to the improved industrial performance and efficiency of the Company's Sourcing, Logistics and Research & Development networks.

This acquisition gave rise to a net cash outflow of 301 million euros at end-December 2016.

peiker contributed 309 million euros to consolidated sales in 2017, compared with 266 million euros over a 10-month period in 2016.

2.2.1.11 Sale of the Engine Control business

On July 27, 2015, Valeo announced its plan to sell its Engine Control business, part of the Powertrain Systems Business Group. This project, begun during the first half of 2015, culminated in the signature of a sale agreement in the second half of the year and the sale was completed on February 29, 2016.

The Engine Control business contributed 10 million euros to consolidated sales in the first half of 2016 up until the date of sale.

Following the measurement of the definitive loss on disposal, in first-half 2016 income of 1 million euros – mainly relating to recycled translation adjustments – was recognized in "Other income and expenses" relative to the estimated loss recognized in the 2015 financial statements.

Net of cash and cash equivalents transferred, this sale resulted in a net inflow of 27 million euros in the consolidated statement of cash flows for 2016.

2.2.2 Transactions that have been announced but not yet completed

2.2.2.1 Sale of the Passive Hydraulic Actuator business

On July 12, 2017, Valeo announced its plan to sell its Passive Hydraulic Actuator business, part of the Powertrain Systems Business Group, to the Italian group Raicam. The sale should be completed in the first half of 2018.

In accordance with IFRS 5, the assets and liabilities relating to this business were therefore classified as assets and liabilities held for sale in the consolidated statement of financial position at December 31, 2017. Valeo chose this classification for these assets and liabilities since it believes that their carrying amount will be recovered principally through a sale transaction rather than through their continuing use. The amounts reclassified as assets and liabilities held for sale represented 41 million euros and 37 million euros, respectively, at December 31, 2017.

The business represented sales of 69 million euros in 2017.

Based on information available at the reporting date, Valeo estimated the likely consequences of the sale and recognized a 14 million euro impairment loss (see Note 6.1) as well as 14 million euros in future costs to be incurred directly in connection with the divestment of this business. These are recognized in other income and expenses (see Note 4.6.2.1).

The estimated additional impact on 2018 at the actual time of the sale is not considered material.

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

2.3.1 Commitments given

2.3.1.1 Put option granted in respect of Detroit Thermal Systems

Valeo and V. Johnson Enterprises set up the company Detroit Thermal Systems in 2012. At December 31, 2017, Valeo and V. Johnson Enterprises had a respective 49% and 51% interest in this company.

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

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

2.3.1.2 Other commitments given

Other commitments given relate to guarantees granted by Valeo in connection with divestments. They represented 31 million euros at December 31, 2017 (28 million euros at December 31, 2016) and mainly include commitments given on the creation of the joint venture with Siemens (see Notes 2.2.1.6 and 8.1.4.4) and on the sale of the Engine Control business (see Note 2.2.1.11).

2.3.2 Commitments received

Commitments received totaled 490 million euros at December 31, 2017 (327 million euros at December 31, 2016) and correspond to guarantees granted to Valeo in connection with its acquisitions. The increase is mainly attributable to vendor warranties received in connection with the acquisitions of FTE automotive, gestigon and Valeo Malaysia CDA Sdn (formerly Precico) see (Notes 2.2.1.2, 2.2.1.4 and 2.2.1.3, respectively), and to the expiration of vendor warranties received in 2016 in connection with the acquisition of Spheros and peiker. Valeo also still has the commitment it received from Siemens as part of the creation of the Valeo Siemens eAutomotive joint venture (see Notes 2.2.1.6 and 8.1.4.4).

Note 3 SEGMENT REPORTING

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

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

The Group's four reportable segments are:

- Comfort & Driving Assistance Systems, which has three Product Groups: Driving Assistance, Intuitive Interior Controls and Connected Cars. Tomorrow's cars will be automated and connected: innovative, intuitive interfaces will be needed to support this functional enhancement. The Comfort & Driving Assistance Systems Business Group focuses on driver experience, developing solutions to make mobility safer, more intuitive and more connected.
- Powertrain Systems, comprising five Product Groups: Electrical Systems, Electronic Systems, Transmission Systems, Combustion Engine Systems and Active Hydraulic Actuator Systems, organized around three activities: electrification, transmission automation and clean engines. This Business Group develops innovative powertrain solutions to reduce CO_2 emissions and fuel consumption without compromising driving performance or pleasure.
- Thermal Systems, comprising five Product Groups: Thermal Climate Control, Thermal Powertrain, Thermal Compressor, Thermal Front End and Thermal Bus Systems. To address the new challenges facing the automotive industry, the strategic objectives of this Business Group are three-fold: reduce harmful emissions from vehicles with internal combustion engines, increase travel range and battery life for hybrid and electric vehicles, and promote passenger health and well-being.
- Visibility Systems, comprising two Product Groups: Interior and Exterior Lighting Systems, and Wiper Systems. This Business Group designs and produces efficient and innovative lighting and wiper systems which support the driver and passengers in all weather, day and night, and in their various onboard activities.

Each of these Business Groups is also responsible for production and for some of the distribution of 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 the holding companies and eliminations between the four operating segments.

3.1 Key segment performance indicators

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

- sales;
- EBITDA, which corresponds to (i) operating margin before depreciation, amortization and impairment losses (included in the operating margin) and the impact of government subsidies and grants on non-current assets, and (ii) net dividends received from equity-accounted companies;
- Research and Development expenditure, net;
- investments in property, plant and equipment and intangible assets;
- segment assets, comprising property, plant and equipment and intangible assets (including goodwill), investments in equity-accounted companies and inventories.

2017

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales						
■ segment (excluding Group)	3,565	4,220	4,953	5,712	100	**18,550**
■ intersegment (Group)	25	80	50	96	(251)	**-**
EBITDA	522	566	539	767	42	**2,436**
Research and Development expenditure, net	(412)	(212)	(204)	(279)	(23)	**(1,130)**
Investments in property, plant and equipment and intangible assets	537	390	430	508	37	**1,902**
Segment assets	2,271	3,365	2,253	2,544	144	**10,577**

2016

(in millions of euros)	Comfort & Driving Assistance Systems	Powertrain Systems	Thermal Systems	Visibility Systems	Other	Total
Sales						
■ segment (excluding Group)	3,343	3,975	4,622	4,545	34	**16,519**
■ intersegment (Group)	20	52	23	104	(199)	**-**
EBITDA	**496**	**534**	**463**	**645**	**6**	**2,144**
Research and Development expenditure, net	(334)	(183)	(184)	(235)	(20)	**(956)**
Investments in property, plant and equipment and intangible assets	342	357	302	330	30	**1,361**
Segment assets[1]	1,996	2,107	2,031	2,028	83	**8,245**

(1) The segment assets shown for the Comfort & Driving Assistance Systems and Thermal Systems Business Groups in 2016 differ from those presented in the 2016 consolidated financial statements published in February 2017 since they have been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, respectively).

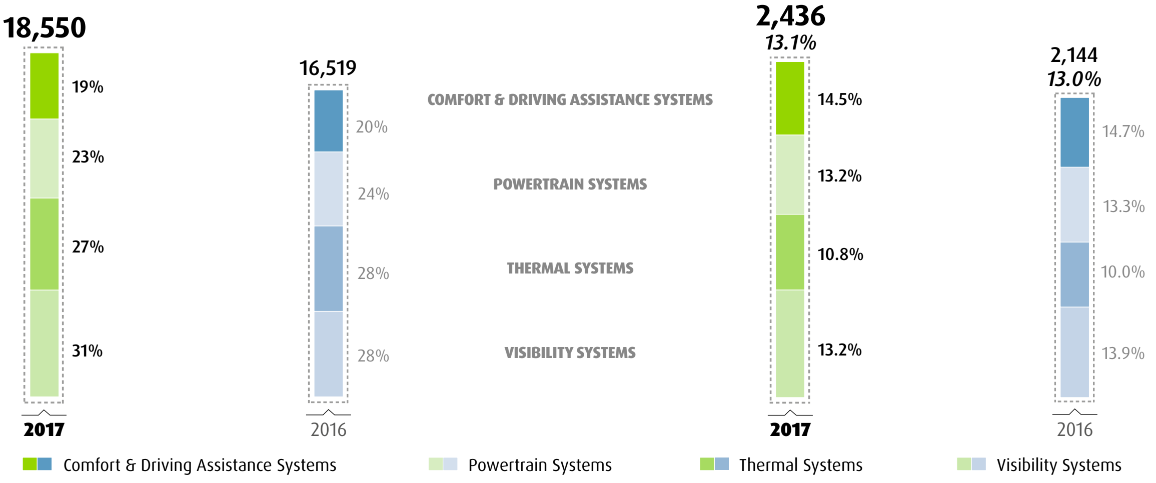
Segment data

▶ **BREAKDOWN OF SALES BY BUSINESS GROUP (INCLUDING INTERSEGMENT SALES)**

(in millions of euros and as a % of total sales)

▶ **EBITDA BY BUSINESS GROUP**

(in millions of euros and as a % of total sales)



3.2 Reconciliation with Group data

The table below reconciles EBITDA with consolidated operating margin:

(in millions of euros)	2017	2016
Operating margin	**1,455**	**1,273**
Depreciation and amortization of property, plant and equipment and intangible assets, and impairment losses[1]	948	841
Impact of government subsidies and grants on non-current assets recognized in the statement of income	(13)	(13)
Dividends paid by equity-accounted companies	46	43
EBITDA	**2,436**	**2,144**
as a % of sales	*13.1%*	*13.0%*

(1) Impairment losses recorded in operating margin only.

This indicator is used by Management to monitor and track Business Group performance and to decide on the allocation of resources.

Total segment assets reconcile to total Group assets as follows:

(in millions of euros)	2017	2016
Segment assets	**10,577**	**8,245**
Accounts and notes receivable	2,919	2,462
Other current assets	483	427
Taxes receivable	42	38
Financial assets	2,901	2,590
Deferred tax assets	456	625
Assets held for sale[1]	41	-
TOTAL GROUP ASSETS	**17,419**	**14,387**

(1) At December 31, 2017, assets held for sale corresponded to the assets of the Passive Hydraulic Actuator business (see Note 2.2.2.1).

3.3 Reporting by geographic area

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

2017

(in millions of euros)	External sales by market	Sales by production area	Non-current assets
France	1,378	3,103	736
Other European countries and Africa	7,488	6,251	2,353
North America	3,522	3,607	897
South America	492	424	67
Asia	5,670	5,957	2,189
Eliminations	-	(792)	-
TOTAL	**18,550**	**18,550**	**6,242**

2016

(in millions of euros)	External sales by market	Sales by production area	Non-current assets
France	1,278	2,985	672
Other European countries and Africa	6,984	5,757	1,844
North America	3,452	3,453	730
South America	393	337	58
Asia	4,412	4,711	1,604
Eliminations	-	(724)	-
TOTAL	**16,519**	**16,519**	**4,908**

3.4 Breakdown of sales by major customer

In 2017, two global automakers represented 29% of the Group's sales, and each of these individually accounted for more than 13% of the Group's sales.

In 2016, two global automakers represented 29% of the Group's sales, and each of these individually accounted for more than 10% of the Group's sales.

Note 4 OPERATING DATA

4.1 Sales

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

- for finished products, sales are recognized in accordance with contractually specified incoterms;
- for tooling, in cases where the Group retains control of the future related risks and rewards, any contributions received from customers are recognized over the duration of the manufacturing phase of the project, within the limit of four years. If this is not the case, sales are recognized as from the start of volume production for the project.

The price reductions granted upstream to automakers are deferred in the consolidated statement of financial position at the time of payment and subsequently deducted from sales and reported under income on a straight-line basis as from the start of volume production.

Group sales rose 12.3% to 18,550 million euros in 2017 from 16,519 million euros in 2016.

Exchange rates had a negative 1.1% impact, relating mainly to the depreciation of the Chinese renminbi, US dollar and Japanese yen, while changes in the scope of consolidation during the year had a positive 6.8% impact. Like for like (comparable Group structure and exchange rate basis), consolidated sales for 2017 climbed 6.6% on 2016.

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.

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

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

Accounts and notes receivable can be analyzed as follows:

(in millions of euros)	December 31, 2017	December 31, 2016
Accounts and notes receivable, gross	2,945	2,486
Impairment	(26)	(24)
ACCOUNTS AND NOTES RECEIVABLE, NET	**2,919**	**2,462**

At December 31, 2017, Valeo's largest automotive customer accounted for 13% of the Group's accounts and notes receivable (14% at December 31, 2016).

The average days' sales outstanding stood at 51 days at December 31, 2017, compared to 47 days at December 31, 2016.

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, 2017	December 31, 2016
93.5%	– Not yet due	2,753	2,325
3.3%	– Less than 1 month past due	99	72
2.6%	– More than 1 month but less than 1 year past due	76	71
0.6%	– More than 1 year past due	17	18
	ACCOUNTS AND NOTES RECEIVABLE, GROSS	**2,945**	**2,486**

Gross accounts and notes receivable not yet due and less than one month past due at December 31, 2017 totaled 2,753 million euros and 99 million euros, respectively, and represented 97% of total gross accounts and notes receivable (96% at end-2016). Past due receivables were written down in an amount of 26 million euros at December 31, 2017 (24 million euros at December 31, 2016).

Accounts and notes receivable falling due after December 31, 2017, for which substantially all of the risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position, represented an amount of 312 million euros at December 31, 2017 versus 301 million euros at December 31, 2016. A total of 93 million euros out of the 312 million euros relates to sale operations carried out on a recurring basis (98 million euros at December 31, 2016). The financial cost of these transactions, recognized in cost of net debt, was around 4 million euros in 2017 (around 3 million euros in 2016).

4.3 Gross margin and cost of sales

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

Cost of sales may include insurance indemnities paid out for claims made within the scope of the Group's operations. These claims can relate to product quality issues or property damage. An insurance gain is recognized in the statement of income at the date of the claim, if it is demonstrated that the claim is duly covered by a valid insurance policy. If this right is contingent on the subsequent completion of repairs or on the acquisition of new assets (contingent claim), the associated gain should be recognized at the time the aforementioned repairs or acquisitions are made.

Gross margin for the period totaled 3,474 million euros, or 18.7% of sales (18.3% of sales in 2016).

Cost of sales can be analyzed as follows:

(in millions of euros)		2017	2016
58.1%(1)	– Raw materials consumed	(10,780)	(9,681)
12.3%(1)	– Labor	(2,275)	(1,975)
7.9%(1)	– Direct production costs and production overheads	(1,471)	(1,358)
3.0%(1)	– Depreciation and amortization(2)	(550)	(485)
	COST OF SALES	**(15,076)**	**(13,499)**

(1) As a % of sales.

(2) This amount does not include amortization charged against capitalized development costs, which is recognized in Research and Development expenditure, net. It includes the impact of government subsidies and grants on non-current production assets (excluding Research and Development) recognized in the statement of income.

4.4 Inventories

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

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

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

Tooling used in the production of a specific project is subjected to an economic analysis of contractual relations with the automaker in order to determine which party has control over the associated future risks and rewards. Tooling is capitalized in the consolidated statement of financial position (see Note 6.3 on property, plant and equipment) when Valeo has control over these risks and rewards, or is carried in inventories (until it is sold) if no such control exists. A provision is made for any potential loss on the tooling contract (corresponding to the difference between the customer's contribution and the cost of the tooling) as soon as the amount of the loss is known.

At December 31, 2017, inventories break down as follows:

	December 31, 2017			December 31, 2016
(in millions of euros)	Gross carrying amount	Impairment	Net carrying amount	Net carrying amount
Raw materials	723	(104)	**619**	524
Work-in-progress	184	(19)	**165**	132
Finished goods and supplies	625	(96)	**529**	435
Specific tooling	414	(7)	**407**	302
INVENTORIES, NET	**1,946**	**(226)**	**1,720**	**1,393**

Impairment losses taken against inventories amounted to 226 million euros at December 31, 2017 (208 million euros at December 31, 2016), 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 29 million euros in 2016.

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

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

Operating margin including share in net earnings of equity-accounted companies corresponds to operating income before other income and expenses.

In 2017, operating margin including share in net earnings of equity-accounted companies totaled 1,477 million euros, or 8.0% of sales (8.1% of sales in 2016).

Share in net earnings of equity-accounted companies amounts to 22 million euros in 2017 and 61 million euros in 2016. Note 4.5.3 provides more information.

4.5.1 Research and Development expenditure

4.5.1.1 Capitalized development costs

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

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

Development costs are capitalized where the Group can demonstrate that:

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

Capitalized development costs recorded in assets in the statement of financial position therefore correspond to projects for specific customer applications drawing 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.

Capitalized development costs 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 costs in 2017 and 2016 are analyzed below:

(in millions of euros)	2017	2016
GROSS CARRYING AMOUNT AT JANUARY 1	**2,300**	**1,973**
Accumulated amortization and impairment	(1,307)	(1,080)
NET CARRYING AMOUNT AT JANUARY 1	**993**	**893**
Capitalized development expenditure	577	437
Disposals	-	(36)
Changes in scope of consolidation(1)	45	-
Impairment	(4)	(20)
Amortization	(263)	(238)
Translation adjustment	(33)	-
Reclassifications(2)	1	(43)
NET CARRYING AMOUNT AT DECEMBER 31	**1,316**	**993**

(1) Changes in the scope of consolidation in 2017 relate to the acquisition of FTE automotive (see Note 2.2.1.2).
(2) Reclassifications in 2016 chiefly concerned intangible assets contributed to the joint venture with Siemens which were recognized as held for sale (see Note 2.2.1.6).

4.5.1.2 Research and Development expenditure, net

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

Net Research and Development expenditure can be analyzed as follows for 2017 and 2016:

(in millions of euros)	2017	2016
Research and Development expenditure	(1,895)	(1,596)
Contributions received and subsidies and grants	455	456
Capitalized development expenditure	577	437
Amortization and impairment of capitalized development expenditure	(267)	(253)
RESEARCH AND DEVELOPMENT EXPENDITURE, NET	**(1,130)**	**(956)**

The Group continued to step up its Research and Development efforts in 2017 to meet the sharp increase in its order book over the past few years and in line with its strategy geared to products incorporating innovative technologies.

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

The French research tax credit recognized in income for the year totaled 51 million euros in 2017 (55 million euros in 2016).

4.5.2 Other current assets

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

At December 31, 2017, amounts receivable in respect of the CICE tax credit for 2014, 2015 and 2016, and the 2014, 2015 and 2016 research tax credit in France are no longer carried in the consolidated statement of financial position, which now includes only the estimated 55 million euros receivable in respect of the 2017 research tax credit.

These derecognized receivables were transferred as follows:

- the 2014 CICE tax credit receivable on December 16, 2014 for 15 million euros;
- the 2014 research tax credit receivable on June 26, 2015 for 56 million euros;
- the 2015 CICE tax credit receivable on December 18, 2015 for 15 million euros;
- the 2015 research tax credit receivable on June 22, 2016 for 54 million euros;
- the 2016 CICE tax credit receivable on December 21, 2016 for 15 million euros.
- the 2016 research tax credit receivable on June 22, 2017 for 57 million euros.
- the 2017 CICE tax credit receivable on December 22, 2017 for 17 million euros.

The cost of these transfers for the Group, recognized in cost of net debt for the period, was 1 million euros, stable compared to 2016.

At December 31, 2016, only the 2016 research tax credit receivable was still carried on the consolidated statement of financial position for an estimated 55 million euros.

4.5.3 Associates and joint ventures

4.5.3.1 Share in net earnings of equity-accounted companies

(in millions of euros)	2017	2016
Share in net earnings of associates	30	27
Share in net earnings of joint ventures	(8)	34
SHARE IN NET EARNINGS OF EQUITY-ACCOUNTED COMPANIES	**22**	**61**

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

Share in net earnings of associates

(in millions of euros)	2017	2016
Ichikoh Industries Limited	20	22
Detroit Thermal Systems	8	5
Other	2	-
SHARE IN NET EARNINGS OF ASSOCIATES	**30**	**27**

Ichikoh Industries Limited, which was 31.6%-owned by Valeo at December 31, 2016, is listed on the Tokyo Stock Exchange and its year-end was fixed at March 31 for the 2016 reporting period. The financial statements of this associate used when applying the equity method were prepared at a different date to that of the 2016 consolidated financial statements. The difference between the year-end of the associate and the Group's own year-end was three months, which is permitted by IAS 28.

On November 24, 2016, Valeo launched a takeover bid for the shares of Ichikoh. Following the close of the offer on January 12, 2017, Valeo controlled the Japan-based company. Ichikoh has been fully consolidated by Valeo as from February 1, 2017 (see Note 2.2.1.5). In 2017, the share in net earnings of associates relating to Ichikoh covers a period of four months (from October 1, 2016 to January 30, 2017), along with the disposal gain resulting from the remeasurement of the previously-held interest in Ichikoh (see Note 2.2.1.5).

Share in net earnings of joint ventures

(in millions of euros)	2017	2016
Valeo Siemens eAutomotive	(53)	(4)
CloudMade	(3)	-
Chinese joint ventures	43	37
Other	5	1
SHARE IN NET EARNINGS OF JOINT VENTURES	**(8)**	**34**

4.5.3.2 Investments in equity-accounted companies

Investments in associates

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

(in millions of euros)	2017	2016
INVESTMENTS IN ASSOCIATES AT JANUARY 1	**86**	**74**
Share in net earnings of associates	30	27
Dividend payments	(8)	(8)
Impact of changes in scope of consolidation(1)	(81)	-
Other movements	2	(3)
Translation adjustment	-	(4)
INVESTMENTS IN ASSOCIATES AT DECEMBER 31	**29**	**86**

(1) Changes in the scope of consolidation mainly include the impacts of the change in the consolidation method for Ichikoh following the takeover on January 20, 2017 (see Note 2.2.1.5).

The Group's investments in associates are detailed below:

	Percentage interest *(in %)*		Carrying amount *(in millions of euros)*	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Ichikoh Industries Limited(1)	55.1	31.6	-	67
Detroit Thermal Systems	49.0	49.0	18	20
Valeo Pyeong Hwa Metals Co. Ltd(2)	49.0	49.0	(1)	(1)
Kuantic	33.3	N/A	6	-
Other	N/A	N/A	6	-
INVESTMENTS IN ASSOCIATES			**29**	**86**

(1) Further to the takeover in January 2017, Ichikoh Industries Limited has been fully consolidated since February 1, 2017 (see Note 2.2.1.5).
(2) The investment in Valeo Pyeong Hwa Metals Co. Ltd is recorded in "Other financial liabilities – long-term portion".

Investments in joint ventures

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

(in millions of euros)	2017	2016[(1)]
INVESTMENTS IN JOINT VENTURES AT JANUARY 1	**385**	**117**
Net earnings of joint ventures	(8)	34
Dividend payments	(38)	(35)
Impact of changes in scope of consolidation	(3)	272
Other movements	(2)	1
Translation adjustment	(7)	(4)
INVESTMENTS IN JOINT VENTURES AT DECEMBER 31	**327**	**385**

(1) The carrying amount shown for 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7).

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

	Percentage interest *(in %)*		Carrying amount *(in millions of euros)*	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016[(1)]
Valeo Siemens eAutomotive	50.0	50.0	182	236
Chinese joint ventures	N/A	N/A	109	111
CloudMade	50.0	50.0	24	28
Other	N/A	N/A	12	10
INVESTMENTS IN JOINT VENTURES			**327**	**385**

(1) The carrying amount shown for 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7).

4.5.3.3 Financial information on equity-accounted companies

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

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

Associates

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

(in millions of euros)	December 31, 2017	December 31, 2016
Non-current assets	71	426
Current assets	85	408
Non-current liabilities	25	290
Current liabilities	70	358

(in millions of euros)	2017	2016
Sales	306	1,151
Operating expenses	(284)	(1,066)

Joint ventures

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

(in millions of euros)	December 31, 2017	December 31, 2016[1]
Non-current assets	611	519
Current assets	813	468
Non-current liabilities	253	96
Current liabilities	763	411

(1) Financial data shown for 2016 differ from the amounts presented in the 2016 consolidated financial statements published in February 2017 since they have been adjusted to reflect the impacts of allocating the goodwill generated on the creation of Valeo Siemens eAutomotive (see Note 2.2.1.6).

(in millions of euros)	2017	2016
Sales	904	749
Operating expenses	(963)	(670)

4.5.3.4 Transactions with equity-accounted companies (related parties)

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

Transactions with associates

(in millions of euros)	December 31, 2017[1]	December 31, 2016
Accounts and notes receivable	5	9
Accounts and notes payable	9	15
Net debt (cash)	(2)	11

(1) Due to Valeo's takeover of Ichikoh on January 20, 2017, the transactions carried out with this company in 2017 are not presented above (see Note 2.2.1.5).

(in millions of euros)	2017[1]	2016
Sales of goods and services	32	34
Purchases of goods and services	(41)	(67)

(1) Due to Valeo's takeover of Ichikoh on January 20, 2017, the transactions carried out with this company in 2017 are not presented above (see Note 2.2.1.5).

Transactions with joint ventures

(in millions of euros)	December 31, 2017	December 31, 2016
Accounts and notes receivable	27	21
Accounts and notes payable	27	17
Net debt (cash)	(18)	10

(in millions of euros)	2017	2016
Sales of goods and services	52	24
Purchases of goods and services	(16)	(10)

4.6 Operating income and other income and expenses

4.6.1 Operating income

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

Operating income including share in net earnings of equity-accounted companies totaled 1,410 million euros in 2017 versus 1,301 million euros in 2016.

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:
- transaction costs and capital gains and losses arising on changes in the scope of consolidation;
- major litigation and disputes unrelated to the Group's operations (this therefore excludes the cost of any disputes relating to the quality of products sold, customers, suppliers or contract losses);
- costs relating to restructuring plans;
- impairment losses on non-current 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 2017 and 2016:

(in millions of euros)	*Notes*	2017	2016
Transaction costs and capital gains and losses arising on changes in the scope of consolidation:	*4.6.2.1*		
■ Acquisition fees		(4)	(14)
■ Sale of the Passive Hydraulic Actuator business		(14)	-
■ Sale of the Engine Control business		-	1
■ Income relating to the creation of a joint venture with Siemens, net of costs		-	159
Claims and litigation:	*4.6.2.2*		
■ Antitrust investigations		(3)	(99)
■ Other disputes		(13)	(3)
Restructuring plans	*4.6.2.3*	(19)	(16)
Impairment of the Passive Hydraulic Actuator business	*4.6.2.1*	(14)	-
Impairment of non-current assets	*4.6.2.4*	-	(61)
OTHER INCOME AND EXPENSES		**(67)**	**(33)**

4.6.2.1 Transaction costs and capital gains and losses arising on changes in the scope of consolidation

Acquisition fees recognized in 2017 mainly relate to transactions carried out in the period, chiefly Ichikoh (see Note 2.2.1.5), FTE automotive (see Note 2.2.1.2), Valeo-Kapec (see Note 2.2.1.1), gestigon (see Note 2.2.1.4) and Valeo Malaysia CDA Sdn (formerly Precico) (see Note 2.2.1.3).

In 2017, the Group estimated the likely impact of the sale of its Passive Hydraulic Actuator business (see Note 2.2.2.1) and as a result recognized an additional expense for 28 million euros, breaking down as a 14 million euro impairment loss against allocated goodwill (see Note 6.1) and 14 million euros in costs. These include future operating, IT, and legal costs to be incurred directly in connection with the divestment of the business.

In 2016, the creation of the joint venture with Siemens resulted in a disposal gain of 159 million euros net of transaction costs and the impact of the put and call options recognized.

4.6.2.2 Claims and litigation

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

In 2017, claims and litigation mainly comprised legal advisory costs relating to these investigations (see Note 7.2). In 2016, claims and litigation mainly related to the impacts of these investigations.

4.6.2.3 Restructuring plans

Restructuring costs for 2017 primarily relate to the costs of a new plan announced in South America in the first half, as well as the impact of a plant closure in China and early retirement plans in Germany.

Restructuring costs for 2016 mainly related to the costs of early retirement plans in Germany, the phased shutdown of operations at a plant in Spain announced in 2015, the impact of a layoff plan in Japan announced in the second half of 2016, and a curtailment of operations at a plant in France announced in the first half of 2016. These costs were partially offset in an amount of 8 million euros by the impacts of the lump-sum program in the United States, net of administrative costs (see Note 5.3.4).

4.6.2.4 Impairment of non-current assets

As a result of the cash-generating unit (CGU) impairment tests carried out in 2016, an impairment loss of 49 million euros was recognized against the Compressors Product Group, and the Electronic Systems Product Group was written down in an amount of 12 million euros.

Note 5 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

5.1 Headcount

Including temporary staff, the Group's headcount is as follows:

	2017	2016
Total employees at December 31	111,600	91,800
Average employees during the year	105,350	89,125

5.2 Employee benefits

Employee benefits are measured in accordance with IAS 19. 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 in which the related service is rendered by the employee.

Long-term benefits cover two categories of employee benefits:

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

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

These benefits are broken down into:

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

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

(in millions of euros)	2017	2016
Wages and salaries(1)	3,164	**2,727**
Social security charges	617	**531**
Share-based payment	27	**21**
Pension expenses under defined contribution plans	109	**83**
TOTAL	**3,917**	**3,362**

(1) Including temporary staff.

In France, the Group is eligible for the CICE tax credit, which is calculated on a proportion of compensation paid by French companies to their employees. It is paid by the French state, regardless of an entity's income tax position. If an entity is not liable for income tax, it is paid by the State within a period of three years.

The CICE tax credit does not therefore fall within the scope of IAS 12 – "Income Taxes". It is recognized as a deduction from personnel expenses within consolidated operating income and represented income of 17 million euros in 2017 versus income of 15 million euros in 2016.

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

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

5.3 Provisions for pensions and other employee benefits

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

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

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

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

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

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

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

The expense recognized in the statement of income includes:

- service cost for the period, past service costs, and the impact of any plan curtailments or settlements;
- 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, 2017, 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, the United States, Japan and the United Kingdom, which top up the statutory pension plans in force in those countries:

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

  Most plans in the United States 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 South Korea, Mexico and Italy;
- health cover during retirement in the United States:

  Valeo pays into health plans and life insurance plans for certain retired employees in the United States. 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 geographic area at December 31, 2017:

	France	Other European countries	North America	Asia	Total
Active Valeo employees	12,535	22,157	9,864	12,097	**56,653**
Active employees having left the Group	-	2,075	1,862	620	**4,557**
Retirees	8	4,864	4,584	1,723	**11,179**
Total employees	**12,543**	**29,096**	**16,310**	**14,440**	**72,389**
Average duration of the defined benefit plans *(years)*	**12**	**22**	**13**	**10**	**16**

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

The discount rates used for each geographic area are determined by reference to expected payments of benefits under the plans and a yield curve based on a diverse basket of investment-grade (AA-rated) corporate bonds. In countries where the market for investment-grade corporate bonds is insufficient, discount rates are determined by reference to the yield on government bonds.

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

Country	December 31, 2017	December 31, 2016
Eurozone	2.00	1.80
United Kingdom	2.30	2.55
United States	3.60	3.90
Japan	0.50	0.30
South Korea	3.25	2.80

The weighted average long-term salary inflation rate was around 3.0% at December 31, 2017, largely unchanged from December 31, 2016.

The rate of increase for medical costs in the United States used to value the Group's main obligations was 7.20% at December 31, 2017, gradually falling to 5% by 2032. The latter assumption is unchanged from that used in 2016.

The sensitivity of the Group's main obligations to a 0.5-point rise or fall in discount rates and the inflation rate 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:

2017

(in millions of euros)	France	Other European countries	North America[1]	Asia	Total
Present value of unfunded obligations	220	470	99	117	**906**
Present value of funded obligations	41	172	405	225	**843**
Market value of plan assets	(6)	(87)	(336)	(190)	**(619)**
PROVISIONS RECOGNIZED AT DECEMBER 31, 2017	**255**	**555**	**168**	**152**	**1,130**
Permanent employees at December 31, 2017[2]	12,610	31,114	13,306	21,072	**78,102**

(1) Unfunded pension obligations in North America include medical plans in the United States representing 74 million euros.

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

2016

(in millions of euros)	France	Other European countries	North America(1)	Asia	Total
Present value of unfunded obligations	221	478	113	49	**861**
Present value of funded obligations	41	114	455	111	**721**
Market value of plan assets	(7)	(80)	(334)	(89)	**(510)**
PROVISIONS RECOGNIZED AT DECEMBER 31, 2016	**255**	**512**	**234**	**71**	**1,072**
Permanent employees at December 31, 2016(2)	12,176	25,611	11,965	15,141	**64,893**

(1) Unfunded pension obligations in North America include medical plans in the United States representing 88 million euros.
(2) 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. The Group's pension obligations in North America are significant with regard to the Group's permanent employees in this region, since a large portion of these obligations relates to retired personnel or employees having left the Group.

Movements in obligations in 2017 and 2016 are shown in the tables below by major geographic area:

2017

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2017	**262**	**592**	**568**	**160**	**1,582**
Actuarial gains and losses recognized in other comprehensive income	(5)	(26)	16	-	**(15)**
Benefits paid	(17)	(20)	(36)	(24)	**(97)**
Translation adjustment	-	(5)	(69)	(25)	**(99)**
Changes in scope of consolidation(1)	-	71	-	207	**278**
Reclassifications(2)	-	(2)	-	-	**(2)**
Expenses (income) for the year:	21	32	25	24	**102**
■ *Service cost*	*20*	*21*	*2*	*21*	***64***
■ *Interest cost*	*4*	*12*	*21*	*3*	***40***
■ *Other(3)*	*(3)*	*(1)*	*2*	*-*	***(2)***
BENEFIT OBLIGATIONS AT DECEMBER 31, 2017	**261**	**642**	**504**	**342**	**1,749**

(1) Changes in the scope of consolidation relate to the acquisitions of Ichikoh, FTE automotive, and Valeo-Kapec (see Notes 2.2.1.5, 2.2.1.2 and 2.2.1.1, respectively).
(2) Pension obligations relating to the Passive Hydraulic Actuator business were reclassified within liabilities held for sale at December 31, 2017 (see Note 2.2.2.1).
(3) "Other" mainly includes actuarial gains and losses recognized immediately in income, as well as past service costs and gains on settlements.

Actuarial gains totaling 15 million euros in 2017 primarily reflect the impact of the rise in discount rates in eurozone countries, partially offset by the impact of a fall in discount rates in the United States.

2016

(in millions of euros)	France	Other European countries	North America	Asia	Total
BENEFIT OBLIGATIONS AT JANUARY 1, 2016	**246**	**527**	**604**	**149**	**1,526**
Actuarial gains and losses recognized in other comprehensive income	14	68	18	4	**104**
Benefits paid	(24)	(16)	(88)	(15)	**(143)**
Translation adjustment	-	(14)	17	5	**8**
Changes in scope of consolidation[(1)]	-	2	1	-	**3**
Expenses (income) for the year:	26	25	16	17	**84**
■ *Service cost*	*18*	*17*	*3*	*14*	*52*
■ *Interest cost*	*5*	*13*	*25*	*3*	*46*
■ *Other*[(2)]	*3*	*(5)*	*(12)*	*-*	*(14)*
BENEFIT OBLIGATIONS AT DECEMBER 31, 2016	**262**	**592**	**568**	**160**	**1,582**

(1) Changes in the scope of consolidation relate to the acquisitions of peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, respectively).
(2) "Other" mainly includes actuarial gains and losses recognized immediately in income, as well as past service costs and gains on settlements.

Actuarial losses totaling 104 million euros in 2016 primarily reflect the impacts of the decrease in discount rates in eurozone countries and in the United States. A limited-term lump-sum program was offered to eligible participants of the four pension plans in the United States during the second half of 2016, generating a 12 million euro gain linked to the settlement of obligations with regard to participants in the program.

5.3.4 Movements in provisions

Movements in provisions in 2017 and 2016, including items relating to pensions and other employee benefits, are shown in the table below:

(in millions of euros)	France	Other European countries	North America	Asia	Total
PROVISIONS AT JANUARY 1, 2016	**236**	**449**	**250**	**65**	**1,000**
Actuarial gains and losses recognized in other comprehensive income	14	59	15	4	**92**
Amounts utilized during the year	(21)	(17)	(40)	(17)	**(95)**
Translation adjustment	-	(3)	7	3	**7**
Changes in scope of consolidation	-	2	1	-	**3**
Expenses (income) for the year:	26	22	1	16	**65**
■ *Service cost*	*18*	*17*	*3*	*14*	*52*
■ *Net interest cost*	*5*	*10*	*10*	*2*	*27*
■ *Other*	*3*	*(5)*	*(12)*	*-*	*(14)*
PROVISIONS AT DECEMBER 31, 2016	255	512	234	71	**1,072**
Actuarial gains and losses recognized in other comprehensive income	(5)	(32)	(23)	(9)	**(69)**
Amounts utilized during the year	(16)	(18)	(31)	(26)	**(91)**
Translation adjustment	-	(3)	(25)	(14)	**(42)**
Changes in scope of consolidation	-	68	-	108	**176**
Reclassifications[(1)]	-	(2)	-	-	**(2)**
Expenses (income) for the year:	21	30	13	22	**86**
■ *Service cost*	*20*	*21*	*2*	*21*	***64***
■ *Net interest cost*	*4*	*10*	*9*	*1*	***24***
■ *Other*	*(3)*	*(1)*	*2*	*-*	***(2)***
PROVISIONS AT DECEMBER 31, 2017	**255**	**555**	**168**	**152**	**1,130**
Of which current portion (less than one year)	16	21	62	18	**117**

(1) Provisions relating to the Passive Hydraulic Actuator business were reclassified within liabilities held for sale at December 31, 2017 (see Note 2.2.2.1).

The lower period expense for 2016 compared to 2017 essentially reflects the impact of the lump-sum program launched in the United States in the second half of 2016. An expense of 86 million euros was recognized in 2017 in respect of pensions and other employee benefits (65 million euros in 2016), of which 60 million euros were included in operating margin, 24 million euros in other financial income and expenses and 2 million euros in other income and expenses.

5.3.5 Breakdown and movements in plan assets

The breakdown of plan assets at December 31, 2017 and 2016 is shown in the tables below:

2017

(in millions of euros)	France	Other European countries	North America	Asia[1]	Total
Cash at bank	-	1	3	44	**48**
Shares	6	49	203	48	**306**
Government bonds	-	18	65	42	**125**
Corporate bonds	-	16	65	15	**96**
Real estate	-	-	-	3	**3**
Other[2]	-	3	-	38	**41**
BREAKDOWN OF PLAN ASSETS AT DECEMBER 31, 2017	**6**	**87**	**336**	**190**	**619**

(1) At December 31, 2017, a Japanese plan was overfunded, with the fair value of the plan assets exceeding the amount of the obligation. The Group therefore recognized a non-current financial asset for the amount of the surplus, i.e., 5 million euros, as it considers the right to a refund is unconditional within the meaning of IFRIC 14.

(2) "Other" mainly relates to investments in financing vehicles.

2016

(in millions of euros)	France	Other European countries	North America	Asia	Total
Cash at bank	-	-	15	38	**53**
Shares	7	44	195	15	**261**
Government bonds	-	19	62	4	**85**
Corporate bonds	-	17	62	31	**110**
Real estate	-	-	-	1	**1**
BREAKDOWN OF PLAN ASSETS AT DECEMBER 31, 2016	**7**	**80**	**334**	**89**	**510**

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 2017 and 2016 can be analyzed as follows:

2017

(in millions of euros)	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2017	**7**	**80**	**334**	**89**	**510**
Expected return on plan assets	-	2	12	2	**16**
Contributions paid to external funds	4	4	23	18	**49**
Benefits paid	(5)	(6)	(28)	(16)	**(55)**
Actuarial gains and losses	-	6	39	9	**54**
Changes in scope of consolidation[1]	-	3	-	99	**102**
Translation adjustment	-	(2)	(44)	(11)	**(57)**
PLAN ASSETS AT DECEMBER 31, 2017	**6**	**87**	**336**	**190**	**619**

(1) Changes in the scope of consolidation relate to the acquisitions of Ichikoh, FTE automotive, and Valeo-Kapec (see Notes 2.2.1.5, 2.2.1.2 and 2.2.1.1, respectively).

The increase in the fair value of plan assets in 2017 is chiefly attributable to acquisitions in the period for 102 million euros, as well as a good fund performance. The actual return on plan assets for the period totaled 70 million euros (versus an expected return of 16 million euros), recognized in other financial income and expenses. The 54 million euro difference results from actuarial gains which were recognized within other comprehensive income in 2017.

Contributions totaling 49 million euros were paid to external funds in 2017, representing a sharp increase compared with initial estimates owing to acquisitions during the period and to higher-than-expected payments in the United States. Contributions in 2018 are estimated at 46 million euros.

2016

(in millions of euros)	France	Other European countries	North America	Asia	Total
PLAN ASSETS AT JANUARY 1, 2016	**10**	**78**	**354**	**84**	**526**
Expected return on plan assets	-	3	15	1	**19**
Contributions paid to external funds	8	4	30	9	**51**
Benefits paid	(11)	(3)	(29)	(7)	**(50)**
Actuarial gains and losses	-	9	3	-	**12**
Translation adjustment	-	(11)	10	2	**1**
Other movements	-	-	(49)	-	**(49)**
PLAN ASSETS AT DECEMBER 31, 2016	**7**	**80**	**334**	**89**	**510**

In 2016, the decrease in the fair value of plan assets in North America was chiefly attributable to the lump-sum program in the United States.

5.3.6 Data for previous years

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

(in millions of euros)	2017	2016	2015	2014	2013[1]
Benefit obligations	1,749	1,582	1,526	1,552	1,146
Financial assets	(619)	(510)	(526)	(493)	(368)
NET BENEFIT OBLIGATIONS	**1,130**	**1,072**	**1,000**	**1,059**	**778**
Actuarial (losses) gains recognized in other comprehensive income	69	(92)	93	(225)	102

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

Net actuarial gains recognized in other comprehensive income in 2017 reflected:

- 10 million euros in actuarial gains on changes in actuarial assumptions, chiefly due to the rise in discount rates in the eurozone, partially offset by the fall in discount rates in the United States;
- 6 million euros in actuarial gains resulting from experience adjustments on benefit obligations; and
- 53 million euros in actuarial gains arising on the return on plan assets.

5.3.7 Sensitivity of obligations

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

A 0.5-point increase or decrease in these rates would have the following impact on the projected benefit obligation at December 31, 2017:

(in millions of euros)	France	Other European countries	North America	Asia	Total
Discount rate					
Impact of a 0.5-point increase	(14)	(55)	(29)	(14)	**(112)**
Impact of a 0.5-point decrease	15	59	30	15	**119**
Salary inflation rate					
Impact of a 0.5-point increase	15	2	1	4	**22**
Impact of a 0.5-point decrease	(13)	(2)	(1)	(4)	**(20)**

At December 31, 2017, the value of the Group's benefit obligation is less sensitive to changes in the salary inflation rate than to changes in the discount rate, particularly in the United States and the United Kingdom. This is due to the existence of plans which have now been frozen and which only bear obligations in relation to the Group's former employees.

Changes in the discount and inflation rates only have a limited impact on 2018 service cost. A 0.5-point decrease in the discount rate would lead to an additional expense of 5 million euros, while a 0.5-point increase in the discount rate would reduce the expense by 5 million euros.

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

5.3.8 Estimated payouts over the next ten years

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

(in millions of euros)	France	Other European countries	North America	Asia	Total
2018	13	15	7	10	**45**
2019	19	15	7	10	**51**
2020	11	16	7	10	**43**
2021	10	17	6	10	**43**
2022	17	18	6	11	**53**
2023/2027	91	103	33	62	**289**
TOTAL	**161**	**186**	**66**	**112**	**524**

5.4 Share-based payment

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

Free share plans

The fair value of the benefit granted to employees within the scope of free share plans is estimated based on the share price at the grant date, taking into account a discount corresponding to the dividends forfeited over the vesting period and a discount to reflect the lock-up period requirement, calculated using the approach set out in the French national accounting board's (CNC) December 2004 statement.

The overall cost of equity-settled plans is calculated and fixed at the grant date of the plan concerned. The number of instruments that Valeo expects to deliver to beneficiaries factors in the turnover of the beneficiary populations concerned by each plan. Since the final allotment of free shares is subject to a presence condition, this personnel expense is recognized against equity on a straight-line basis over the rights vesting period.

Stock purchase option plans

The cost of stock purchase option plans is also recorded in personnel expenses. It 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.

Stock purchase options and free shares are included in the calculation of diluted earnings per share, as described in Note 10.2.

An expense of 27 million euros was booked in 2017 in respect of stock option and free share plans (21 million euros in 2016).

5.4.1 Free share plans

The terms and conditions of the shareholder-approved employee free share plans operated by Valeo at December 31, 2017 are as follows:

Year in which plan was set up	Number of free shares authorized	*of which subject to conditions*[1]	Outstanding shares not yet remitted at Dec. 31, 2017	Year of vesting[2]
2013	1,421,442	669,942	448,716	2016/2018
2014	970,440	316,770	358,029	2017/2019
2015	957,027	260,805	807,990	2018/2020
2016	1,267,022	573,522	873,326	2019/2021
2017	1,012,043	466,551	754,806	2020/2022
TOTAL	**5,627,974**	**2,287,590**	**3,242,867**	

(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.

The main data and assumptions underlying the valuation of free share plans at fair value were as follows:

	2017		2016	
Free shares	**France**	**Other countries**	**France**	**Other countries**
Share price at authorization date *(in euros)*	59.0	59.0	46.1	46.1
Risk-free rate *(%)*	0.0	N/A	(0.1)	N/A
Dividend rate *(%)*	1.4	N/A	1.1	N/A
FAIR VALUE OF EQUITY INSTRUMENTS *(IN EUROS)*	**50.9**	**51.4**	**38.9**	**39.5**

5.4.2 Stock purchase option plans

The terms and conditions of the employee stock purchase option plans operated by the Valeo Group at December 31, 2017 were as follows:

Year in which plan was set up	Number of shares under option	*of which subject to conditions*[(1)]	Exercise price *(in euros)*[(2)]	Outstanding options not yet exercised at Dec. 31, 2017	Expiration date
2010	3,000,000	1,834,095	8.02	267,695	2018
2011	878,520	631,110	14.14	82,175	2019
2012	1,101,480	795,690	13.59	226,735	2020
TOTAL	**4,980,000**	**3,260,895**		**576,605**	

(1) These stock purchase 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.

5.4.3 Movements in stock purchase option and free share plans

Movements in stock purchase option and free share plans in 2017 and 2016 are detailed below:

2017

	Number of options and free shares	Weighted average exercise price
OPTIONS NOT EXERCISED/FREE SHARES NOT YET REMITTED AT JANUARY 1, 2017	**4,001,486**	**2.36**
Options/free shares granted	772,572	-
Options/free shares canceled	(171,414)	0.61
Options/free shares expired	(19,623)	0.00
Options exercised/free shares remitted	(763,549)	3.87
OPTIONS NOT EXERCISED/FREE SHARES NOT YET REMITTED AT DECEMBER 31, 2017	**3,819,472**	**1.67**
OPTIONS THAT MAY BE EXERCISED AT DECEMBER 31, 2017	**576,605**	**11.08**

2016

	Number of options and free shares	Weighted average exercise price
OPTIONS NOT EXERCISED/FREE SHARES NOT YET REMITTED AT JANUARY 1, 2016	**5,075,178**	**3.86**
Options/free shares granted	1,267,022	-
Options/free shares canceled	(480,941)	0.19
Options/free shares expired	(85,374)	8.55
Options exercised/free shares remitted	(1,774,399)	5.24
OPTIONS NOT EXERCISED/FREE SHARES NOT YET REMITTED AT DECEMBER 31, 2016	**4,001,486**	**2.36**
OPTIONS THAT MAY BE EXERCISED AT DECEMBER 31, 2016	**826,673**	**11.43**

5.4.4 Employee share ownership plan: Shares4U

In countries that meet the Group's eligibility criteria and where permitted by local laws and regulations, Valeo offers its employee beneficiaries the possibility of becoming shareholders through an employee share issue carried out specifically for this purpose.

As in 2016, a new standard plan was offered to employees during the year, under which they could subscribe to Valeo shares directly or through a Company mutual fund, at a subscription price set by the Group's Chairman and Chief Executive Officer acting on the authority of the Board of Directors on June 3, 2017. The subscription price of 51.62 euros is the average of the Group's opening share price on the 20 trading days preceding the date of the decision, less a 20% discount. The shares are locked up for five years (except in the case of an early release event provided for by the applicable local law). Employees bear the risk of fluctuations in the share price relative to the subscription price.

By subscribing to shares within the scope of the Group Employee Savings Plan (*Plan d'Épargne de Groupe* – PEG), employees can benefit from a contribution from their employer. Outside France, employees are awarded free shares subject to certain conditions, governed by the regulations applicable to the Group-approved free share plan. Free shares awarded are existing Valeo shares repurchased on the market.

In all, 509,990 shares were subscribed at a price of 51.62 euros each, representing a 26 million euro capital increase on July 27, 2017.

The cost of this plan was estimated in accordance with the CNC statement, taking into account the applicable five-year lock-up period for employees.

The assumptions used to value the equity instruments were as follows:

	2017	2016
Date rights granted	June 3	September 19
Reference price *(in euros)*	64.5	47.7
Face value discount *(%)*	20.0	20.0
Subscription price *(in euros)*	51.6	38.1
Beneficiary's 5-year interest rate *(%)*	3.93	3.87
Risk-free interest rate *(%)*	0.26	(0.11)
Repo rate *(%)*	0.480	(0.147)

Including a discount to reflect the lock-up period requirement, the total cost of Shares4U 2017 is 14 million euros, of which 8 million euros were recognized in personnel expenses for the period (including social security charges).

5.5 Executive compensation (Related party transactions)

The Group's key management personnel include the Chairman and Chief Executive Officer, the members of the Board of Directors, and the members of the Operations Committee. At December 31, 2017, the Operations Committee had 14 members.

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

- life insurance covering death, disability, or any consequences of accidents during business travel;
- a non-competition payment over a period of 12 months in the event of his departure from Valeo. If this clause is adopted, the Chairman and Chief Executive Officer will receive a non-competition payment equal to 12 months of compensation. A prior decision of the Board of Directors is required to decide whether or not the non-competition agreement will be upheld at the time the Chairman and Chief Executive Officer leaves, in particular when he leaves Valeo to claim or after having claimed his pension rights;
- a defined benefit pension including the option of paying over benefits to the surviving beneficiary in the event of death if the main beneficiary is still working and if the event occurs after the legal voluntary retirement age. The supplementary pension is capped at 20% of the reference salary. The reference salary takes into account the basic fixed compensation and the portion of variable compensation actually paid for the periods after February 1, 2014. Since February 18, 2016, vesting of rights to this supplementary pension is subject to a performance condition, the attainment of which is reviewed each year.

Compensation and other benefits accruing to the members of the Board of Directors and to the members of the Operations Committee can be analyzed as follows:

(in millions of euros)	2017	2016
SHORT-TERM BENEFITS		
■ Fixed, variable, exceptional and other compensation	13	13
■ Attendance fees	1	1
OTHER BENEFITS		
■ Post-employment benefits	3	2
■ Share-based compensation	7	5

At December 31, 2017, provisions included in the Group's statement of financial position in respect of pension obligations accruing to executive managers amount to 19 million euros, compared with 21 million euros in 2016.

Note 6 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

6.1 Goodwill

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

Goodwill is not amortized but is tested for impairment at least once a year and whenever there is an indication that it may be impaired. Impairment tests in 2017 and 2016 were carried out as described in Note 6.4.

Changes in goodwill in 2017 and 2016 are analyzed below:

(in millions of euros)	2017	2016[1]
NET GOODWILL AT JANUARY 1	**1,944**	**1,450**
Acquisitions during the year	766	475
Disposals during the year	-	(4)
Impairment[2]	(14)	-
Translation adjustment	(81)	23
NET GOODWILL AT DECEMBER 31	**2,615**	**1,944**
Including accumulated impairment losses at December 31	-	-

(1) Goodwill shown for 2017 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, respectively).
(2) Goodwill allocated to the Passive Hydraulic Actuator business was written down in full at December 31, 2017 and reclassified within assets held for sale (see Notes 2.2.2.1 and 4.6.2.1).

The increase in goodwill in 2017 primarily reflects goodwill generated on the creation of Valeo-Kapec (see Note 2.2.1.1), and on the acquisition of controlling interests in FTE automotive (see Note 2.2.1.2), Ichikoh (see Note 2.2.1.5), gestigon (see Note 2.2.1.4) and Valeo Malaysia CDA Sdn (formerly Precico) (see Note 2.2.1.3). These impacts were marginally offset by the depreciation in the US dollar (45 million euros) and the Japanese yen (26 million euros) against the euro between the two periods.

The increase in goodwill during 2016 primarily related to the acquisitions of peiker (see Note 2.2.1.10) and Spheros (see Note 2.2.1.9) and, to a lesser extent, the increase in the value of the Japanese yen over the period. These impacts were very slightly offset by the derecognition of goodwill related to the high-voltage powertrain systems business following the creation of the joint venture with Siemens (see Note 2.2.1.6).

Goodwill can be broken down by Business Group as follows:

(in millions of euros)		December 31, 2017	December 31, 2016[1]
21%	– Comfort & Driving Assistance Systems	557	534
39%	– Powertrain Systems	1,014	344
22%	– Thermal Systems	581	599
17%	– Visibility Systems	456	466
1%	– Other[2]	7	1
	Goodwill	**2,615**	**1,944**

(1) Goodwill shown for 2016 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9).
(2) As part of the allocation of goodwill to Ichikoh (see Note 2.2.1.5), goodwill in the amount of 6 million euros was allocated to the Valeo Service business in respect of the aftermarket business acquired.

6.2 Other intangible assets

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

Capitalized development costs recognized within other intangible assets in the statement of financial position correspond to projects for specific customer applications that draw on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization described in Note 4.5.1.1. Costs incurred before the formal decision to develop the product are included in expenses for the period. Costs incurred after the launch of volume production are considered as production costs.

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

- software 3 to 5 years
- patents and licenses based on their useful lives or duration of protection
- capitalized development expenditure 4 years
- customer relationships acquired up to 25 years
- other intangible assets 3 to 5 years

Other intangible assets can be analyzed as follows:

	December 31, 2017			December 31, 2016
(in millions of euros)	Gross carrying amount	Amortization and impairment losses	Net carrying amount	Net carrying amount
Software	348	(268)	**80**	70
Patents and licenses	157	(96)	**61**	80
Capitalized development expenditure	2,772	(1,456)	**1,316**	993
Customer relationships and other intangible assets	563	(223)	**340**	206
Intangible assets in progress	34	(1)	**33**	23
OTHER INTANGIBLE ASSETS	**3,874**	**(2,044)**	**1,830**	**1,372**

(1) The amount shown for Patents and licenses in 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9).

Changes in intangible assets in 2017 and 2016 are analyzed below:

2017

(in millions of euros)	Software	Patents and licenses(1)	Capitalized development expenditure	Customer relationships and other intangible assets	Intangible assets in progress	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2017	**308**	**175**	**2,300**	**354**	**23**	**3,160**
Accumulated amortization and impairment	(238)	(95)	(1,307)	(148)	-	**(1,788)**
NET CARRYING AMOUNT AT JANUARY 1, 2017	**70**	**80**	**993**	**206**	**23**	**1,372**
Acquisitions	24	6	577	3	21	**631**
Disposals	-	-	-	(2)	-	**(2)**
Changes in scope of consolidation	6	10	45	151	-	**212**
Impairment	-	1	(4)	-	-	**(3)**
Amortization	(34)	(10)	(263)	(26)	-	**(333)**
Translation adjustment	(2)	(1)	(33)	(16)	-	**(52)**
Reclassifications	16	(25)	1	24	(11)	**5**
NET CARRYING AMOUNT AT DECEMBER 31, 2017	**80**	**61**	**1,316**	**340**	**33**	**1,830**

(1) The amount shown for Patents and licenses in 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9).

Changes in the scope of consolidation in 2017 resulted primarily from the takeover of Ichikoh and FTE automotive (see Notes 2.2.1.5 and 2.2.1.2, respectively).

2016

(in millions of euros)	Software	Patents and licenses	Capitalized development expenditure	Customer relationships and other intangible assets	Intangible assets in progress	Total
GROSS CARRYING AMOUNT AT JANUARY 1, 2016	**244**	**109**	**1,973**	**272**	**31**	**2,629**
Accumulated amortization and impairment	(201)	(73)	(1,080)	(127)	-	**(1,481)**
NET CARRYING AMOUNT AT JANUARY 1, 2016	**43**	**36**	**893**	**145**	**31**	**1,148**
Acquisitions	23	1	437	3	19	**483**
Disposals	-	-	(36)	-	-	**(36)**
Changes in scope of consolidation(1)	2	54	-	75	-	**131**
Impairment	-	-	(20)	1	-	**(19)**
Amortization	(25)	(14)	(238)	(18)	-	**(295)**
Translation adjustment	1	(1)	-	1	(1)	**-**
Reclassifications	26	4	(43)	(1)	(26)	**(40)**
NET CARRYING AMOUNT AT DECEMBER 31, 2016	**70**	**80**	**993**	**206**	**23**	**1,372**

(1) The amount shown for Patents and licenses in 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9).

Changes in the scope of consolidation in 2016 resulted primarily from the acquisitions of peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, respectively).

Reclassifications chiefly relate to intangible assets contributed on creation of the joint venture with Siemens, which were recognized as held for sale (see Note 2.2.1.4).

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.

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 undergoes 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 line with the depreciation charged against the related assets.

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

Tax credits

In certain countries, the government can contribute to the Group's investment effort in the form of tax credits. The tax credits received are analyzed to determine whether they fall within the scope of IAS 12 – "Income Taxes" or whether they should be considered as a government subsidy. In the latter case, the tax credit is recognized in income over the period during which the subsidized assets are depreciated, as a deduction from depreciation expense.

Property, plant and equipment can be analyzed as follows:

	December 31, 2017			December 31, 2016(1)
(in millions of euros)	Gross carrying amount	Depreciation and impairment losses	Net carrying amount	Net carrying amount
Land	296	(14)	**282**	243
Buildings	1,581	(1,006)	**575**	454
Machinery and industrial equipment	6,328	(4,480)	**1,848**	1,535
Specific tooling	1,855	(1,645)	**210**	193
Other property, plant and equipment	677	(562)	**115**	62
Property, plant and equipment in progress	1,030	(5)	**1,025**	576
PROPERTY, PLANT AND EQUIPMENT	**11,767**	**(7,712)**	**4,055**	**3,063**

(1) The amounts shown for Land, Buildings and Property, plant and equipment in progress in 2016 differ from those presented in the 2016 consolidated financial statements published in February 2017 since they have been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9).

Certain items of property, plant and equipment were pledged as security at December 31, 2017 (see Note 6.5.2).

Changes in property, plant and equipment in 2017 and 2016 are analyzed below:

2017

(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, 2017[1]	**256**	**1,358**	**5,649**	**1,837**	**555**	**578**	**10,233**
Accumulated depreciation and impairment	(13)	(904)	(4,114)	(1,644)	(493)	(2)	**(7,170)**
NET CARRYING AMOUNT AT JANUARY 1, 2017[1]	**243**	**454**	**1,535**	**193**	**62**	**576**	**3,063**
Acquisitions	8	46	276	59	38	844	**1,271**
Disposals	(22)	(1)	(18)	(5)	(3)	(7)	**(56)**
Changes in scope of consolidation	66	142	258	18	34	32	**550**
Impairment	-	-	7	2	-	(2)	**7**
Depreciation	-	(65)	(387)	(123)	(44)	-	**(619)**
Translation adjustment	(15)	(24)	(81)	(8)	(3)	(35)	**(166)**
Reclassifications	2	23	258	74	31	(383)	**5**
NET CARRYING AMOUNT AT DECEMBER 31, 2017	**282**	**575**	**1,848**	**210**	**115**	**1,025**	**4,055**

(1) The amounts shown for Land, Buildings and Property, plant and equipment in progress in 2016 differ from those presented in the 2016 consolidated financial statements published in February 2017 since they have been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9).

Changes in the scope of consolidation in the period resulted primarily from the creation of Valeo-Kapec and the takeover of FTE automotive and Ichikoh (see Notes 2.2.1.1, 2.2.1.2, and 2.2.1.5, respectively).

2016

(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, 2016	**212**	**1,283**	**5,170**	**1,713**	**488**	**522**	**9,388**
Accumulated depreciation and impairment	(12)	(844)	(3,816)	(1,537)	(431)	(4)	**(6,644)**
NET CARRYING AMOUNT AT JANUARY 1, 2016	**200**	**439**	**1,354**	**176**	**57**	**518**	**2,744**
Acquisitions	6	32	259	81	28	472	**878**
Disposals	-	(2)	(8)	(2)	(1)	(2)	**(15)**
Changes in scope of consolidation[1]	8	21	23	-	15	3	**70**
Impairment	-	-	(43)	(1)	3	(1)	**(42)**
Depreciation	-	(57)	(330)	(116)	(42)	-	**(545)**
Translation adjustment	5	-	4	-	-	(1)	**8**
Reclassifications	24	21	276	55	2	(413)	**(35)**
NET CARRYING AMOUNT AT DECEMBER 31, 2016	**243**	**454**	**1,535**	**193**	**62**	**576**	**3,063**

(1) The amounts shown for Land, Buildings and Property, plant and equipment in progress in 2016 differ from those presented in the 2016 consolidated financial statements published in February 2017 since they have been adjusted to reflect the impacts of finalizing the allocation of goodwill to peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9).

Changes in the scope of consolidation in 2016 resulted primarily from the acquisitions of peiker and Spheros (see Notes 2.2.1.10 and 2.2.1.9, respectively).

Reclassifications chiefly relate to assets brought into service during the year along with property, plant and equipment contributed on creation of the joint venture with Siemens which were recognized as held for sale (see Note 2.2.1.6).

Finance leases

Finance leases transferring substantially all of 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 of 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, 2017	December 31, 2016
Buildings	10	12
Machinery and industrial equipment	15	4
Specific tooling	4	-
Other property, plant and equipment	4	3
TOTAL	**33**	**19**

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 plants belonging to the same Product Line or Product Group. At December 31, 2017, there was a total of 27 CGUs. A new CGU was created further to the takeover of FTE automotive (see Note 2.2.1.2) and the South Korean Clutch and Transmission CGUs were merged.

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.

Valeo may review the value in use of certain assets and recognize non-recurring impairment losses where appropriate, if significant, prolonged adverse factors arise for the Group such as a deterioration in a country's economic environment or in one of the Group's plants, or contractual disputes.

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 year, 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 1.5%, which is the same as that used in 2016 and is in line with the average long-term growth rate for the Group's business sector;
- a post-tax discount rate (WACC) of 9% (unchanged from 2016), calculated using the discount rate method reviewed by an independent expert in 2015. The sample of comparable companies includes around a dozen companies from the automotive equipment industry. The main components of WACC are a market risk premium, a risk-free rate corresponding to the average interest rate on long-term government bonds, and beta calculated based on a sample of companies in the industry, which came out at 1.08 (1.09 in 2016).

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

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

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

The medium-term business plans for 2018-2022 are underpinned by the following assumptions:

- world automotive production of 106 million vehicles in 2022, representing average annual growth of 2.4% for 2017-2022. This assumption is consistent with several independent external forecasts available in April 2017, when the business plan was revised. At the end of the period covered by the business plan, Asia and the Middle East should represent 55% of global production, Europe and Africa 24%, North America 18% and South America 3%;
- exchange rate assumptions are based on projections of a panel of banks. The exchange rates used for the main currencies featured in the business plan are 1 euro for: 1.20 US dollars, 8.28 Chinese renminbi, 132 Japanese yen, 1,344 South Korean won and 4.20 Brazilian real at the end of the plan;
- Group sales were forecast based on the orders known at the time the business plan was drawn up and by reference to an estimate of the orders to be taken over the term of the business plan. These target order numbers represent less than 30% of cumulative original equipment sales over the five-year forecast period and less than 60% of original equipment sales for the final year.

6.4.2 Goodwill

No impairment losses were recognized against goodwill in 2017 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 2016.

6.4.3 Sensitivity of goodwill impairment tests

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

The following changes in the three main assumptions were used to check the sensitivity of goodwill impairment tests:

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

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

The headroom 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:

	Headroom of the test	Impact on the headroom of the test			
(in millions of euros)	Based on assumptions for 2017	WACC of 10.0% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pts)	0.5-pt decrease in the operating margin used to calculate the terminal value	Combination of all three factors
Comfort & Driving Assistance Systems Business Group	1,222	(476)	(209)	(202)	(795)
Powertrain Systems Business Group	3,218	(787)	(334)	(275)	(1,259)
Thermal Systems Business Group	3,013	(638)	(273)	(236)	(1,033)
Visibility Systems Business Group	4,201	(785)	(334)	(274)	(1,256)

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 2017, a fall of more than 20% in 2017 sales compared to 2016, and a recurring substantial shortfall with respect to the objectives set in the medium-term plans.

The scope of the CGUs tested for impairment was defined at the end of October 2017 and remained unchanged at the end of the period, since no adverse events occurred. Four CGUs were selected:

- the Electronic Systems Product Group (part of the Powertrain Systems Business Group);
- the Air Charging Systems Product Line (part of the Powertrain Systems Business Group);
- the Active Safety Systems Product Line (part of the Comfort & Driving Assistance Systems Business Group);
- the Compressors Product Group (part of the Thermal Systems Business Group).

At December 31, 2017, the assumptions used in the medium-term business plan for the Compressors Product Group factor in the changes made at end-2016 mainly to take into account the downward revision of objectives under productivity plans aimed at significantly improving the profitability of certain products. The impairment test carried out on this basis at December 31, 2016 led the Group to recognize an impairment loss of 49 million euros for this CGU (see Note 4.6.2.4). At December 31, 2017, despite a rise in the potential order intake for years 2018 to 2022 of the medium-term business plan for the Compressors Product Group, and in light of cash flow forecasts, the Group maintains its impairment loss for this CGU.

The impairment test carried out on the Electronic Systems Product Group at December 31, 2016 led the Group to recognize an impairment loss of 12 million euros (see note 4.6.2.4). This reflected the operational difficulties of the Electronics Product Group in meeting its targets in terms of technical productivity gains. At December 31, 2017, in light of cash flow forecasts, the Group maintains its impairment loss for this CGU.

6.4.5 Sensitivity of CGU impairment tests

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

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

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

	Headroom of the test	Impact on the headroom of the test			
(in millions of euros)	Based on assumptions for 2017	WACC of 10.0% (+1 pt)	Perpetuity growth rate of 1% (-0.5 pts)	0.5-pt decrease in the operating margin used to calculate the terminal value	Combination of all three factors
Electronic Systems Product Group CGU	-	(34)	(15)	(30)	(69)
Air Charging Systems Product Line CGU	27	(12)	(5)	(5)	(20)
Active Safety Systems Product Line CGU	330	(113)	(52)	(47)	(191)
Compressors Product Group CGU	3	(39)	(18)	(27)	(75)

6.4.6 Impairment of Brazilian and Argentinian assets

Since cash flow forecasts remain very weak for the whole of the 2018-2022 period, the Group has maintained the impairment losses it recognized against its Brazilian and Argentinian assets which had been included in other income and expenses in the 2015 consolidated statement of income.

6.5 Off-balance sheet commitments relating to operating activities

6.5.1 Leases

Future minimum lease commitments outstanding at December 31, 2017 and 2016 (excluding capital leases) are as follows:

(in millions of euros)	December 31, 2017	December 31, 2016
Less than 1 year	77	68
1 to 5 years	167	173
More than 5 years	103	87
TOTAL	**347**	**328**

Lease rentals recognized as expenses in the period in respect of outstanding lease agreements (excluding payments under finance leases) totaled 100 million euros in 2017 and 84 million euros in 2016.

Lease commitments in respect of capital leases are as follows at December 31, 2017 and 2016:

(in millions of euros)	December 31, 2017	December 31, 2016
Future minimum lease payments:		
Less than 1 year	15	3
1 to 5 years	17	9
More than 5 years	7	7
TOTAL	**39**	**19**
Of which interest charges	(2)	-
Present value of future lease payments:		
Less than 1 year	14	3
1 to 5 years	16	9
More than 5 years	7	7
TOTAL	**37**	**19**

6.5.2 Other commitments given

Valeo had given binding asset purchase commitments totaling 496 million euros at December 31, 2017, versus 401 million euros at December 31, 2016.

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, 2017	December 31, 2016
Property, plant and equipment	11	11
Financial assets	2	2
TOTAL	**13**	**13**

Note 7 OTHER PROVISIONS AND CONTINGENT LIABILITIES

7.1 Other provisions

A provision is recognized when:

- the Group has a present legal, contractual 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 at the end of the reporting period.

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

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

A provision for 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 contracts.

Provisions for tax disputes relate to probable risks arising on positions taken by the Group or its subsidiaries. Each position is assessed individually and not offset, and reflects the best estimate of the risk at the end of the reporting period. Where applicable, it includes any late-payment interest and fines.

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

Provisions relating to events that are expected to materialize in more than one year or whose timing cannot be reliably determined are classified within "Other provisions – long-term portion".

Movements in provisions in 2017 and 2016 are shown in the table below:

(in millions of euros)	Provisions for product warranties	Provisions for restructuring costs	Other provisions	Total
PROVISIONS AT JANUARY 1, 2017[(1)]	**244**	**84**	**332**	**660**
Additions	102	15	51	**168**
Amounts utilized during the year	(80)	(46)	(82)	**(208)**
Reversals	(48)	(1)	(66)	**(115)**
Changes in scope	72	4	40	**116**
Translation adjustment and other movements	(14)	(2)	(10)	**(26)**
PROVISIONS AT DECEMBER 31, 2017	**276**	**54**	**265**	**595**
Of which current portion (less than one year)	110	30	67	**207**

(1) The amount shown for Other provisions in 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of changes in the scope of consolidation (see Note 2.2).

At December 31, 2017, the Group did not recognize any individually material income offsetting expected outflows of resources in respect of the above provisions.

At December 31, 2017 and 2016, provisions break down as follows:

(in millions of euros)		December 31, 2017	December 31, 2016[(1)]
46%	Provisions for product warranties	276	244
9%	Provisions for restructuring costs	54	84
9%	Provisions for tax-related disputes	54	94
3%	Environmental provisions	16	14
10%	Provisions for onerous contracts	56	40
23%	Provisions for employee-related and other disputes	139	184
	Provisions for other contingencies	**595**	**660**

(1) The amount shown for Other provisions in 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of changes in the scope of consolidation (see Note 2.2).

"Provisions for employee-related and other disputes", which totaled 139 million euros at December 31, 2017, cover risks arising in connection with former employees (in particular relating to asbestos), intellectual property disputes and various other disputes related to Valeo's operating activities across the globe, as well as the main risks relating to antitrust investigations. Each known dispute was reviewed at the end of the reporting period. Based on the opinions of the Group's legal counsel, the provisions set aside are considered adequate to cover the estimated risks. Movements in the period primarily result from developments in ongoing antitrust proceedings and, in particular, the completion of investigations by the European antitrust authorities (see Note 7.2).

7.2 Antitrust investigations

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

In the United States, a 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. This agreement, which was ratified by the United States District Court for the Eastern District of Michigan on November 5, 2013, terminated any proceedings instituted or likely to be instituted by the US federal authorities against the Valeo Group for practices that came to light during their investigations.

Three class actions were filed against Valeo Group companies with the United States District Court for the Eastern District of Michigan, which Valeo has settled. The first class action, which was brought by automotive dealers, was settled on August 25, 2016 and was definitively approved by the competent court on November 30, 2016. The second, which was brought by automotive end purchasers, was settled on September 28, 2016 and was definitively approved by the competent court on April 19, 2017. The third class action in the United States, which was brought by direct customers, was settled on March 21, 2017 pending definitive approval by the competent court, which is expected in 2018.

Separately, two class actions remain ongoing in Canada.

Investigations by the European antitrust authorities have been concluded and the related fines, totaling 26.7 million euros, were paid in June 2017. At December 31, 2016, provisions had been set aside to cover these risks in full, along with the main risks relating to all other investigations and proceedings involving the Group.

7.3 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, arbitration or regulatory 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 provisions deemed necessary have been made to cover the related risks.

Note 8 FINANCING AND FINANCIAL INSTRUMENTS

8.1 Financial assets and liabilities

Financial assets and liabilities mainly comprise:

- long-term debt, liabilities relating to put options granted to holders of non-controlling interests, and short-term debt and bank overdrafts, which make up gross debt (see Note 8.1.2);
- loans and other non-current financial assets (see Note 8.1.3.1);
- cash and cash equivalents (see Note 8.1.3.2);
- 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)	2017 carrying amount under IAS 39			December 31, 2017	December 31, 2016(1)
	Amortized cost	Fair value through equity	Fair value through income	Carrying amount	Carrying amount
ASSETS					
Non-current financial assets:					
■ Available-for-sale financial assets		172		**172**	44
■ Loans	78			**78**	12
■ Deposits and guarantees	27			**27**	24
■ Other non-current financial assets	5			**5**	3
■ Hedging derivatives		3		**3**	17
■ Trading derivatives			135	**135**	111
Assets relating to pensions and other employee benefits		5		**5**	-
Accounts and notes receivable	2,919			**2,919**	2,462
Other current financial assets:					
■ Hedging derivatives		14		**14**	15
■ Trading derivatives			26	**26**	5
Cash and cash equivalents			2,436	**2,436**	2,359
LIABILITIES					
Non-current financial liabilities:					
■ Hedging derivatives		36		**36**	4
■ Trading derivatives			125	**125**	110
Bonds	3,389			**3,389**	2,131
EIB (European Investment Bank) loans	21			**21**	47
Other long-term debt	210			**210**	116
Liabilities associated with put options granted to holders of non-controlling interests		82		**82**	79
Accounts and notes payable	4,394			**4,394**	3,884
Other current financial liabilities:					
■ Hedging derivatives		5		**5**	9
■ Trading derivatives			10	**10**	17
Short-term debt	664			**664**	542

(1) Other long-term debt shown for 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7) and of finalizing the allocation of goodwill to Spheros (see Note 2.2.1.9).

IFRS 13 establishes a hierarchy of valuation techniques for financial instruments based on the following categories:

- 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.

Since the maturity of the European Investment Bank (EIB) loan was less than one year at December 31, 2017, the Group considered that the fair value of the loan was equal to its carrying amount.

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.

(in millions of euros)	December 31, 2017 Carrying amount	Fair value	Level	December 31, 2016[(1)] Carrying amount	Fair value	Level
ASSETS						
Cash and cash equivalents	2,436	2,436	1	2,359	2,359	1
Derivative financial instruments[(2)]	178	178	2-3	148	148	2-3
LIABILITIES						
Bonds	3,389	3,494	1	2,131	2,190	1
EIB (European Investment Bank) loan	21	21	2	47	47	2
Other long-term debt	210	210	2	116	116	2
Loans recognized at amortized cost	**3,620**	**3,725**		**2,294**	**2,353**	
Short-term debt	664	664	1-2	542	542	1-2
Derivative financial instruments[(2)]	176	176	2-3	140	140	2-3
Put options granted to holders of non-controlling interests	82	82	3	79	79	3

(1) Other long-term debt shown for 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7) and of finalizing the allocation of goodwill to Spheros (see Note 2.2.1.9).

(2) The method used to estimate the fair value of derivative financial instruments recorded in assets and liabilities corresponds to Level 2 in the fair value hierarchy for derivatives hedging foreign currency, commodity and interest rate risks (see Notes 8.1.4.1, 8.1.4.2, and 8.1.4.3, respectively). The method used to estimate the fair value of other derivative financial instruments corresponds to Level 2 or Level 3 in the fair value hierarchy (see Note 8.1.4.4).

IFRS 13, effective as of January 1, 2013, prescribes the methods for assessing fair value and for taking into account the credit risk on 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, 2017 and 2016, this has only a minimal impact on the Group.

8.1.2 Gross debt

Gross debt includes long-term debt, liabilities relating to put options granted to holders of non-controlling interests, and short-term debt and bank overdrafts.

At December 31, 2017, the Group's gross debt can be analyzed as follows:

(in millions of euros)	December 31, 2017 Non-current	Current	Total	December 31, 2016[(1)] Non-current	Current	Total
Long-term debt	3,237	383	**3,620**	2,069	225	**2,294**
Put options granted to holders of non-controlling interests	17	65	**82**	23	56	**79**
Short-term debt	-	664	**664**	-	542	**542**
Gross debt	**3,254**	**1,112**	**4,366**	**2,092**	**823**	**2,915**

(1) Gross debt shown for 2016 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7) and of finalizing the allocation of goodwill to Spheros (see Note 2.2.1.9).

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 multiplying the loan's effective interest rate by 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.

Analysis of long-term debt

(in millions of euros)	December 31, 2017	December 31, 2016[1]
Bonds	3,389	2,131
EIB (European Investment Bank) loans	21	47
Lease obligations	37	19
Other borrowings	132	50
Accrued interest	41	47
LONG-TERM DEBT	**3,620**	**2,294**

(1) The amount of other borrowings shown for 2016 differs from that presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7) and of finalizing the allocation of goodwill to Spheros (see Note 2.2.1.9).

Change in and characteristics of long-term debt

(in millions of euros)	Bonds	EIB (European Investment Bank) loans	Other loans and lease obligations	Accrued interest	Total
CARRYING AMOUNT AT JANUARY 1, 2017	**2,131**	**47**	**69**	**47**	**2,294**
Increases/subscriptions	1,450	-	36	-	**1,486**
Redemptions/repayments	(145)	(22)	(463)	-	**(630)**
Changes in scope of consolidation[1]	-	-	540	-	**540**
Value adjustments	14	1	1	-	**16**
Translation adjustment	(61)	(5)	(14)	-	**(80)**
Other movements	-	-	-	(6)	**(6)**
CARRYING AMOUNT AT DECEMBER 31, 2017	**3,389**	**21**	**169**	**41**	**3,620**

(1) Changes in the scope of consolidation under Other loans and lease obligations mainly relate to the takeover of FTE automotive and Ichikoh (see Notes 2.2.1.2 and 2.2.1.5, respectively).

Valeo carried out the following debt issues under its Euro Medium Term Note financing program:

- on September 12, 2017, Valeo issued 600 million euros' worth of five-year bonds maturing in 2022 and paying a fixed coupon of 0.375%;
- on January 11, 2017, Valeo issued 500 million euros' worth of six-year bonds maturing in 2023 and paying a fixed coupon of 0.625%.

On November 6, 2017, Valeo also issued a 350 million euro private placement maturing in 2019 and paying a variable coupon of 3-month Euribor +0.25% with a 0% floor.

The Group also made the following redemptions and repayments in the period:

- in January 2017, the Group redeemed the 145 million euro bond issued in 2012 under the Euro Medium Term Note financing program;
- in November 2017, the Group repaid an installment on the EIB loan for 22 million euros;
- the Group also (i) redeemed ahead of maturity the bond issued by FTE automotive for 276 million euros and (ii) paid down a 68 million euro loan granted by the former shareholder, representing a total of 344 million euros.

At December 31, 2017, the key terms and conditions of long-term debt were as shown below:

Type	Outstanding at Dec. 31, 2017 *(in millions of euros)*	Issuance	Maturity	Nominal *(in millions)*	Nominal amount outstanding *(in millions)*	Currency	Nominal interest rate	Other information
Bond (EMTN program)	273	May 2011	May 2018	500	273	EUR	4.875%	-
European Investment Bank	21	November 2011	November 2018	103	25	USD	6-month USD Libor +1.90%	Euro/dollar cross currency swaps for a total of 25 million US dollars with the same maturity
Bond (EMTN program)	351	November 2017	November 2019	350	350	EUR	3-month Euribor +0.25%	Variable rate floor: 0%
Convertible bond	443	June/ November 2016	June 2021	575	575	USD	0%	Euro/dollar cross currency swaps set up for each operation for a total of 575 million US dollars with the same maturity
Bond (EMTN program)	597	September 2017	September 2022	600	600	EUR	0.375%	-
Bond (EMTN program)	496	January 2017	January 2023	500	500	EUR	0.625%	-
Bond (EMTN program)	638	January 2014	January 2024	700	700	EUR	3.25%	-
Bond (EMTN program)	591	March 2016	March 2026	600	600	EUR	1.625%	-
Other long-term debt[(1)]	210	-	-	-	210	-	-	-
TOTAL LONG-TERM DEBT	**3,620**							

(1) Other long-term debt chiefly comprises debt contracted by Ichikoh entities in an amount of 116 million euros and debt contracted by Group subsidiaries at reduced rates in Spain along with accrued interest.

At December 31, 2017, the Group had drawn an amount of 3 billion euros under its Euro Medium Term Note financing program capped at 4 billion euros (versus 1.7 billion euros drawn at December 31, 2016).

The Group also has confirmed bank credit lines with an average maturity of 4.3 years, representing an aggregate amount of 1.1 billion euros. None of these credit lines had been drawn down at December 31, 2017. These bilateral credit lines were taken out with ten leading banks with an average rating of A from S&P and A2 from Moody's.

Maturity of long-term debt

		Maturity					
			≥ 1 year and ≤ 5 years				> 5 years
(in millions of euros)	Carrying amount	< 1 year	2019	2020	2021	2022	2023 and beyond
Bonds	**3,389**	273	351	-	443	597	1,725
EIB (European Investment Bank) loans	**21**	21	-	-	-	-	-
Lease obligations	**37**	14	9	5	1	1	7
Other borrowings	**132**	34	29	19	17	14	19
Accrued interest	**41**	41	-	-	-	-	-
LONG-TERM DEBT	**3,620**	**383**	**389**	**24**	**461**	**612**	**1,751**

At December 31, 2017, the current portion of long-term debt primarily includes:

- the redemption of the 273 million euro bond drawn in 2011 in May 2018; and
- the repayment of the last installment on the EIB loan drawn in US dollars in November 2018 for 21 million euros.

Contractual maturity of long-term debt

In managing its liquidity risk, the Group seeks to ensure a balanced long-term debt repayment profile. At December 31, 2017, the average maturity of Valeo's (the parent company) debt was 4.8 years, down from 5.8 years at December 31, 2016.

The future cash flows presented below, comprising both interest payments and principal repayments, are not discounted. The forward interest rate curve at December 31, 2017 was used for variable-rate interest.

		Contractual cash flows						
			≥ 1 year and ≤ 5 years				> 5 years	
(in millions of euros)	Carrying amount	< 1 year	2019	2020	2021	2022	2023 and beyond	Total
Bonds	3,389	273	388	38	517	638	1,888	**3,742**
EIB (European Investment Bank) loans	21	22	-	-	-	-	-	**22**
Other long-term debt	210	89	38	24	18	15	26	**210**
LONG-TERM DEBT	**3,620**	**384**	**426**	**62**	**535**	**653**	**1,914**	**3,974**

Off-balance sheet commitments relating to Group financing

Certain financing contracts include early repayment clauses in the event of failure to comply with specified financial ratios. The table below sets out the main covenants:

Financing agreements	Ratios	Thresholds	Ratio at December 31, 2017(1)
Credit lines			
EIB (European Investment Bank) loans	Consolidated net debt/consolidated EBITDA	< 3.25	0.76

(1) Calculated over 12 months.

Bonds issued within the scope of the Euro Medium Term Note financing program and most bank credit lines include an option granted to bondholders who can request early repayment or redemption of their bonds in the event of a change of control at Valeo leading to a withdrawal of the rating or a downgrade in the rating to below investment grade (assuming that the bonds were previously rated investment grade). If Valeo's bonds had previously been rated below investment grade, bondholders may request the early repayment or redemption of their bonds in the event of a change of control at Valeo resulting in a one-category downgrade in the rating (e.g., from Ba1 to Ba2).

For the outstanding European Investment Bank loan, the EIB may ask the borrower to put up security or collateral in the event of a change of control, or otherwise request early repayment of the loan.

The convertible loan also includes a change of control clause under which investors can request early repayment or – on the choice of the issuer – buyback.

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 the consolidated financial statements were authorized for issue, the Group expects to comply with all debt covenants over the next few months.

Group credit ratings

The ratings of Standard & Poor's and Moody's confirm Valeo's investment grade status and were as follows at December 31, 2017:

Rating agency	Publication date	Long-term debt	Outlook	Short-term debt
Standard & Poor's	January 29, 2018	BBB	Stable	A-2
Moody's	January 3, 2018	Baa2	Stable	P-2

8.1.2.2 Liabilities associated with put options granted to holders of non-controlling interests

The Group may grant put options to third parties holding non-controlling interests, on all or some of their shares. These puts are considered by the Group as non-interest bearing debt.

In accordance with IAS 32, this debt is recognized at the present value of the option exercise price. The offsetting entry for the debt associated with these commitments is a decrease in Stockholders' equity – Non-controlling interests.

The difference between the present value of the exercise price of the options granted and the carrying amount of non-controlling interests is posted to Stockholders' equity and reduces consolidated retained earnings.

The amount of the debt is adjusted at the end of each period in order to reflect changes in the option exercise price and a corresponding entry is recorded in Stockholders' equity.

(in millions of euros)	Total	Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd	Spheros Climatização do Brasil SA
LIABILITIES AT JANUARY 1, 2016	**39**	**39**	**-**
New transactions	**19**	-	19
Fair value adjustments recognized against non-controlling interests	**3**	1	2
Fair value adjustments recognized in retained earnings	**18**	16	2
LIABILITIES AT DECEMBER 31, 2016	**79**	**56**	**23**
Fair value adjustments recognized against non-controlling interests	**4**	4	-
Fair value adjustments recognized in retained earnings	**(1)**	5	(6)
LIABILITIES AT DECEMBER 31, 2017	**82**	**65**	**17**

At December 31, 2017, Valeo and STEC owned 73% and 27%, respectively, of China-based Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd. STEC has been granted a put option which it may exercise at any time up to June 2025.

At December 31, 2017, Valeo and Marco Polo owned 60% and 40%, respectively, of Spheros Climatização do Brasil SA. The Group's partner, Marco Polo, was granted a put option which it may exercise at any time following an agreed period of one year. In the opening balance sheet after the acquisition of Spheros (see Note 2.2.1.9), a debt corresponding to the present value of the exercise price of this put option had been recognized in an amount of 19 million euros.

The maturity of these financial liabilities is as follows:

		Maturity						
				≥ 1 year and ≤ 5 years				> 5 years
(in millions of euros)	Carrying amount	On demand	< 1 year	2019	2020	2021	2022	2023 and beyond
Liabilities associated with put options granted to holders of non-controlling interests	82	65	-	17	-	-	-	-

8.1.2.3 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 maturity of between 3 and 12 months and is valued at amortized cost.

(in millions of euros)	December 31, 2017	December 31, 2016
Commercial paper	542	515
Short-term loans and overdrafts	122	27
SHORT-TERM DEBT	**664**	**542**

Valeo has a short-term commercial paper financing program for a maximum amount of 1.4 billion euros. At December 31, 2017, a total of 542 million euros (515 million euros at December 31, 2016) had been drawn on this program.

The 122 million euros in short-term bank loans relate mainly to overdraft facilities.

8.1.3 Net debt

Net debt includes all long-term debt, liabilities relating to put options granted to non-controlling interests (see Note 8.1.2.2), and short-term debt and bank overdrafts, less loans and other long-term financial assets, cash and cash equivalents, and the fair value of derivative instruments hedging interest rate and currency risks associated with these items (see Note 8.1.4).

	December 31, 2017			December 31, 2016(1)		
(in millions of euros)	Non-current	Current	Total	Non-current	Current	Total
Long-term debt	3,237	383	**3,620**	2,069	225	**2,294**
Put options granted to holders of non-controlling interests	17	65	**82**	23	56	**79**
Short-term debt	-	664	**664**	-	542	**542**
GROSS DEBT	**3,254**	**1,112**	**4,366**	**2,092**	**823**	**2,915**
Long-term loans and receivables	(78)	-	**(78)**	(12)	-	**(12)**
Cash and cash equivalents	-	(2,436)	**(2,436)**	-	(2,359)	**(2,359)**
Derivative instruments associated with interest rate and currency risks(2)	**15**	**(15)**	**-**	**(20)**	**13**	**(7)**
NET DEBT	**3,191**	**(1,339)**	**1,852**	**2,060**	**(1,523)**	**537**

(1) Net debt shown for 2016 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7) and of finalizing the allocation of goodwill to Spheros (see Note 2.2.1.9).

(2) The fair value of derivative instruments associated with an item of net debt solely comprises the fair value of derivatives hedging financial currency risk.

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 which can be readily sold or converted into cash, and cash at bank.

The cash equivalents included in this line are readily convertible into 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, 2017	December 31, 2016
Marketable securities	1,182	1,691
Cash	1,254	668
CASH AND CASH EQUIVALENTS	**2,436**	**2,359**

Cash and cash equivalents totaled 2,436 million euros at December 31, 2017, consisting of 1,182 million euros of marketable securities with a low price volatility risk, and 1,254 million euros in cash. Marketable securities chiefly comprise money market mutual funds (FCP).

These items were measured using Level 1 inputs of the fair value hierarchy.

Short-term liquidity management

Cash is pooled whenever this is permitted by local legislation. In this case, subsidiaries' surplus cash or financing requirements are pooled and invested or funded by Valeo, the parent company. A cross-border cash pooling arrangement in euros is in place in 12 European countries, enabling day-to-day cash to be managed on a centralized basis. In other countries, local cash pooling arrangements exist and loans and borrowings are regularly taken out with the parent company (Valeo). In some countries, these cross-border transactions can give rise to tax issues or may be subject to specific regulations and require approval from the local tax authorities. The Group also manages liquidity by ensuring that dividends from subsidiaries are systematically transferred to Valeo.

Bank counterparty risk management

The Group invests its surplus liquidity according to the same principles, with asset management companies that are subsidiaries of leading banks. Securities are held by leading custodians.

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, 2017	December 31, 2016(1)
Euro	2,146	487
US dollar	296	508
Japanese yen	20	(21)
Brazilian real	(25)	23
South Korean won	(55)	(37)
Chinese renminbi	(328)	(245)
Other currencies	(202)	(178)
TOTAL	**1,852**	**537**

(1) Net debt shown for 2016 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7) and of finalizing the allocation of goodwill to Spheros (see Note 2.2.1.9).

8.1.4 Derivative financial instruments

The Group uses derivative financial instruments to manage and reduce its exposure to foreign exchange, commodity and interest rate risks.

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

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

When hedge accounting is applied:

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

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 hedging balance sheet positions and foreign currency financing do not always meet the criteria for hedge accounting (automatic hedging). In these cases, changes in the fair value of the 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.

Foreign currency derivatives hedging highly probable future transactions that are generally material and will impact the operating margin are classified as hedges. 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 to commodity derivatives. Gains and losses relating to the effective portion of the hedge are reclassified from other comprehensive income to operating income when the hedged position itself affects income. Gains and losses relating to the ineffective portion of the hedge are recognized in other financial income and expenses. When a forecast transaction is no longer highly probable, the cumulative gains and losses carried in other comprehensive income are transferred immediately to other financial income and expenses.

Interest rate derivatives

The Group generally applies fair value hedge accounting when it uses interest rate derivatives swapping fixed-rate debt for variable-rate debt.

Changes in the fair value of debt attributable to changes in interest rates, and symmetrical changes in the fair value of the interest rate derivatives, are recognized in other financial income and expenses for the period.

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

Hedging instruments are measured at fair value and recognized in the statement of financial position. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income, while changes relating to the ineffective portion are recognized in other financial income and expenses. Amounts carried in other comprehensive income in respect of the effective portion of the hedge are taken to income as and when the hedged interest expenses themselves 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 in the fair value hierarchy is generally used to measure the fair value of the Group's derivative financial instruments.

The Group's operating entities are responsible for identifying, measuring and hedging financial risks. However, the Group's Finance Department is responsible for managing derivatives on behalf of subsidiaries with risk exposure. At monthly Treasury Committee meetings, the main risks and exposures are assessed, the required hedges are approved (in accordance with the strategy described below), and the results of these hedges are analyzed.

To reduce its exposure to market risk, the Group uses derivative financial instruments which had the following fair values at December 31, 2017 and 2016:

	Other financial assets		Other financial liabilities		December 31, 2017	December 31, 2016
(in millions of euros)	Non-current	Current	Non-current	Current	Total	Total
Cash flow hedge	3	7	(36)	(4)	**(30)**	**13**
Fair value hedge	-	-	-	-	**-**	**-**
Non-hedging derivatives and trading derivatives	17	25	(4)	(10)	**28**	**(9)**
Total foreign currency derivatives	**20**	**32**	**(40)**	**(14)**	**(2)**	**4**
Cash flow hedge	-	7	-	(1)	**6**	**6**
Fair value hedge	-	-	-	-	**-**	**-**
Non-hedging derivatives and trading derivatives	-	-	-	-	**-**	**-**
Total commodity derivatives	**-**	**7**	**-**	**(1)**	**6**	**6**
Total interest rate derivatives	**-**	**-**	**-**	**-**	**-**	**-**
Other non-hedging derivatives and trading derivatives	118	1	(121)	-	**(2)**	**(2)**
Total other derivatives	**118**	**1**	**(121)**	**-**	**(2)**	**(2)**
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	**138**	**40**	**(161)**	**(15)**	**2**	**8**

Bank counterparty risk management

The Group contracts derivatives with leading banks and sets limits for each counterparty, taking into account ratings provided by rating agencies. Special reports are drawn up enabling counterparty risk on each market to be monitored.

8.1.4.1 Fair value of foreign currency derivatives

Operational currency risk management

The Group's subsidiaries are exposed to foreign currency risk arising within the scope of their industrial and commercial activities. These risks and the related hedges are monitored by the Financing and Treasury Department.

The Group systematically hedges statement of financial position exposures (non-financial foreign currency receivables and payables). Subsidiaries primarily hedge their transactions with Valeo, the parent company, which then hedges net Group positions with external counterparties. The corresponding currency instruments are classified as trading derivatives within the meaning of IAS 39 – "Financial Instruments".

The Group also hedges its operating margin against foreign currency risk, on a regular basis over the budget period and on an exceptional basis over a contractual period (beyond one year) for specific major contracts. In this case, it applies hedge accounting rules as permitted by the standard on financial instruments. The principal hedging instruments used by the Group are forward purchases and sales of foreign currencies.

The fair value of derivative financial instruments associated with operational currency risk is shown below:

	December 31, 2017		December 31, 2016	
(in millions of euros)	Nominal	Fair value	Nominal	Fair value
Forward foreign currency purchases	310	7	297	11
Forward foreign currency sales	(84)	2	(18)	1
Total assets	**226**	**9**	**279**	**12**
Forward foreign currency purchases	362	(10)	455	(12)
Forward foreign currency sales	(83)	(1)	(264)	(3)
Total liabilities	**279**	**(11)**	**191**	**(15)**
NET IMPACT		**(2)**		**(3)**

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

In 2017, the result of these hedges of operational currency risk was not material. In 2016, an unrealized loss of 4 million euros related to these hedges was recognized directly in other comprehensive income.

Financial currency risk management

Centralizing cash surpluses, the financing needs of foreign subsidiaries and certain Group financing transactions exposes the Group to financial currency risk. This risk corresponds to the risk of changes in the value of financial receivables or payables denominated in currencies other than the functional currency of the borrowing or lending entity. This currency risk is primarily hedged by currency swaps.

The Group tends to finance its subsidiaries in their local currencies and systematically enters into hedges to protect itself against the resulting currency risk.

The Group's borrowings are generally denominated in euros, in particular for debt issues under the Euro Medium Term Note (EMTN) financing program.

At December 31, 2017, the Group's foreign currency borrowings were:

- the EIB loan contracted in November 2011, of which 25 million US dollars was outstanding at December 31, 2017;
- the convertible bond subscribed on June 16, 2016 for 450 million US dollars, to which the Group added 125 million US dollars under the same conditions on November 16, 2016.

These US dollar borrowings are hedged by EUR/USD currency swaps until they fall due and have been documented as cash flow hedges.

At December 31, 2017, derivative instruments hedging currency risk on debt essentially relate to currency swaps, with the following fair values:

	December 31, 2017		December 31, 2016	
(in millions of euros)	Nominal	Fair value	Nominal	Fair value
Currency swaps	568	43	415	21
Total assets	**568**	**43**	**415**	**21**
Currency swaps	1,192	(43)	252	(14)
Total liabilities	**1,192**	**(43)**	**252**	**(14)**
NET IMPACT		**-**		**7**

Changes in the fair value of derivatives not designated as hedges are recognized in other financial income and expenses and are offset by changes in the fair value of the underlying debt.

The amount of 43 million euros recognized in assets mainly includes currency swaps relating to hedges of the Group's internal loans and borrowings. In 2017, an unrealized loss of 30 million euros relating to the EUR/USD currency swap set up at inception of the 575 million US dollar convertible bond was recorded in liabilities.

Analysis of the Group's overall net exposure

The Group's overall net exposure (on its balance sheet positions) based on notional amounts arises on the following main currencies (excluding entities' functional currencies):

	December 31, 2017				December 31, 2016
(in millions of euros)	USD	JPY	EUR	Total	Total
Accounts and notes receivable	144	13	454	**611**	**568**
Other financial assets	419	66	112	**597**	**243**
Accounts and notes payable	(213)	(50)	(685)	**(948)**	**(871)**
Long-term debt	(986)	(42)	(420)	**(1,448)**	**(1,151)**
GROSS EXPOSURE	**(636)**	**(13)**	**(539)**	**(1,188)**	**(1,211)**
Forward sales	(334)	(72)	(357)	**(763)**	**(467)**
Forward purchases	1,309	122	255	**1,686**	**1,326**
NET EXPOSURE	**339**	**37**	**(641)**	**(265)**	**(352)**

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

At December 31, 2016, the breakdown by currency of the net exposure in the statement of financial position (a negative 352 million euros) was as follows:

- a negative amount of 108 million euros relating to the US dollar;
- a positive amount of 38 million euros relating to the Japanese yen;
- a negative amount of 282 million euros relating to the euro.

Analysis of the sensitivity of net foreign currency risk exposure

The sensitivity analysis was based on an exchange rate of 1.20 US dollars, 135.01 Japanese yen, and 25.53 Czech koruna for 1 euro at December 31, 2017 (1.05 US dollars, 124.4 Japanese yen and 27.02 Czech koruna, respectively, at December 31, 2016).

An increase of 10% in the value of the euro against these currencies at December 31, 2017 and December 31, 2016 would have had the following pre-tax impacts:

	December 31, 2017		December 31, 2016	
(in millions of euros)	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Exposure to US dollar	(4)	(29)	5	6
Exposure to Japanese yen	2	(6)	-	(4)
Exposure to euro	(35)	(29)	(10)	(5)
TOTAL	**(37)**	**(64)**	**(5)**	**(3)**

For the purpose of these analyses, it is assumed that all other variables, particularly 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, 2017 would have the opposite effect to the one shown above.

Remaining contractual maturities of foreign currency derivatives

The European Central Bank (ECB) closing rates and forward rates at December 31, 2017 were used to value foreign currency derivatives.

		Contractual cash flows						
			≥ 1 year and ≤ 5 years				> 5 years	
(in millions of euros)	Carrying amount	< 1 year	2019	2020	2021	2022	2023 and beyond	Total
Forward foreign currency contracts used as hedges:								
■ Assets	9	8	1	-	-	-	-	**9**
■ Liabilities	(11)	(6)	(1)	(1)	(1)	(1)	(1)	**(11)**
Currency swaps used as hedges:								
■ Assets	43	24	2	-	16	1		**43**
■ Liabilities	(43)	(9)	-	-	(34)	-	-	**(43)**

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

Commodity risk management

The Group manages its exposure to raw materials by using price indexation clauses in commercial contracts as far as possible. This is the case particularly for non-ferrous metals and steel, for which such clauses cover approximately three-quarters and one-half of the Group's exposure, respectively.

Residual exposure to non-ferrous metals listed on the London Metal Exchange, and to a lesser extent exposure to propylene, is hedged with leading banks using hedging instruments. These hedges are designed to limit the impact of fluctuations in commodity prices on the Group's earnings and to give Valeo the time it needs to negotiate the corresponding price rises with its customers.

The Group favors hedging instruments which do not involve physical delivery of the underlying commodity (primarily swaps on the average monthly price). These transactions are eligible for cash flow hedge accounting within the meaning of IAS 39.

Steel, most plastics, and rare-earth metals cannot be hedged on the financial market as they are not listed on an organized exchange.

Inventory values in the Group's statement of financial position are not significantly affected by the rise in commodity prices because the rapid inventory turnover and optimization of logistics flows reduce the amount.

Volumes of non-ferrous metals hedged at December 31, 2017 and December 31, 2016 break down as follows:

(in tons)	December 31, 2017	December 31, 2016
Aluminum	40,321	19,882
Secondary aluminum	13,623	9,102
Copper	9,253	8,556
Zinc	708	816
TOTAL	**63,905**	**38,356**

Base metals derivatives used by the Group are designated as cash flow hedges. An unrealized gain of 6 million euros related to existing hedges was recognized directly in other comprehensive income for 2017 in accordance with IAS 39.

An unrealized gain of 6 million euros recognized in other comprehensive income in 2016 and arising on existing commodity hedges was reclassified in full to operating income in 2017.

Fair value of commodity (non-ferrous metals) derivatives

	December 31, 2017		December 31, 2016	
(in millions of euros)	Nominal	Fair value	Nominal	Fair value
Swaps – Purchases	135	7	80	7
Swaps – Sales	-	-	-	-
TOTAL ASSETS	**135**	**7**	**80**	**7**
Swaps – Purchases	12	(1)	5	(1)
Swaps – Sales	-	-	-	-
TOTAL LIABILITIES	**12**	**(1)**	**5**	**(1)**
NET IMPACT		**6**		**6**

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

Analysis of the sensitivity of the net exposure 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, 2017 and 2016.

	December 31, 2017		December 31, 2016	
(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	-	13	-	7
Impact of a 10% fall in metal futures prices	-	(13)	-	(7)

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

Remaining contractual maturities of commodity derivatives

Forward prices on the London Metal Exchange (LME) at December 31, 2017 were used to determine contractual maturities for commodity derivatives.

		Contractual cash flows						
			≥ 1 year and ≤ 5 years				> 5 years	
(in millions of euros)	Carrying amount	< 1 year	2019	2020	2021	2022	2023 and beyond	Total
Commodity derivatives:								
■ Assets	7	7	-	-	-	-	-	**7**
■ Liabilities	(1)	(1)	-	-	-	-	-	**(1)**

8.1.4.3 Fair value of interest rate derivatives

Interest rate risk management

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. At December 31, 2017, 90% of long-term debt (i.e., due in more than one year) was at fixed rates (98% at December 31, 2016).

The interest rate derivatives used by the Group to hedge changes in the value of its fixed-rate debt are designated as fair value hedges under IAS 39.

The Group had no outstanding interest rate derivatives at either December 31, 2017 or December 31, 2016.

Analysis of the Group's net exposure

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

2017

	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	904	143	1,174	350	1,826	-	3,904	493	**4,397**
Loans	-	-	-	(78)	-	-	-	(78)	**(78)**
Cash and cash equivalents	-	(2,436)	-	-	-	-	-	(2,436)	**(2,436)**
NET POSITION BEFORE HEDGING	**904**	**(2,293)**	**1,174**	**272**	**1,826**	**-**	**3,904**	**(2,021)**	**1,883**
Derivative instruments	-	-	-	-	-	-	-	-	-
NET POSITION AFTER HEDGING	**904**	**(2,293)**	**1,174**	**272**	**1,826**	**-**	**3,904**	**(2,021)**	**1,883**

2016

	Less than 1 year		1 to 5 years		More than 5 years		Total nominal amount(1)		
(in millions of euros)	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Fixed portion	Variable portion	Total
Financial liabilities	200	569	841	35	1,321	6	2,362	610	**2,972**
Loans	-	-	-	(12)	-	-	-	(12)	**(12)**
Cash and cash equivalents	-	(2,359)	-	-	-	-	-	(2,359)	**(2,359)**
NET POSITION BEFORE HEDGING	**200**	**(1,790)**	**841**	**23**	**1,321**	**6**	**2,362**	**(1,761)**	**601**
Derivative instruments	-	-	-	-	-	-	-	-	**-**
NET POSITION AFTER HEDGING	**200**	**(1,790)**	**841**	**23**	**1,321**	**6**	**2,362**	**(1,761)**	**601**

(1) Net debt shown for 2016 differs from the amount presented in the 2016 consolidated financial statements published in February 2017 since it has been adjusted to reflect the impacts of acquiring a stake in CloudMade (see Note 2.2.1.7) and of finalizing the allocation of goodwill to Spheros (see Note 2.2.1.9).

Financial liabilities include the nominal amount of long- and short-term debt and bank overdrafts.

Analysis of sensitivity to interest rate risk

At December 31, 2017, 90% of long-term debt is at fixed rates (98% at December 31, 2016).

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

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

	December 31, 2017		December 31, 2016	
(in millions of euros)	Income Gain (loss)	Equity Gain (loss)	Income Gain (loss)	Equity Gain (loss)
Impact of a 1-point increase in interest rates	20	-	18	-

Similarly, at December 31, 2017, a sudden 1% fall in interest rates would have the opposite impacts for the same amount.

8.1.4.4 Fair value of other derivative financial instruments

At December 31, 2017, other derivative financial instruments included the following:

- Conversion options embedded in the June 2016 and November 2016 bond issues, along with call options purchased. These options are perfectly matched. They had a fair value of 88 million euros at December 31, 2017 versus 73 million euros at December 31, 2016.
- Put and call options granted by Valeo and Siemens on the creation of their joint venture (see Note 2.2.1.6):
  - Valeo has a call option by virtue of which Siemens is required to sell part or all of its stake in the joint venture on exercise of the option. The fair value of this call option was 28 million euros at December 31, 2017 and 35 million euros at December 31, 2016;
  - Siemens has a put option by virtue of which Valeo is required to purchase its entire stake in the joint venture on exercise of the option. The fair value of this put option was 31 million euros at December 31, 2017 and 37 million euros at December 31, 2016.

  These options are not perfectly matched given the specific contractual terms that govern their exercise. They were valued by an independent expert using a probability-based approach. This method corresponds to Level 3 in the fair value hierarchy.
- Put and call options granted by Valeo and the partners of the CloudMade joint venture, each valued at 2 million euros (see Note 2.2.1.7).

Contractual maturities of other material derivative financial instruments

		Contractual cash flows					
			≥ 1 year and ≤ 5 years				> 5 years
(in millions of euros)	Carrying amount	< 1 year	2019	2020	2021	2022	2023 and beyond
Convertible bond options							
■ Assets	88	-	-	-	88	-	-
■ Liabilities	(88)	-	-	-	(88)	-	-
Put and call options relating to the Valeo-Siemens joint venture[(1)]							
■ Assets	28	-	-	-	28	-	-
■ Liabilities	(31)	-	(31)	-	-	-	-

(1) Options that can be exercised as from the date indicated if certain contractually specified criteria are met.

8.1.5 Other financial assets and liabilities

8.1.5.1 Other non-current financial assets and liabilities

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

Guarantee deposits are valued at amortized cost.

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 income on the sale of the shares, unless the decline in value relative to the historical cost was considered prolonged or significant enough to entail an impairment loss, which is recognized in income.

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.

Available-for-sale financial assets amounted to 172 million euros at December 31, 2017. Movements in this item were as follows:

(in millions of euros)	2017	2016
AVAILABLE-FOR-SALE SECURITIES AT JANUARY 1	**44**	**31**
Acquisitions	79	12
Changes in scope of consolidation	51	-
Changes in fair value recognized in equity	5	-
Translation adjustment	(7)	1
AVAILABLE-FOR-SALE SECURITIES AT DECEMBER 31	**172**	**44**

The main changes in 2017 related to the following:

- acquisition of a stake in the Cathay CarTech fund for 49 million euros, representing Valeo's total commitment, of which 10 million euros was paid in 2017. The fund is a cross-border investment vehicle providing venture capital financing for innovative start-ups in China;
- acquisition of a stake in the IrisNext fund for 20 million euros, representing Valeo's total commitment. The purpose of this fund is to invest in innovative companies in the digital economy, primarily in the eurozone;
- acquisition of an additional stake in Navya for 8 million euros;
- acquisition of a controlling interest in Ichikoh (see Note 2.2.1.5), which holds securities listed on an active market, for 47 million euros. Changes in the scope of consolidation during the year primarily relate to this transaction.

The main changes in 2016 related to the following:

- acquisition of a stake in Navya for 5 million euros by subscribing to Navya's capital increase. This capital increase allows Valeo to take on a role as observer in order to track the development of this company, which specializes in autonomous, driverless shuttles;
- acquisition of a stake in US-based Trucks Venture Fund 1, LP for 4 million US dollars, of which 2 million US dollars have been called and paid up. The purpose of this fund is to invest in start-ups that respond to the latest trends in the transport industry such as autonomous, connected and shared vehicles;
- acquisition of an additional stake in Cathay Capital's Sino-French Innovation Fund for 3 million euros.

8.1.5.2 Other current financial assets and liabilities

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

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

Accounts and notes receivable are detailed in Note 4.2. In the ordinary course of its operations in China, Valeo may be paid by its customers or may pay its suppliers using a payment instrument specific to the Chinese market known as a "bank acceptance draft". Owing to their nature, receivables and payables under bank acceptance drafts continue to be recognized within accounts and notes receivable and payable until they fall due. At December 31, 2017, these instruments represented 145 million euros of accounts and notes receivable and 92 million euros of accounts and notes payable (140 million euros and 91 million euros, respectively, at December 31, 2016).

Valeo also operates a reverse factoring program, which has been in place since 2014. This program involves a sale of accounts and notes receivable to a financial institution ("factor") initiated by Valeo (and not by the supplier). Relations between the parties are structured based on two separate agreements:

- Valeo suppliers enter into a sale agreement with the factor for the amounts they are owed by Valeo;
- Valeo enters into an agreement with the factor under which it agrees to pay the invoices sold by its suppliers to the factor at the date they fall due (pre-approved invoices), without recourse.

This program allows the suppliers concerned to ensure that their receivables will be promptly settled by the financial institution. Valeo settles the invoices with the factor at their contractual due dates.

An analysis by the Group indicates that the reverse factoring arrangement does not alter the substance of its payables, which continue to be included in working capital.

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)	2017	2016
Interest expense(1)	(88)	(90)
Interest income	15	7
COST OF NET DEBT	**(73)**	**(83)**

(1) Including in 2017 finance costs for 2 million euros on undrawn credit lines and financial expenses for 5 million euros arising on discounting arrangements for accounts and notes receivable and amounts receivable under French research and CICE tax credits.

8.2.2 Other financial income and expenses

Other financial income and expenses notably include:

- gains and losses on interest rate hedging transactions;
- gains and losses on foreign exchange transactions or non-ferrous metals purchases that do not meet the definition of hedges under IAS 39 on financial instruments;
- the cost of credit insurance and write-downs taken in respect of credit risk and losses on bad debts in the event of client default;
- the net interest cost arising on provisions for pensions and other employee benefits, which includes 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)	2017	2016
Net interest cost on provisions for pensions and other employee benefits	(24)	(27)
Currency gains (losses)	(20)	(6)
Gains (losses) on commodity derivatives (trading and ineffective portion)	-	(1)
Gains (losses) on interest rate derivatives (ineffective portion)	1	(1)
Other	(4)	(11)
OTHER FINANCIAL INCOME AND EXPENSES	**(47)**	**(46)**

Note 9 INCOME TAXES

9.1 Income taxes

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

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

9.1.1 Breakdown of income tax expense

(in millions of euros)	2017	2016
Current taxes	(229)	(253)
Deferred taxes	(96)	64
INCOME TAX EXPENSE	**(325)**	**(189)**

The Group recognized income tax expense of 325 million euros in 2017, corresponding to an effective tax rate of 25.6%.

This rate notably includes a 117 million euro expense relating to US tax reform, under which the federal corporate tax rate is reduced from 35% to 21% as of January 1, 2018. Valeo had recognized a deferred tax asset of 89 million euros for this tax consolidation group in 2016, and 248 million euros in prior periods.

This negative impact on income tax expense was partly offset by the recognition of deferred taxes at certain entities, in particular in India, the United States and France, in an amount of 35 million euros. The deferred tax assets were recognized in view of the earnings performance for these scopes and their five-year profitability outlook as per the fiscal plan.

9.1.2 Tax proof

(in millions of euros)	2017	2016
NET INCOME BEFORE INCOME TAXES EXCLUDING SHARE IN NET EARNINGS (LOSSES) OF EQUITY-ACCOUNTED COMPANIES	1,268	**1,111**
Standard tax rate in France	34.43%	34.43%
THEORETICAL INCOME TAX EXPENSE	**(437)**	**(383)**
Impact of:		
■ Unrecognized deferred tax assets and unused tax losses (current year)	(19)	(95)
■ Recognition of previously unrecognized deferred tax assets	87	100
■ Other tax rates	(15)	34
■ Utilization of prior-year tax losses	43	84
■ Permanent differences between accounting income and taxable income	35	87
■ Tax credits	2	3
■ *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE)	(21)	(19)
GROUP INCOME TAX EXPENSE	**(325)**	**(189)**

- In 2017, unrecognized deferred tax assets and unused tax losses not used by main country mainly relate to Latin America for 10 million euros and Germany for 6 million euros.
- Previously unrecognized deferred tax assets for 87 million euros essentially relate to deferred tax assets recognized in 2017 in France (35 million euros), India (18 million euros) and the United States at an entity outside the scope of the tax consolidation group (18 million euros).
- The unfavorable 15 million euro impact relating to tax rates that are different from the standard tax rate chiefly results from changes in US tax legislation. It breaks down as follows:

Country	Current tax rate(1)	2017	2016
China	25.0%	40	14
Poland	19.0%	17	14
South Korea	24.2%	11	12
Thailand	20.0%	8	4
Turkey	20.0%	5	4
Spain	25.0%	4	7
Czech Republic	19.0%	6	1
Japan	32.8%	3	(2)
United States	21.0%	(116)	(7)
Germany	27.8%	(6)	(8)
Other countries		14	(5)
TOTAL		**(15)**	**34**

(1) The current tax rate shown is the effective tax rate at the end of the reporting period. The tax rate used to calculate deferred taxes takes into account any changes adopted in the tax rate for the coming years.

- Utilizations of prior-year tax losses for which no deferred tax assets were recognized chiefly reflect the use of 13 million euros in tax losses for the French tax consolidation group and 11 million euros for the Irish tax consolidation group.
- Permanent differences between accounting income and taxable income mainly result from the impact of tax credits and reductions granted in respect of the Group's Research and Development activities.
- The Group considers that the *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE) tax on company value-added meets the definition of income tax set out in IAS 12. Income tax in 2017 therefore includes a net expense of 21 million euros in respect of the CVAE tax (19 million euros in 2016).

9.2 Deferred taxes

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

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

Deferred tax assets are only recognized to the extent that it appears probable that Valeo 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, where appropriate, lead the Group to derecognize deferred tax assets that it had recognized in prior years. The probability of recovery is assessed using the approach deemed most appropriate in light of the entity's legal and tax organization, tax history and projected taxable earnings outlook. These are assessed on the basis of a tax plan which uses assumptions consistent with those used in the medium-term business plans and budgets prepared by the Group's entities and approved by General Management. Taxes payable and tax credits receivable on planned dividend distributions by subsidiaries are recorded in the statement of income.

Deferred tax assets and liabilities are offset when a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities concern income taxes levied by the same taxation authority. In France, Valeo has 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, 2017**	**December 31, 2016**
Loss carryforwards	703	872
Capitalized development expenditure	(232)	(187)
Pensions and other employee benefits	246	259
Other provisions	131	112
Inventories	57	61
Provisions for restructuring costs	8	17
Tooling	(2)	(3)
Non-current assets	(26)	30
Other	122	130
TOTAL DEFERRED TAXES, GROSS	**1,007**	**1,291**
Unrecognized deferred tax assets	(624)	(731)
TOTAL DEFERRED TAXES	**383**	**560**
Of which:		
■ Deferred tax assets	456	626
■ Deferred tax liabilities	(73)	(66)

A 35 million euro deferred tax asset was recognized in respect of tax loss carryforwards for the tax consolidation group in France, reflecting a more favorable economic outlook.

In contrast, due to particularly tough economic conditions, no deferred tax assets were recognized for Brazil. Residual unrecognized net deferred tax assets stood at 73 million euros at December 31, 2017.

Similarly, deferred taxes in Germany have been written down since 2015, reflecting the five-year profitability outlook as per the fiscal plan. Residual unrecognized net deferred tax assets represented 37 million euros at December 31, 2017.

At December 31, 2017, 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 2018 through 2022	74	(18)
Tax losses available for carryforward in 2022 and thereafter	77	(18)
Tax losses available for carryforward indefinitely	1,643	(430)
CURRENT TAX LOSS CARRYFORWARDS	**1,794**	**(466)**
Unrecognized deferred tax assets on temporary differences		(158)
TOTAL		**(624)**

Note 10 STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

10.1 Stockholders' equity

10.1.1 Change in share capital

10.1.1.1 Change in the number of shares outstanding

The number of shares outstanding and the number of treasury shares held at December 31, 2017 can be analyzed as follows:

	2017	2016
NUMBER OF SHARES OUTSTANDING AT JANUARY 1	**237,902,266**	**235,362,555**
Number of treasury shares purchased/sold under the liquidity agreement[1] or delivered following the exercise of stock options or free shares granted	739,753	1,784,200
Number of shares purchased under the 2017 share buyback program[2]	(1,228,009)	-
Number of shares issued under employee stock ownership plans: Shares4U[3]	509,990	755,511
NUMBER OF SHARES OUTSTANDING AT DECEMBER 31	**237,924,000**	**237,902,266**
Number of treasury shares held by the Group	1,729,121	1,240,865
NUMBER OF SHARES REPRESENTING THE COMPANY'S SHARE CAPITAL AT DECEMBER 31[4]	**239,653,121**	**239,143,131**

(1) See Note 10.1.1.2.
(2) See Note 10.1.1.3.
(3) As part of the Shares4U 2017 plan (see Note 5.4 4), a capital increase reserved for employees took place on July 27, 2017, issuing 509,990 new shares, each with a par value of 1 euro. This new standard plan was offered to employees, under which they could subscribe to Valeo shares directly or through a Company mutual fund, at a subscription price set by the Group's Chairman and Chief Executive Officer, acting on the authority of the Board of Directors on June 3, 2017, at 51.62 euros. This gave rise to 25 million euros in additional paid-in capital.
(4) Each share has a par value of 1 euro at end-2017 and end-2016 and is fully paid up. Shares that have been registered in the name of the same holder for at least four years carry double voting rights (5,387,423 shares at December 31, 2017).

10.1.2.2 Equity management

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 compatible with an investment grade rating.

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. The liquidity agreement was signed 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, 2017, 75,000 shares and 22,400,662 euros had been allocated to the liquidity agreement, compared with 44,364 shares (after taking into account the three-for-one stock split) and 23,171,495 euros at December 31, 2016. On the date the liquidity agreement was signed, 660,000 Valeo shares (after taking into account the three-for-one stock split) and 6,600,000 euros were allocated for its implementation.

10.1.1.3 Share buyback program

Valeo requested the assistance of an investment services provider to meet certain objectives of its share buyback program as authorized by the Ordinary and Extraordinary Shareholders' Meeting of May 26, 2016. The share buyback program will be allocated in full to cover any stock purchase option plans, the allotment of shares to employees under profit-sharing plans, and the implementation of any company savings plans.

Upon expiry of the agreement signed on March 6, 2017, the parties agreed that the investment services provider would sell a certain quantity of Valeo shares to Valeo, who undertook to acquire them at term, within the limit of 75 million euros, at an average price determined in an objective and independent manner by the market during the full term of the agreement. This average price could not in any case exceed the maximum purchase price set by the Ordinary and Extraordinary Shareholders' Meeting of May 26, 2016.

This agreement was effective between March 7, 2017 and May 17, 2017. At this date, Valeo was therefore bound to purchase all of the treasury shares acquired by the investment services provider over the term of the agreement. Delivery of 1,228,009 treasury shares at an average price of 61.0745 euros each resulted in a cash outflow of 75 million euros.

10.1.2 Dividend per share

A dividend of 1.25 euros per share was paid in June 2017, representing a total payout of 297 million euros. The cash dividend paid in 2016 was 3 euros per share (before the three-for-one stock split), representing a total payout of 236 million euros.

10.1.3 Translation adjustment

Movements in the translation adjustment (attributable to the Group) in the year resulted in an unrealized loss of 318 million euros (unrealized gain of 37 million euros at December 31, 2016). In 2017, this essentially reflected (i) the depreciation in the value of the US dollar (159 million euros), Chinese renminbi (70 million euros), Japanese yen (57 million euros) and, to a lesser extent, the Turkish lira (15 million euros).

10.1.4 Non-controlling interests

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

(in millions of euros)	2017	2016
NON-CONTROLLING INTERESTS AT JANUARY 1	**236**	**219**
Equity in net earnings	79	58
Dividends paid	(20)	(27)
Changes in scope of consolidation	379	(12)
Fair value adjustments to put options granted to holders of non-controlling interests[1]	(4)	(3)
Other movements	-	(1)
Translation adjustment	(21)	2
NON-CONTROLLING INTERESTS AT DECEMBER 31	**649**	**236**

(1) See Note 8.1.2.2.

Changes in the scope of consolidation in the year primarily reflect the creation of Valeo-Kapec and the takeover of Ichikoh (see Notes 2.2.1.1 and 2.2.1.5, respectively).

Changes in the scope of consolidation in 2016 chiefly reflected the impacts of the acquisition of Hitachi's stake in Valeo Unisia Transmissions (see Note 2.2.1.8).

Non-controlling interests can be analyzed as follows:

	Percentage interest held by non-controlling interests *(%)*		**Stockholders' equity attributable to non-controlling interests** *(in millions of euros)*	
	December 31, 2017	**December 31, 2016**	**2017**	**2016**
Pyeong Hwa Company[1]	50.0	50.0	462	143
Ichikoh China Alliance entities	6.7	10.3	25	36
Other Ichikoh entities[2]	44.9	N/A	108	-
Other individually non-material interests	N/A	N/A	54	57
NON-CONTROLLING INTERESTS			**649**	**236**

(1) Pyeong Hwa Company is our longstanding partner in Valeo Pyeong Hwa entities in South Korea and, as from this year, our partner in Valeo-Kapec (see Note 2.2.1.1). This explains the sharp increase in non-controlling interests relating to this company.
(2) Related to the takeover of Ichikoh in 2017 (see Note 2.2.1.5).

10.2 Earnings per share

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

Diluted earnings per share is calculated by dividing consolidated net income by the weighted average number of shares outstanding during the year, plus the weighted average number of ordinary shares that would be outstanding had all the potentially dilutive ordinary shares been converted. Stock options and free shares have a dilutive impact when their exercise price is below 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.

	2017	2016
Net income attributable to owners of the Company *(in millions of euros)*	886	925
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	237,879	236,352
BASIC EARNINGS PER SHARE *(IN EUROS)*	**3.72**	**3.91**

	2017	2016
Weighted average number of ordinary shares outstanding *(in thousands of shares)*	237,879	236,352
Dilutive effect from *(in thousands)*:		
■ Stock options	548	860
■ Free shares	2,311	2,159
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING ADJUSTED FOR IMPACT OF DILUTIVE SHARES *(IN THOUSANDS OF SHARES)*	**240,738**	**239,371**
DILUTED EARNINGS PER SHARE *(IN EUROS)*	**3.68**	**3.86**

Note 11 BREAKDOWN OF CASH FLOWS

11.1 Expenses (income) with no cash effect

Expenses and income with no cash effect can be analyzed as follows in 2017 and 2016:

(in millions of euros)	2017	2016
Depreciation, amortization and impairment of non-current assets	949	890
Net additions to (reversals from) provisions	(121)	107
Losses (gains) on sales of non-current assets	27	(2)
Expenses related to share-based payment	27	21
Losses (gains) on remeasurement of previously held interests	-	(162)
TOTAL	**882**	**854**

In 2016, Valeo had recognized a 162 million euro capital gain (excluding transaction costs) in connection with the creation of the joint venture with Siemens (see Note 2.2.1.6).

11.2 Changes in working capital

Changes in the main components of working capital in 2017 and 2016 are shown in the table below:

(in millions of euros)	2017	2016
Inventories	(204)	(155)
Accounts and notes receivable	(242)	(425)
Accounts and notes payable	393	608
Other receivables and payables	88	28
TOTAL	**35**	**56**

Accounts and notes receivable falling due after December 31, 2017 for which substantially all risks and rewards have been transferred and which are no longer carried in assets in the statement of financial position are detailed in Note 4.2 (accounts receivable) and in Note 4.5.2 (French research and CICE tax credit receivables).

11.3 Acquisitions of investments with gain of control, net of cash acquired

In 2017, the net cash outflow of 537 million euros relates mainly to the impact of acquiring a controlling interest in FTE automotive for 386 million euros (see Note 2.2.1.2), Valeo-Kapec for 111 million euros (see Note 2.2.1.1), gestigon for 33 million euros (see Note 2.2.1.4) and Valeo Malaysia CDA Sdn (formerly Precico) for 26 million euros (see Note 2.2.1.3), partially offset by the net cash inflow of 21 million euros from the acquisition of a controlling interest in Ichikoh (see Note 2.2.1.5).

Acquisitions of controlling interests in 2016 resulted in a cash outflow of 630 million euros (see Notes 2.2.1.9 and 2.2.1.10).

11.4 Acquisitions of investments in associates and/or joint ventures

In 2017, the net cash outflow of 7 million euros primarily relates to the 33% stake acquired in Kuantic, the leading European player in machine-to-machine solutions for connected vehicle fleet management. Valeo has joint control over Kuantic, which has therefore been accounted for using the equity method and did not have a material impact on the 2017 consolidated financial statements.

A net cash outflow of 17 million euros in 2016 chiefly corresponded to the stake acquired in CloudMade (see Note 2.2.1.7).

11.5 Disposals of investments with loss of control, net of cash transferred

In 2016, a net cash inflow of 22 million euros chiefly relates to the impact of the sale of the Engine Control business (see Note 2.2.1.11).

11.6 Sale (purchase) of treasury stock

The net cash outflow of 73 million euros chiefly relates to the impact of the share buyback program implemented during the period, giving rise to a cash outflow of 75 million euros (see Note 10.1.1.3).

11.7 Issuance and repayment of long-term debt

In 2017, the Group carried out two bond issues: a 500 million euro issue maturing in 2023 and paying a fixed coupon of 0.625%, and a 600 million euro issue maturing in 2022 and paying a fixed coupon of 0.375%. Valeo also issued a 350 million euro private placement maturing in 2019. The Group redeemed the 145 million euro bond issued in 2012 under the Euro Medium Term Note financing program, repaid an installment on the EIB loan amounting to 22 million euros, redeemed ahead of maturity the bond issued by FTE automotive for 276 million euros and paid down a loan granted by the former shareholder for 68 million euros (see Note 8.1.2.1).

On March 18, 2016, the Group issued 600 million euros' worth of ten-year bonds maturing in 2026 and paying a fixed coupon of 1.625%. On June 16, 2016, the Group issued 450 million US dollars' worth of five-year non-dilutive convertible bonds maturing in 2021, to which it added 125 million US dollars in November 2016. Repayments during the period mainly related to the syndicated loan for 250 million euros, two subscriptions to private placements for 100 million euros, and two annual installments on loans contracted with the European Investment Bank (EIB).

Loan issue costs and premiums amounted to 64 million euros in 2016, and mainly concerned the two bond issues carried out.

11.8 Acquisitions of investments without gain of control

The net cash outflow of 16 million euros chiefly relates to the impact of the increase in Valeo's indirect ownership interest in the entities of the China Lighting Alliance following the acquisition of a controlling interest in Ichikoh (see Note 2.2.1.5).

The net cash outflow of 24 million euros in 2016 chiefly related to the impact of acquiring non-controlling interests in Valeo Unisia Transmissions (see Note 2.2.1.8).

11.9 Free cash flow and net cash flow

Free cash flow corresponds to net cash from operating activities (excluding the change in non-recurring sales of accounts and notes receivable) after taking into account acquisitions and disposals of property, plant and equipment and intangible assets. This indicator reflects the Group's ability to generate cash from its operations and is taken into account by General Management to define its investment strategy and financing policy.

Net cash flow corresponds to free cash flow less (i) cash flows from investing activities, relating to acquisitions and disposals of investments and to changes in certain items shown in non-current financial assets, (ii) cash flows in respect of financing activities relating to share capital, dividends paid, treasury share purchases and sales, interest paid and received, loan issue costs and premiums and acquisitions of investments without gain of control, and (iii) changes in non-recurring sales of accounts and notes receivable.

Free cash flow and net cash flow can be reconciled as follows with the consolidated statement of cash flows between 2017 and 2016:

(in millions of euros)	2017	2016
Gross operating cash flows	2,269	2,091
Income taxes paid	(265)	(257)
Changes in working capital	35	56
NET CASH FLOWS FROM OPERATING ACTIVITIES	**2,039**	**1,890**
Net payments for purchases of intangible assets and property, plant and equipment	(1,745)	(1,249)
Elimination of change in non-recurring sales of accounts and notes receivable[1]	(16)	20
FREE CASH FLOW	**278**	**661**
Change in non-recurring sales of accounts and notes receivable[1]	16	(20)
Net change in non-current financial assets	(91)	(38)
Acquisitions of investments with gain of control, net of cash acquired	(537)	(630)
Acquisitions of investments in associates and/or joint ventures	(7)	(17)
Disposals of investments with loss of control, net of cash transferred	(1)	22
Acquisitions of investments without gain of control	(16)	(24)
Dividends paid to owners of the Company and to non-controlling interests of consolidated subsidiaries	(317)	(263)
Capital increase in cash	26	29
Sale (purchase) of treasury stock	(73)	13
Net interest paid/received	(63)	(58)
Loan issue costs and premiums	(7)	(64)
NET CASH FLOW	**(792)**	**(389)**

(1) Valeo carries out recurring and one-off sales of its accounts and notes receivable to banks. An agreement at a specific date is drawn up for one-off, or non-recurring, transactions of this type. An agreement spanning one or more years is drawn up for recurring transactions. Each contract is analyzed in light of IAS 39 on the derecognition of financial assets in order to determine whether the risks and rewards inherent to ownership of the receivables has been transferred (see Note 4.2).

Note 12 FEES PAID TO THE STATUTORY AUDITORS

Fees paid to the Group's Statutory Auditors in France and recognized in the consolidated statement of income are as follows:

	Ernst & Young		Mazars	
(in millions of euros)	**2017**	**2016**	**2017**	**2016**
Audit				
Statutory audit, certification and review of the individual and consolidated financial statements	1.8	1.8	1.4	1.3
Non-audit services	0.1	0.4	0.1	0.2
TOTAL FEES	**1.9**	**2.2**	**1.5**	**1.5**

Non-audit services provided by Ernst & Young et Autres to the Group and entities it controls concern (i) comfort letters in connection with bond issues, (ii) financial due diligence in connection with an acquisition, (iii) statements issued to validate information presented in expenditure reports relating to subsidized projects and in connection with sales of receivables, and (iv) a review of the financial reporting obligations of listed company Ichikoh.

Non-audit services provided by Mazars concern (i) comfort letters in connection with bond issues, (ii) agreed-upon procedures reports in connection with the sale of the Passive Hydraulic Actuator business and the creation of Valeo-Kapec, and (iii) statements issued to validate information presented in expenditure reports relating to subsidized projects and in connection with sales of receivables.

Note 13 LIST OF CONSOLIDATED COMPANIES

Company	December 31, 2017		December 31, 2016	
	Consolidation method	% interest	Consolidation method	% interest
EUROPE				
FRANCE				
Valeo (parent company)				
DAV	FC	100	FC	100
Equipement 2	FC	100	FC	100
Equipement 11	FC	100	FC	100
SC2N	FC	100	FC	100
Société de Participations Valeo	FC	100	FC	100
Valeo Bayen	FC	100	FC	100
Valeo Embrayages	FC	100	FC	100
Valeo Equipements Electriques Moteur	FC	100	FC	100
Valeo Finance	FC	100	FC	100
Valeo Management Services	FC	100	FC	100
Valeo Matériaux de Friction	FC	100	FC	100
Valeo Comfort and Driving Assistance	FC	100	FC	100
Valeo Service	FC	100	FC	100
Valeo Systèmes de Contrôle Moteur	FC	100	FC	100
Valeo Systèmes d'Essuyage	FC	100	FC	100
Valeo Systèmes Thermiques	FC	100	FC	100
Valeo Vision	FC	100	FC	100
peiker France SAS(10)	FC	100	FC	100
Valeo Siemens eAutomotive France SAS(6)	EM	50	EM	50
Spheros Climatechnics France SAS(9)	FC	100	FC	100
Kuantic	EM	33	-	-
Axodel	EM	33	-	-
FTE automotive France S.a.r.l.(2)	FC	100	-	-
SPAIN				
Valeo Climatización, S.A.U.	FC	100	FC	100
Valeo España, S.A.U.	FC	100	FC	100
Valeo Iluminación, S.A.U.	FC	100	FC	100
Valeo Service España, S.A.U.	FC	100	FC	100
Valeo Termico, S.A.U.	FC	100	FC	100
ITALY				
Valeo Service Italia, S.p.A.	FC	100	FC	100
Valeo, S.p.A.	FC	100	FC	100

FC: fully consolidated/EM: equity method (see Note 2.1.1).
(1) See Note 2.2.1.1.
(2) See Note 2.2.1.2.
(3) See Note 2.2.1.3.
(4) See Note 2.2.1.4.
(5) See Note 2.2.1.5.
(6) See Note 2.2.1.6.
(7) See Note 2.2.1.7.
(8) See Note 2.2.1.8.
(9) See Note 2.2.1.9.
(10) See Note 2.2.1.10.
(11) Mergers and liquidations.
(12) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

Company	December 31, 2017 Consolidation method	% interest	December 31, 2016 Consolidation method	% interest
EUROPE				
GERMANY				
Valeo Auto-Electric GmbH(12)	FC	100	FC	100
Valeo GmbH(12)	FC	100	FC	100
Valeo Holding GmbH(12)	FC	100	FC	100
Valeo Klimasysteme GmbH(12)	FC	100	FC	100
Valeo Schalter und Sensoren GmbH(12)	FC	100	FC	100
Valeo Service Deutschland GmbH(12)	FC	100	FC	100
Valeo Wischersysteme GmbH(12)	FC	100	FC	100
peiker acustic GmbH(10)(12)	FC	100	FC	100
Valeo peiker Telematik GmbH(10)	FC	100	FC	100
CloudMade Deutschland GmbH(7)	EM	50	EM	50
Smexx GmbH(11)	-	-	FC	100
Spheros Holding GmbH(9)(11)	-	-	FC	100
Valeo Thermal Commercial Vehicles Germany GmbH (formerly Spheros GmbH)(9)(12)	FC	100	FC	100
Spheros Europa GmbH(11)	-	-	FC	100
Valeo Siemens eAutomotive GmbH(6)	EM	50	EM	50
Valeo Siemens eAutomotive Germany GmbH(6)	EM	50	EM	50
Valeo Siemens eAutomotive BSAES Holding GmbH(6)	EM	50	EM	50
FTE Group Holding GmbH(2)(12)	FC	100	-	-
FTE Holding GmbH(2)(12)	FC	100	-	-
FTE Verwaltungs GmbH(2)(12)	FC	100	-	-
FTE Asia GmbH(2)(12)	FC	100	-	-
FTE automotive GmbH(2)(12)	FC	100	-	-
FTE automotive systems GmbH(2)(12)	FC	100	-	-
FTE automotive Möve GmbH(2)(12)	FC	100	-	-
gestigon GmbH(4)(12)	FC	100	-	-
UNITED KINGDOM				
Valeo (UK) Limited	FC	100	FC	100
Valeo Climate Control Limited	FC	100	FC	100
Valeo Engine Cooling UK Limited	FC	100	FC	100
Valeo Management Services UK Limited	FC	100	FC	100
Valeo Service UK Limited	FC	100	FC	100
Valeo Air Management UK Limited	FC	100	FC	100
CloudMade Holdings Limited(7)	EM	50	EM	50
CloudMade Limited(7)	EM	50	EM	50
FTE automotive UK Limited(2)	FC	100	-	-

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(1) See Note 2.2.1.1.
(2) See Note 2.2.1.2.
(3) See Note 2.2.1.3.
(4) See Note 2.2.1.4.
(5) See Note 2.2.1.5.
(6) See Note 2.2.1.6.
(7) See Note 2.2.1.7.
(8) See Note 2.2.1.8.
(9) See Note 2.2.1.9.
(10) See Note 2.2.1.10.
(11) Mergers and liquidations.
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Company	December 31, 2017		December 31, 2016	
	Consolidation method	% interest	Consolidation method	% interest
IRELAND				
Connaught Electronics Limited	FC	100	FC	100
HI-KEY Limited	FC	100	FC	100
Valeo Ichikoh Holding Limited(5)	FC	93	FC	90
BELGIUM				
Valeo Service Belgique	FC	100	FC	100
Valeo Vision Belgique	FC	100	FC	100
LUXEMBOURG				
Coreval	FC	100	FC	100
NORWAY				
Valeo Siemens eAutomotive Norway AS(6)	EM	50	EM	50
DENMARK				
FTE automotive Denmark ApS(2)	FC	100	-	-
FINLAND				
Spheros-Parabus Oy(9)	FC	100	FC	100

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(1) See Note 2.2.1.1.
(2) See Note 2.2.1.2.
(3) See Note 2.2.1.3.
(4) See Note 2.2.1.4.
(5) See Note 2.2.1.5.
(6) See Note 2.2.1.6.
(7) See Note 2.2.1.7.
(8) See Note 2.2.1.8.
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	December 31, 2017		December 31, 2016	
Company	Consolidation method	% interest	Consolidation method	% interest
NETHERLANDS				
Valeo CV (Netherlands)	FC	100	FC	100
Valeo Holding Netherlands B.V.	FC	100	FC	100
Valeo International Holding B.V.	FC	100	FC	100
Valeo Service Benelux B.V.	FC	100	FC	100
CZECH REPUBLIC				
Valeo Autoklimatizace k.s.	FC	100	FC	100
Valeo Compressor Europe s.r.o.	FC	100	FC	100
Valeo Vymeniky Tepla k.s.	FC	100	FC	100
FTE automotive Czechia s.r.o (2)	FC	100	-	-
SLOVAKIA				
FTE automotive Slovakia s.r.o. (2)	FC	100	-	-
POLAND				
Valeo Autosystemy Sp.ZO.O	FC	100	FC	100
Valeo Electric and Electronic Systems Sp.ZO.O	FC	100	FC	100
Valeo Service Eastern Europe Sp.ZO.O	FC	100	FC	100
Valeo Siemens eAutomotive Poland Sp.ZO.O(6)	EM	50	EM	50
HUNGARY				
Valeo Auto-Electric Hungary LLC	FC	100	FC	100
Valeo Siemens eAutomotive Hungary Kft.(6)	EM	50	EM	50
ROMANIA				
Valeo Lighting Injection S.A.	FC	100	FC	100
Valeo Sisteme Termice S.R.L	FC	100	FC	100
RUSSIA				
Valeo Climate Control Tomilino LLC	FC	100	FC	100
Valeo Service Limited Liability Company	FC	100	FC	100
UKRAINE				
CloudMade Ukraine LLC(7)	EM	50	EM	50
Spheros-Elektron TzOV(9)	EM	20	EM	20
TURKEY				
Valeo Otomotiv Sanayi ve Ticaret A.S.	FC	100	FC	100
Spheros Termo Sistemleri A.S.(9)	FC	100	FC	100
AFRICA				
TUNISIA				
DAV Tunisie S.A.	FC	100	FC	100
Valeo Embrayages Tunisie S.A.	FC	100	FC	100
Valeo Tunisie S.A.	FC	100	FC	100
MOROCCO				
Cablinal Maroc, S.A.	FC	100	FC	100
Valeo Vision Maroc, S.A.	FC	100	FC	100
EGYPT				
Valeo Internal Automotive Software Egypt	FC	100	FC	100
SOUTH AFRICA				
Valeo Systems South Africa (Proprietary) Ltd	FC	51	FC	51
Spheros SA (Pty) Ltd(9)	FC	100	FC	100

FC: fully consolidated/EM: equity method (see Note 2.1.1).

(1) See Note 2.2.1.1.
(2) See Note 2.2.1.2.
(3) See Note 2.2.1.3.
(4) See Note 2.2.1.4.
(5) See Note 2.2.1.5.
(6) See Note 2.2.1.6.
(7) See Note 2.2.1.7.
(8) See Note 2.2.1.8.
(9) See Note 2.2.1.9.
(10) See Note 2.2.1.10.
(11) Mergers and liquidations.
(12) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

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NORTH AMERICA				
UNITED STATES				
Valeo Climate Control Corp.[11]	-	-	FC	100
Valeo North America, Inc.	FC	100	FC	100
Valeo Radar Systems, Inc.	FC	100	FC	100
Detroit Thermal Systems LLC	EM	49	EM	49
Detroit Thermal Systems Leverage Lender LLC	EM	49	EM	49
CloudMade, Inc.[7]	EM	50	EM	50
Automotive Climate Control, Inc.[9]	FC	100	FC	100
Spheros North America, Inc.[9]	FC	100	FC	100
peiker acustic, Inc.[11]	-	-	FC	100
PIAA Corp., USA[5]	FC	55	-	-
Valeo Kapec North America, Inc.[1]	FC	50	-	-
FTE automotive USA, Inc.[2]	FC	100	-	-
FTE automotive North America, Inc.[2]	FC	100	-	-
CANADA				
Valeo Canada, Inc.	FC	100	FC	100
MEXICO				
Delmex de Juarez S de RL de CV	FC	100	FC	100
Valeo Sistemas Automotrices de México, SA de CV	FC	100	FC	100
Valeo Sistemas Electricos, SA de CV	FC	100	FC	100
Valeo Sistemas Electronicos, S de RL de CV	FC	100	FC	100
Valeo Iluminacion Servicios, S de RL de CV	FC	100	FC	100
Valeo Termico Servicios, S de RL de CV	FC	100	FC	100
Valeo Technical Center[9]	FC	100	FC	100
Spheros Mexico, SA de CV[9]	FC	60	FC	60
peiker acustic de Mexico, SA de CV[10]	FC	100	FC	100
Valeo Kapec, SA de CV[1]	FC	50	-	-
FTE Mexicana SA de CV[2]	FC	100	-	-
SOUTH AMERICA				
BRAZIL				
Valeo Sistemas Automotivos Ltda	FC	100	FC	100
Spheros Climatização do Brasil S/A[9]	FC	60	FC	60
Reparts Industria E Comercio de Peças para veiculos Ltda[9]	FC	60	FC	60
Setbus Soluções Automotivas Ltda[9]	FC	45	EM	33
FTE Indústria e Comércio Ltda[2]	FC	100	-	-
ARGENTINA				
Cibie Argentina, SA	FC	100	FC	100
Emelar Sociedad Anonima	FC	100	FC	100
Valeo Embragues Argentina, SA	FC	100	FC	100
Valeo Termico Argentina, SA	FC	100	FC	100
COLOMBIA				
Spheros Thermosystems Colombia Ltda[9]	FC	60	FC	60

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(1) See Note 2.2.1.1.
(2) See Note 2.2.1.2.
(3) See Note 2.2.1.3.
(4) See Note 2.2.1.4.
(5) See Note 2.2.1.5.
(6) See Note 2.2.1.6.
(7) See Note 2.2.1.7.
(8) See Note 2.2.1.8.
(9) See Note 2.2.1.9.
(10) See Note 2.2.1.10.
(11) Mergers and liquidations.
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	Consolidation method	% interest	Consolidation method	% interest
ASIA PACIFIC				
THAILAND				
Valeo Niles (Thailand) Co. Ltd	FC	100	FC	100
Valeo Compressor Clutch (Thailand) Co. Ltd	FC	100	FC	100
Valeo Siam Thermal Systems Co. Ltd	FC	74.9	FC	74.9
Valeo Thermal Systems Sales (Thailand) Co. Ltd	FC	74.9	FC	74.9
Valeo Comfort and Driving Assistance Systems (Thailand) Ltd	FC	100	FC	100
Ichikoh Industries (Thailand) Co. Ltd[5]	FC	55	-	-
SOUTH KOREA				
Valeo Automotive Korea	FC	100	FC	100
Valeo Electrical Systems Korea, Ltd	FC	100	FC	100
Valeo Pyeong HWA Co. Ltd	FC	50	FC	50
Valeo Pyeong Hwa Automotive Components Co. Ltd (VPHC)	FC	50	-	-
Valeo Pyeong HWA International Co. Ltd	FC	50	FC	50
Valeo Samsung Thermal Systems Co. Ltd	FC	50	FC	50
Valeo Pyeong HWA Metals Co. Ltd	EM	49	EM	49
Valeo Kapec Co. Ltd[1]	FC	50	-	-
PHVS Co. Ltd[1]	FC	49	-	-
INDONESIA				
PT Valeo AC Indonesia	FC	100	FC	100
VPH Indonesia Ltd	FC	50	FC	50
PT. Ichikoh Indonesia[5]	FC	55	-	-
MALAYSIA				
Valeo Malaysia SDN BHD	FC	100	FC	100
Ichikoh (Malaysia) SDN BHD[5]	FC	38.6	-	-
Valeo Malaysia CDA SDN BHD (formerly Precico)[3]	FC	100	-	-
UNITED ARAB EMIRATES				
Spheros Middle East FZE[9]	FC	100	FC	100
HONG KONG				
Spheros Ltd[9]	FC	100	FC	100
TAIWAN				
Niles CTE Electronic Co. Ltd	FC	51	FC	51
AUSTRALIA				
Valeo Service Australia Pty Ltd	FC	100	FC	100
Valeo Thermal Commercial Vehicles Australia Pty Ltd (formerly Spheros Australia Pty Ltd)[9]	FC	100	FC	100
JAPAN				
Ichikoh Industries Limited[5]	FC	55.1	EM	31.6
Life Elex. Inc.[5]	FC	32.6	-	-
Kyushu Ichikoh Industries Ltd[5]	FC	55.1	-	-
Hakuden Ltd[5]	FC	55.1	-	-
Misato Industries Ltd[5]	FC	55.1	-	-
PIAA Corporation[5]	FC	55.1	-	-
Valeo Japan Co. Ltd	FC	100	FC	100
Valeo Kapec Japan K.K. (formerly Valeo Unisia Transmissions K.K.)[8]	FC	50	FC	100
Nitto Manufacturing Co. Ltd	FC	87.2	FC	87.2

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(1) See Note 2.2.1.1.
(2) See Note 2.2.1.2.
(3) See Note 2.2.1.3.
(4) See Note 2.2.1.4.
(5) See Note 2.2.1.5.
(6) See Note 2.2.1.6.
(7) See Note 2.2.1.7.
(8) See Note 2.2.1.8.
(9) See Note 2.2.1.9.
(10) See Note 2.2.1.10.
(11) Mergers and liquidations.
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	Consolidation method	% interest	Consolidation method	% interest
CHINA				
Faw-Valeo Climate Control Systems Co. Ltd	EM	36.5	EM	36.5
Foshan Ichikoh Valeo Auto Lighting Systems Co. Ltd(5)	FC	93.3	FC	89.7
Fuzhou Niles Electronic Co. Ltd	FC	51	FC	51
Guangzhou Valeo Engine Cooling Co. Ltd	FC	100	FC	100
Huada Automotive Air Conditioner (Hunan) Co. Ltd	EM	45	EM	45
Nanjing Valeo Clutch Co. Ltd	FC	55	FC	55
Shanghai Valeo Automotive Electrical Systems Company Ltd	EM	50	EM	50
Shenyang Valeo Auto Lighting Co. Ltd(5)	FC	93.3	FC	89.7
Shenyang Valeo Pyeong-Hwa Transmission Systems Co. Ltd	FC	50	FC	50
Tianjin Valeo Xinyue Auto Parts Co. Ltd	FC	100	FC	100
Taizhou Valeo-Wenling Automotive Systems Co. Ltd	FC	73	FC	73
Valeo Auto Parts Trading (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Automotive Air Conditioning Hubei Co. Ltd	FC	100	FC	100
Valeo Kapec Torque Converters (Nanjing) Co. Ltd (formerly Valeo Automotive Transmissions Systems (Nanjing) Co. Ltd)(1)	FC	50	FC	100
Valeo Engine Cooling (Foshan) Co. Ltd	FC	100	FC	100
Valeo Engine Cooling (Shashi) Co. Ltd	FC	100	FC	100
Valeo Compressor (Changchun) Co. Ltd	FC	100	FC	100
Valeo Friction Materials (Nanjing) Co. Ltd	FC	50	FC	50
Valeo Ichikoh (China) Auto Lighting Co., Ltd(5)	FC	93.3	FC	89.7
Valeo Interior Controls (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Interior Controls (Shenzhen) Co. Ltd	FC	100	FC	100
Valeo Lighting Hubei Technical Center Co. Ltd(5)	FC	93.3	FC	89.7
Valeo Management (Beijing) Co. Ltd	FC	100	FC	100
Valeo Management (Shanghai) Co. Ltd	FC	100	FC	100
Valeo Niles (Guangzhou) Electronics Co. Ltd	FC	100	FC	100
Valeo Shanghai Automotive Electric Motors & Wiper Systems Co. Ltd	FC	73	FC	73
Wuhu Valeo Automotive Lighting Systems Co. Ltd(5)	FC	93.3	FC	89.7
Wuxi Valeo Automotive Components and System Co. Ltd	FC	100	FC	100
Changshu Valeo Automotive Wiper System Co. Ltd	FC	73	FC	73

FC: fully consolidated/EM: equity method (see Note 2.1.1).

(1) See Note 2.2.1.1.
(2) See Note 2.2.1.2.
(3) See Note 2.2.1.3.
(4) See Note 2.2.1.4.
(5) See Note 2.2.1.5.
(6) See Note 2.2.1.6.
(7) See Note 2.2.1.7.
(8) See Note 2.2.1.8.
(9) See Note 2.2.1.9.
(10) See Note 2.2.1.10.
(11) Mergers and liquidations.
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Company	December 31, 2017		December 31, 2016	
	Consolidation method	% interest	Consolidation method	% interest
Shanghai VPHI Co. Ltd	FC	50	FC	50
Valeo ePowertrain (Shenzhen) Co. Ltd(6)	EM	50	EM	50
Valeo Siemens eAutomotive Shanghai Co. Ltd(6)	EM	50	EM	50
Beijing Valeo Siemens Automotive E-Drive Systems Co. Ltd Changzhou(6)	EM	30	EM	30
Foshan Valeo Electronic Auto Parts Co. Ltd	FC	100	FC	100
Valeo Thermal Commercial Vehicles Systems (Suzhou) Co. Ltd (formerly Spheros (Suzhou) Co. Ltd)(9)	FC	100	FC	100
Spheros (Yangzhou) Limited(9)	FC	100	FC	100
peiker (Shanghai) Automotive Technology Co. Ltd(10)	FC	100	FC	100
Ichikoh (Wuxi) Automotive Parts Co. Ltd(5)	FC	55	-	-
Roncheng Life(5)	EM	10	-	-
Valeo Powertrain (Nanjing) Co. Ltd	FC	100	-	-
Valeo Siemens eAutomotive (Tianjin) Co. Ltd	EM	50	-	-
Valeo Siemens eAutomotive (Changshu) Co. Ltd	EM	50	-	-
APG-FTE automotive Co. Ltd(2)	EM	49	-	-
FTE automotive (Taicang) Co. Ltd(2)	FC	100	-	-
INDIA				
Amalgamations Valeo Clutch Private Ltd	EM	50	EM	50
Valeo Friction Materials India Ltd	FC	60	FC	60
Valeo Lighting Systems (India) Private Ltd	FC	100	FC	100
Valeo India Private Ltd	FC	100	FC	100
Valeo Service India Auto Parts Private Ltd	FC	60	FC	60
Spheros Motherson Thermal Systems Ltd(9)	EM	51	EM	51

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(1) See Note 2.2.1.1.
(2) See Note 2.2.1.2.
(3) See Note 2.2.1.3.
(4) See Note 2.2.1.4.
(5) See Note 2.2.1.5.
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(12) These entities, which have been consolidated by the Valeo Group, have chosen to exercise their right under section 264 – sub-section 3 of the German Commercial Code (HGB) on exemption and preparation. The consolidated financial statements of Valeo SA, Paris, include the financial statements of entities identified. They will be published in the German Federal Gazette.

7. Statutory auditors' report on the consolidated financial statements

For the year ended December 31, 2017

This is a translation into English of the statutory auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users. This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the information concerning the Group presented in the 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,

Opinion

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying consolidated financial statements of Valeo for the year ended December 31, 2017.

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, 2017 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.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics *(code de déontologie)* for statutory auditors.

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Impairment tests of goodwill and CGUs

Risk identified

As of 31 December 2017, goodwill amounted to 2 615 m€ and other intangible assets and properties, plants and equipment amounted to 5 885 m€. Every year management conducts an impairment test of goodwill balances at the level of the Business Groups, to measure the risk that these assets cannot be supported by sufficient future cash flows. All property, plant and equipment and other intangible assets are tested for impairment at the level of Cash-generating units (CGUs) if there is an indication that they may be impaired.

The implementation method of these tests and the main hypotheses are described in the Notes 6.1, 6.2, 6.3 and 6.4 of the financial statements.

We considered the recoverable value of goodwill and CGUs, which represent a particularly significant amount, to be a key audit matter as the evaluation of the recoverable amounts of the non-current assets, based on the discounted value of future cash flows, are based on significant estimates, judgments and assumptions of the management.

Our response

We analyzed the existence of impairment indicators, triggering impairment test of CGUs.

Through the expertise of our valuation specialists, we:

- reconciled the carrying amounts of each tested CGU and each Business Group with the consolidated accounts;
- evaluated the consistency of the cash flow projections with the latest management's estimates, as they were reported to the board of directors during the preparation process of the medium-term business plan;
- examined the implementation methods, the valuation method of the recoverable values and its arithmetical implementation;
- conducted an analysis of the management's business plans, by Business Groups and, for the ones having a significant impairment risk, by CGUs, including by comparing with the financial performance of the fiscal year;
- analyzed the main valuation hypotheses (discount rate and long-term growth rate and perpetuity growth rate), which we compared with the values provided by the main financial analysts;
- evaluated the impact of variations in discount rate and main operational assumptions through sensitivity analyses.

Finally, we assessed the content of the disclosures in the financial statements regarding the impairment losses on goodwill and CGUs' assets in Note 6.4.

Evaluation of the provisions for specific quality risks

Risk identified

Provisions for customer warranties are set aside to cover the estimated cost of future returns of goods sold. Those provisions are computed either on a statistical basis or based on specific quality risks.

These provisions cover costs related to legal or contractual warranty obligations and costs arising in specific situations not covered by usual warranties with respect to the products already sold.

The estimation of these costs is based on both historical data and probability calculations: returns rates observed by products for statistical provisions and reparation costs estimation for provisions for specific quality risks.

These provisions are described in the Notes 7.1 of the financial statements.

We considered the accounting of provisions for specific quality risk to be a key audit matter as the evaluation of those provisions requires significant estimates and judgments of the management.

Our response

We got acquainted with the identification and assessment process of these provisions.

As part of our audit work on this topic we also:

- assessed the group valuation methodology;
- analyzed the hypotheses used in the assessment of the warranties provisions, in particular with the briefing notes prepared by the quality department that summarize the main causes and reparation scenarios of identified technical issues;
- analyzed the available documentation, in particular the communication between the group and its customers;
- conducted interviews with site financial controllers and with financial direction of the Business Groups on specific quality risks, in order to assess the main hypotheses underlying the estimation of the risk;
- assessed the completeness of provisions for specific quality risks by conducting interviews with the director in charge of the monitoring of quality at group level and with site financial controllers.

Finally, we assessed the content of the disclosures in the financial statements regarding the customer warranties provisions in Note 7.1.

Initial accounting of Ichikoh

Risk identified

On November 22, 2016, Valeo announced the launch of a partial takeover bid for the shares of the company Ichikoh, listed on the First Section of the Tokyo Stock Exchange.

Since the settlement-delivery on January 20, 2017, the group holds 55.08% of the Ichikoh's capital (compared with 31.58% of its capital previously).

This takeover resulted in:

- recognizing at fair value the Group's previously-held equity-accounted interest, which gave rise to a disposal gain of M€ 14 ; and
- recognizing Ichikoh's assets and liabilities in full, which resulted in accounting a goodwill of M€ 34.

The terms and details of this takeover is described in Notes 2.1.3 and 2.2.1.5 of the financial statements.

We considered the accounting of this takeover to be a key audit matter as this is a significant transaction during the year which requires significant management judgement regarding the evaluation of the previously-held equity interest and the identification and the determination of the fair value of each acquired assets and liabilities. Management has been accompanied by valuation external experts in this exercise of purchase price allocation.

Our response

We have obtained and read the legal documentation of the transaction and assessed the related accounting treatment.

Through the expertise of our valuation specialists, we:

- examined the method used by management to evaluate the previously-held equity interest and to calculate the related disposal gain;
- assessed the identification of intangible assets acquired by corroborating it with (i) our discussion with management (ii) sectorial benchmarks and (iii) our understanding of the business of the acquired entity;
- examined the valuation methodologies used by management and their external valuation expert in the fair value determination of acquired assets and liabilities;
- analyzed the valuation assumptions used such as discount rate, fixed assets useful lives, royalties rates and internal rate of return by comparing them to source data and sectorial market data.

Finally, we assessed the content of the disclosures in the financial statements regarding this takeover.

Verification of the Information Pertaining to the Group Presented in the Management Report

As required by law we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the management report of the Board of Directors.

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

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were initially appointed as statutory auditors of Valeo by the annual general meeting held on June 3, 2010.

As at December 31, 2017, our firms were in the 8th year of total uninterrupted engagement.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics (*Code de déontologie*) for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Courbevoie and Paris-La Défense, 22 février 2018

The Statutory Auditors
French original signed by

MAZARS		**ERNST & YOUNG et Autres**	
Thierry Colin	Gaël Lamant	Jean-François Ginies	Philippe Berteaux